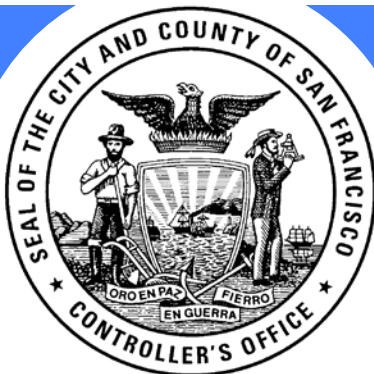


Economic Impact of Major Rezoning in San Francisco



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
Office of Economic Analysis
2018 REMI User's Conference

10.11.2018

Background: The Central SoMa Plan Area

2



Current and Proposed Zoning

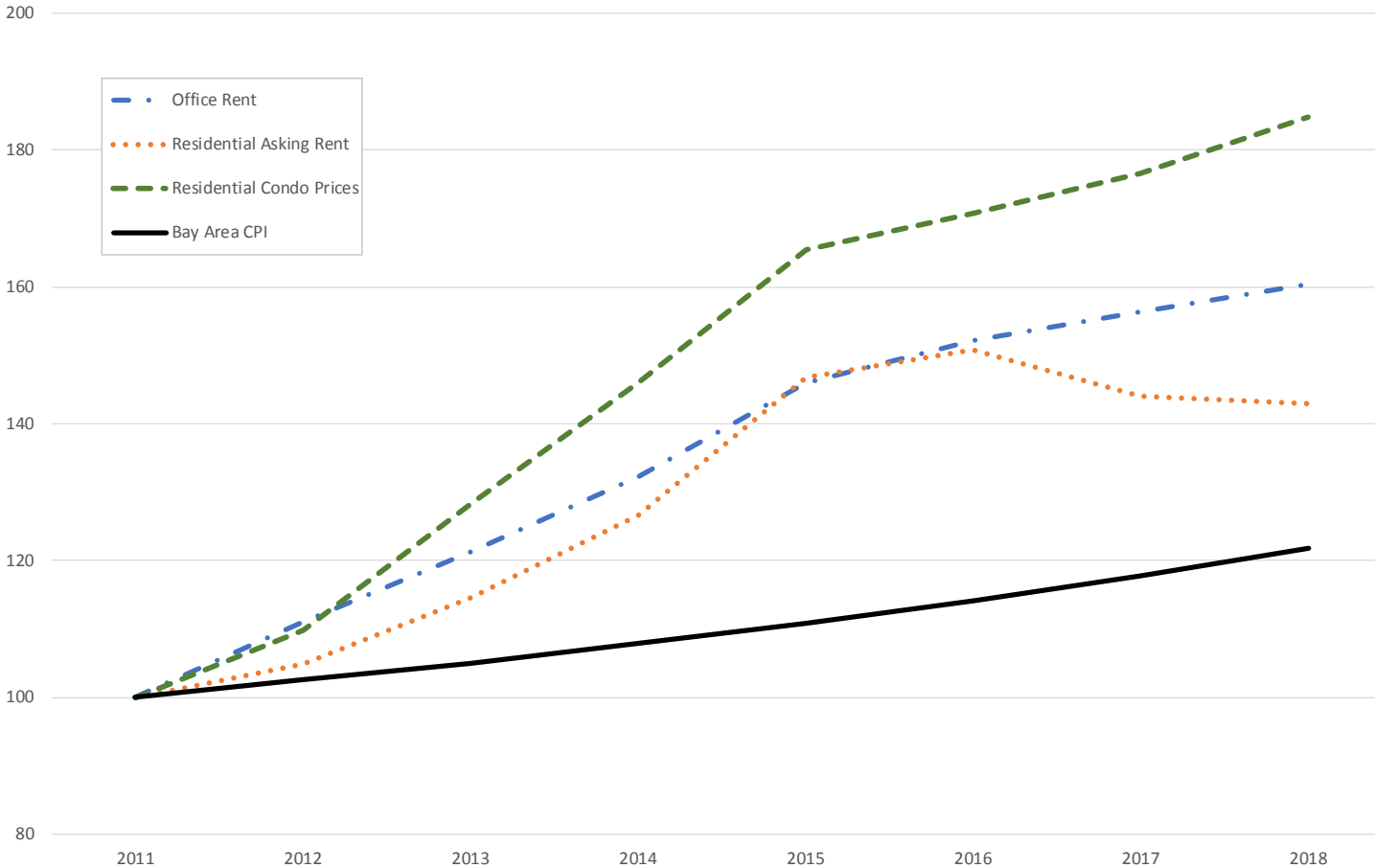
3



Background: Housing Prices and Office Rents

4

Price Trends in San Francisco Real Estate, 2011-2018
(2011=100)



The plan has been developed during a period of unprecedented growth in housing prices and office rents in San Francisco.

