

INCREASING HOUSING SUPPLY IN THE URBAN CORE THROUGH MIXED-USE COMMERCIAL AND RESIDENTIAL

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KEY POINTS

- Nearly all of the major Texas metros have an office vacancy rate higher than the national average.
- Converting vacant office space into housing is a simple way to address housing supply with existing infrastructure.
- Allowing for commercial and residential mixed-use development can help make living in a city more affordable.

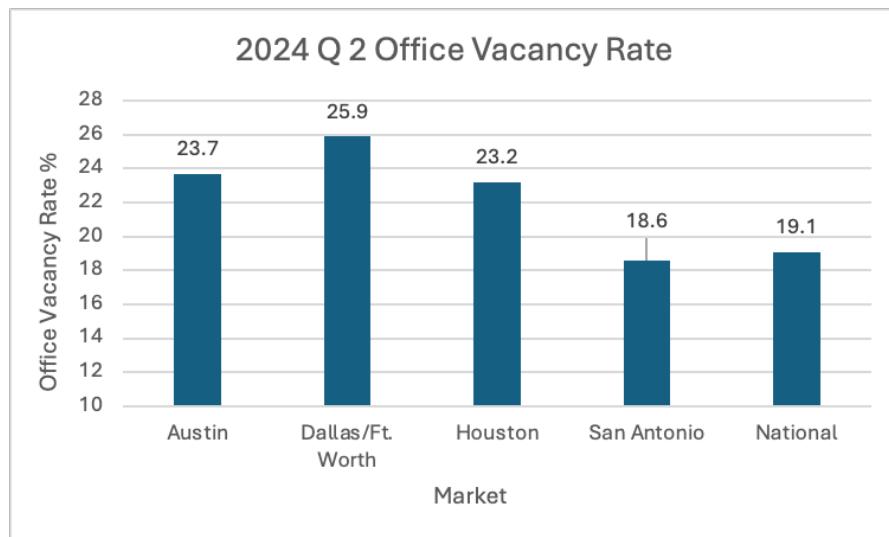
INTRODUCTION

The current housing affordability crisis has been exacerbated by a long period of overregulation and over-taxation. These intentional policy decisions tend to restrict new development in suburban and unincorporated areas and negatively impact Texans living or working in the “urban core,” or areas close to the economic heart of cities. Affordability in the urban core has become such a problem that essential workers that are low to middle income, like those who work in education, public safety, and public health, are finding it increasingly difficult to afford housing near their places of employment. Due to the limited space available for new development in the urban core it is important that cities consider more creative approaches to increasing the supply of housing. Instead of building new, sprawling developments, cities can utilize existing infrastructure by converting empty office spaces to residential units. Urban core areas could also maximize the space they do have by building upwards instead of outwards, which can be done by allowing for mixed-use commercial and residential buildings with retail on the street level floors while having housing units above the retail space.

The Texas Legislature could encourage urban core development throughout the state by creating a statute prohibiting municipalities from restricting zoning for the purposes of converting unused office space to residences as well as prohibiting municipalities from restricting mixed-use zoning for mixed-use commercial and residential space.

continued

Figure 1
2024 Q2 Office Vacancy Rate



Note. Data from CBRE, 2024a (<https://mktgdocs.cbre.com/2299/2547e3ae-24a3-4c0b-8605-25235f252144-728001880/v032024/austin-office-figures-q2-2024-final.pdf>); CBRE, 2024b (<https://mktgdocs.cbre.com/2299/57f88b16-3915-4fee-849e-de8cff4e8fbc-2550469032/v032024/dfw-office-market-figures-q2-2024.pdf>); CBRE, 2024c (<https://mktgdocs.cbre.com/2299/79f6cc9d-e312-45e2-8d71-b4ebc99f8751-1514019074/v032024/q2-2024-houston-office-market-figures.pdf>); CBRE, 2024d (<https://mktgdocs.cbre.com/2299/a66152e5-9c6e-401d-b9b2-e30446ebbc70-887040042/v032024/san-antonio-office-figures-q2-2024-final.pdf>); CBRE, 2024e (<https://www.cbre.com/insights/figures/q3-2024-us-office-figures>).

ISSUE

In the current challenging climate of housing unaffordability, it is necessary to implement measures that facilitate an increase in the supply of housing density—which can be difficult if left to each municipality to come up with their own regulations on property development. So, by using the authority of the state to clear regulatory red tape surrounding this kind of development, a developer could begin the process of converting unused office space into residences.

The COVID-19 pandemic resulted in many companies moving to a hybrid schedule, where employees work two to three days a week in the office and the rest remotely from home. Because of this shift, many businesses lease smaller spaces or abandon the concept of high-rise offices altogether, thus leaving major metropolitan areas with a substantial supply of empty office spaces that could be converted into housing.

Figure 1 shows the percentage of vacant office space in Texas' major metropolitan areas. As demonstrated by the data in all but one city (San Antonio), the

office space vacancy rate (meaning the percentage of office space that is currently not in use) is higher than the national rate—meaning that there is plenty of space available waiting to be converted.

EXAMPLES OF MIXED-USE AND OFFICE CONVERSION

Converting office space into multi-family residential units is an attainable process employed in many U.S. cities. One of the attractions to these conversions is the infrastructure is largely in place. While office buildings already have electrical, plumbing, and HVAC structures in place to serve the property, it can be a significant challenge to divide these utilities into single residences when converting entire floors into individual apartments.

Along with converting office spaces to residences, mixed-use residential and commercial use could help meet demand for housing, especially in areas near the city center. There are two types of mixed-use construction: horizontal and vertical. Horizontal mixed-use construction refers to a complex or block



Note. Photo from Flagler, 2020 (<https://communityimpact.com/austin/central-austin/impacts/2020/07/03/whole-foods-opens-plaza-saltillo-location/>).

with multiple property types (i.e., residential, offices, and restaurants) (Mansion Global, 2024). Vertical mixed-use refers to a single development with a retail space on the ground floor and multi-family housing on the floors above. An example of a vertical mixed-use development can be found in Austin, Texas, where an apartment complex is located above a grocery store in a building that is close to the center of the city.

A handful of cities in Texas have implemented their own approaches to maximizing space that can be used for housing through mixed-use development. Houston has addressed the issue of housing affordability with its “no-use” zoning, which means that parcels of property are not bound to a specific purpose like commercial, residential, or industrial, so long as development does not contravene any deed restrictions and does not pose any sort of danger (Fulton, 2020). This allows for each property’s use to be determined more so by the market than government regulation. No-use zoning allows for an all-of-the-above approach to housing, examples of such looking like building multi-family residences next to single family homes. This approach has allowed Houston to be one of the most affordable (of the most populous) cities in Texas (Bonura, 2024).

Building up housing density in the urban core keeps housing prices lower and more resistant to the sharp upward price increase that occurred during the 2020 pandemic. In 2023, the City of Dallas recognized the importance of urban core development by allowing the development of its office buildings in the downtown area into mixed residential use (Brown, 2023). The Santander Tower in Dallas was one of the first buildings to do so by converting 11 floors into 228 apartments, and the city is now looking to create even more units like this in the future.

CONCLUSION

As more people are moving to Texas and as more businesses are keeping the hybrid working model, it is in Texas’s best interest to convert abandoned and underused office spaces into mixed-use buildings to offer more housing opportunities for those living in urban cores.

RECOMMENDATION

The 89th Texas Legislature can help cities keep up with growing housing demand by allowing for the development of mixed-use residential and commercial, as well as converting unused office spaces into housing units.■

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