

119TH CONGRESS
1ST SESSION

H. R. 537

To amend the Internal Revenue Code of 1986 to provide tax credits for the conversion of commercial buildings to residential units, to provide support and technical assistance to State and local housing agencies to identify and advance housing conversion opportunities for underutilized commercial buildings, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 16, 2025

Ms. SHERRILL introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to provide tax credits for the conversion of commercial buildings to residential units, to provide support and technical assistance to State and local housing agencies to identify and advance housing conversion opportunities for underutilized commercial buildings, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Incentivizing New Con-
3 versions to Residential Entities to Accelerate Supply and
4 Expand Housing Affordability Act” or the “INCREASE
5 Housing Affordability Act”.

6 **SEC. 2. COMMERCIAL-TO-RESIDENTIAL CREDIT.**

7 (a) IN GENERAL.—Section 46 of the Internal Rev-
8 enue Code of 1986 is amended by redesignating paragraph
9 (7) as paragraph (8), by redesignating the paragraph (6)
10 relating to the advanced manufacturing investment credits
11 as paragraph (7), by striking “and” at the end of para-
12 graph (7) (as so redesignated), by striking the period at
13 the end of paragraph (8) (as so redesignated) and insert-
14 ing “, and”, and by adding at the end the following new
15 paragraph:

16 “(9) the commercial-to-residential credit.”.

17 (b) AMOUNT OF CREDIT.—Subpart E of part IV of
18 subchapter A of chapter 1 of the Internal Revenue Code
19 of 1986 is amended by inserting after section 48E the fol-
20 lowing new section:

21 **“SEC. 48F. COMMERCIAL-TO-RESIDENTIAL CREDIT.**

22 “(a) IN GENERAL.—For purposes of section 46, the
23 commercial-to-residential credit for any taxable year is
24 equal to 15 percent of the qualified conversion expendi-
25 tures with respect to a qualified converted building.

1 “(b) LIMITATION ON CREDIT AMOUNT.—The credit
2 determined under subsection (a) may not exceed—

3 “(1) \$200,000 per new residential housing unit,
4 and

5 “(2) \$10,000,000 per qualified converted build-
6 ing.

7 “(c) WHEN EXPENDITURES TAKEN INTO AC-
8 COUNT.—

9 “(1) IN GENERAL.—Qualified conversion ex-
10 penditures with respect to any qualified converted
11 building shall be taken into account for the taxable
12 year in which such qualified converted building is
13 placed in service.

14 “(2) COORDINATION WITH SUBSECTION (e).—
15 The amount which would (but for this subpara-
16 graph) be taken into account under subparagraph
17 (A) with respect to any qualified converted building
18 shall be reduced (but not below zero) by any amount
19 of qualified conversion expenditures taken into ac-
20 count under subsection (e) by the taxpayer or a
21 predecessor of the taxpayer (or, in the case of a sale
22 and leaseback described in section 50(a)(2)(C), by
23 the lessee), to the extent any amount so taken into
24 account has not been required to be recaptured
25 under section 50(a).

1 “(d) BONUS CREDITS.—

2 “(1) AFFORDABLE HOUSING BONUS CREDIT.—

3 “(A) IN GENERAL.—In the case of a quali-
4 fied converted building which has been con-
5 verted to a majority rental residential use and
6 which satisfies the requirements under subpara-
7 graph (B), the amount of the credit determined
8 under subsection (a) (determined without re-
9 gard to this subsection) and the limitation on
10 credit amount described in subsection (b) (de-
11 termined without regard to this subsection)
12 with respect to such building shall each be in-
13 creased by an amount equal to—

14 “(i) in the case of a qualified con-
15 verted building 25 percent or more of the
16 residential units of which are both rent-re-
17 stricted and occupied by individuals whose
18 income does not exceed 100 percent of
19 area median income, 10 percent of such
20 amounts,

21 “(ii) in the case of a qualified con-
22 verted building 25 percent or more of the
23 residential units of which are both rent-re-
24 stricted and occupied by individuals whose
25 income does not exceed 80 percent of area

1 median income, 15 percent of such
2 amounts, and

3 “(iii) in the case of a qualified con-
4 verted building 25 percent or more of the
5 residential units of which are both rent-re-
6 stricted and occupied by individuals whose
7 income does not exceed 60 percent of area
8 median income, 20 percent of such
9 amounts.

