

# Options for Addressing Economic and Tax Revenue Trends in Downtown San Francisco

*Policy Analysis Report to Supervisor Connie Chan*

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Presentation to:

BUDGET & FINANCE COMMITTEE  
BOARD OF SUPERVISORS  
CITY AND COUNTY OF SAN FRANCISCO

March 1, 2023

# Snapshot: Downtown SF

- Estimated number of office jobs, core Downtown, 2019: **245,505**
- Study: estimated weekly expenditures per Downtown employee: \$168 (\$2.1 bn. annually)

## Office square footage

Area	Sq Ft (mills)
North Financial	28.6
South Financial	30.1
Mid-Market	5.6
Union Square	3.2
<b>Subtotal</b>	<b>67.5*</b>
Other Downtown	18.7
<b>Total</b>	<b>86.2</b>



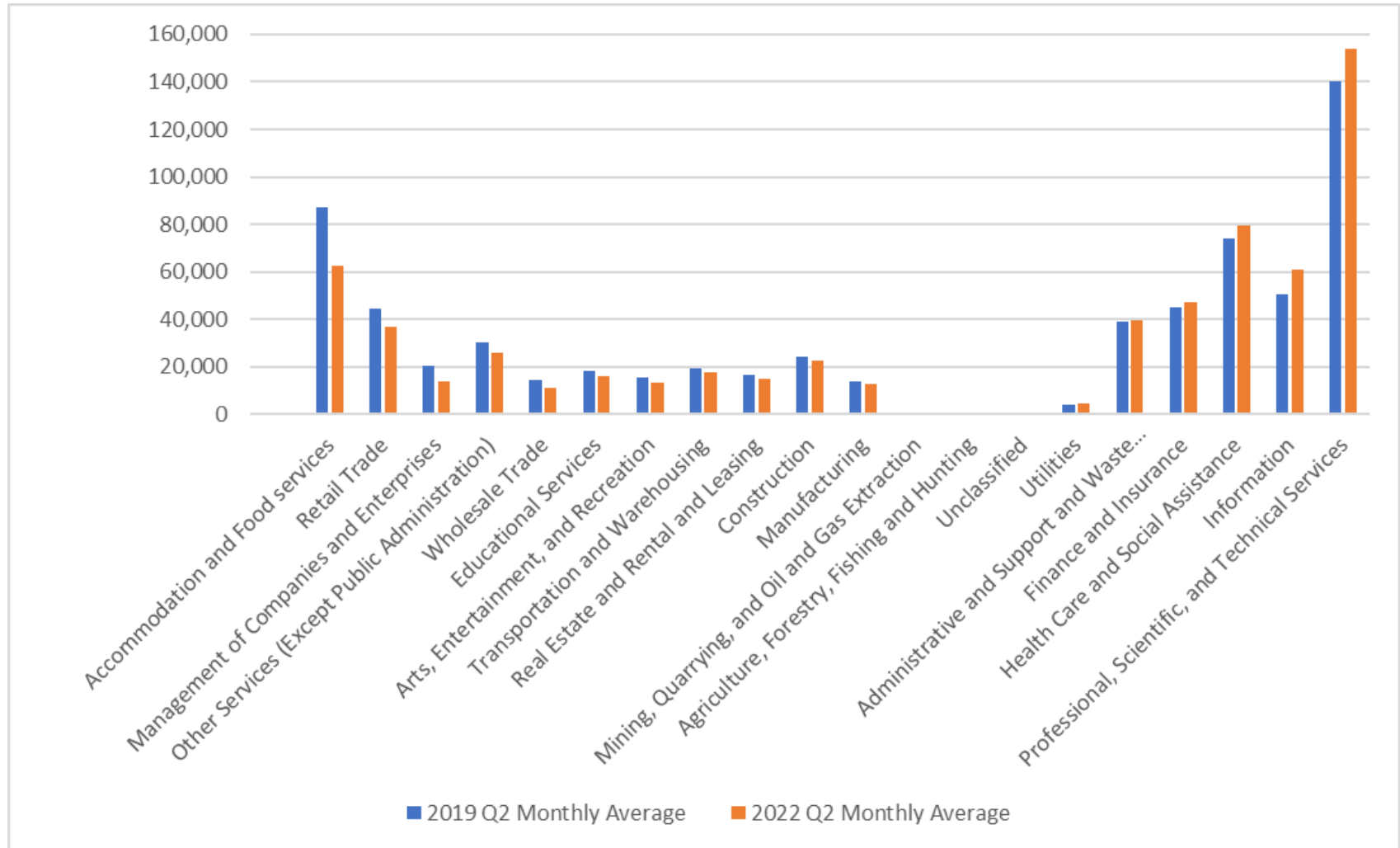
\*Downtown for our report

# Downtown transition due to pandemic

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- March 2020: onset of pandemic
  - Remote working for many office workers, closures and reductions in hours for many support workers.
- Net decrease of 22,837 total private sector jobs across the City, 2019 -2022.
- February 2023: Remote working persists: office attendance was **43.3%** of pre-pandemic level as of January 2023.
  - BLA estimate: **147,303 fewer office workers** Downtown (= \$1.2 bn. less in annual expenditures Downtown)
