TODCO GROUP CENTRAL SOMA COMMUNITY PLAN: KEY TOPIC
An Overall Strategy For Office Development In Central San Francisco

The single most consequential deficiency in the City's planning to date for its economic future is the lack of any overall plan, any coordinated strategy, for targeting the growth of its burgeoning Tech Industry to where it is most beneficial to overall civic goals, and least harmful to existing communities and vulnerable community assets. Instead ad hoc opportunities are being prioritized without overall intent – for example, the recent focus on the Central Market District. The current Central Corridor plan is a prime example of this – the overall San Francisco economic and land use planning context it should and must be a rational part of is never identified, let alone discussed.

- **What Actually Happened With Office Development In The Last 25 Years**

Since the enactment of the Downtown Plan/Proposition M Annual Limit on office development in 1985-87, cumulative new office development approvals by the City have been limited to a total of 950,000 sq ft per year (875,000 sq ft for large projects, and 75,000 for <50,000 sq ft projects. Expansions and conversions of existing buildings to office space are counted, but there is no upward adjustment to offset removal of existing office buildings that are demolished or converted to non-office uses.

Thus, per the most recent City Planning Department report of October 2012, in the 28 subsequent years, a total net allocation of 2,100,000 sq ft was available for the small office projects, of which only 900,283 sq ft was approved and not later revoked due to abandonment of the project, leaving 1,199,717 sq ft available today for future small project approvals. This is an annual average net allocation rate of only 32,153. Currently pending approval now are three such projects that total 160,428 sq ft.

And thus, per the most recent City Planning Department report, in the 28 subsequent years, a total allocation of 18,762,418 sq ft was available for large office projects (net of a one-time 5,737,582 sq ft deduction for pre-1985 "grandfathered" projects), of which only 16,882,812 sq ft was approved and not later revoked due to abandonment of the project, leaving 1,879,606 sq ft available today for new projects. This approved total includes 900,000 sq ft "banked" for the longterm Hunters Point Shipyard and Treasure Island Projects. Currently pending approval are 14 large projects that would total 1,788,504 sq ft if all we approved. In addition, two large master plan projects on Port land (SW 337 and Pier 70) are in early planning stages that propose a total of about 3,800,000 sq ft.

The bottom line is that the total of actual office projects approved during the last 28 years that were actually built or are now still awaiting construction (excluding the landbanked allocations) **– the real projects - is only 16,412,682 sq ft, which is an average of only about 586,000 sq ft per year.** Not all of the pre-1985 "grandfathered" projects were ever built, but adding that full amount back would increase this annual average to 791,000 sq ft per year at the very most. **Thus the 8,688,000 sq ft of pending and proposed master planned projects would take from 11 to 15 years for the City's office market to absorb at longterm historic rates**.

This longterm average incorporates the two office market boom/bubble/bust cycles that occurred during these decades, with a third such cycle now entering its runaway bubble stage. But it leaves out the overall shrinkage in the pre-1985 office supply due to permanent conversion or demolition of a number of older office buildings – which continues to this day (for example, the 400,000 sq ft former AAA headquarters on Van Ness Avenue, now proposed to be converted to condos). Which means the actual market demand for new office space in San Francisco has been even less than the total of new project approved and actually built.

This longterm average office demand, which has been quite consistent once the feast/famine boom/bubble/bust cycles are averaged out, is much less than the projections typically hyped by development proponents. **But it provides a much more realistic baseline for the City's overall economic development and land use planning.**

- **What Is Actually Happening Now**

All zoning and master development plans have a shelf life of about 20 years. Starting with the then-new redevelopment projects of the 1960's, the experience of these last 40 years has proved that economic and social circumstances change so much that no one can reasonably anticipate what will happen beyond a 20 year time frame, and so a major reconsideration and update of these plans is needed about that often. That is why the current South of Market zoning, enacted in 1989 based on the expectations of the 1980's, is now undergoing a comprehensive update, including the Central Corridor Plan now being prepared by the City.

This current boom cycle, reflecting the important emergence and growth of the City's burgeoning Tech Industry since the mid-90's, has proved very fortuitous for several reasons. It directly offset a very severe contraction in corporate/finance sectors' office market demand in the last decade, which included continued suburban outmigration of longtime major headquarters – such as the CSAA and the State Workmans Compensation Fund – and continued workforce decentralization by major corporations such as Wells Fargo Bank, Levi Strauss, and Bechtel Corporation – in addition to the aftermath of the First Dot.Com bubble collapse and more recent sharp downsizing by many professional services firms due to the Great Recession.