10 “(B) RENT AND INCOME LIMITATION.—

11 For purposes of subparagraph (A), rules similar
12 to the rules of section 42(g) shall apply to de-
13 termine whether a unit is rent-restricted, treat-
14 ment of units occupied by individuals whose in-
15 comes rise above the limit, and treatment of
16 units where Federal rental assistance is reduced
17 as tenant’s income increases.

18 “(2) PREVAILING WAGE BONUS CREDIT.—

19 “(A) IN GENERAL.—In the case of any
20 qualified converted building with respect to
21 which the taxpayer certifies to the Secretary
22 that the taxpayer satisfied the requirement of
23 subparagraph (B) with respect to the conver-
24 sion process, the amount of the credit deter-
25 mined under subsection (a) (determined without

1 regard to this subsection) and the limitation on
 2 the credit amount described in subsection (b)
 3 (determined without regard to this subsection)
 4 with respect to such building shall each be in-
 5 creased by an amount equal to 15 percent of
 6 such amounts.

7 “(B) PREVAILING WAGE REQUIREMENT.—

8 The requirement described in this subparagraph
 9 is satisfied with respect to any conversion if all
 10 laborers or mechanics employed by the taxpayer
 11 or any contractor or subcontractor of the tax-
 12 payer to carry out the conversion were paid
 13 wages at rates not less than the prevailing rates
 14 for construction, alteration, or repair of a simi-
 15 lar character in the locality in which such
 16 project is located as most recently determined
 17 by the Secretary of Labor, in accordance with
 18 subchapter IV of chapter 31 of title 40, United
 19 States Code.

20 “(e) DEFINITIONS.—

21 “(1) QUALIFIED CONVERTED BUILDING.—

22 “(A) IN GENERAL.—The term ‘qualified
 23 converted building’ means any building (and its
 24 structural components) if—

1 “(i) prior to conversion, such building
2 was nonresidential real property (as de-
3 fined in section 168) which was leased, or
4 available for lease, to office tenants,

5 “(ii) such building has been substan-
6 tially converted from an office use to a res-
7 idential or residential-retail mixed use,

8 “(iii) such building was initially
9 placed in service at least 15 years before
10 the beginning of the conversion, and

11 “(iv) depreciation (or amortization in
12 lieu of depreciation) is allowable with re-
13 spect to such building.

14 “(B) SUBSTANTIALLY CONVERTED DE-
15 FINED.—

16 “(i) IN GENERAL.—For purposes of
17 paragraph (1)(A)(ii), a building shall be
18 treated as having been substantially con-
19 verted only if the qualified conversion ex-
20 penditures during the 24-month period se-
21 lected by the taxpayer (at the time and in
22 the manner prescribed by regulation) and
23 ending with or within the taxable year ex-
24 ceed the greater of—

1 “(I) the adjusted basis of such
2 building (and its structural compo-
3 nents), or

4 “(II) \$15,000.

5 The adjusted basis of the building (and its
6 structural components) shall be determined
7 as of the beginning of the 1st day of such
8 24-month period, or of the holding period
9 of the building, whichever is later. For
10 purposes of the preceding sentence, the de-
11 termination of the beginning of the holding
12 period shall be made without regard to any
13 reconstruction by the taxpayer in connec-
14 tion with the conversion.

15 “(ii) SPECIAL RULE FOR PHASED
16 CONVERSION.—In the case of any conver-
17 sion which may reasonably be expected to
18 be completed in phases set forth in archi-
19 tectural plans and specifications completed
20 before the conversion begins, clause (i)
21 shall be applied by substituting ‘60-month
22 period’ for ‘24-month period’.