- Team of economists' global survey of employers, related research: some degree of remote work will be permanent.

# Private Sector Jobs by Industry Citywide, 2019 and 2022



## Changes in Citywide Private Sector Jobs, 2019 and 2022

Industry	2019 Q2 Monthly Average	2022 Q2 Monthly Average	Change
Accommodation and Food Services	87,248	62,271	-24,977
Retail Trade	44,564	36,854	-7,711
Management of Companies and Enterprises	20,387	14,091	-6,296
Other Services (Except Public Administration)	30,335	25,912	-4,423
Wholesale Trade	14,210	10,849	-3,361
Educational Services	18,078	15,792	-2,286
Arts, Entertainment, and Recreation	15,237	13,041	-2,196
Transportation and Warehousing	19,371	17,411	-1,960
Real Estate and Rental and Leasing	16,425	15,018	-1,407
Construction	23,999	22,862	-1,137
Manufacturing	13,653	12,967	-685
Mining, Quarrying, and Oil and Gas Extraction	10	27	17
Agriculture, Forestry, Fishing and Hunting	194	255	61
Unclassified	1	78	77
Utilities	4,246	4,607	362
Admin. and Support and Waste Mgt & Remediation	39,001	39,581	579
Finance and Insurance	44,984	47,219	2,235
Health Care and Social Assistance	73,879	79,683	5,804
Information	50,272	60,832	10,560
Professional, Scientific, and Technical Services	140,209	154,115	13,906
<b>Total</b>	<b>656,303</b>	<b>633,466</b>	<b>-22,837</b>