From 2011 to 2018, residential asking rates have grown twice the rate of inflation, office rents have grown three times, and condos have grown four times the rate of inflation.

This rapid price growth in both residential and commercial real estate is an indication of significant unmet demand in both sectors.

- The Central SoMa plan will affect city life and government in a number of ways, including transportation, environment, urban form, cultural heritage, and neighborhood amenities.
- This report is focused on the overall economic impact of the plan, at build-out. As such, two elements of the plan are especially relevant:
 1. The increase in amount of development that would be permitted by changes in zoning in the plan area. This would support new employment and population in the city.
 2. The plan provides for many public benefits, funded through exactions on new development. This spending on public benefits will also lead to economic growth in the city.

Broader impacts of the public benefits, such as how they may affect environmental and health outcomes, neighborhood quality, property values, etc. are not considered.

Amount of New Development

6

- The proposed plan would increase potential development in the area through a combination of relaxed of land use controls, an increase of height limits, and changes to bulk limits.
- The Planning department conservatively estimates that approximately 5.8 million additional square feet of non-residential space (including office, retail, replacement PDR, and hotels), and 5.4 million square feet of additional residential space, could be accommodated through the plan.
- This is not the total amount that would be built, but the difference between what will likely be built under the new zoning controls, and what would likely have been built under the old zoning controls.

- The plan's public benefits are provided in three ways:
 - Requiring developers to directly provide them in new development.
 - Establishing new fees and taxes on development, including a Community Facilities District (CFD) tax, a Central SoMa infrastructure impact fee, and a Community Facilities fee.
 - Generating additional funding through existing exactions, such as the Eastern Neighborhoods impact fee, the Jobs-Housing linkage fee, or the Transportation Sustainability Fee.
- Cumulatively, these measures are expected to generate approximately \$2 billion in funding for public benefits when the plan is fully built-out. The CFD tax is a property tax that will continue in perpetuity.
- The plan also requires new development to replace lost Production, Distribution, and Repair (PDR) space, and to purchase Transferable Development Rights (TDR) from historic properties in the plan area. These requirements primarily serve to neutralize potential negative effects of the plan, and are not considered in this analysis.

- The OEA's REMI model was used to estimate the combined impact of the following changes to the San Francisco economy. Each impact was considered to phase in gradually over a 25-year period beginning in 2019:
 - 15,000 office and retail jobs created, distributed across 10 different office-using industries and retail trade, associated with \$5.0 billion in new non-residential development.
 - 12,200 new residents who are be expected to occupy the new housing, created by \$6.6 billion in new residential investment.
 - \$940 million in affordable housing subsidy, reducing the housing burden of low-income households, and freeing up additional consumer spending in the local economy.
 - \$500 million in transit spending and investment.
 - \$538 million in other facility and infrastructure construction.
- The REMI model calculates the multiplier effects associated with each of these direct impacts, to estimate the total economic impact of the plan.

REMI Model: Aggregate Results

- Overall, the plan is projected to have a large, positive economic impact on the city over the next 25 years, assuming the projects remain financially feasible and the development occurs within that time frame.
- As shown on page 10, citywide job growth resulting from the plan is expected to be 3.0% larger in 2043, through creation of 32,190 additional jobs. The city's GDP is expected to \$7.8 billion larger, a 3.1% increase, at build-out.
- Total job creation across the city will significantly exceed the jobs that would be created within Central SoMa. As detailed on pages 12-13, multiplier effects will create jobs across the city, in most industry sectors.

