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## San Francisco Is Building to Bring Residents Back

**The city and state are easing or rolling back other political priorities in some cases to increase the number of apartments**

By Peter Grant



A rendering of the 71-story residential tower planned by Bayhill Ventures for San Francisco.

Photo: Pickard Chilton Architects

Real-estate developers are launching a series of residential projects in San Francisco, responding to new efforts by the state and city to create more housing in one of the country's most expensive places to live.

In what would be the city's most ambitious residential development in several years, local property developer Bayhill Ventures last month announced plans for a 71-story rental tower in San Francisco's ailing financial district.

Elsewhere, 10 office-to-residential conversion plans have been submitted to the city in neighborhoods including the financial district. If completed, they would add more than 1,250 units to the city.

Property developers say the plans for new projects reflect government efforts to reduce costs and eliminate red tape for new construction and conversion of office buildings to apartments.

“There is no better time to entitle a project than right now,” said Anne Taupier, development director of the city’s Office of Economic and Workforce Development. “You do have this renewed flexibility from a government perspective.”

The exodus of workers and businesses during the pandemic left San Francisco a shell of its former self. But there are small signs of a turnaround. WSJ explores whether new civic policies and fresh commercial interest can rejuvenate the city’s downtown. Photo illustration: Rio Roye/WSJ

In some cases, the city and state are easing or rolling back other political priorities to foster more housing. In September, San Francisco changed the rules so that developers can build market-rate apartments with fewer requirements to provide affordable housing. State legislation passed recently reduces environmental and other reviews facing some multifamily projects.

Some affordable-housing advocates said they grudgingly accepted the changes because they recognized the need to jump-start the broader housing market. A \$300 million housing ballot measure next year proposes to make up for some of the lost resources, said John Avalos, executive director of the Council of Community Housing Organizations.

“There was a lot of grumbling” among affordable-housing advocates, he said. But, he added, “We had to be able to give up something to change market conditions for any kind of development.”

San Francisco experienced an acute housing crisis in the years leading up to the pandemic, partly because of what developers called onerous rules that limited new development. The low supply, combined with the city’s booming economy and tech sector, produced some of the highest rents in the country.

The pandemic sent rents and occupancies plummeting as San Francisco’s population declined and companies adopted work-from-home policies. The exodus did nothing to fix the city’s homelessness crisis, but it did create other headaches for the city: emptied-out office districts and closed hotels and stores.

Many of the new state housing initiatives are designed to address the affordable-housing shortage that is affecting many California cities. San Francisco's rule changes are focused primarily on ways to ease the office-space glut and its overall economic decline through the production of market-rate housing.

The city's office vacancy jumped to a record 25% as of late November, compared with about 5% in the fourth quarter of 2019, according to data firm CoStar Group.



San Francisco's financial district is the planned location for the Bayhill tower, along with some office-to-residential conversion plans.

Photo: Michaela Vatcheva for The Wall Street Journal

Developers and city officials are focusing more on residential projects because San Francisco rental apartments have rebounded more than other commercial-property sectors. Vacancies declined to 7% in November, compared with a pandemic high of 12% in 2020, CoStar said.

Apartment rents have been "clawing their way back" thanks to the growing number of San Francisco companies that are requiring employees to work out of their office at least a few days a week, said Sean Burton, chief executive of Los Angeles-based Cityview, a rental-apartment firm that owns two San Francisco properties.

But Burton pointed out that the San Francisco market hasn't fully recovered. Out of Cityview's 55 properties in Western states, the two in San Francisco are the only ones with rents that haven't returned to or exceeded prepandemic levels, he said.

Bayhill Ventures said it expects its proposed San Francisco project to complete the government approval process by next summer. The development still needs to obtain construction financing, which is problematic in today's high interest-rate environment.

Paul Paradis, who founded Bayhill this year, hopes the financing climate will be better when he gets closer to breaking ground. "We're sort of avoiding that issue right now," he said.

If the project proceeds as planned, it would open in 2028. Bayhill said it would charge top-of-the-market rents of more than \$8 a square foot a month. That would come to more than \$8,000 a month to rent a 1,000 square foot apartment.

The 672-unit building will include 30,000 square feet of amenity space and a fifth-floor bridge connecting it to Salesforce Park, a 5.4-acre outdoor space atop a transit center that opened in 2018 near the cloud-based software giant's headquarters complex.

"This will set a new standard for rental housing in San Francisco," he said.

The tower will include terraces but, because of changes in state law, it doesn't have to meet California's previous requirements for balconies or open space, Paradis said. Overall, land-use approvals that used to take two to three years in San Francisco now could take less than one year, he said.

Converters of office space to apartments also are taking advantage of the city and state's friendlier approach to development. Group i, which is planning to convert about 25,000 square feet of office space into 45 apartments, is benefiting from the city's streamlined approval process, said Mark Shkolnikov, a principal with the firm.

Ordinarily, Group i would have had to get a variance to the city planning code because an existing corridor for bike parking is 3 inches less than the width required by the code. "You no longer need that," Shkolnikov said. "It's been very helpful."