From: Reports, Controller (CON)
To: BOS-Supervisors; BOS Legislation, (BOS); BOS-Legislative Aides; Calvillo, Angela (BOS); Mchugh, Eileen (BOS)
Subject: Central SoMa and Transit Center District Commercial Development Requirements: Economic Impact Report
Date: Friday, February 28, 2025 1:31:39 PM

Honorable Board of Supervisors,

Pursuant to Administrative Code Chapter 10.32, the Office of Economic Analysis of the Controller's Office today released its report on file number 240787, "Central SoMa and Transit Center District Commercial Development Requirements: Economic Impact Report."

Please refer to the distribution email below.

Office of the Controller
City & County of San Francisco

Before the COVID-19 Pandemic, the City adopted two downtown plans, the Transbay Transit Center Plan and the Central SoMa plan, that substantially increased the development permitted on certain parcels. Both plans emphasized new office development, and included requirements that most of the new development, on larger parcels, be commercial space instead of housing.

Given reduced demand for office space in the city since the pandemic, the proposed legislation would eliminate these zoning provisions. The Office of Economic Analysis has prepared this report after determining that the proposed ordinance could have a material economic impact on the City's economy.

Because remote work has led to a reduction in office demand, office development is unlikely to be profitable in San Francisco for the foreseeable future. For this reason, requirements to include office space in new housing developments effectively discourage new housing. The proposed legislation's removal of these requirements are therefore expected to lead to increased housing production and a broader citywide economic benefit.

More generally, since both new office and new housing provide economic benefits to the city, there is likely little economic benefit in planning controls that seek to promote one land use over another. As the present case illustrates, these regulations can become an impediment to economic recovery, and housing affordability, when market conditions change.

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For questions about the report, please contact Chief Economist Ted Egan. Ph.D. at ted.egan@sfgov.org.

For press queries, please contact Communications Manager Alyssa Sewlal at alyssa.sewlal@sfgov.org or (415) 694-3261.

Central SoMa and Transit Center District Commercial Development Requirements: Economic Impact Report

Office of the Controller

Office of Economic Analysis

Item #240787

February 28, 2025

Introduction

- Before the COVID-19 Pandemic, the City adopted two downtown plans, the Transbay Transit Center Plan and the Central SoMa plan, that substantially increased the development permitted on certain parcels.
- Both plans emphasized new office development, and included requirements that most of the new development, on larger parcels, be commercial space instead of housing.
- Given reduced demand for office space in the city since the pandemic, the proposed legislation would eliminate these zoning provisions.
- The Office of Economic Analysis has prepared this report after determining that the proposed ordinance could have a material economic impact on the City's economy.

