



# Adaptive Reuse Feasibility Study

*Department of General Services*

# Team

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# Executive Summary

## Background:

Assembly Bill (AB) 2592 (McCarty, Chapter 439, Statutes of 2022) required the Department of General Services (DGS) to draft a report to the Legislature that creates a streamlined plan to transition underutilized, multi-story state buildings into housing. In fiscal year 2023-24, after receiving funding to conduct studies of state office buildings, DGS hired LPAS Architects to assist in the evaluation.

As AB 2592 specifically targeted underutilized, multi-story buildings, the universe of potential state sites subject to the report is small. At the time the bill was enacted, there were only three state office building sites that met those criteria, two of which had already been awarded as adaptive reuse projects (unrelated to AB 2592).

To nonetheless produce a meaningful report, DGS instead elected to evaluate as much of its portfolio as the expedited timeline of AB 2592 allowed. The purpose of this evaluation was to identify which buildings were feasible candidates for adaptive reuse. Importantly, DGS has no plans, at present, to convert any buildings contained in this report into housing, as they are still needed for state departments. However, conducting this study will enable more informed disposition decisions about its buildings in the future. This will result in DGS being able to plan more effectively, in a housing-centric way, as it continues to adapt its portfolio in light of aging infrastructure and state departments' operational and space needs.

## Overview of Approach and Methodology:

To accomplish this intent, DGS utilized its Adaptive Reuse Scorecard, a potentially industry-first rapid assessment tool to evaluate the initial feasibility of an office building for housing. The tool is designed to efficiently and inexpensively evaluate a building for housing use, allowing DGS to screen out buildings that are not feasible, and only spend funding more thoroughly evaluating buildings that have reasonable potential for successful reuse.

DGS identified 13 office building sites that were either a) planned to be vacant in the future, b) more likely than others to become vacant in the future, or c) located in regions where it was more likely that the state would be able to reduce its footprint. Of these 13, eight were screened as unsuitable for adaptive reuse. The remaining five were then evaluated more thoroughly. Ultimately, based on this detailed evaluation, three building sites were determined to be viable for adaptive reuse.

### Eight Building Sites Screened: Unsuitable for Adaptive Reuse

1. 450 N Street, Sacramento (Office Building 28)
2. 1516 9th Street, Sacramento (Warren-Alquist State Energy Building)
3. 1304 O Street, Sacramento (Buildings and Grounds Headquarters)
4. 505 Van Ness Ave., San Francisco (Edmund G. "Pat" Brown Bldg.)
5. 320 West Fourth Street, Los Angeles (Junipero Serra Office Building)
6. 350 McAllister Street, San Francisco (Earl Warren Building)
7. 455 Golden Gate Avenue, San Francisco (Hiram Johnson Building)
8. 50 D Street, Santa Rosa (Justice Joseph A. Rattigan Building)

### Five Building Sites Screened: Potential Adaptive Reuse Candidates

1. 714 & 744 P Street, Sacramento (Office Buildings 8 & 9)
2. 300 South Spring Street, Los Angeles (Ronald Reagan State Building)
3. 2550 Mariposa Mall, Fresno (Hugh Burns State Building)
4. 3737 Main Street, Riverside (California Tower)
5. 1515 Clay Street, Oakland (Elihu M. Harris Building)

### **Feasibility Assumptions:**

In accordance with Governor Newsom's Executive Order N-6-19, all financial feasibility assumptions included affordable housing (as opposed to market rate units), and utilized existing, traditional housing financing sources. Generally, this included using California Tax Credit Allocation Committee funding guidelines, which was instrumental in guiding decisions around both unit and Area Median Income (AMI) assumptions.

Design choices, assumptions, and requirements were made with respect to bringing the buildings up to code for housing purposes and establishing the amenities and general housing buildout required to successfully compete for the various applicable subsidies. The total cost to renovate the buildings was then used to determine the amount of those subsidies needed.

While future market conditions, changes to the criteria and requirements for affordable housing financing, and changes to the California Building Code over time may result in reduced feasibility in the future, this approach/analysis has allowed DGS to assess the general feasibility of adaptive reuse.

## Summary of Results:

The results of the feasibility study of these five building sites are as follows:

1. 714 & 744 P Street, Sacramento (Office Buildings 8 & 9)

These two towers are well suited for adaptive reuse. Both buildings would likely be able to retain their exterior skin, and the floorplate, core layout, and the use of deeper units allow for an efficient layout per floor. Tower 8 assumed 224 units, with 30 at 80% AMI and the balance at 60% or under. Total cost assumed at approximately \$178 million. Tower 9 assumed 221 units with the same breakdown of AMIs and similar cost (\$176 million) for a total of 445 units.

2. 300 South Spring Street, Los Angeles (Ronald Reagan State Building)

The report concludes these buildings to be nonviable for adaptive reuse. The Reagan building consists of two office towers connected by a four-story building and an underground parking garage. Given the size of the two buildings, and the resulting housing capacity, it is unlikely that the buildings could be developed as a single project. The highest likelihood for financial viability would be to demolish the four-story connecting building and develop each tower separately.

However, even in those scenarios, the building appears to fail the viability test. While the floorplates are slightly suboptimal, the largest issue is the amount of tax credit equity required, which exceeds the typical investor appetite. For these reasons, these buildings are nonviable for adaptive reuse, though this could be revisited in the future under different market conditions.

Should this project be adaptively reused into housing, the report assumes a total of 413 units for both towers (177 units and 236 units in the North and South towers, respectively) using the same AMI mix as noted above.

3. 2550 Mariposa Mall, Fresno (Hugh Burns State Building)

Hugh Burns is considered a viable candidate for adaptive reuse. As the building's end walls are solid sheer walls with no windows – making three-bedroom corner units impractical – the building's housing focus would need to shift to Permanent Supportive Housing and/or Senior Housing, as both focus more on single-bedroom units. The design assumptions include the demolition of the one-story connecting building that bridges the

building to the parking garage, creating a paseo, new outdoor space, and several additional two-bedroom units.

The financial analysis assumes Senior Housing, and would result in 147 units, all at 30-60% AMI only. Total development costs are assumed to be approximately \$115.5 million.

4. 3737 Main Street, Riverside (California Tower)

California Tower is considered to be viable for adaptive reuse. The building envelope is assumed to remain, focusing the work on interior renovations only. The floorplates are efficient, and the building is already served by active retail at the ground floor. This allows (or necessitates) the moving of any building amenities to the second floor, which is ideal as those views would be suboptimal given the rooftop of the retail space.

The financing is very typical for a housing project, though the cost per unit is higher than some of the other projects due to the need for a more substantial seismic renovation required under current code (that, and the smaller number of units over which to spread those costs). At approximately \$114.3 million, California Tower would be expected to yield 94 units, all at 30-60% AMI only.

5. 1515 Clay Street, Oakland (Elihu M. Harris Building)

This 23-story office tower is unlikely to be viable for adaptive reuse. After further analysis, the layout is suboptimal for residential use, and would generally require levels 1-5 to continue to be used for office space. As such, it is considerably more complicated for the state to redevelop, and the \$264 million price tag (resulting in 294 units) would greatly exceed equity norms, likely resulting in a \$69 million financing gap. Therefore, it was deemed nonviable.

**For further information on the five building sites studied:**

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