23 “(iii) LESSEES.—The Secretary shall
24 prescribe by regulation rules for applying
25 this subparagraph to lessees.

1 “(C) RECONSTRUCTION.—Conversion in-
2 cludes reconstruction.

3 “(2) QUALIFIED CONVERSION EXPENDITURES
4 DEFINED.—

5 “(A) IN GENERAL.—For purposes of sub-
6 section (a), the term ‘qualified conversion ex-
7 penditures’ means any amount properly charge-
8 able to capital account—

9 “(i) for property for which deprecia-
10 tion is allowable under section 168 and
11 which is—

12 “(I) nonresidential real property
13 (as defined in section 168),

14 “(II) residential rental property
15 (as defined in section 168), or

16 “(III) an addition or improve-
17 ment to property described in clause
18 (i) or (ii), and

19 “(ii) in connection with the conversion
20 of a qualified converted building.

21 “(B) CERTAIN EXPENDITURES NOT IN-
22 CLUDED.—The term ‘qualified conversion ex-
23 penditures’ does not include—

24 “(i) STRAIGHT LINE DEPRECIATION
25 MUST BE USED.—Any expenditure with re-

1 spect to which the taxpayer does not use
2 the straight line method over a recovery
3 period determined under subsection (c) or
4 (g) of section 168. The preceding sentence
5 shall not apply to any expenditure to the
6 extent the alternative depreciation system
7 of section 168(g) applies to such expendi-
8 ture by reason of subparagraph (B) or (C)
9 of section 168(g)(1).

10 “(ii) COST OF ACQUISITION.—The
11 cost of acquiring any building or interest
12 therein.

13 “(iii) ENLARGEMENTS.—Any expendi-
14 ture attributable to the enlargement of an
15 existing building.

16 “(iv) TAX-EXEMPT USE PROPERTY.—
17 Any expenditure in connection with the
18 conversion of a building which is allocable
19 to the portion of such property which is (or
20 may reasonably be expected to be) tax-ex-
21 empt use property (within the meaning of
22 section 168(h)), except that—

23 “(I) ‘50 percent’ shall be sub-
24 stituted for ‘35 percent’ in paragraph
25 (1)(B)(iii) thereof, and

1 “(II) an eligible educational insti-
2 tution (as defined in section
3 529(e)(5)) shall not be treated as a
4 tax-exempt entity.

5 This clause shall not apply for purposes of
6 determining whether a building has been
7 substantially converted.

8 “(v) EXPENDITURES OF LESSEE.—
9 Any expenditure of a lessee of a building
10 if, on the date the conversion is completed,
11 the remaining term of the lease (deter-
12 mined without regard to any renewal peri-
13 ods) is less than the recovery period deter-
14 mined under section 168(c).

15 “(f) PROGRESS EXPENDITURES.—

16 “(1) IN GENERAL.—In the case of any building
17 to which this subsection applies, except as provided
18 in paragraph (3)—

19 “(A) if such building is self-converted
20 property, any qualified conversion expenditure
21 with respect to such building shall be taken into
22 account for the taxable year for which such ex-
23 penditure is properly chargeable to capital ac-
24 count with respect to such building, and

1 “(B) if such building is not self-converted
2 property, any qualified conversion expenditure
3 with respect to such building shall be taken into
4 account for the taxable year in which paid.

5 “(2) PROPERTY TO WHICH SUBSECTION AP-
6 PLIES.—

7 “(A) IN GENERAL.—This subsection shall
8 apply to any building which is being converted
9 by or for the taxpayer if—

10 “(i) the normal conversion period for
11 such building is 2 years or more, and

12 “(ii) it is reasonable to expect that
13 such building will be a qualified converted
14 building in the hands of the taxpayer when
15 it is placed in service.

16 Clauses (i) and (ii) shall be applied on the basis
17 of facts known as of the close of the taxable
18 year of the taxpayer in which the conversion be-
19 gins (or, if later, at the close of the first taxable
20 year to which an election under this subsection
21 applies).