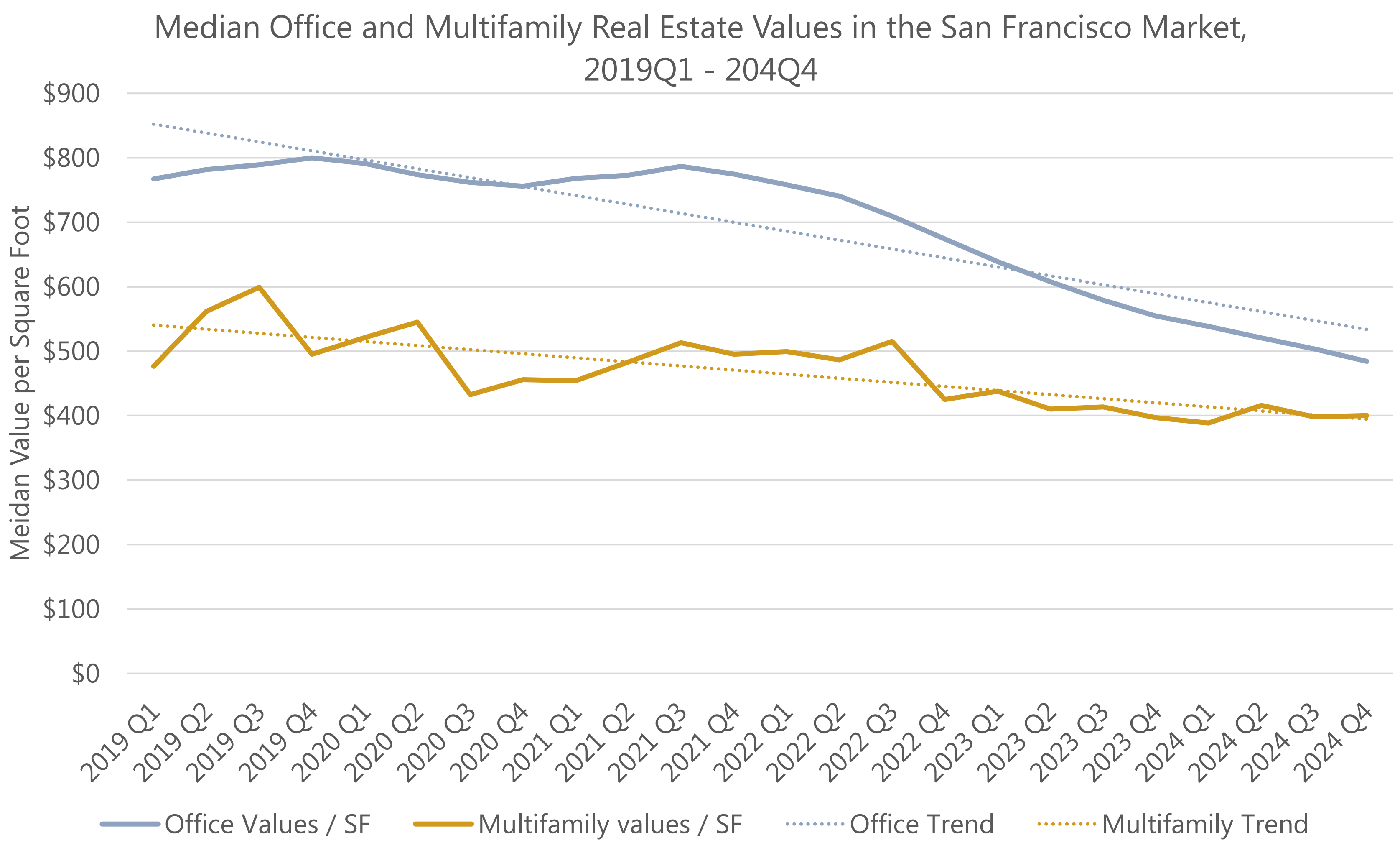
Proposed Amendments

- Specifically, the proposed ordinance would remove the requirement that projects on sites larger than 40,000 square feet in the Central SoMa area must provide at least 2/3rd of the gross floor area of building area below 160 feet in height for non-residential uses.
- Additionally, the proposed ordinance would also remove the Transit Center area's requirement that projects on sites larger than 20,000 square feet include no less than two gross square feet of non-residential for every one gross square foot of residential uses.

Remote Work and Demand for Office Space

- The persistence of remote work after the pandemic has led to a significant reduction in office demand across the nation and has fundamentally changed the city's use of downtown office space.
- The city’s office attendance rate fell precipitously and has since plateaued at less than 45% of what it was before the pandemic. Businesses have responded by closing offices, reducing their office footprint, and redesigning the remaining space to cater to a more flexible workspace environment. According to JLL, the city's office vacancy rate rose from 5.2% in 2019Q3 to 34.3% in 2024Q4.
- The result is a smaller daytime population, which negatively affects the local economy through its effect on retail sales, neighborhood businesses, BART, and MUNI ridership.

