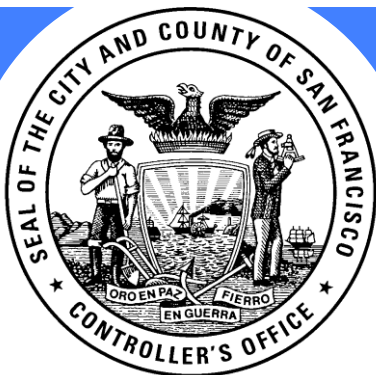


# Citywide Expansion of Allowable Commercial and Retail Uses: Economic Impact Report



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller  
Office of Economic Analysis

Item #230701

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- The proposed legislation, introduced by Mayor Breed, would change the City's Planning Code to allow limited corner commercial uses in certain residential districts (RM-1, RM-2, and RH), and give businesses greater flexibility in occupying commercial spaces.
- The measure aims to reduce the number of barriers for small businesses. There are dozens of changes to the Planning Code and the full details of the proposed measure are outlined on the next two slides.
- 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.

# Details of the Proposed Measure

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- The proposed legislation will allow corner lots in RM-1, RM-2, and RH districts to be converted to limited commercial use, generally defined as a small retail use.
- It will allow additional business uses on the ground floor in certain neighborhood commercial districts (NCDs).
- It will principally permit flexible retail ground floor in NCDs and Chinatown mixed-use districts.
- The ordinance will remove the public notice requirement (Section 311) in Eastern Mixed Use Districts for change-of-use projects.
- It will create Professional Services as a use category that may provide services to the public and businesses and remove retail and non-retail distinction.
- It will benefit nighttime entertainment, bars, and restaurants from the Planning Department priority review program.
- The proposed ordinance will conditionally permit Formula Retail and restaurant uses in certain commercial districts.

# Details of the Proposed Measure: Continued

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- The measure will incorporate new state liquor license type 90 in the SF Planning code.
- It aims to ease the legalization process for existing outdoor patios.
- The summary of the major changes by use type is outlined in the Appendix for further details.

# Economic Impact Factors

- Expansion of flexible retail space, especially into vacant commercial retail space, and easing of restrictions would create greater economic opportunity, building a larger retail employment base in the city.
- Similarly, allowing corner lots in RM-1, RM-2, and RH districts to be converted to limited commercial use would expand retail employment, likely reduce retail prices, and promote economic activity in the city.
- However, the conversion of housing into retail space would reduce the housing stock, resulting in higher housing prices and negatively impacting the City's economy.
- The net economic impact will highly depend on the size of positive and negative effects on the local economy.

# Flexible Retail Expansion

- Currently, flexible retail is permitted roughly in half of the city. It was already allowed in NCDs in Zone 1 and Zone 2 (covering supervisorial districts 1, 4, 5, 10, and 11). The proposed ordinance would expand the permission citywide to include districts 2, 3, 6, 8, and 9.
- Since the passage of flexible retail legislation in 2018, there have been only two applications in the city with a total of about 3,100 sq. ft. Both applications were applied in 2019 (March and August). Since then, there has not been a single application over the last four years. Therefore, the likely impact of flexible retail will be quite limited based on the historical precedence in the city where it was permitted.
- Due to the complexity surrounding flexible retail adoption, the OEA modeled the change in flexible retail as three possible scenarios (Low, Medium, and High) based on conversion assumptions (2.5%, 5%, and 10%) as applied to the estimated ground floor vacant retail space in the city (see Appendix).
- Assuming the retail employment density of 400 sq. ft., the OEA estimates that this would expand retail jobs by 73, 147, or 294 workers under the low, medium, or high scenario, respectively.

# Corner Lot Conversions in Residential Districts

- It is impossible to know with precision how many corner residential lots will eventually convert to limited commercial retail use. Therefore, the OEA created three likely scenarios (Low, Medium, and High) assuming 1%, 3%, or 5% conversion rates.
- Based on the visual inspection of the zoning map of the entire city, the OEA estimated that there are roughly 10,700 corner lots in the affected RM-1, RM-2, and RH districts that one may be able to convert.
- Application of the assumed conversion ratios of 1% (Low), 3% (Medium), or 5% (High) would result in 107 housing units, 321 housing units, or 536 housing units being converted to limited commercial use, respectively.
- Assuming 1,500 sq. ft. per housing unit space and retail employment density of 400 sq. ft., the OEA estimates that 401 retail jobs, 1,204 retail jobs, or 2,010 retail jobs will be created under the low, medium, or high scenario.
- The OEA further assumed that under the low, medium, and high scenarios, the conversion cost (construction) per housing unit would be \$10,000, \$15,000, or \$20,000, respectively.