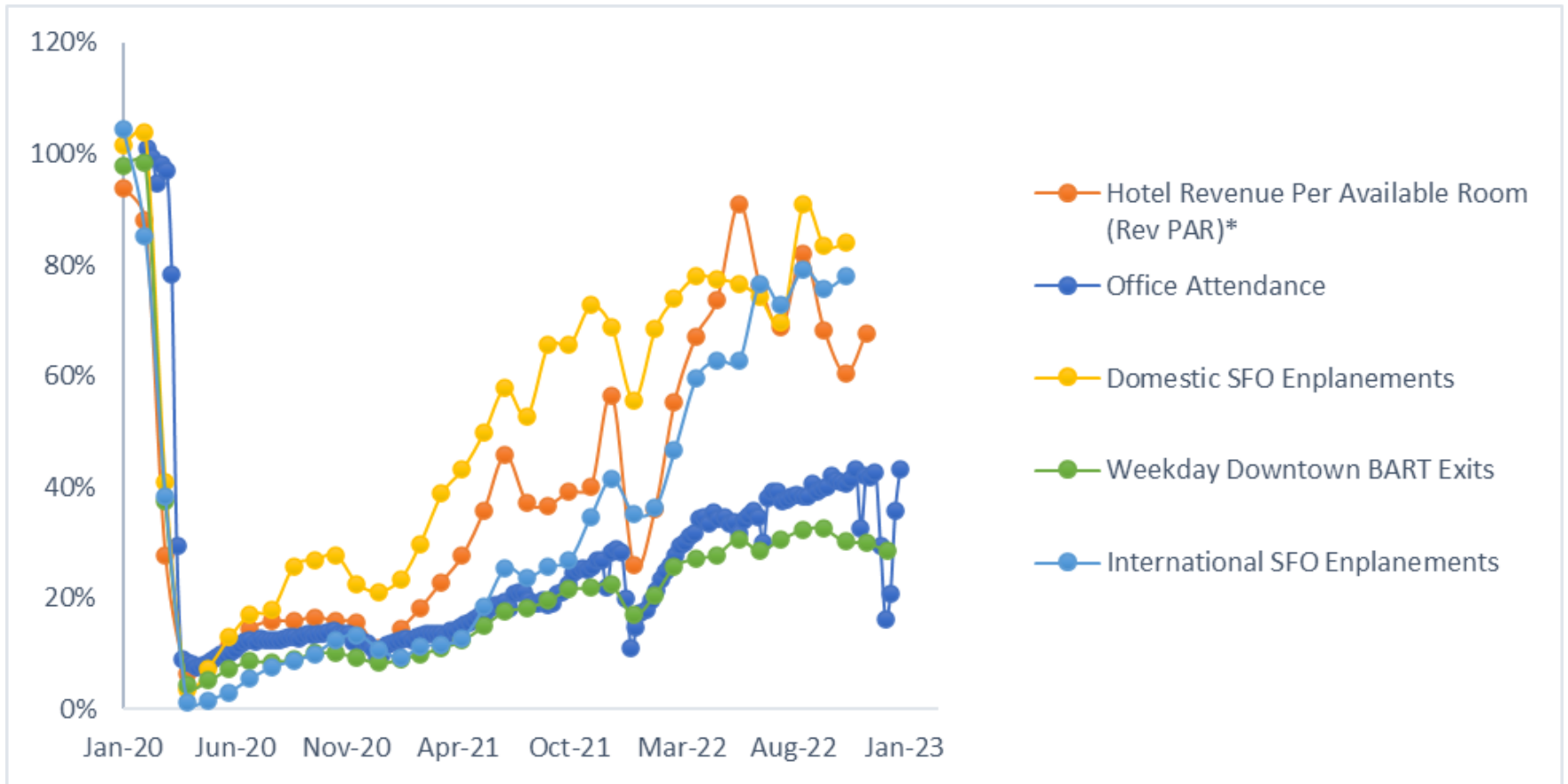
## Downtown SF's pandemic recovery worse than other cities

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### Comparative analysis of 62 North American cities published by Institute of Governmental Studies (2022)

- As of 2022, SF had the lowest level of post-pandemic downtown recovery (activity level tracked by cell phones).
- Low recovery level correlated with highest rate of occupations in Professional, Scientific, and Management Services (31%), all compatible with remote work.
- Downtown SF jobs concentrated in fewer industries compared to other cities.

# Key Downtown Indicators, as Percentages of Pre-Pandemic Levels



Source: BLA Analysis of data from Kastle Systems, STR, San Francisco International Airport and Bay Area Rapid Transit, provided by the San Francisco Controller's Office (Office of Economic Analysis)

Note: Hotel Revenue Per Available Room data covers 32 cities in San Francisco, San Mateo and Marin counties, but San Francisco accounts for approximately 65 percent of the supply of hotel rooms, according to the hospitality industry analytics firm STR, which compiles the data.

## Changes in Total Office Vacancy Rates by Area

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	<b>2019 Q4</b>	<b>2022 Q4</b>
North Financial District	5.5%	24.6%
South Financial District	5.2%	20.6%
Mid-Market	7.3%	32.4%
Union Square	7.1%	21.1%
<b>Total: Greater Downtown</b>	<b>5.2%</b>	<b>25.1%</b>

Source: JLL San Francisco Office Insight, Q4 2019 and Q4 2022.

Note: The Greater Downtown area is composed of the City's primary office submarkets as designated by JLL in their regular reports on San Francisco's commercial real estate: North Financial District, South Financial District, Mid-Market, Union Square, Jackson Square, Mission Bay/China Basin, North Waterfront, Showplace Square, South of Market, and the Van Ness Corridor.



## Business Tax Obligations: Downtown and Citywide, 2019 and 2021 (millions)

Calendar Year	Business Tax		
	Owed (Businesses Located Only Downtown)	Business Tax Owed (All Businesses)	% of All Business Tax Owed
2019	\$862	\$1,368	63%
2021	\$718	\$1,238	58%
Change	-\$144	-\$130	
% Change	-16.7%	-9.5%	

Source: Office of Economic Analysis, San Francisco Controller's Office

# Potential Property Tax Effects of Changes in Downtown Commercial Property Values

Non-partisan Institute of Taxation and Economic Policy study: SF commercial property values could drop by 27 - 43% due to remote work.