Office and Multi-Family Housing Values

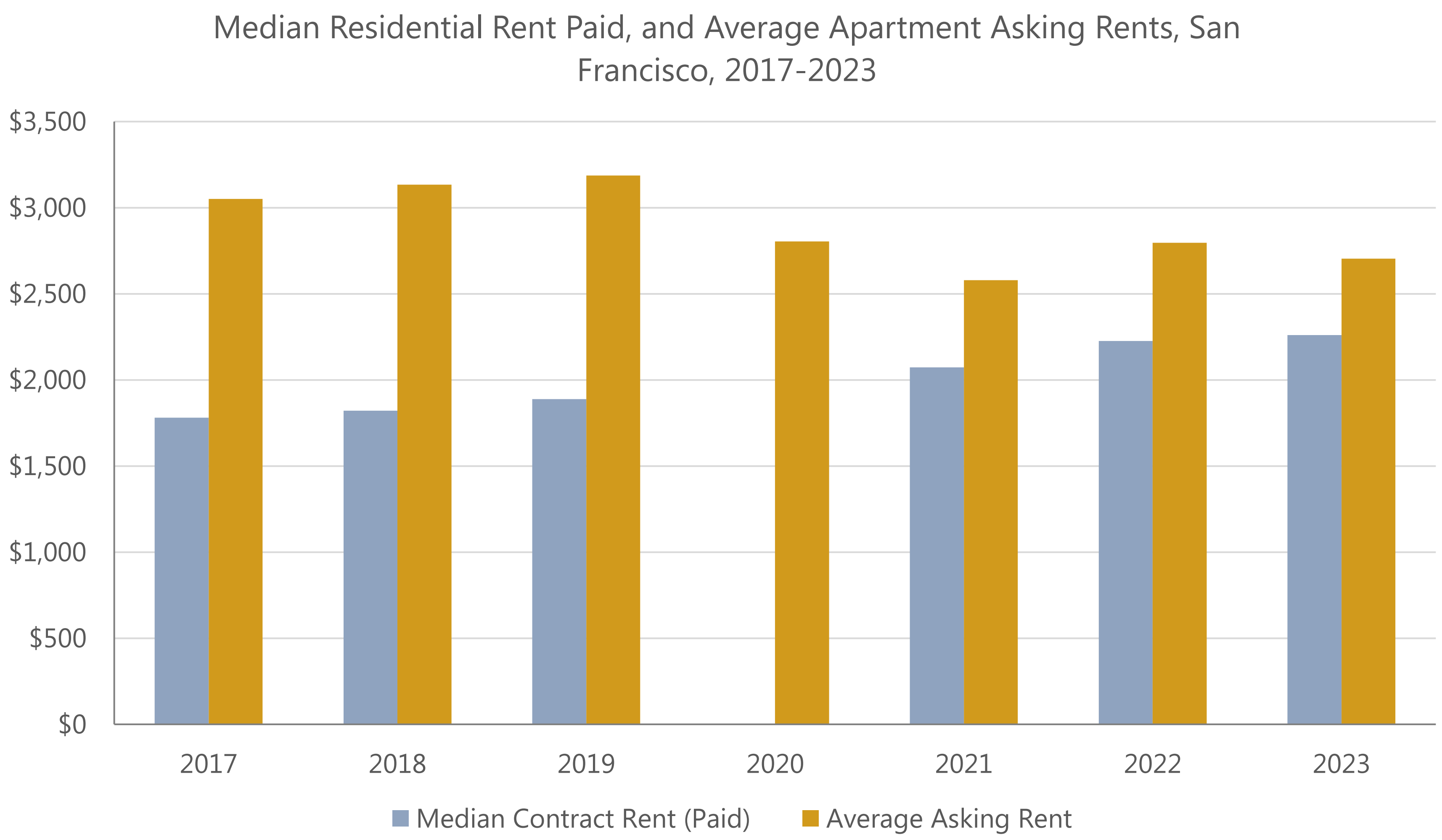


Sources: CoStar

Largely because of remote or hybrid work, office values in San Francisco have declined substantially since 2019, from approximately $800/square foot to below $500/square foot, according to CoStar.

Multifamily housing values have also dropped during the same time, though by not nearly as much.

