

Gensler

HR&A



Office-to-Residential Conversion in San Francisco's Changing Real Estate Market

Office-residential conversion - why?

- Flexible work has changed demand for office, resulting in high vacancy rates, lower property values, and lower tax revenues
- Diversification of land uses is one way for downtown to become more resilient and inclusive
- Conversion of office buildings to residential uses can help to reactivate downtown and provide housing in transit-rich areas of the city



San Francisco



Goals of the study

1. Understand the potential for conversion given physical, economic, and policy constraints
2. Identify the types of policies that could incentivize conversion

ASSESSMENT RESULTS

POSITIONING REAL ESTATE WITH TARGETED SOLUTIONS

CONVERSION SCORING CRITERIA



10%

Site Context

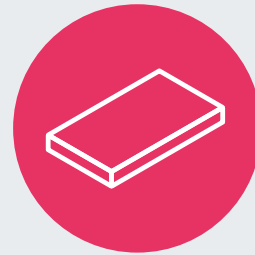
Walkability
Transit
Natural light
View obstruction
Allows for south facing windows



30%

Building Form

Shape of building
How easy is it to plan units?



30%

Floor Plate

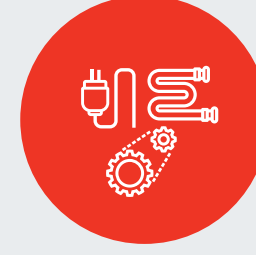
Window to core distance
Existing # of elevators



10%

Envelope

Existing window to wall ratio
Ease of window replacement



20%

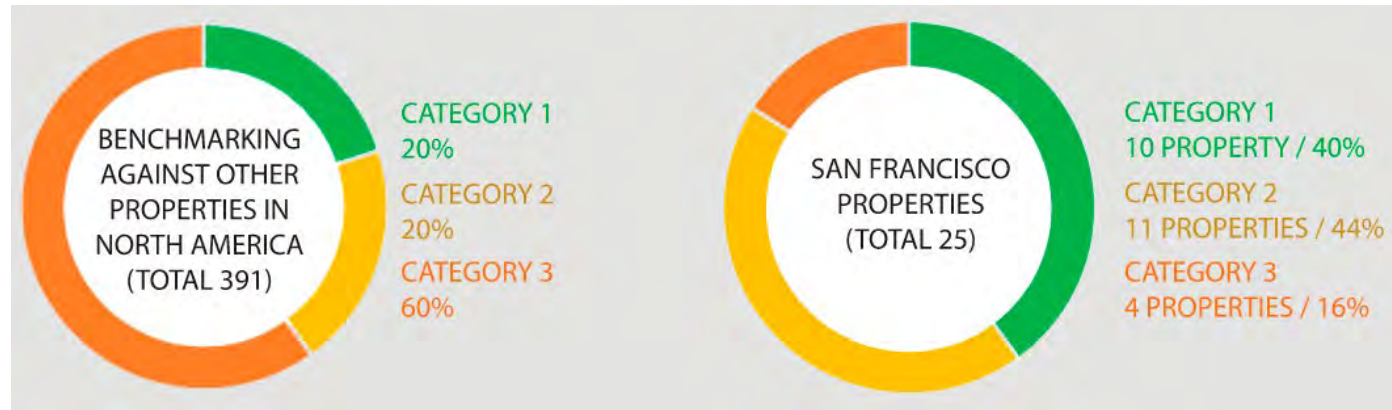
Servicing

Loading
Parking
Structure
MEP

AREA OF STUDY | DOWNTOWN SAN FRANCISCO

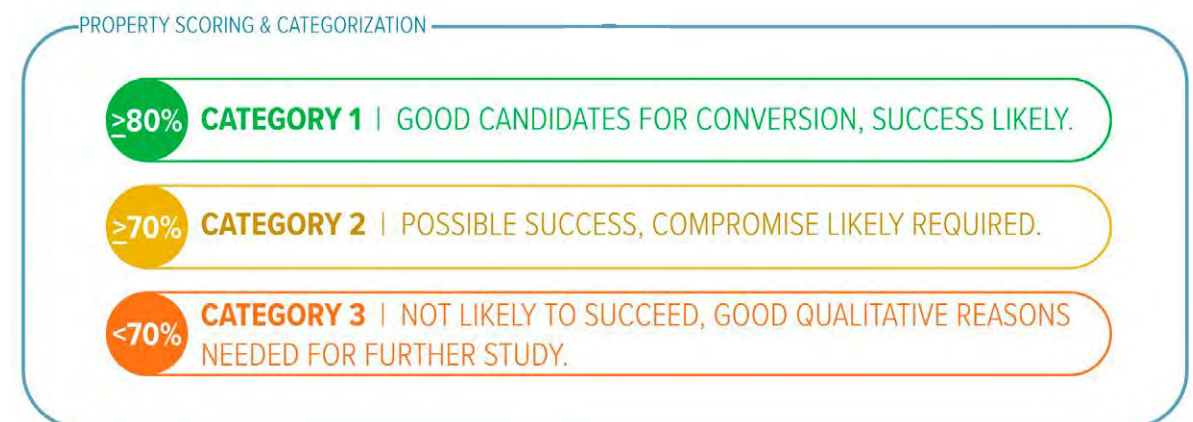


EXECUTIVE SUMMARY



High level analysis of the identified buildings generated the following **key takeaways**:

- Of the 25 properties selected, a relatively large number of properties meet the preliminary threshold for conversion based on the scoring, and merit greater analysis and due diligence.
- For comparison purposes, of the 391 properties Gensler has analyzed across North America to date, approximately 20% fall into Category 1 and another 20% fall into Category 2.
- 10 properties have initially been identified as good candidates for conversion, falling into category 1 (scoring over 80%). This accounts for 40% of the properties analyzed.
- An additional 11 meet the threshold for possible conversion candidates falling into category 2 (scoring over 70%). This accounts for 44% of the properties analyzed.
- Note: Other properties not reviewed and scored as part of this exercise may similarly be feasible for conversion – this analysis was not comprehensive or exhaustive.
- Lack of dedicated parking was a consistent drawback for most properties, however, given the urban context, nearby parking, and likely unit mix and typology this is an obstacle that can be overcome if needed. While parking is a drawback, it does not have a major impact on the results, affecting properties by only a few percentage points.



PROPERTY TYPOLOGIES

The properties selected was grouped into typologies, using three different primary criteria – Building Type, Floor Plate Size and Façade, due to these three factors’ relative impact on the overall physical compatibility and relative cost of conversion.

Typology			
	Building Type	Floor Plate Size	Facade
1	High Rise	12001 - 20000 sf	Ribbon Windows
			Punched Windows
2	High Rise	Up to 12000 sf	Curtain Wall
			Ribbon Windows
			Punched Windows
3	High Rise	over 20000 sf	Curtain Wall
			Punched Windows
4	Low-Mid Rise	6001 - 20000 sf	Punched Windows
5	Low-Mid Rise	over 20000 sf	Punched Windows
6	Low-Mid Rise	Up to 6000 sf	Punched Windows
7	Urban Infill	Up to 6000 sf	Punched Windows
8	Urban Infill	12001 - 20000 sf	Punched Windows

COMPATIBILITY RATING BY PROPERTY TYPOLOGY

Compatibility ratings of all properties assessed were grouped by typology. The high-rise building type scored the highest on average, while properties with mid-size floorplates scored the highest across all categories. The Façade type had a relatively lower impact on compatibility, compared to floorplate, but in many instances was the factor that made a property either a very good or average candidate for conversion. Average unit size is a targeted value and efficiency is an estimated value, informed by compatibility rating.

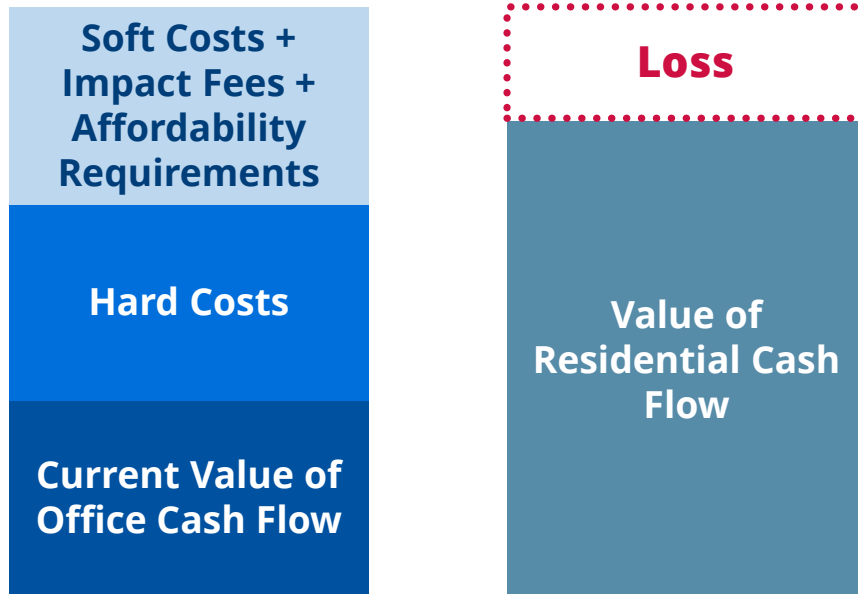
Typology				Assumed Average Unit Size & Efficiency	Average score by typology		
Building Type	Floorplate Size	Façade	Building Type		Floorplate Size	Façade	
1 High Rise	12001 - 20000 sf	Ribbon Windows	650sf @ 80%	80%	84%	81%	
		Punched Windows				85%	
2 High Rise	Up to 12000 sf	Curtain Wall			74%	77%	
		Ribbon Windows				64%	
		Punched Windows			79%	78%	
3 High Rise	over 20000 sf	Curtain Wall				76%	
		Punched Windows	80%				
4 Low-Mid Rise	6001 - 20000 sf	Punched Windows	650sf @ 75%	72%	76%	77%	
5 Low-Mid Rise	over 20000 sf	Punched Windows			62%	62%	
6 Low-Mid Rise	Up to 6000 sf	Punched Windows			72%	72%	
7 Urban Infill	Up to 6000 sf	Punched Windows	650sf @ 70%	65%	63%	63%	
8 Urban Infill	12001 - 20000 sf	Punched Windows			71%	71%	

*NOTE: Average compatibility ratings are based on the 25 properties analyzed only and may vary if number of properties analyzed in the dataset is increased.