22 “(B) NORMAL CONVERSION PERIOD.—For
23 purposes of subparagraph (A), the term ‘normal
24 conversion period’ means the period reasonably

1 expected to be required for the conversion of
2 the building—

3 “(i) beginning with the date on which
4 physical work on the conversion begins (or,
5 if later, the first day of the first taxable
6 year to which an election under this sub-
7 section applies), and

8 “(ii) ending on the date on which it is
9 expected that the property will be available
10 for placing in service.

11 “(3) SPECIAL RULES FOR APPLYING PARA-
12 GRAPH (1).—For purposes of paragraph (1)—

13 “(A) COMPONENT PARTS, ETC.—Property
14 which is to be a component part of, or is other-
15 wise to be included in, any building to which
16 this subsection applies shall be taken into ac-
17 count—

18 “(i) at a time not earlier than the
19 time at which it becomes irrevocably de-
20 voted to use in the building, and

21 “(ii) as if (at the time referred to in
22 clause (i)) the taxpayer had expended an
23 amount equal to that portion of the cost to
24 the taxpayer of such component or other
25 property which, for purposes of this sub-

1 part, is properly chargeable (during such
2 taxable year) to capital account with re-
3 spect to such building.

4 “(B) CERTAIN BORROWING DIS-
5 REGARDED.—Any amount borrowed directly or
6 indirectly by the taxpayer from the person con-
7 verting the property for him shall not be treat-
8 ed as an amount expended for such conversion.

9 “(C) LIMITATION FOR BUILDINGS WHICH
10 ARE NOT SELF-CONVERTED.—

11 “(i) IN GENERAL.—In the case of a
12 building which is not self-converted, the
13 amount taken into account under para-
14 graph (1)(B) for any taxable year shall not
15 exceed the amount which represents the
16 portion of the overall cost to the taxpayer
17 of the conversion which is properly attrib-
18 utable to the portion of the conversion
19 which is completed during such taxable
20 year.

21 “(ii) CARRYOVER OF CERTAIN
22 AMOUNTS.—In the case of a building which
23 is not a self-converted building, if for the
24 taxable year—

1 “(I) the amount which (but for
2 clause (i)) would have been taken into
3 account under paragraph (1)(B) ex-
4 ceeds the limitation of clause (i), then
5 the amount of such excess shall be
6 taken into account under paragraph
7 (1)(B) for the succeeding taxable
8 year, or

9 “(II) the limitation of clause (i)
10 exceeds the amount taken into ac-
11 count under paragraph (1)(B), then
12 the amount of such excess shall in-
13 crease the limitation of clause (i) for
14 the succeeding taxable year.

15 “(D) DETERMINATION OF PERCENTAGE OF
16 COMPLETION.—The determination under sub-
17 paragraph (C)(i) of the portion of the overall
18 cost to the taxpayer of the conversion which is
19 properly attributable to conversion completed
20 during any taxable year shall be made, under
21 regulations prescribed by the Secretary, on the
22 basis of engineering or architectural estimates
23 or on the basis of cost accounting records. Un-
24 less the taxpayer establishes otherwise by clear
25 and convincing evidence, the conversion shall be

1 deemed to be completed not more rapidly than
2 ratably over the normal conversion period.

3 “(E) NO PROGRESS EXPENDITURES FOR
4 CERTAIN PRIOR PERIODS.—No qualified conver-
5 sion expenditures shall be taken into account
6 under this subsection for any period before the
7 first day of the first taxable year to which an
8 election under this subsection applies.

9 “(F) NO PROGRESS EXPENDITURES FOR
10 PROPERTY FOR YEAR IT IS PLACED IN SERVICE,
11 ETC.—In the case of any building, no qualified
12 conversion expenditures shall be taken into ac-
13 count under this subsection for the earlier of—

14 “(i) the taxable year in which the
15 building is placed in service, or

16 “(ii) the first taxable year for which
17 recapture is required under section
18 50(a)(2) with respect to such property,

19 or for any taxable year thereafter.