Apartment Asking Rents, and Median Rent Paid

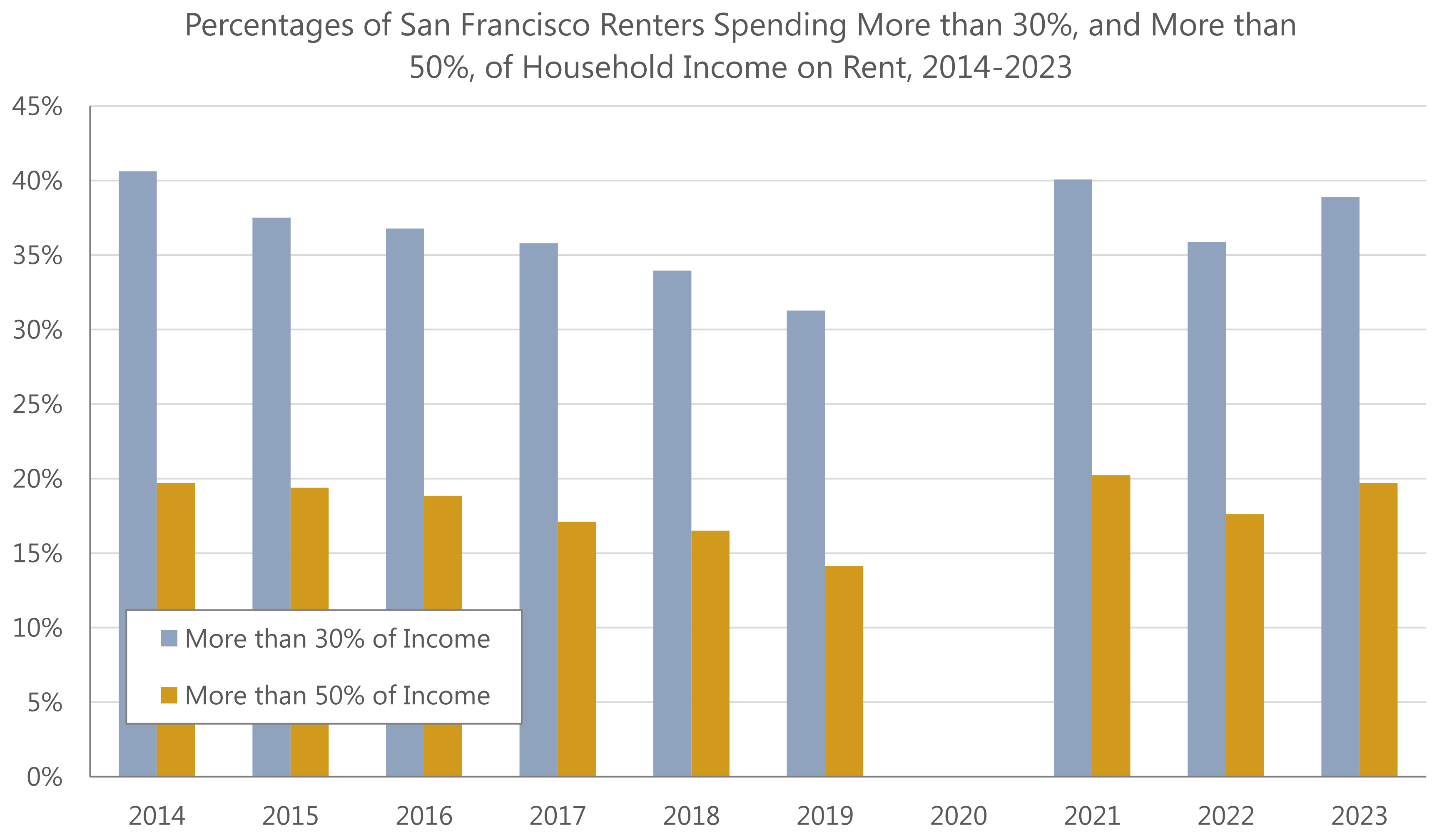


Apartment asking rents have dropped in the city since COVID, as the city's population has declined, and demand for housing close to offices has dropped.

