

Repurposing Commercial Real Estate for Residential Use

Report Summary for Supervisor Ahsha Safai

Presentation to:

LAND USE AND TRANSPORTATION COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

April 3, 2023

Information from report for Supervisor Gordon Mar, January 6, 2023

Addressing dual problems in San Francisco

Shortage of affordable housing

+

High commercial property vacancy rate, particularly Downtown

But...converting offices to housing does not offer a full solution to these issues:

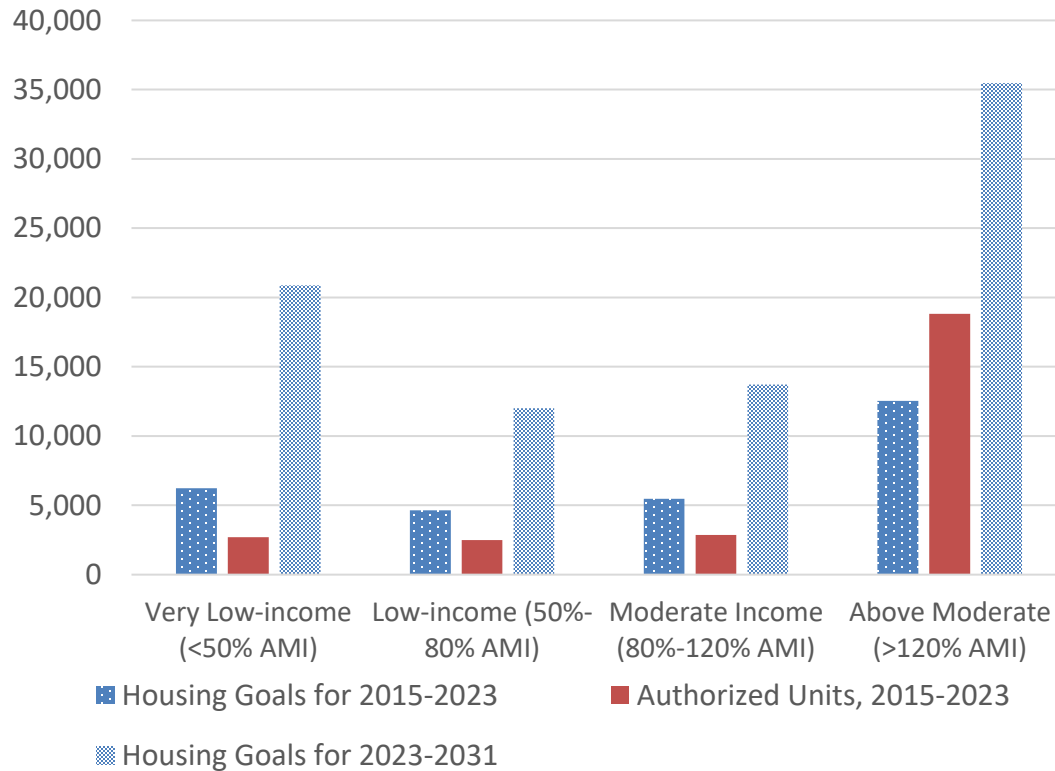
- Conversion is costly
- Conversion is complex

A combination of reforms in the City's development review process and financial incentives and subsidies could help facilitate conversions for affordable and/or market rate housing, as demonstrated by the experience of other cities.

2023-2031 SF housing goals compared to 2015-2023 (actl. thru 2021)

Note: Housing goals based on Regional Housing Needs Allocation (RHNA) set by State.

RHNA goals: 2015-2023 = 28,869 2023-2031 = 82,069



Under-utilized office & commercial space

- Covid-19 resulted in widespread working from home:
 - BLA estimate: 147,303 fewer workers Downtown as of late 2022 out of total of 245,505 pre-pandemic

Market	Total 2022 inventory (millions of square feet)	Total vacancy 2019	Total vacancy 2022	Vacant space 2022 (millions of square feet)
Retail Citywide	51.0	2.9%	5.8%	3.0
Office: Greater Downtown	85.9	5.6%	24.1%	20.7
Total	136.9			23.7

As of Q3 2022

- *Experts: working remotely/hybrid work arrangements to continue for foreseeable future.*

City Pipeline projects could also potentially be repurposed

San Francisco Planning Department Pipeline: Commercial Development, Quarter 3 of 2022

	Not Entitled	Entitled	Grand Total
Multiple Commercial Uses, With Residential Units	50	104	154
Multiple Commercial Uses, Without Residential Units	25	17	42
Retail	22	6	28
Office	16	11	27
Cultural, Institutional, Educational	11	10	21
Industrial	6	7	13
Hotels and Other Visitor Services	3	1	4
Medical	0	1	1
Grand Total	133	157	290

Does converting commercial property to residential have potential?

