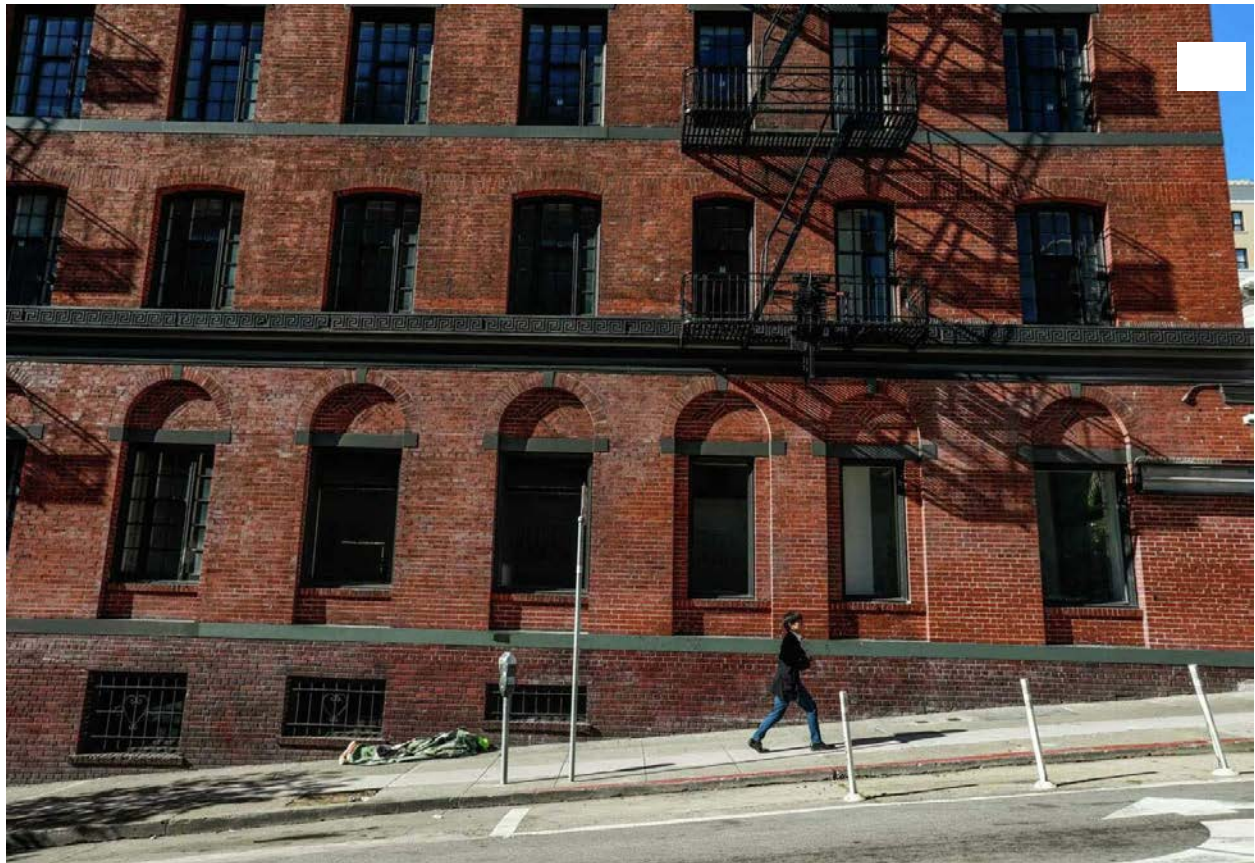


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# This historic building could hold the secret to saving downtown San Francisco

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A skinny, historic brick office building in Lower Nob Hill could be a poster child for the elusive trend that many see as the secret to saving downtown San Francisco: the office-to-residential conversion.

The nearly 20,000-square-foot building at 701 Sutter St., which was previously filled with tech tenants, has all the attributes that architects and investors say are needed for a conversion. The 1910 structure sits on a corner lot and is soaked in natural light. It has exposed beams, a mezzanine with arched windows and original wooden floors. It is on a mixed-use block replete with restaurants, close to several Academy of Art University buildings and a quick downhill walk to Union Square.

But what makes the brick-and-timber building particularly well positioned for a residential conversion is that it was cheap: The property recently sold for \$8.3 million, 40% less than the \$13.5 million it fetched in 2019.

It sold in November to the contractor SC Buildings and the residential investment group SCSH Development & Realty, which focuses largely on student housing. While the buyers did not respond to emails and phone calls seeking comment on their plans, the broker who represented the seller confirmed that the buyer plans to convert it to residential.

Broker Rick Durazzo of North Beach Properties said the property primarily attracted groups interested in converting it.

“It’s got great bones and is a rock star location for condos or apartments,” he said.



The deal comes as San Francisco’s office vacancy rate has hit 27%, and the availability rate, which includes sublease space, is 32.1%. Not surprisingly, none of the potential buyers who toured the property were looking to keep it as an office space.

“I have been in commercial real estate for 42 years, and thought I seen every damn downturn you could imagine,” said Durazzo. “This is the top of the heap.”

The concept of reviving the city’s downtown neighborhoods by filling empty buildings with residents has been the topic of panels, white papers, task forces and media reports. But all that attention has not resulted in projects coming into the planning department.

In addition to the 1910 Georgian structure at 701 Sutter, which has yet to apply for an application with the city, the one conversion proposal that has been filed with the city is for the Warfield office building at 988 Market St. That project aims to turn the 25,000 square feet in the building into 34 residential units, seven of them affordable.

With the city’s high construction costs, the key to making conversions work will be the ability to snag buildings at a bargain price, said Colin Yasukochi, research director for CBRE.

“A lot of people are scouring the market looking for office buildings that not only have the physical characteristics they are looking for but have a high vacancy and can potentially be

bought at a discount,” said Yasukochi. “The appropriate asset at the appropriate price. That is what will make conversion feasible.”

Chris Haegglund, a principal at BAR Architects & Interiors, has met with a steady stream of building owners and investors interested in doing conversions, and even gave a presentation last week to the San Francisco Chamber of Commerce on the economics of turning office space into housing.

“There is a lot of momentum and a lot of interest,” he said. “But I must say, at least so far, none of them are getting out of the due diligence phase.”

He said construction costs have remained stubbornly high, and the residential market is uncertain. With 701 Sutter the price was right and the layout appears to be perfect for housing.

“The building has character,” he said.

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