WHITE PAPER:
Repurposing Underutilized Strip Malls to Create Multifamily Housing

By Ahmad Abu-Khalaf

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PD&R provides thought leadership and data-backed recommendations to influence housing and community development policy, addressing both emerging policy issues and long-term needs. Read reports and policy briefs by the team (www.enterprisecommunity.org) and follow us on X @E_HousingPolicy.
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Introduction

As the country continues to face a profound shortage of affordable rental homes, developers, policymakers, investors, and advocates are evaluating commercial-to-residential conversions – taking vacant or underutilized properties that were designed and built for one commercial function and repurposing these properties and their underlying sites into housing for low- and moderate-income households.

The Covid-19 pandemic led to an increased focus on converting office space, particularly in real estate markets where pandemic-induced work-from-home and hybrid policies and the flight-to-quality trend reduced demand for office space. This is especially true for older office spaces or those that lack desirable amenities, such as Class B and Class C properties. At the end of 2022, office buildings built in the 1980s had a negative absorption of nearly 98 million square feet, which means that more square footage in these properties became physically vacant than occupied.1

As Enterprise learned from previous studies, a host of challenges – from financial roadblocks to a lack of structural suitability and regulatory complexity – means that office-to-housing conversions aren’t likely to provide a broad housing solution.2 However, strip malls that exist in every jurisdiction nationwide deserve their own examination. Vacant or underutilized strip malls, and their underlying commercial sites, offer developers a unique opportunity to repurpose these properties into the types of real estate that are in great demand: multifamily housing or mixed-use developments with a housing component.3

The International Council of Shopping Centers defines the U.S. strip mall model as “an attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores. Open canopies may connect the storefronts, but a strip center does not have enclosed walkways linking the stores. A strip center may be configured in a straight line or have an ‘L’ or ‘U’ shape.”4 While strip malls are often located in suburban communities, which are largely shaped by single-use zoning rules designed to separate commercial and residential properties and are typically located on main commercial corridors, these commercial properties can also be found in urban locations.
Shifts in market trends mean that strip malls can provide an opportunity for conducting commercial-to-residential conversions. For example, data from Jones Lang LaSalle (JLL) shows that between the first quarter of 2022 and first quarter of 2023, absorption in smaller shopping centers, which include strip malls, fell 75% to 2.1 million square feet. This decline can be largely explained by the rising e-commerce trends and incidence of bankruptcies and departures by anchor tenants that previously leased larger spaces in these properties.\(^5\)

There are also strip malls across the nation that have reached the end of their lifecycle. Aged 80-100 years, the maintenance cost for these properties is now higher than the cost of demolition and rebuilding, making them prime sites for redevelopment. Commercial sites with dated strip malls that are vacant or underutilized not only serve as an eyesore, but also occupy underutilized land that can be developed to create infill multifamily housing – new housing constructed on vacant or underutilized sites surrounded by older existing properties – in communities faced with housing supply and affordability challenges.

Recent research from Boston’s Metropolitan Area Planning Council projects that, based on a range of factors including location, site conditions, regulatory conditions, and development potential, redeveloping the best suited 10% of each municipality’s strip malls into mixed-use developments could create up to 125,000 homes across the Boston metropolitan area.\(^6\) According to the International Council of Shopping Centers, the U.S. has 947.5 million square feet of strip mall space nationwide.

At the national level, by replicating the analysis of Boston’s Metropolitan Area Planning Council and its underlying assumptions, rough estimates show that repurposing the top 10% of strip mall space suited for redevelopment could create more than 700,000 new homes across the U.S.
This projection is based on the idea that half of the best-suited 10% of the nation’s strip mall space – nearly 47.38 million square feet – is converted into lower-density multifamily housing. As defined by Boston’s Metropolitan Area Planning Council, lower-density multifamily housing equates to approximately 28 homes per acre, resulting in the creation of over 300,000 homes nationwide.

The other half of the best-suited 10% of the nation’s strip mall space would be converted into medium-density multifamily housing. As defined by Boston’s Metropolitan Area Planning Council, medium-density housing is a property with up to six stories and an average unit size of 1,100 square feet. This would result in the development of over 400,000 homes in medium-density multifamily housing nationwide. This type of multifamily housing may include the common “five-over-one” model, which refers to five floors of timber construction over a concrete podium base or ground floor.