20 “(4) SELF-CONVERTED BUILDING.—For pur-
21 poses of this subsection, the term ‘self-converted
22 building’ means any building if it is reasonable to
23 believe that more than half of the qualified conver-
24 sion expenditures for such building will be made di-
25 rectly by the taxpayer.

1 “(5) ELECTION.—This subsection shall apply to
 2 any taxpayer only if such taxpayer has made an
 3 election under this paragraph. Such an election shall
 4 apply to the taxable year for which made and all
 5 subsequent taxable years. Such an election, once
 6 made, may be revoked only with the consent of the
 7 Secretary.

8 “(g) DENIAL OF DOUBLE BENEFIT.—A credit shall
 9 not be allowed under this section for any qualified conver-
 10 sion expenditure for which a credit is allowed under sec-
 11 tion 42 or 47.”.

12 (c) CONFORMING AMENDMENTS.—

13 (1) Section 49(a)(1)(C) of the Internal Revenue
 14 Code of 1986 is amended by striking “and” at the
 15 end of clause (vii), by striking the period at the end
 16 of clause (viii) and inserting “, and”, and by adding
 17 after clause (viii) the following new clause:

18 “(ix) the portion of the basis of any
 19 qualified converted property attributable to
 20 qualified conversion expenditures under
 21 section 48F.”.

22 (2) Section 50(a)(2)(E) of such Code is amend-
 23 ed by striking “or 48E(e)” and inserting “48E(e),
 24 or 48F(e)”.

1 (3) Section 50(b)(2) of such Code is amended
 2 by striking “and” at the end of subparagraph (C),
 3 by striking the period at the end of subparagraph
 4 (D) and inserting “; and”, and by adding after sub-
 5 paragraph (D) the following new subparagraph:

6 “(E) a qualified converted building to the
 7 extent of that portion of the basis which is at-
 8 tributable to qualified conversion expendi-
 9 tures.”.

10 (4) Section 50(b)(3) is amended by inserting “,
 11 or, solely with respect to the commercial-to-residen-
 12 tial credit, an eligible educational institution (as de-
 13 fined in section 529(e)(5))” after “section 521”.

14 (5) The table of sections for subpart E of part
 15 IV of subchapter A of chapter 1 of such Code is
 16 amended by inserting after the item relating to sec-
 17 tion 48E the following new item:

“Sec. 48F. Commercial-to-residential credit.”.

18 (d) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to qualified conversion expendi-
 20 tures incurred after the date of enactment in taxable years
 21 ending after such date.

22 **SEC. 3. COMMERCIAL TO RESIDENTIAL CONVERSION ADVI-**
 23 **SORY BOARD.**

24 (a) ESTABLISHMENT.—Not later than 1 year after
 25 the date of the enactment of this Act, the Secretary of

1 Housing and Urban Development shall establish an advisory board to carry out the duties described in subsection
2
3 (c).

4 (b) MEMBERSHIP.—The advisory board shall be composed of not less than 20 members, appointed by the Secretary.
5
6

7 (c) DUTIES.—The advisory board shall provide
8 logistical support, technical assistance, best practices, and
9 training to State and local housing agencies with respect
10 to—

11 (1) identifying the best candidates for commercial to residential conversions that are financially
12 and logistically feasible and meet demonstrated
13 housing demand in localities within the State or locality;
14
15

16 (2) conducting floor plan and feasibility analyses for prospective commercial to residential conversions;
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19 (3) expediting State or local regulatory processes and permitting processes to allow for faster
20 approval and construction of commercial to residential conversions;
21
22

23 (4) reforming of local regulatory and zoning barriers to allow for more commercial to residential conversions; and
24
25

1 (5) identifying Federal and State funding
2 sources that can be used by localities to provide fi-
3 nancial assistance on commercial to residential con-
4 version projects.

5 (d) AUTHORIZATION OF APPROPRIATIONS.—There is
6 authorized to be appropriated to carry out this section
7 \$5,000,000 for each of fiscal years 2025 through 2029.

○