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November 17, 2017

Ms. Angela Calvillo, Clerk
Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: **Transmittal of report required by Planning Code Section 210.3C:**
Report on the allowance for uses to support the development of new PDR space in the PDR-1-D and PDR-1-G Districts
Case No. 2017-008422PCA

Dear Ms. Calvillo,

In 2014, the Board of Supervisors approved Ordinance 71-14, creating Planning Code Section 219.1 (later changed to 210.3C). This section allows new development for certain non-residential uses—such as office and institutional—in Production, Distribution, and Repair (PDR) Districts if those projects also include a significant amount of new PDR space. The legislation includes a "sunset" provision, whereas the program would expire on December 31, 2017 without Board action.

The legislation included a requirement (Planning Code Section 210.3C(f)(2)) that Planning Department staff submit a report to the Planning Commission and the Board of Supervisors. The purpose of the report is to provide relevant information about the program to support development of new PDR space and a recommendation on whether the Board should extend or modify the program, or whether it should be allowed to expire.

Please find attached the Planning Department's report fulfilling the requirement in Planning Code Section 210.3C(f)(2).

Sincerely,

Aaron D. Starr
Manager of Legislative Affairs

cc:
Amy Beinart, Aide to Supervisor Hillary Ronen
Yoyo Chan, Aide to Supervisor Malia Cohen
Laurel Arvanitidis, Mayor's Office of Economic and Workforce Development
John Rahaim, San Francisco Planning Department
Steve Wertheim, San Francisco Planning Department
Pedro Peterson, San Francisco Planning Department
Kate Stacy, San Francisco City Attorney's Office

Attachment:
Planning Department Report

Planning Department Report

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Date:	November 20, 2017
Report Name:	Report on the allowance for uses to support the development of new PDR space in the PDR-1-D and PDR-1-G Districts pursuant to Code Section 120.3C
Case No.:	2017-008422PCA
Staff Contact:	Pedro Peterson, Planner *(415) 575-9163* pedro.peterson@sfgov.org
Reviewed by:	Steve Wertheim, Senior Planner steve.wertheim@sfgov.org

BACKGROUND

The Eastern Neighborhoods Area Plans (EN Plan), adopted in 2008, designated certain industrial areas within their boundaries as Production, Distribution, and Repair (PDR) districts. The creation of PDR Districts was motivated by the recognition that industrial activity is an important source of employment for San Francisco's working class as well as an important part of the city's economic diversity. PDR Districts limit or prohibit the development of uses—such as housing or office—that are able to pay much more for land than industrial activities, thereby protecting PDR businesses from being priced out of neighborhoods where they have grown and thrived.

Since the adoption of the EN Plan, PDR zones have successfully achieved their goal of protecting PDR activity. However, demand for PDR space in the city has outstripped supply, resulting in low vacancy and quickly increasing rents. Accommodating this demand is possible on underutilized or vacant parcels in PDR Districts. Unfortunately, given construction costs, the relatively low rent paid by PDR businesses, and lack of government subsidies, it is not economically viable to construct stand-alone PDR buildings – as witnessed by the fact that the City has not received applications for the development of new stand-alone PDR space in several decades.

LEGISLATION

To try to facilitate the creation of new PDR space, in 2014, the Board of Supervisors approved Ordinance 71-14 (sponsored by the Mayor and Supervisors Cohen, Campos, Chiu, Wiener, and Mar). This Ordinance created Planning Code Section 219.1 (later changed to 210.3C) to allow new development for certain non-residential uses—such as office and institutional—in PDR Districts if those projects also include a significant amount of new PDR space. Specifically, the legislation:

- Applies to large parcels (greater than 20,000 square feet) in PDR-1-D and PDR-1-G Districts north of 20th Street that do not contain significant PDR space or activities (existing floor-to-area ratio must be less than 0.3);
- Requires that the new developments dedicate at least 1/3 of its net new space to PDR activities;
- Requires that projects present a "PDR Business Plan" conveying how their project will be designed and priced to be suitable for PDR businesses; and

- Requires Conditional Use authorization from the Planning Commission.

The legislation includes a "sunset" provision—that it would expire on December 31, 2017 unless the Board of Supervisors acts to continue, extend, or modify it by Ordinance. It also requires that, "Prior to the sunset date of this Section, the Planning Department shall submit a report to the Planning Commission and the Board of Supervisors that provides information the Planning Department determines to be relevant in determining whether to continue, expand or limit the allowances for new construction of PDR addressed in this Section" (Planning Code Section 210.3C(f)(2)). This memorandum fulfills the legislation's requirement that Planning staff complete a report outlining relevant information about the program's implementation.

ANALYSIS

The Office-PDR cross-subsidy program enabled by Planning Code Section 210.3C has been successful at achieving its policy objective—facilitating the development of new PDR space in underdeveloped parcels in PDR Districts. Since the program was launched in 2014, the Planning Department has received two applications for projects proposing to build a substantial amount of net new PDR space under the provisions of Planning Code Section 210.3C:

- 100 Hooper: Entitled by the Planning Commission in 2015, the project is under construction and expected to be completed in 2018. When completed, this development will provide more than 140,000 square feet of new PDR space, 56,000 of which will be leased at below market rates by a non-profit provider (PlaceMade), as well as 280,000 square feet of office development. The property had previously sat unimproved and contained no PDR use, and was used primarily for household storage in stackable shipping containers and for open-air truck rentals.
- 1 De Haro: Under review by Planning staff, this project proposes 47,000 square feet of PDR and 94,000 square feet of office space. The site presently includes 12,000 square feet of open storage sheds and warehouse facilities that were formerly occupied by the San Francisco Gravel Company. The existing facilities are not currently in operation. The project is likely to seek entitlement from the Planning Commission in 2018.

Aside from these two projects, the Planning Department has not received any other applications proposing to utilize Section 210.3C. The Planning Department has not received any complaints about misuse of this program.

RECOMMENDATION

Planning staff recommends the renewal of Planning Code Section 210.3C with some modest modifications that are likely to enable more new PDR space to be built while avoiding unintended consequences. First, we recommend that the parcel size threshold in the legislation be reduced from 20,000 square feet to 15,000. Second, the maximum existing FAR on the parcel should be increased slightly from 0.3 to 0.33. These modifications would be in keeping with the intent of the program, and would result in three new sites being eligible for the program.