This projection of adding over 700,000 new homes in multifamily properties nationwide through the conversion of strip mall space could be scaled up by revising some of the underlying assumptions.

For example, if more than 10% of nation’s strip mall space were converted into multifamily homes, a larger number of multifamily homes could be created through such conversions. Furthermore, a share of the undeveloped portions of the strip mall’s underlying commercial sites could be unlocked to create additional multifamily homes.

In addition to creating much-needed multifamily rental housing, such conversions provide opportunities to ignite economic development in underinvested sites and replace parking lot coverage with green infrastructure – which can help reduce site flooding and mitigate heatwaves. Repurposing vacant or underutilized strip malls also provides an opportunity to create mixed-use redevelopments that can be accessed by different transit modes, which are scarce in many communities, especially jurisdictions with large swaths of developable land dedicated for single-use, single-family zoning.

Drawing on lessons learned from two examples of strip mall conversions, this white paper discusses considerations, strategies, and attainable outcomes for repurposing underutilized strip malls and their underlying commercial sites to create infill multifamily housing and mixed-use development with rental homes.

### How many multifamily homes nationwide could be created through repurposing strip malls?

**Over 300,000 multifamily homes**

Can be created by converting half of the best-suited 10% of the nation’s strip mall space into lower density multifamily housing.

**Over 400,000 multifamily homes**

Can be created by converting the other half of the best-suited 10% of the nation’s strip mall space into medium-density multifamily housing.

**Over 700,000 multifamily homes**

Can be created nationwide through repurposing the top 10% of strip mall space suited for redevelopment.
Project Profile: Skyview Park Apartments
Irondequoit, New York

Former Use: A Sears department store that was part of the former Irondequoit Mall
Project Team: PathStone Corporation, Christa Construction LLC, and Passero Associates

The Redevelopment of a Portion of the Former Irondequoit Mall
The former Sears big-box department store was retrofitted into 73 senior rental units, and a new 4-story multifamily building with 84 senior rental units was built on an adjacent abandoned parking lot.

The two buildings are now connected by a skybridge, which is a raised pedestrian walkway linking the two buildings.

Affordable and supportive senior housing
Skyview Park Apartments features 157 rental homes that are affordable for adults 55 and older earning up to 60% of the Area Median Income.

Seventy-eight apartments are reserved for frail elderly households at risk of homelessness who receive on-site supportive services provided by Rochester General Hospital's ElderONE program. Supportive services are funded through a state program known as Empire State Supportive Housing Initiative.

Green space for residents
The former department store was redesigned to include three open-air courtyards that provide tenants with access to natural light and ventilation, as well as community gardening space and two patios with grilling areas.

Connection to community spaces
Residents of Skyview Park Apartments are able to conveniently access senior programming at the Irondequoit Community Center, which is a 40,000-square-foot community center that was constructed at the site of the former Irondequoit Mall. Interior access to the community center is via the former Sears building.

Capital financing
The redevelopment project was supported through a 4% Low-Income Housing Tax Credit (Housing Credit) award, subsidy from New York State Homes and Community Renewal, Tax-Exempt Bonds, Community Development Block Grant (CDBG) funding from the town of Irondequoit, and HOME Investment Partnerships Program funding from Monroe County.
Project Profile: La Placita Cinco
Santa Ana, California

Former Use: An underutilized strip mall site that consisted of two single-story commercial buildings, a gas station, and an asphalt surface area that encompassed over two-thirds of the property

Project Team: Community Development Partners, City Fabrick, TCA Architects, and Walton Construction

The Redevelopment of the Former Tiny Tim Plaza
La Placita Cinco converted the former Tiny Tim Plaza site’s gas station and a portion of the parking lot with a mixed-use building that includes ground-floor community space and 51 two-, three- and four-bedroom apartment homes.

Affordable and Supportive Housing
La Placita Cinco provides rental homes that are affordable for households earning 30-60% of the Area Median Income. Mercy House Living Centers is the lead services provider for La Placita Cinco and delivers supportive services that are designed to help tenants maintain stable housing and access upward mobility opportunities.