- A substantial amount of land zoned commercial could potentially be converted to housing in California and in SF.
- Not a panacea: complex from architectural and engineering standpoints.
 - Conversions accounted for only 9.7 percent of net new SF housing units, 2014 - 2019 (2,369 units out of 24,515).
 - Class B and C office buildings more compatible with conversions: potential for thousands of units.

Total Office sq ft. (millions)	67.4
Class B & C office sq. ft. only	15.7
Potential Housing Units	15,700
Vacant B & C sq. ft. (millions)	4.0
Potential Housing Units	4,019

- Conversions face costs and lengthy approval timelines.
 - Study: City and County of San Francisco took the longest time, at nearly 26.6 months on average. Next closest jurisdiction was the City of Palo Alto at 18.6 months (2014-2017).

Policy interventions in other cities have fostered conversion of commercial properties to residential

- **City of Los Angeles:** Adaptive Reuse Ordinance adopted 1999, created ministerial “by-right” approval path for conversions.
 - LA County commercial to residential conversion rate = 30.6% of new housing units, 2014 – 2019, vs. 9.7% in San Francisco and similar rates in other California counties.
 - 12,000 of 37,000 housing units added over 20 years in downtown LA were created through adaptive reuse.
- **New York City:** State financial incentives helped finance 12,865 commercial conversions to residential over several decades.

Build on ideas for reducing City's development process regulatory hurdles

- Propositions D and E on November 2022 ballot proposed changes to streamline development project approval processes.
- State legislation adopted in 2022 and 2018 requires streamlining approval process for certain types of affordable housing projects (AB 2011 and SB 35).
- City's Housing Element update includes proposals for streamlining approval and permitting processes for certain project types.

Common theme: Ministerial “by right” approval process for certain residential project types.

City financial and other incentives to improve the economics of commercial conversions to residential

- Tax incentives (see Chicago, Washington, D.C.)
- Subsidies for adaptive reuse (see Calgary)
- Reducing inclusionary housing requirements
- Changes to density limits
- Reduce/eliminate development impact fees or payment timing
- Building Code revisions

Options to streamline approval process for commercial to residential conversions

- Remove General Plan consistency reviews
- Eliminating discretionary approvals by Planning Commission, Board of Appeals, Historical Preservation Commission, Arts Commission, and Board of Supervisors
- Reducing conditional use permit requirements
- Eliminating Discretionary Review hearings
- Remove need for CEQA review by creating a ministerial pathway for certain conversions
- Consider Housing Element update recommendations related to CEQA

Potential drawbacks to conversion of office to residential

- Class B and C office buildings more affordable: Conversion to residential would reduce supply and increase challenges for smaller businesses.
- Business tax revenue would be reduced by less office activity: Property taxes generally lower for residential vs. office buildings.
- Indirect spending affected: 2021 study found workers in San Francisco spent an average of \$168 per week when working from their offices.

Policy Options

The Board of Supervisors could:

1. Solicit input from the Planning Department, Department of Building Inspection, Controller's Office, Mayor's Office of Housing and Community Development, and City Attorney's Office on steps to encourage conversion of under-utilized commercial uses to residential use.
 - a. Streamline review of qualified projects where possible through legislative and administrative actions. Set hard time limits on application milestones.
2. Encourage Planning Department to facilitate identification of number of commercial buildings good candidates for adaptive reuse to help determine how to incentivize such conversions most efficiently.
3. Consider funding alternatives to subsidize commercial to residential conversions
4. Consider adoption of recommendations in the Housing Element update
5. Consider sponsoring Charter amendments as needed to create by-right ministerial processes for approving certain commercial to residential conversions.

Questions and Comments

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