- The growth in office space and employment will raise the demand for labor in San Francisco, particularly in office and closely-related industries.
- Since growth in the labor force is constrained, new employment demand will raise wages. As shown on the next page, average earnings of all workers in San Francisco are projected to be 0.8% higher as a result of this plan, at build-out.
- At the same time, this will also raise demand for housing in the city, leading to higher housing prices, although this will be partially offset by the new housing provided for in the plan.
- As shown on the next page, wage growth is expected to outweigh the effect of higher housing prices. The real per capita income of San Francisco residents, in today's dollars and including the effect of housing prices, is expected to be \$539 more than it would be without the plan.

REMI Model Results

11

| | Numeric Difference from Baseline Projection, by 2043 | Percent Difference from Baseline Projection, by 2043 |
|--------------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Aggregate Impacts | | |
| Total Employment in San Francisco | +32,190 | +3.0% |
| San Francisco GDP (2017 \$) | +\$7.8 billion | +3.1% |
| Wage and Price Changes | | |
| Average Annual Earnings (2043 \$) | +\$2,326 | +0.8% |
| Citywide housing prices | +2.0% | +2.0% |
| Real Per Capita Personal Income (2017 \$, including the effect of housing prices) | +\$539 | +0.4% |

- As a growing, high-paying industry, the technology industry is likely to occupy a significant share of new office space developed in the Central SoMa plan area.
- However, the total number of technology industry jobs in the city is not projected to grow disproportionately because of the plan. While the industry may prefer new space in an area where it is already concentrated, it can also more easily afford high rents, and would likely continue to grow rapidly, even in the absence of new office space in the plan area.
- As shown on the next page, on a percentage basis, retail trade, administrative services, and construction are expected to add the most jobs citywide. Professional, scientific, and technical services, the city's largest sector which includes most technology employment, will add the most jobs in absolute terms, but not in percentage terms.
- The manufacturing industry is the only industry not expected to add jobs, mainly because of its sensitivity to labor costs. Other PDR industries, like wholesale trade and transportation, are projected to add more jobs than manufacturing would lose.

Projected Employment Change by Industry

13

| | Numeric Difference from Baseline Projection, by 2043 | Percent Difference from Baseline Projection, by 2043 |
|--------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Professional, Scientific, and Technical Services | 8,181 | 3.8% |
| Finance, Insurance, Real Estate | 4,500 | 3.8% |
| Retail Trade | 3,566 | 5.6% |
| Administrative and Waste Management Services | 3,398 | 5.4% |
| Government | 2,929 | 2.6% |
| Education and Health Services | 2,250 | 1.6% |
| Leisure & Hospitality | 1,778 | 1.6% |
| Construction | 1,564 | 4.3% |
| Information | 1,427 | 2.7% |
| Other Services, except Public Administration | 1,015 | 2.4% |
| Management of Companies and Enterprises | 799 | 2.9% |
| Wholesale Trade, Transportation, Warehousing | 749 | 1.7% |
| Manufacturing | -18 | -0.2% |

The Balance of Housing and Office Uses

14

- The emphasis on office has led to suggestions that the imbalance between jobs and housing harms city residents, by raising housing prices.
- The results of this analysis suggest that, while housing prices will rise because of the employment growth, this is only half of the story.
- Housing affordability depends on incomes, as well as housing prices. Increasing employment, in a constrained housing market, will make the labor market more favorable to workers, and put upward pressure on wages.
- The growth real per capita incomes, after accounting for housing price inflation, indicates that the plan will make housing more affordable in San Francisco, on average.
- The fact both office rents and housing prices have grown much faster than inflation this decade is an indication of unmet demand for both types of real estate.

- In contrast to most other major area plans in the city over the last 15 years, the Central SoMa plan places a greater emphasis on accommodating the demand for new office development, and supporting employment growth. This emphasis will lead to both a substantial increase in the number of jobs in the city, and higher wages for employees.
- On a percentage basis, lower-paying office uses like Administrative Services, as well as retail trade and construction, are projected to add the most jobs across the city. Professional, scientific, and technical services, the city's largest sector which includes most technology employment, will add the most jobs in absolute terms.
- While the planned growth is also likely to raise housing prices, the growth in wages is expected to outweigh this. Per capita real incomes of city residents, after accounting for housing and other inflation, are projected to be \$539 a year higher when the plan is fully built-out. Higher incomes will lead to slightly more affordable housing, despite rising housing prices.

Ted Egan, Ph.D., Chief Economist

ted.egan@sfgov.org