Improvements for retail tenants
The commercial buildings and all their tenants remained and were integrated into the redeveloped site plan. The buildings were improved with updated façades and signage, new architecture, and enhanced pedestrian access that complies with Americans with Disabilities Act (ADA) standards.

Active design
The remaining surface parking was redesigned to support active use. Wide, landscaped plazas were added along the retail façades, and a mini park was added between the two retail buildings to accommodate a variety of uses including a playground and fitness programs.

Capital financing
The redevelopment project was supported through a 9% Low-Income Housing Tax Credit (Housing Credit) award and $6 million in subordinated funding from the city of Santa Ana.
Identifying Suitable Strip Malls

Not all strip malls are obsolete commercial properties with high vacancy rates and unmet maintenance needs. Repurposing vacant or underutilized strip malls to create infill multifamily housing and mixed-use developments should be a targeted effort focused on identifying strip mall properties with conditions that make them suitable for such conversions. The following section discusses factors that can significantly impact the success of converting strip malls into residential or mixed-use developments.

Loss of anchor retail tenants

An anchor tenant is typically defined as a well-known retail lessee in a commercial property that occupies the largest space and often draws more customers to the property. Research shows that the loss of an anchor tenant in a retail shopping center negatively impacts the remaining smaller tenants that offer more specialized services. Negative impacts include lowering the shopping center’s overall customer drawing power and limiting the tenants’ ability to afford their contracted rents. Holding other factors constant, a strip mall that has lost its anchor retail tenant is likely more prone to residential or mixed-use conversions.

The decline in the property’s customer drawing power has been shown to impact the owner’s ability to afford maintenance costs and reduce the collected property tax payments for local jurisdictions. Additionally, these conditions will likely lower the commercial property’s acquisition cost, enhancing the financial feasibility of converting the property into a residential or mixed-use development. For example, the loss of the Irondequoit Mall’s anchor tenants, which included Sears, led the way for repurposing the underutilized commercial property into other uses with higher demand, including senior affordable housing and a community center.

Developers acquiring strip malls with remaining retail tenants can work on integrating these tenants into the proposed mixed-use development, which is particularly important for preventing the displacement of locally owned and/or small businesses who may not be able to find available retail spaces with comparable lease prices in the area. This is the case with the La Placita Cinco redevelopment, where retail tenants remained and were integrated into the redeveloped site plan. Additionally, redevelopment projects that use qualifying federally funded programs – such as specific federal financial resources for affordable housing development – are required to work with and accommodate any remaining businesses under the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act (see page 13).
Deferred maintenance
Out-dated, underutilized strip malls requiring substantial maintenance are likely good candidates for residential or mixed-use conversions. The property’s high vacancy limits the owner’s ability to meet the strip malls’ maintenance needs, which can lead to a costly maintenance backlog. Under such circumstances, it would be difficult to advertise the property as a lucrative commercial property with sufficient customer demand, which contributes to an ongoing cycle of underinvestment.

Holding other criteria constant, the combination of high vacancy and a maintenance backlog make a strip mall more prone to residential or mixed-use conversions. These conditions can lead to an overall lower acquisition cost, thereby improving the financial feasibility of acquiring and converting the property into a high-demand residential or mixed-use development. For example, the La Placita Cinco redevelopment repurposed the plaza's dated and undermaintained property, which included a decommissioned gas station and retail segment with unmet maintenance needs, and a portion of the site's parking lot to create a mixed-use development with affordable homes, while upgrading the retail space and allowing the retail tenants to remain.

Over-retailed settings
Some locations, especially along commercial corridors where leasable retail spaces are clustered, have an over-supply of retail property types, including strip malls. This means that the existing supply of commercial space is higher than tenants’ demand for brick-and-mortar retail spaces. These circumstances are ripe for a real estate phenomenon known as “flight to quality,” under which a newer and well-maintained commercial property captures the demand for retail space, leading to higher vacancy rates in older strip malls with unmet maintenance needs.

