TODCO GROUP CENTRAL SOMA COMMUNITY PLAN: KEY TOPIC
<u>Protecting What's Vital For The Future By Restricting Mergers of Small Lots</u>

Good things do indeed come in small packages.

This Community Plan's Community Character Chart and Map identify at least __ business, services, and places that embody the spirit of SOMA – that make it someplace different than anywhere else and underlie its unique value – the "SOMA Brand." Excepting those that are publicly owned (Yerba Buena Gardens, South Park, Old Mint, Filipino Education Center, etc.), fully __% are located in smaller buildings on lots less than ½ acre in size. And this does not include the dozens of more generic restaurants, bars, auto repair shops, and low-profile "PDR&S" businesses that are scattered throughout Central SOMA in these older buildings as well.

Likewise, this Community Plan's Office Development Strategy Special Topic analysis identified the special importance of low-rent, minimally improved (but legal) Class C office space as the vital location for small business start-ups, especially for the Tech Industry that is at the heart of San Francisco's future economy. The SOMA tech companies that are successful now and moving into large Class B and Class A offices were born once in Class C building. Nearly all these older Class C buildings are also located on smaller lots less than ½ acre in size too (the larger old buildings are more likely renovated into Class B space). If that supply is lost, there won't be as many more success stories in the future.

There are over 200 smaller lots throughout Central SOMA (not counting the C3 Districts). Only a few are vacant, the rest holding approximately equal number of 1, 2, and 3 story buildings of all descriptions, plus a handful of taller buildings. The factors that account for their popularity for such a broad range of uses are straightforward small business economics:

- The rents are significantly lower than any newly-built property can possibly charge, especially the former industrial buildings, because the building owners' capital investment per foot is much less than the cost of new development.

- The capital investment required to build tenant improvements is also much less than building out a rough shell in a new building because previous tenants have already added many necessary improvements.

- The level of finishes and services provided by the building owner (and thus factored into the rent) is much more modest than Class B or Class A space.

- The location, image, etc. of the property is more basic or perhaps less attractive, and thus the market rent is further discounted.

- There is a very wide range of building types and sizes – something for everyone.

- And for businesses that can buy their property – the most secure longterm strategy – the price is affordable and much easier to finance just because the property is smaller.

Gradual attrition in the stock of older buildings throughout SOMA, and continued "commercial gentrification" of many more, is inevitable. Any building of two or more floors will offer a reasonable return on investment if converted to higher-value Class B/C office use or, in some locations, to neighbohrood/speciality retail use (for example, the recently upgraded 360 Fourth Street opposite Whole Foods Market). And it will also make economic sense for owners to demolish and develop almost any one story building/property (and of course the very few remaining empty lots) in Central SOMA at some point in the foreseeable future – the next 20 years.

Regional/national developers, as always, will focus on the larger parcels, typically those bigger than ½ acre (21,780 sq ft) to achieve economy of scale and best return on investment/opportunity. This is especially true for office/hotel development given the technical complexity of those market segments. Accordingly, this Community Plan proposes specific higher-density zoning for the handful of such larger sites in Central SOMA.

But smaller properties under ½ acre in size are typically developed by local/regional independent companies. The relatively modest scale of financing required is within their reach and they are familiar with the local commercial and residential markets. There are dozens of these smaller properties in Central SOMA with one story buildings, or partial lot coverage by a two story building, that will offer attractive in-fill development sites for them in response to market demand. The Community Plan's proposed zoning allows such in-fill new development and renovations of these smaller properties throughout the district.

What is vital, though, is to discourage – "disincentive" – demolition of the 2+ story buildings on these smaller lots, to maximize the longterm supply of these smaller commercial spaces that are vital to SOMA's character and the City's economy.

The Department of City Planning's Central Corridor Plan proposes that a limited number of these smaller lots be required to secure conditional use approval for merging with any other lots for their demolition for new development. But this will be ineffectual, because conditional use approvals are almost always granted, and in anticipation of that, the market sets the value of such properties based on their demolition for maximum potential new development, not the economic value of the existing building.

Instead, this Central SOMA Plan allows lot merger of these lots smaller than ½ acre in its MUG, MUO, and NCT districts (excepting the West SOMA MUO) ONLY IF any existing building on any of the merged lots that has an FAR greater than 1.5 will NOT

be demolished. Existing buildings smaller than that could be demolished when lots are merged.

The practical outcome of this will be that most existing two-or-more story buildings will be retained in Central SOMA, although a property owner could still demolish theirs for in-fill new development as long as there is no lot merger involved.

And developers who do merge several smaller lots will still be able to develop the maximum FAR of the total area of all those lots, including the area of the existing building(s) to be retained, on the remainder of their site if some of it is vacant or holds existing buildings under 1.5 FAR that can be demolished. So essentially the owners of many of these existing smaller buildings will have an opportunity to realize the potential value of their “air rights” by merging/selling that unused FAR capacity to an adjacent new development.

The three district maps here depict the actual impact these lot merger limitations could have:

- The first map highlights all the “soft sites” identified by the Planning Department in its Central Corridor Plan – properties with buildings whose FAR is 3.0 or less. These 572 parcels of all sizes are the most likely future development sites.

- The second map shows all the lots in the district that hold single story buildings or are vacant (per field survey). These 166 parcels would not be affected by these lot merger limitations.

- The third map shows the remaining lots that are “soft sites” per the Planning Department and hold existing buildings of two or more floors. These 406 parcels are the properties whose development would be “disincentivized” by these proposed lot merger limitations. But their owners could still demolish the buildings and build a small new project on that single lot if they choose.