However, the median rent paid by San Francisco tenants has continued to increase. This is likely due to an exodus of tenants in 2020, and a reset of rents in rent-controlled units.

Sources: ApartmentList; U.S. Census, American Communities Survey, various years. Data not available for 2020.

SF Housing Affordability Trends for Renters



Largely because rent payments have continued to rise, San Francisco households face a higher rent burden than before the pandemic, despite the declining in apartment asking rents.

Policy changes that promote increased housing development are thus still beneficial in the face of this growing issue.

Source: U.S. Census, American Communities Survey, various years. Data not available for 2020.

Economic Impact Factors

- If office development was financially feasible (or close to it), the existing requirement could serve reduce the cost of new office space, on sites where residential development was more profitable than office development.
- Thus the requirement could lead to more office development than would otherwise be the case, along with an increase in office employment, and the indirect multiplier effects associated with that growth, including higher wages.
- However, these benefits would only materialize if office development was financially feasible. It is generally not feasible at the moment, and unlikely to be so for the foreseeable future.
- Conversely, in situations where the requirement constrains housing development that would otherwise have taken place, it would put upward pressure on housing prices. This tends to constrain economic growth and raise housing prices.

Estimating the Impact on Housing Development

- In the present market situation, the requirement effectively forces developers to incur a significant loss developing space, in order to potentially make some profit developing residential space. Removing this requirement would raise developer revenue, potentially to the point that an all-residential project would be financially feasible in the current market.
- To assess this, the OEA used a model that was developed to estimate how changes in market and policy conditions affects the likelihood of housing production in the city[1]. The model can estimate how likely development on each large site in Central SoMa and the Transbay Area would be, with and without the requirement.
- The OEA did not attempt to estimate the extent to which office development would be limited by the removal of the requirement. Given the historically-high vacancy rates in the office market, we view it as unlikely that office development will be financially feasible in the city for the foreseeable future, with or without the requirement.

Economic Impact Assessment

- The model forecasts that removing the requirements could yield approximately 325 new housing units over a 20-year period, which should lower housing prices by about 0.08%, compared to a baseline scenario in which the requirements were not lifted.
- If the housing market recovers faster than assumed, housing production would be increased over the forecast period. Assumptions are detailed in Appendix A.
- This level of new housing development would have a modest positive impact on the overall city economy, through the effects of new construction and lower housing prices, according to the OEA's REMI model. Over the next 20 years the city would see an average increase in GDP of $38 million, and 200 jobs.
- While the impacts are sensitive to the assumptions made, the legislation could only lead to a negative economic impact if there was a very significant reversal of in office demand, which is not foreseen by the OEA or other local office market observers.

Conclusions

- Because remote work has led to a reduction in office demand, office development is unlikely to be profitable in San Francisco for the foreseeable future. For this reason, requirements to include office space in new housing developments effectively discourage new housing.
- The proposed legislation's removal of these requirements are therefore expected to lead to increased housing production and a broader citywide economic benefit.
- More generally, since both new office and new housing provide economic benefits to the city, there is likely little economic benefit in planning controls that seek to promote one land use over another. As the present case illustrates, these regulations can become an impediment to economic recovery, and housing affordability, when market conditions change.

End Notes

1. The model, developed by the Blue Sky Consulting Company, was originally used by the Controller's Office in our 2016 analysis of inclusionary housing requirements. It was subsequently refined through several engagements with the Planning Department.

Appendix A: Assumptions

Housing Price Growth	3%	
Cost Growth	3%	
Office development cost	$600	per sf
Office revenue	$350	per sf
Net office gain/cost	-$250	per sf
Residential revenue	$900	per sf

Revenue gain by removing requirement	$367	per sf
Percent revenue increase	41%	

Staff Contacts

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