Under these circumstances, older strip malls in over-retailed locations are prone to residential or mixed-use conversions. As previously discussed, the high vacancy and maintenance backlog likely equate with an overall lower acquisition cost, thereby improving the financial feasibility of acquiring and converting the property into a more lucrative residential or mixed-use development. Generally, these guidelines can help real estate stakeholders identify the locations where such conversions are more likely to be conducted.
Local regulatory landscape
Generally, local land use and zoning regulations prohibit the creation of housing or mixed-use development on commercially zoned parcels. Therefore, repurposing vacant and/or underutilized strip malls to create infill multifamily housing or mixed-use development may require an application for a conditional use permit, which would allow developers to use the existing property in a way that does not conform to local zoning regulations, while meeting specific conditions imposed by the local jurisdiction.

Local political, municipal and community support is vital for receiving a conditional use permit within a reasonable timeline. Under-utilized or vacant strip malls in jurisdictions with sufficient or strong support for such redevelopment projects are likely to be suitable candidates for residential conversions. It is important to note that local support can be gained by engaging with policymakers and the community to emphasize that such conversions equate with a range of benefits for the local community, which may include boosting the local property tax base, addressing vacancy and underinvestment issues, easing housing supply and affordability challenges, and bringing new services to the area, among other benefits.

Site size and conditions
Strip malls are typically built on large sites with a decent share of the site set aside as unsheltered surface parking. Under this configuration, many commercial sites with vacant or under-utilized strip malls will likely be deemed suitable for residential or mixed-use conversions because, unlike hotel or office property conversions, the redevelopment of strip malls is focused on repurposing the unbuilt portion of the site, rather than examining physically and financially feasible ways to repurpose the site’s constructed structures.

However, depending on the desired development outcome, a range of factors can further define the suitability of strip malls and their underlying commercial sites for such conversions. These factors include the conditions and the physical and financial feasibility of repurposing the existing constructed properties, the vacancy of the site’s retail property and if there are any long-term retail leases, the size of the site and if it can accommodate both the desired number of multifamily homes and the minimum parking requirements, and any site infrastructure issues, among other factors.

For example, the site size and conditions of the La Placita Cinco redevelopment allowed them to maintain the retail portion, as well as its lessees, in the final redevelopment, while adding new-construction multifamily housing. And the Skyview Park Apartments were developed by repurposing a former department store and adding new-construction multifamily housing to the site.
Redevelopment Strategies

There is no one-size-fits-all strategy that is suitable for repurposing every single strip mall and its underlying commercial site as each property has its own characteristics and circumstances. If the analysis and data attained through the due diligence process show that a strip mall and its underlying site are suitable for housing or mixed-use redevelopment, the development team could pursue one of many available and proven strategies to accomplish their desired goals.

Repurposing existing structures

Adaptive reuse is the redevelopment of an existing property to retrofit it to a new use with higher demand. The physical and financial feasibility of the acquisition and rehabilitation of existing structure(s) into affordable/mixed-income housing or mixed-use development will determine if the developer is able to pursue this option rather than razing the existing structure(s) and building the new development from scratch.

One prominent factor that can impact the physical and financial feasibility of pursuing an adaptive reuse of a vacant or underutilized strip mall property is the depth of the floor plate. When the horizontal distance between the external walls and the center of the building is much greater than the floor-to-floor height, then it will likely be challenging to repurpose the commercial property into residential units; the wide floor makes it challenging for natural light to filter into the newly created housing units.

This is particularly important to meet state and local jurisdictions’ natural light requirements, which state the types of rooms required to have access to natural light through exterior windows. However, architectural and design solutions are available that enable developers to repurpose a strip mall’s commercial space into residential units and meet the standards set by state and local jurisdictions.

For example, the Skyview Park redevelopment retrofitted a vacant retail box into senior rental housing by curving out exterior windows in the building’s brick façade and adding internal courtyards, enabling the development team to meet New York state’s natural light requirements in a physically and financially feasible manner. To attain the economies of scale, the redevelopment project also included a new-construction senior rental property on an adjacent abandoned parking lot.

“As developers, we try to address housing affordability, neighborhood blight, community growth, and sustainability. Sometimes, to accomplish our goals, we need to look ‘outside the box.’ In our ever-changing economic environment, we should be willing to utilize creative, adaptive re-use as one measure to address issues in our communities.”