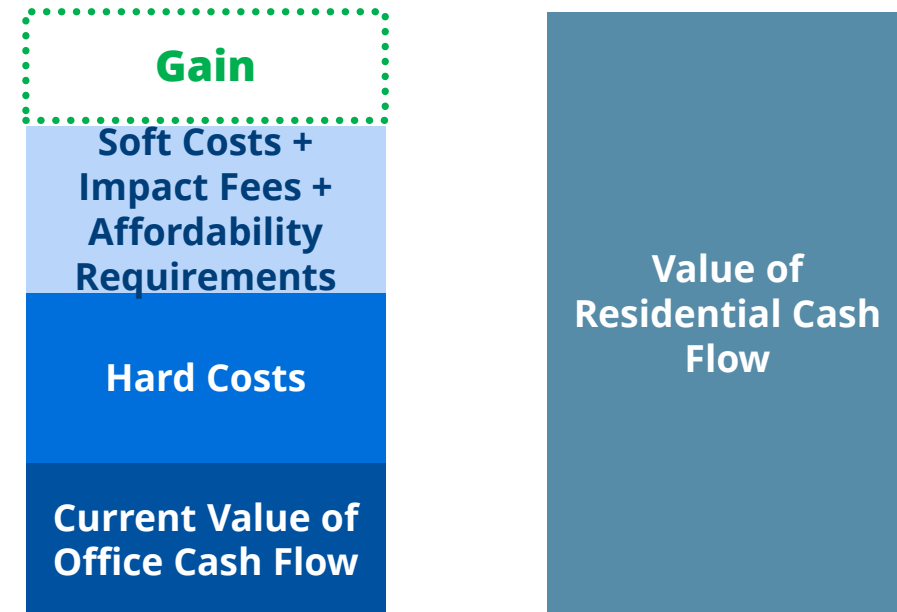
APPROACH

Conversions happen only when the future value of a residential building exceeds the existing office value plus the cost of conversion.

Remain as Office if....



Convert to Residential if....



**Individual owner decision making will be driven by this and countless other building specific factors, including existing debt and overall portfolio considerations.*

FINDINGS | RELATIVE TYPOLOGY PERFORMANCE

High rise with floorplates >20K sf and <12K sf show the greatest consistent potential across scenarios, though individual buildings of other typologies with very high vacancy rates may also find a pathway.

	 High Rise Over 20K Floorplate	 High Rise 12-20K Floorplate	 High Rise Up To 12K Floorplate	 Low-Mid Rise Over 20K Floorplate	 Low-Mid Rise 6-20K Floorplate	 Low-Mid Rise Under 6K Floorplate
Current Office Rent/ SF for Low Performing Bldgs	\$48	\$61	\$55	\$56	\$56	\$27
Conversion Hard Costs/ SF	\$660-\$670	\$545-\$720	\$475-\$805	\$455-\$720	\$575-\$615	\$650-\$840

FINDINGS | LEVERS TO ENHANCE CONVERSION FEASIBILITY

If residential conversion is a policy priority, tools may be explored to reduce the costs of building housing, strengthening economic feasibility and conversion rationality.



Streamlined regulatory/
permitting processes



Adjusted impact fees



Adjusted affordability
requirements



Tax/ financial incentives
& resources

Summary of findings

- **40% of buildings are good physical candidates for conversion**
 - Potential to accommodate 4,200 units if all Class B/C vacant spaces were converted. More than 11,200 if all vacant space were converted.
- **Not currently financially feasible to redevelop**
 - Stickiness of office values relative to residential
 - Hard costs range from \$472,000 to \$633,000 per unit
 - Soft costs are 20-40% of total project development costs
- **Regulatory barriers in planning and building codes**
 - Section 309: Open space requirements, unit mix, unit exposure
 - Building code - elevator sizes, fire escapes, etc.
 - Permit streamlining/CEQA



San Francisco



Policy imperatives

- **Planning and building code amendments**
- **Reducing the inclusionary requirement**
- **Reducing impact fees**
- **Providing incentives**
 - Subsidies equivalent to property tax abatements, real estate transfer tax reductions for a limited period of time
- **Create a Prop M reserve for office space that is converted**
- **State legislation to study property tax exemptions**



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THANK YOU

