



Legislation Text

File #: 22-1313, **Version:** 1

Recommendation to direct City Manager and the Department of Development Services to work with the Downtown Long Beach Alliance and community stakeholders to establish incentives and strategies to address commercial vacancies in Downtown Long Beach and to better utilize vacant office space for housing and creative space, including;

- Tax incentives to convert vacant office space into housing;
- Zoning changes, if necessary to facilitate such conversions;
- Working with the State of California regarding their new Adaptive Reuse fund;
- A dedicated homelessness outreach plan for Downtown, including increased coordination between the Downtown Long Beach Alliance and City homeless services providers;
- Tax and fee holidays to attract new businesses into downtown commercial vacancies; and
- Other strategies and incentives designed to increase tenancy and enhance vibrancy in the Downtown community.

The Problem

According to the Downtown Long Beach Alliance's Q2 Snapshot of the office real estate market, 22.4% of Downtown's office space is currently sitting vacant, up from just 13.5% in 2019, before the COVID-19 pandemic.¹ The Long Beach Business Journal reports that this number is the highest in 20 years.² The trend of office vacancy looks likely to continue, at least in the short run, as 16% of Downtown businesses report an intent to reduce their office space before the end of the year, while just 7% report an intent to add new office space.

However, measuring the situation in Downtown office buildings by vacancy rate may significantly understate the problem, as office utilization, a measure of office spaces currently rented out but not currently used as a workspace, shows that 58% of the Greater Los Angeles Area's rented office space is currently unused, up from just 2% pre-pandemic. Assuming Long Beach follows similar trends, its "real" office vacancy rate may be closer to 67.4%, if offices which are rented but unused are also counted as vacant. In 2019, that number was just 15.2%.

As many businesses in the Downtown area are supported by pedestrian traffic originating from workers at Downtown office buildings, these trends represent a threat to many of these businesses, particularly restaurants, who can no longer take advantage of the same built-in customer base.

Vacancies also cause problems for city finances, as higher vacancies lead to lower valuations for office buildings, which then lead to lower property tax revenues.

The Solution

In order to safeguard a secure financial future for both city services and downtown businesses which rely on pedestrian traffic, Long Beach is going to need to get creative.

While large-scale attempts to get workers back into Downtown office buildings may seem like an obvious solution, it isn't clear that such a push would be desirable for workers, businesses, or property owners. Hybrid work can be beneficial in that it cuts down on vehicle miles traveled, eliminates long, uncompensated commutes for workers, and lowers parking impacts in Downtown. There are currently no major examples of cities succeeding in a large-scale push to move away from hybrid work.

Possibly the biggest opportunity afforded by this vacancy problem is potential conversion of vacant office building lots into new mixed-income housing development. Cities like Washington, Denver, Boston, New York, and Chicago have already taken steps towards transforming downtown office spaces into housing, which can help solve the problem of lower pedestrian traffic for local businesses as well as address housing supply and affordability crises.³ California's 2023 State Budget includes a \$400 million fund for adaptive reuse, focused on residential conversions in downtown areas. Long Beach should be engaged in the rollout of the fund and identifying possible projects that could benefit from state financing.

Local action around office-to-housing conversions have taken many forms, but the most common framework has been some level of tax abatement or tax-increment financing for office-to-residential construction, in combination with zoning changes to allow such construction and affordability mandates. Long Beach is in an interesting position with regard to these levers, as the City already has an inclusionary zoning mandate of 11% in the downtown zone, and the Governor's recently signing of AB 2011 and SB 6 should allow more residential construction on commercial zones. The City should study whether the built environment in downtown is compliant with AB 2011 and SB 6's requirements for residential construction on commercially zoned land and whether its compliance status will allow major office-to-residential conversions under current zoning regulations. An incentive program should be developed based on these considerations, in consultation with local stakeholders.

Any study on this matter should also include consideration of community safety and quality-of-life issues, as these may also be contributors to office and broader commercial vacancies downtown. Quality of life, health, and safety concerns were the primary concern of Downtown businesses owners in a recent Downtown Long Beach Alliance survey.⁴ A specific Downtown homelessness outreach strategy is badly needed, and more coordination with the Downtown Long Beach Alliance should be part of such a plan.

Finally, although business licenses and fees are not the main driver of commercial vacancies downtown, additional non-office tax incentives should be explored in such a study, in the interest of attracting new businesses into some of the non-office commercial vacancies stemming from business closures due to the pandemic. Ideas like a 1-year business license fee holiday can help attract new commercial tenants, which helps address blight and makes Downtown a safer, more walkable, and more vibrant place.

Urgency Statement

Due to the need for swift action on office vacancies, urgency is requested for this item.

No Financial Management review was able to be conducted due to the urgency and time sensitivity of this item.

Approve recommendation.

REX RICHARDSON VICE MAYOR,

NINTH DISTRICT