Amy Casciani, senior developer who co-led Skyview Park
Site re-development

Using this approach to repurpose a site typically involves the full or partial razing of existing structure(s) to create a new-construction development on the recently cleared land. Under this redevelopment strategy, the new development typically takes better advantage of the maximum permitted building envelope and footprint due to changes in market demand and zoning requirements, resulting in a new development with higher density.

This strategy gives the development team flexibility in deciding which of the existing commercial structures can be rehabilitated for better utilization versus those that require demolition due to their obsolete conditions. For example, the La Placita Cinco redevelopment removed the site’s obsolete gas station and used it and a portion of the former parking lot to create a mixed-use development building with housing and community space, while maintaining and upgrading the site’s retail portion. This redevelopment method is likely physically feasible in commercial sites with strip malls that include smaller retail structure(s) and larger parking lots.

Additionally, maintaining and upgrading the site’s retail space enables the development team to avoid displacing any existing retail tenants with long-term leases when the strip mall’s retail space is only partially vacant. Under such circumstances, the development team would also avoid negotiating covering the financial costs of relocating these businesses to other retail spaces or pursuing possible buyouts, which can significantly increase the property acquisition costs.

It is important to note that, for any proposed affordable housing development that plans to vacate business with existing leases and receives federal funding, such as funding from qualifying housing programs administered by the U.S. Department of Housing and Urban Development, these proposals will activate the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA). The law requires the developer to provide these businesses with relocation advisory services, a minimum 90-day written notice to vacate prior to requiring possession, and a reimbursement for moving and reestablishment expenses. While these protections are supportive for vacated businesses, they can significantly increase the redevelopment’s acquisition costs. Some jurisdictions have elected to apply the URA requirements to redevelopment projects that are partially financed by the Low-Income Housing Tax Credit.
**Subdivision and co-location**

Strip malls that occupy larger commercial sites may provide an opportunity to subdivide the overall site into multiple smaller parcels that could be redeveloped by separate development teams for various new uses. This strategy can help mission-driven developers access land to create affordable housing, as they often struggle to afford the land acquisition costs of larger sites, especially in expensive markets.

Additionally, this redevelopment method can provide opportunities to co-locate public community-serving and private-use developments on smaller neighboring sites that could be overseen by different developers as part of one large redevelopment project. For example, the Irondequoit Mall redevelopment took a portion of the former mall and turned it into a community center that was then connected to the new-construction senior housing buildings.

Redevelopment projects such as this provide opportunities for developers to create mixed-use redevelopments that include infill multifamily housing within walking distance of vital amenities such as grocery stores, childcare centers, and healthcare clinics. Under this strategy, the site redevelopment is planned in a comprehensive way, accounting for the local community’s needs and how the redevelopment project can help address those needs by adding community-serving spaces and supporting economic development opportunities. Planning how to connect the newly rehabilitated and constructed spaces to ensure it eventually functions as one master-planned site is a part of this strategy’s process as well.
Opportunities to Improve Infrastructure

Regardless of the redevelopment strategy used to repurpose existing buildings or add new-construction buildings to the strip mall’s site, the redevelopment process provides an opportunity to conduct a range of improvements to the strip mall’s underlying commercial site.

**Pedestrian infrastructure**

Generally, strip malls and their underlying sites were historically designed as auto-oriented commercial sites with little attention to pedestrian accessibility and walkability. Redeveloping these sites to create mixed-use or residential developments provides an opportunity to enhance the site’s overall pedestrian infrastructure and connectivity to its surrounding spaces.

The La Placita Cinco redevelopment achieved this by enhancing the sidewalks and creating new, landscaped plazas along the retail stores’ façades, as well as a mini park between the site’s two retail buildings to accommodate a variety of community-serving programs. At the Skyview Park Apartments redevelopment site, accessible sidewalks and green spaces were added, and innovative design tools were used to connect the residents of the site’s two affordable senior housing buildings and enable them to conveniently access the nearby community center.

**Green infrastructure**

Generally, strip malls and their underlying sites have high shares of impervious parking lot coverage, meaning these surfaces have been covered by a material and/or compacted in a way that makes it significantly resistant to water infiltration, thereby increasing the site’s susceptibility to rainwater flooding and heat island effect. Redeveloping these sites to create mixed-use or residential developments provides an opportunity to enhance the site’s resilience against climate events.