- The Office of Economic Analysis uses the REMI model to estimate the net economic impact of new City legislation. The estimates below are sensitive to the assumptions made under the low, medium, and high scenarios. The specific impacts under the three scenarios modeled in REMI include:
  - Flexible retail employment gain of 73 jobs, 147 jobs, or 294 jobs under the low, medium, and high scenario, respectively.
  - Corner retail employment gain of 401 jobs, 1,204 jobs, or 2,010 jobs under the low, medium, and high scenario, respectively.
  - Construction spending of \$1.1 million, \$4.8 million, or \$10.7 million due to residential conversion under the low, medium, and high scenario, respectively.
  - The OEA further modeled the housing price increase due to housing conversion under each scenario. The OEA estimated that housing stock loss (107, 327, or 536 units) would increase housing prices by 0.04%, 0.12%, or 0.20% under the low, medium, and high scenario, respectively.



# REMI Output Summary

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| Description                         | Low    | Medium  | High    |
|-------------------------------------|--------|---------|---------|
| GDP (\$2023)                        | \$62.0 | \$175.8 | \$300.3 |
| Total Employment                    | 278    | 788     | 1,347   |
| <i>Retail Employment</i>            | 245    | 696     | 1,187   |
| <i>Non-retail Employment</i>        | 34     | 92      | 160     |
| PCE-Price Index with Housing Prices | +0.01% | +0.02%  | +0.03%  |
| Relative Housing price              | +0.02% | +0.05%  | +0.08%  |

- The average impacts over the forecast horizon of 25 years on the previous slide are relative to a baseline forecast of long-term growth and are sensitive to assumptions of low, medium, and high scenarios.
- The average net impact during the forecast horizon on the local employment ranges from less than 300 jobs to more than 1,300 based on the scenario type.
- The OEA projects the economic impact of the proposed legislation as positive (ranging from \$62 million to 300 million) on the local economy, which takes into account the negative effect of housing stock loss due to residential corner lot conversions.
- This wide range reflects the uncertainty regarding conversions and flexible retail uptake of the vacant retail space in the city. Therefore, OEA suggests caution in interpreting the size of these impacts.
- In the context of the size of the City's economy, with an estimated GDP of \$244 billion in 2023, the projected GDP gains range from 0.03% to 0.12% of the current local economy.

| Use                          | District(s)   | Current Control*   | Proposed Control   |
|------------------------------|---|--|--|
| <b>Flexible Retail</b>       | All NCDs and Chinatown mixed use districts  | Currently, flexible retail is permitted roughly in half of the city. Permitted in NCDs in two specified zones; Zone 1 and Zone 2 (covering supervisorial districts 1, 4, 5, 10 and 11). There are 13 named NCDs where flexible retail is already allowed under the current zoning (#180806, Passed Dec 7, 2018).** | Permitted citywide   |
|                              |   | NP, C, or P  | P  |
|                              |   | Abandoned after 3 months of non-use  | Abandoned after standard 3 years of non-use  |
| <b>Professional Services</b> | All   | Defined and regulated as “Retail” or “Non-Retail,” depending on whether services are primarily provided to the general public or to other businesses.  | Removes “Retail” and “Non-Retail” distinction. All Professional Services regulated the same. Co-working allowed. |
|                              | All NCDs and Chinatown Mixed Use District   | NP, C, or P  | P  |
| <b>Restaurants</b>           | Taraval St Restaurant sub district; Chinatown Mixed use Districts; Lakeshores Plaza SUD | C  | P  |
|                              | Haight St. NCD  | NP   | P  |
|                              | Jackson Square SUD  | C with limitations   | C  |
|                              | Mission St. NCTD  | C, up to a cap of 167 eating and drinking uses   | C, up to a cap of 197 eating and drinking uses   |