In particular this Second Dot.Com boom has enabled important but obsolete landmark buildings – such as the former Merchandise Mart and the Pacific Telephone Tower – to be repurposed and renewed. In addition it filled up substantial vacancies in many other downtown properties, cutting the City's overall office vacancy rate by about ½ and enabling several new office developments approved over the last several years to finally begin construction.

How long this burst of Tech Industry growth and demand will continue is anyone's guess. Much depends on the national economy, which is very uncertain today. And there is a growing sense that this Second Dot.Com bubble may have already peaked, at least in terms of new stock IPO's (for example, Facebook). **But it would be very foolish – unsupportable by any evidence – to assume a dramatically higher rate of net new office demand in San Francisco over the coming decades compared to the longterm average.**

It would be prudent, though, to prepare for some moderate increase in average new demand, to be ready in terms of land use planning just in case it did occur. For one thing, it is possible that the downsizing and relocation of major old-line corporations out of San Francisco during the last 25 years – such as Bank of America, Chevron, and others – that resulted in millions of square feet of vacant space has by now largely run its course.

Thus the overall economic strategy of our TODCO GROUP CENTRAL SOMA COMMUNITY PLAN reflects an "increased rate of growth allowance" of 25% overall, that is, an average City-wide demand for 750,000 sq ft of new office space per year. This is still well under the Proposition M limit of 950,000 sq ft per year, and thus no longterm conflict arises there.

- **Targeting The Next Two Decades of Office Development To Where's Its Needed**

The crucial civic economic development strategy question is where should this new office growth be located in San Francisco – 15,000,000 total sq ft over 20 years – to best advance top priority civic goals.

There are four generally identifiable districts for substantial new office development in the Central City:

- The traditional Financial District, where a good number of development sites still remain. In particular, the economic feasibility of the top-priority Transbay Terminal Project depends on very large-scale future office development there.

- The Central Market/Civic Center District, the smallest but most economically challenged district of the CBD. This includes the pivotal 5M project.

- The South of Market Central Corridor west of the Financial District, the most desirable area – but also most vulnerable community – for the City's Tech Industry, and the heart of its global "brand." There are several potential major development sites there – large vacant or obsolete properties. Our Community Plan identifies and addresses these sites in detail.

- Mission Bay and the Central Waterfront, the former industrial areas now being rebuilt based on long range master planning. In particular this includes, the Port's two most potentially valuable properties – SWL 337/Pier 48, and Pier 70 – whose development is vital for its longterm self-sufficiency and so hold the highest civic priority. And as explained in one of this Plan's Special Topics – The Entire Central Corridor – this district is actually the southern half of the Central Subway/CalTrain/Third Street mass transit corridor as well.

Realistically the small Central Market/Civic Center district has limited opportunities for new office development other than the 5M project – most developers are focused on residential projects here – although many of its older buildings could be renewed (but already are technically in office use). Reserving about 1,500,000 million sq ft of longterm office growth could be sufficient for this area.

That would leave 13,500,000 for the other three districts. Simply dividing equally among them would allocate 4,500,000 to each over the next 20 years. This is not an unreasonable approach given what is already in progress. The Transbay Project alone needs at least half that district's share of new office development beyond what is already pending approval for its financial feasibility. And the two Port properties alone will likewise need at least half that district's share of new office development to support their financial feasibility as well.

Therefore, our TODCO GROUP CENTRAL SOMA COMMUNITY PLAN is premised on ensuring the capacity for development of 4,500,000 sq ft of new office development on major development sites in the Central Corridor area over the next 20 years. Actually, the Plan's proposed zoning FAR of 4:0 for its 15 identified Priority Development Sites would allow a total of about 5,000,000 sq ft. This Zoning Plan shows how that can be accomplished with the greatest positive impacts – and the least negative consequences – for both our Community and the entire City.

There is one very important qualification to this overall economic development strategy. All new office development is essentially "Class A" office space. The high costs of new development necessitate the highest office rents that "the market will bear." Successful and established companies can afford high Class A rents, but smaller growing companies and startups cannot. Those firms need less expensive Class B and Class C office space instead, nearly all of which is located in older existing buildings. As discussed in this Plan's Special Topic: The Complete Technology Office Market Continuum, ensuring the continued availability of Class B/C office space is just as vital to the continued growth of the City's Tech Industry as construction of new Class A space.