



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Mayor Sam Liccardo
Councilmember Raul Perez

SUBJECT: SEE BELOW

DATE: November 22, 2022

Approved

Date

11/22/22

SUBJECT: Office to Residential Conversion Pilot Program

RECOMMENDATION

To facilitate actions by the incoming Mayor and Council that can accelerate efforts to expand housing for a growing residential population Downtown, direct the City Manager and City Attorney to better enable conversions of older, Class “B” and “C” office buildings to housing in those locations that do not require any General Plan Amendment (i.e., with a “DC” land use designation), by:

1. Identifying the best path to enable local builders to access the recently-approved \$450 million in state funding to convert existing older office buildings to affordable housing over the next two years;
2. Consulting with the authors of the pending ULI study regarding office building conversions to glean any lessons for cities wishing to catalyze the reuse of older office buildings;
3. Reviewing existing studies regarding office conversions, such as Gensler’s recent study that spurred three conversions in downtown Calgary;
4. Convening builders and architects with experience or interest in such adaptive reuse—in collaboration with the current and incoming Mayor’s Office—to ask them to help the City identify any unnecessary cost or regulatory local barriers to conversions.
5. After collecting this information,

- a. return to Council with recommendations, and include evaluation of potential fee waivers (taken separately through the budget process) that could facilitate adaptive reuse to housing Downtown, such as a waiver of the Commercial, Residential, Mobile Home Park Construction (CRMP) tax for the first 1,000 units;
- b. Consider whether the City should identify specific Class B and C office buildings for incentives or prioritization for housing conversion.

BACKGROUND

In a world of rapidly rising office vacancy rates in cities throughout North America, many cities are looking at Downtown housing as a potential savior for flagging city centers. There are many obvious, and not-so-obvious reasons to advocate for office-to-housing (and to a lesser extent, hotel-to-housing) conversions, including:

- Providing critical housing supply to address our housing crisis, and improving affordability
- Supporting struggling restaurants, cafes, retail, and coworking venues in Downtown with foot traffic
- Restoring vibrancy to work-centered downtowns amid the evolution to remote- and hybrid- work
- Providing an environmentally vastly superior option to new construction, saving thousands of metric tons GhG resulting from new concrete, steel, and other building materials
- Reducing high office vacancy rates that can deter new investment and lease-ups
- Providing a facile means to add high-density housing with little construction impacts and no community opposition

We emphasize the narrow scope of this proposal: high-rise office buildings—and, to a lesser extent, hotels—in Downtown, which already have a flexible “DC” land-use designation.

To be clear, this is not the inception of an employment land conversion policy; it requires no General Plan amendments, and it avoids the negative fiscal and economic consequences of conversions in several ways. First, it focuses on very high-density housing in our Downtown, which has a fiscally positive impact on the City’s General Fund. That contrasts with historic conversions of industrial and commercial land that have depleted our jobs base, drained resources from taxpayers, provided a windfall for housing developers, and primarily resulted in sprawling low- and mid-density residential development. Second, nearly any expert in urban economics points to the positive economic impact of high-density residential occupancy in downtowns, particularly city centers suffering from a dramatic loss of “foot traffic” and vibrancy through this pandemic. High concentrations of residents provide an immediately accessible consumer base critically needed to sustain Downtown restaurants, retail, entertainment venues, and other amenities essential to our long-term goals.

Construction costs are frequently cited by builders as a barrier for conversion of office to housing— particularly in the installation of plumbing and metering for utilities—the experience of other cities provides us with two lessons: (1) conversions are being done successfully in many diverse urban markets, and (2) some office buildings are better for conversion than others. Helpfully, it appears that the [oldest office buildings may provide better candidates](#) for housing conversion because of the better alignment of smaller floor plans, higher ceilings, and more

generous windows. [Gensler, the architectural firm, recently concluded after one study that "the worse the office building, the better candidate it is for conversion to residential,"](#) in assessing the building stock in Calgary, where office vacancy exceeds 30 percent. As double-digit vacancy rates persist in U.S. cities through what is likely a looming recession, we will see office sites fall in price, making these conversions more financially feasible. Moreover, a brief on-line survey shows that we're seeing conversions includes many cities with high construction costs as well as lower costs, including:

- 100 Van Ness in San Francisco
- 132 Bishop St. in Honolulu
- 20 Broad Street in New York City
- First National Bank in Dallas
- Shinola Hotel and many others in Detroit
- 23 buildings in Kansas City, along with several projects in Cincinnati, Phoenix, and other cities.

There are many "lessons learned" from these and other projects, and hopefully we can benefit from them in San Jose. Not every older building will be suitable for conversion, but let's make it happen where we can.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.