# Appendix: Continued

| Use   | District(s)   | Current Control*                                | Proposed Control   |
|---|---|---|--|
| <b>Limited Restaurant</b>   | Taraval St Restaurant sub district;<br>Lakeshores Plaza SUD; North Beach NCD                | C   | P  |
|   | Jackson Square SUD  | C with limitations                              | C  |
|   | Mission St. NCTD  | C, up to a cap of 167 eating and drinking uses  | C, up to a cap of 197 eating and drinking uses   |
| <b>Formula Retail and Limited Restaurants</b>                     | Mission St. Formula Retail Restaurant Subdistrict   | NP  | C  |
| <b>Bars</b>   | Haight St NCD; Union St. NCD; Pacific Ave NCD; Sacramento St NCD; 24th St-Mission NCTD      | NP  | C  |
|   | Jackson Square SUD  | C with Limitations                              | C  |
|   | Mission St. NCTD  | C, up to a cap of 167 eating and drinking uses  | C, up to a cap of 197 eating and drinking uses   |
| <b>Liquor Stores</b>  | Haight St Alcohol Restricted use Subdistrict  | NP  | C  |
| <b>Alcohol Sales at music Venues and Non-profit Theaters</b>      | Mission Alcohol Beverage SUD; North Beach SUD; Haight St Alcohol Restricted use Subdistrict | Not specifically listed or only type 64 allowed | Allowed with Type 90 or type 64 ABC license  |
| <b>Limited Commercial Uses and Limited Corner Commercial Uses</b> | Residential, House (RH); Residential, Mixed (RM-1, RM-2)                                    | NP  | P; may include patio space. LCCUs would also be permitted within the RM-1, RM-2, and all RH districts on Corner Lots, with no part of the Use extending more than 50 feet in depth from the corner (like RTO today). |

# Appendix: Continued

| Use                                    | District(s)  | Current Control*  | Proposed Control  |
|--|--|---|---|
| <b>Outdoor Activity Areas (Patios)</b> | Citywide   | New CUA required if business unable to show original permission   | If patio has been in existence over 10 years, may be “legalized” administratively without CUA |
| <b>Design Professional</b>             | West Portal Avenue NCD; North Beach NCD  | C   | P   |
|  | North Beach Financial Service, Limited Financial Service, and Business or Professional Service Subdistrict   | NP  | C   |
| <b>Financial Services</b>              | Lakeside Village NCD   | NP  | P   |
| <b>Miscellaneous</b>                   | Various NCDs; Chinatown mixed use districts; Residential Transit Oriented Districts (RTOs); PDR-1-B District | Various uses (e.g., gym, kennel, movie theatre) in these districts would shift from NP to C, or from C to P. See ordinance for details. |   |

\*All zoning controls listed refer to ground floor controls

\*\* Flexible Retail is already permitted in the following 13 districts: (1) Divisadero St. NCTD (2) Excelsior Outer Mission NCD (3) Filmore St. NCTD (4) Haight St. NCD (5) Hayes-Gough NCTD (6) Inner Clement St. NCD (7) Inner Sunset NCD (8) Irving St. NCD (9) Japantown NCD (10) Judah St. NCD (11) Noriega St. NCD (12) Outer Clement St. NCD (13) Taraval St. NCD

# Appendix: Continued

- Based on the parcel data from the planning department, the OEA estimated the total area of the ground floor retail space that may become eligible for flexible retail under the proposed zoning change.
- Based on the 2023Q3 vacancy rate of 6% (Cushman & Wakefield), the OEA estimated total vacant space that may be filled by the flexible retail under the low, medium, and high scenarios. The results of that exercise are summarized in the table below.

| Description   | Low   | Medium | High   |
|---|-------|--------|--------|
| Newly Permitted Ground Floor Retail (million sq. ft)        | 19.6  | 19.6   | 19.6   |
| Retail Vacancy Rate   | 6%    | 6%     | 6%     |
| Newly Permitted Vacant Ground Floor Retail (million sq. ft) | 1.2   | 1.2    | 1.2    |
| Uptake Rate for Vacant Retail Space by the Flexible Retail  | 2.5%  | 5%     | 10%    |
| Vacant Retail Space Filled by the Flexible Retail (sq. ft.) | 29.4K | 58.7K  | 117.4K |
| Retail Employment Density (sq. ft. / employee)              | 400   | 400    | 400    |
| Flexible Retail Employment (Job Gain)                       | 73    | 147    | 294    |

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