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S.F. has nearly 16 million square feet of vacant office space. Why can't it become housing?

Roland Li March 25, 2021Updated: March 25, 2021 8:42 p.m.

With almost a fifth of San Francisco office buildings available for lease and the coronavirus pandemic discouraging many workers from returning, the opportunity seems ripe to transform the cityscape.

Over 15.8 million square feet — more space than 11 Salesforce Towers — are listed for lease or sublease, according to brokerage firm Cushman & Wakefield. Last year San Francisco had the lowest office leasing activity on record. Meanwhile, the city still faces a major housing shortage, with thousands of new units needed to meet its 2022 state goal.

So, why not turn empty office spaces into housing?

The injection of new residents could help revitalize deserted commercial districts and boost foot traffic as restaurants and shops reopen, particularly during evening hours. More downtown housing would build on previous city efforts, particularly in the Transbay neighborhood, to create vibrant, mixed-use neighborhoods with both workers and residents.

But no San Francisco office-to-housing proposals have been submitted during the pandemic, according to the city's Planning Department.

While the idea is being actively discussed by developers, there are major obstacles, said Manan Shah, an co-managing director at architecture firm Gensler's Oakland office.

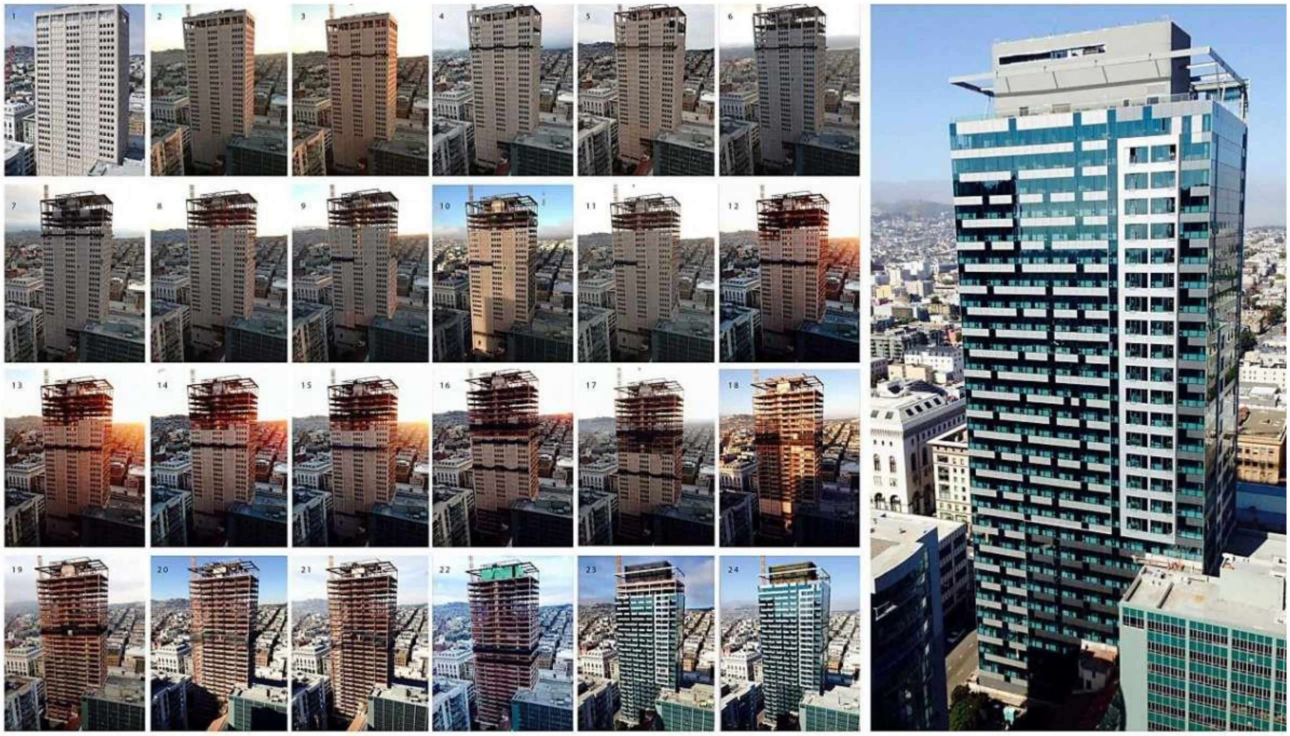
Office buildings can't be too large or dwellings won't have enough access to light and air. If they're too small, there won't be room for new bathrooms and bedrooms, or elevators and exits. Aging office buildings can also require major seismic upgrades to comply with modern residential codes, and historic exteriors may have to be preserved. Residences also must provide open space — a potential hurdle in cramped downtown — unless they receive a city variance.

"There are some just inherent challenges with doing it. Not impossible — it's certainly been done," Shah said. "I think you just have to look at each and every building and opportunity individually."

In some cases, converting old buildings can be more expensive than building a new project from the ground up, and they're almost always more complex, developers say. And San Francisco's construction costs, ranked as the world's highest in 2019, haven't budged much during the pandemic.

The city's largest conversion was the 418-unit 100 Van Ness, which was completed in 2015 and benefited from a confluence of positive trends. Once home to the California State Automobile Association, the 1970s concrete tower was regarded as an eyesore looming near City Hall.