The former Tiny Tim Plaza’s 2.3-acre site had a parking lot that encompassed two-thirds of the overall site’s area with an impermeable asphalt surface. The La Placita Cinco redevelopment reduced the site’s paved parking area to a small fraction of the old parking lot, while adding green areas, permeable surfaces, and sustainable stormwater management features to retain and treat all runoff water on-site.\(^\text{13}\)

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“La Placita Cinco is a mixed-use project that transformed an underutilized retail plaza and created a community-oriented urban hub with new affordable housing. The result was successful residential and retail improvements and new supportive housing and community-service spaces. Residents and retailers were given the resources they needed to grow and flourish.”

Kyle Paine, president of Community Development Partners
Recommendations for Policymakers and Stakeholders

Identify suitable properties
Conducting an analysis of a jurisdiction's vacant or underutilized strip malls and their suitability to being repurposed into residential or mixed-use development is an essential first step in the selection of a redevelopment strategy. Suitability is based on factors such as retail vacancy, deferred maintenance, site size, and conditions. Once these sites are identified, stakeholders can work together to identify the right strategies for securing administrative approvals and the financing tools necessary to support the conversion.

Local regulatory support
Repurposing strip malls and their underlying commercial sites to create housing or mixed-use developments typically requires amending local zoning rules to secure local approvals; therefore, the support of state and local policymakers is necessary to advance the project. Some jurisdictions, including California, have either explored or adopted regulatory changes to streamline and expedite the approval process for eligible affordable housing developments built on commercial sites.

Even when a municipality amends its land use and zoning regulations, there may be a need to address a range of underlying regulations—such as excessive minimum on-site parking, setback, and height cap requirements—that could either inhibit or negatively impact the physical and financial feasibility of this type of redevelopment project.

Access to financing
The financial feasibility of repurposing strip malls and their underlying commercial sites to create housing or mixed-use developments largely relies on securing sufficient access to debt and equity capital. The uniqueness of this approach can present specific issues when it comes to securing financing, such as demonstrating an existing market demand for pilots with infill multifamily housing or mixed-use properties that include multifamily homes, especially in predominantly single-family zoned areas with no comparable developments.

This complexity requires partnering with lenders, equity investors, and public entities that are both supportive of such redevelopment proposals and willing to enable their developers to secure sufficient financing, which may include a combination of loans, equity investments, grants, tax credits and gap financing. Specifically, attaining community-serving goals, such as creating subsidized affordable homes, adding green infrastructure to the site, or developing community spaces, will likely require public grants, loans and/or the tax credits necessary to fill any gaps in the proposal's financing structure.

This may include:
- Federal or state Low-Income Housing Tax Credits to finance the development of affordable rental homes.
- New Markets Tax Credit to support eligible community-serving commercial spaces.
- Community Development Block Grants to finance eligible infrastructure improvements and site acquisition activities.
- Financing tools to support eligible affordable housing and community revitalization activities through the Community Development Financial Institutions Fund's Capital Magnet Fund Program.
• Acquiring and repurposing vacant and underutilized commercial sites with strip malls to create affordable/mixed-income multifamily housing or mixed-use developments is a promising approach that can help state and local jurisdictions ease their housing affordability and supply challenges. These conversions also provide opportunities for supporting economic development and creating green spaces and pedestrian infrastructure.

• It is likely that many local jurisdictions have one or more strip malls with obsolete commercial space and/or high vacancy rates. Repurposing vacant or underutilized strip malls to create infill multifamily housing and mixed-use developments should be a targeted effort that is focused on identifying strip malls with underlying commercial sites that are suitable for such conversions.

• The support of state and local policymakers is necessary to advancing such redevelopment projects, as repurposing strip malls and their underlying commercial sites to create infill multifamily housing or mixed-use developments typically requires amending local zoning rules to secure local approvals. Additionally, securing sufficient access to debt and equity capital to finance the project is vital for the success of these redevelopments.

• Integrating community-serving uses, including subsidized affordable homes, green infrastructure, and community spaces, into these redevelopment projects will likely require accessing public grants and loans necessary to fill financing gaps. These resources may include Low-Income Housing Tax Credits or Community Development Block Grants through state or local agencies.

Key Takeaways
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