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One-Quarter of Downtown Buildings Vacant; City Struggles to Fill Void

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Late last year, the Financial District’s office occupancy was at 42 percent of pre-pandemic levels, according to data from Kastle Systems, with a 26 percent vacancy rate. The cratering of the once vibrant economic node has spurred municipal agencies – the Office of Economic Workforce and Development (OWED) and Planning Department – to float possible ways to reinvigorate it, such as converting offices to biotech or housing.

The effort is partially driven by the link between the Financial District’s prosperity and the City’s coffers. Last month, the Comptroller’s Office forecast municipal budget deficits over the next five years. Unlike the fiscal challenges prompted by the 2001 and 2008 recessions, impending revenue declines reflect long-term structural challenges, including the implications of remote work. In the before-times, Districts 3 and 6, which include Downtown, generated more than half of all sales tax revenue collected in the City. They also contributed a greater-than-average share of business and property taxes.

The City’s fiscal year (FY) 2023 budget is about \$16.5 billion, supersized both on a per capita and gross basis. The municipality spends 20 times as much as the government of Belize, and more than Greenland. If the City doesn’t bring in additional income, there’ll be a roughly \$1.224 billion disparity

between revenues and expenditures by fiscal year 2027, a larger number than Aruba's national budget.

BART and Muni also face severe challenges in the absence of Downtown commuters.

“Our economic recovery will look at all possible uses for buildings downtown, including the conversion to housing,” said Gloria Chan, OEWD director of communications. “For some buildings, a housing conversion could work. For others, a different commercial use might make more sense, including institutional, educational, laboratories or modernizing the office to reflect how people use their workspace today. It is important for the City to support a diverse range of industries and sectors. Our Downtown zoning offers this type of flexibility.”

The high vacancy rate, which was estimated by commercial real estate firm CBRE, is being driven by work-from-home policies, layoffs, and restaurant closures. Likewise, San Francisco's population dropped by 6.3 percent between July 2020 and 2021, a loss of 54,813 people, the sharpest decline in inhabitants of any U.S. city.

According to Dan Sider, Planning Department chief of staff, potential revitalization tactics include converting Class A offices to biotech laboratories, as well as recruiting nonprofits and arts organizations Downtown. Seismic upgrades may be needed for many buildings.

“In addition, there needs to be a market equalization. Building owners are used to receiving a high rent for Downtown office space. As leases come up and turn over, they'll likely need to retool those expectations,” said Sider.

Colin Yasukochi, executive director of CBRE's Tech Insights Center, said older buildings with smaller floor plans are easiest to convert.

“There have not been any sellers of highly vacant office buildings Downtown at a low enough price to make a conversion financially feasible for a developer. As such, there have been a limited amount of office buildings in San Francisco converted to residential apartments over the past 20 years,” said Yasukochi.

In December, City-based developer, Group i, applied for a permit to convert five stories of the Warfield Theatre, at 988 Market Street. At a cost of \$9 million, 15,000 square feet of the 40,000 square foot building would be redeveloped into 34 studio, one-, and two-bedroom apartments between the fifth and ninth floors, seven of which'd be affordable.

According to District 10 Supervisor Shamann Walton, hard times in the Financial District has cascading adverse economic impacts.

“The employees of corporations with Downtown office space drove a lot of other business to the area, like pharmacies and parking garages. Now one of the ideas is to make Downtown more of a destination place,” said Walton.

To address emerging deficits, Walton said the City can either grow revenue or make budget reductions.

“Of course, growing revenue is preferable. One of the models to benefit Downtown comes from the collaborative effort of property owners and business owners in District 10, particularly along Third Street. It's key to let people know about opportunities and find ways for people to fall in love with local businesses in the neighborhood,” said Walton.

Walton believes that encouraging small businesses to hold popups at Downtown events could improve the economic climate throughout the City.

“It's an avenue for residents and visitors to see all of the amazing small businesses we have. Then they can visit the primary storefronts for those businesses in different neighborhoods,” said Walton.

Katherine Doumani, Dogpatch Neighborhood Association president, hoped “...that the space could provide some relief to the housing issues...not just (for) those neighbors who are unhoused, but also to reduce the escalation of housing costs due to the endless skyrocketing property values.”

She added the City should initiate a “community brainstorm” to reimagine Downtown as a sustainable, equitable, and vibrant neighborhood.

Jennifer Friedenbach, Coalition on Homelessness executive director, said the City must ensure that office space converted to housing contain units affordable to middle- and low-income tenants.

“So far, the Coalition on Homelessness has not received an invitation from the City to participate in discussions on how to address Downtown’s high vacancy rate. In order for the result to be equitable, nonprofits that serve people experiencing homelessness and housing insecurity, including our organization, affordable housing providers, developers, and organizations that offer supportive housing services need to be at the table,” said Friedenbach.

Friedenbach said the City could immediately adapt empty offices or vacant lots to serve people experiencing homelessness.

“They could convert the ground floor of a vacant building with electricity and working bathrooms to a temporary shelter. They could hold a job fair for nonprofits that serve people experiencing homelessness. They could also park a shower or laundry trailer on a level lot,” said Friedenbach.

Amy Cleary, Golden Gate Restaurant Association director of public policy and media relations, said the City should consult restaurant owners too.

“Holiday bookings were good, but restaurants that relied on lunch and happy hour traffic continue to suffer. It’s hard to determine how many closures there have been. The only significant data come from an annual count of closures from the San Francisco Department of Public Health,” said Cleary.

Downtown SF Partnership, a nonprofit community benefit district that serves 43 blocks of the Financial District and Jackson Square, is deploying events like “Let’s Glow SF,” a light art show, to attract restaurant goers and hotel guests to the area. In 2022, 51,000 people attended a 10-night Let’s Glow, generating \$3 million in economic activity, with a 41 percent increase in turnout from the 2021 inaugural year and a 61 percent rise in spending.

Cleary believes that holidays and temporary entertainment events create a “feast or famine” situation.

“Destination places, such as establishments geared toward tourists, are better positioned to survive than small businesses,” said Cleary. “Due to the labor shortage, most restaurants are short-staffed on an average day. That makes it hard to find additional staff and capacity to hold popups.”

Downtown SF Partnership’s next “activation” will be “The Landing at Leidesdorff,” a spring gathering at a maritime-themed event space. The occasion, which’ll focus on showcasing different art pieces, will be held at Leidesdorff and Commercial streets. The happening is named after William Alexander Leidesdorff, Jr., a biracial businessman. The Mayor’s Office and OEWD have provided \$278,000 to support the effort

“‘The Landing at Leidesdorff’ creates a new public space in the heart of Downtown by taking an underutilized alley and turning it into a space for arts and culture to be celebrated. It’ll involve rotating popup vendors, cultural programming, and local art installations. We invite local businesses, nonprofits, and artists to partner with us,” said Robbie Silver, Downtown SF Partnership executive director.

Silver added that The Landing at Leidesdorff will enable visitors to reimagine Downtown as an urban living room.

“(Long ago), Downtown was a welcoming spot for the ships to come in. Now it’s a place for the people to come in, too.” said Silver.

 

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