"Everyone was very eager for this project. The old building, everybody hated it," including the late Mayor Ed Lee, said Oz Erickson, chairman of developer Emerald Fund.



A time-lapse series shows construction on 100 Van Ness, which was converted from offices to housing. Gavin St. Ours

Approvals took only nine months — most housing projects take years — and the city agreed to reduce its affordable housing requirement from 15% to 12%.

The building's heavy concrete skin was removed, windows were enlarged and the facade was reclad with glass. The building had strong safety standards when it was built, so it didn't require seismic upgrades.

Another bonus: Going residential meant commercial air filtering equipment could be removed from the top of the tower, said Strachan Forgan, a principal at SCB, the project architect. That made room for a rooftop deck with fire pits, couches and sweeping views of the entire city.

The views attracted workers from nearby companies like Twitter and Uber, which helped increase residential demand in the once moribund Mid-Market and Civic Center area.

"Those types of conversions are quite difficult," Erickson said. "You're losing all the office value, and you're spending a ton of money."

Office space is still lucrative and has been more resilient than apartment rents, which have been pummeled by mass layoffs and a shift away from urban living.

Office rents are down around 8% to $76.29 per square foot annually, compared with the prior year, according to Cushman & Wakefield. That's still higher than 100 Van Ness' asking rents of around $60 per square foot.

San Francisco's monthly apartment rents dropped 26% in February from what they were a year earlier, according to listings website ApartmentList.

After peaking at 12% in August, the estimated apartment vacancy rate declined to 7% in February. That's significantly lower than the office vacancy rate of 19%. But half of office vacancies are tenant sublease listings rather than direct landlord listings, so the original tenants are obligated to pay rent if they can't find a subtenant.

If the office market enters a prolonged slump and vacancies stay high even as businesses reopen, "I think this conversation's going to get louder" around housing conversions, Forgan of SCB said.

After the dot-com crash, there was a [wave of residential conversions] in older buildings in the 2000s.

The former Chronicle building seen in 2004. In 1962, it was reclad with a modern exterior that was later removed as the building was converted into condos. Mark Costantini / The Chronicle 2004

The historic One Powell St. next to the cable car turnaround, once home to Bank of Italy, was converted into 44 luxury lofts. The former Chronicle offices at 690 Market St. are now the Ritz-Carlton Club and Residences, with million-dollar condos. The historic Aronson Building is now being renovated as part of the new Four Seasons condo tower at 706 Mission St.

690 Market St., now home to the Ritz-Carlton condos, was once the site of The San Francisco Chronicle. Open Homes Photography

Built in 1890 as The Chronicle's home, the De Young Building at 690 Market St. has gone through a procession of changes, including a 30-plus-year interval where its walls of sandstone and brick were clad in porcelain, aluminum and glass. The modern wrapping was removed in 2007 as it was converted to condos. To defray the costs, the owner was allowed to add extra floors to the building. John King / The Chronicle

Shah of Gensler said underperforming commercial buildings that were struggling before the pandemic could also be good opportunities.

The owner of a vacant San Rafael office building wants to convert it into 20 apartments, saying the pandemic had dealt a "death blow to the area." But some are concerned about setting a precedent of allowing residential in an industrial zone, the Marin Independent Journal reported.

Other candidates are commercial buildings in prime residential areas outside of downtown.

The most lucrative example is the former University of the Pacific dentistry school and offices in San Francisco's Pacific Heights. With a new modern facade and views of the Golden Gate Bridge, the condo project at 2121 Webster St. sold out and generated more than $300 million.

Such opportunities are rare.

Jon Dishotsky, CEO of group housing startup Starcity, will soon open 58 apartments at 229 Ellis St. in San Francisco, a former Turkish bathhouse and office building that was abandoned for a decade. Dishotsky expects the project to outperform traditional housing developments, but Starcity couldn't find any other suitable office conversions in the Bay Area.

"Finding the deal for us is almost like the needle in the haystack," he said. "We had to basically build a brand-new building within a building. It's not for the faint of heart."

Each apartment at 229 Ellis St., ranging from 180 to 300 square feet, cost around $400,000 to build out, less than ground-up construction.

Starcity is now targeting ground-up construction, residential renovations and hotel-to-housing conversions. "It's more straightforward to demolish the existing building ... or go for a parking lot," Dishotsky said. "It's unfortunate because there's a lot of vacant commercial space."

It's up to San Francisco officials to make projects more viable, he said.

The Board of Supervisors has not proposed legislation to ease conversions. California's SB6 would allow housing development in office and retail zones, including at offices and shops that have been more than 50% vacant for at least three years. The bill would not affect downtown San Francisco, which already allows housing.

"If the city wanted to incentive a ton of affordable housing, they could make a fast-track approval process and lower affordable housing fees," Dishotsky said. "You're talking about the ability to unlock tens of thousands of units of housing."

History may also give office owners pause. The city has resurgenced after previous crashes, and office prices are still near record highs, suggesting the best strategy may be to hold or refresh office space instead of seeking to transform it.

Take 555-575 Market St., the former Chevron headquarters. The two towers were nearly empty after the oil giant moved to San Ramon, and a condo conversion was considered but later scrapped. At the end of 2019, they sold for $722 million in one of the biggest deals in city history — $642.5 million more than a 2003 sale.

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