	<b>27% loss</b>	<b>43% loss</b>
	(millions)	
Assessed value, Downtown commercial	\$69,000	\$69,000
Current property tax revenue	\$690.0	\$690.0
Projected property tax revenue	\$503.7	\$393.3
Reduction in property tax revenue	\$186.3	\$296.7

Source: BLA Analysis of San Francisco Office of the Assessor-Recorder data, applying estimates of reduced property values prepared by Chernick, et al. in Institute of Taxation and Economic Policy study (2021).

Note: California property tax laws and typical real estate turnover that triggers reassessments of property values to market rate would likely preclude a loss of this magnitude all at one time.

## Changes in City Forecasts: Reduced resources for coming years

<b>Forecast (millions)</b>	<b>FY 23</b>	<b>FY 24</b>	<b>FY 25</b>	<b>FY 26</b>	<b>Total</b>
Property Tax Jan. '23	\$ 2,429.0	\$ 2,425.0	\$ 2,415.0	\$ 2,400.0	
Property Tax Jan. '22	2,298.1	2,441.6	2,568.0	2,688.6	
Difference	130.9	(16.6)	(153.0)	(288.6)	\$ (327.3)
Business Tax Jan. '23	851.1	881.7	925.4	963.3	
Business Tax Jan. '22	966.9	1,017.6	1,075.9	1,096.3	
Difference	(115.8)	(135.9)	(150.5)	(133.0)	(535.2)
Sales Tax Jan. '23	203.7	205.8	211.3	218.1	
Sales Tax Jan. '22	183.8	192.7	202.7	212.7	
Difference	19.9	13.1	8.6	5.4	47.0
Hotel Tax Jan. '23	257.4	302.6	347.9	382.9	
Hotel Tax Jan. '22	191.3	262.3	305.2	335.2	
Difference	66.1	40.3	42.7	47.7	196.8
<b>Total</b>	<b>\$ 101.1</b>	<b>\$ (99.1)</b>	<b>\$ (252.2)</b>	<b>\$ (368.5)</b>	<b>\$ (618.7)</b>

Source: Joint Five-Year Forecasts: SF Controller, Mayor's Office & BLA

## Challenge 1: Tax revenue risks

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*The rise of remote work carries risk for citywide tax revenues.*

**Recommendation:** Prepare for possible shortfalls created by decreases in Downtown tax revenues, including by considering tax code changes, identifying areas for budget savings, and/or advocating for increased state relief. Hearings could be held beyond the standard annual budget review to cover these topics and/or a work group of City staff and community representatives could be convened for this purpose.

## Challenge 2: Decreased foot traffic

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*Decreased Downtown visitors and foot traffic is hurting small businesses and neighborhood vitality.*

**Recommendation:** Request that OEWD and SF Travel report to the Board of Supervisors on initial results of programmatic interventions designed to improve Downtown public spaces and increase business and leisure tourism, and work with OEWD and SF Travel to ensure promising interventions are sufficiently resourced.

**Recommendation:** Request that the San Francisco Municipal Transportation Agency report on ways the City can help improve the Citywide and regional transit experience for commuters from other jurisdictions.

## Challenge 3: Vacant commercial space

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*Vacant commercial space, particularly on the ground floor, reflects missed opportunities to boost street vibrancy and restrictive allowable uses of second and third floors in retail zones limits opportunities for more varied businesses.*

**Recommendation:** The Board of Supervisors could solicit feedback from the Office of Economic and Workforce Development on the prospect of programs incentivizing creative leasing arrangements, such as co-location and short-term subleasing, that reduce risks for commercial landlords and tenants alike.

## Challenge 4: Reliance on a small number of industries

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*The City's economy is heavily concentrated in a small number of industries.*

**Recommendation:** Request that the Planning Department and the Office of Economic and Workforce Development report on ongoing and possible future efforts to diversify the industrial mix of Downtown's workforce, such as efforts to market the City and recruit target industries and/or eliminate Planning Code restrictions that may pose barriers for certain businesses and nonprofit organizations that might otherwise be interested in operating Downtown.

## Challenge 5: Limited housing supply

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*A limited housing supply in the core areas of Downtown compounds challenges to economic recovery, particularly outside of business hours*

**Recommendation:** Request that the Planning Department, the Mayor's Office of Housing and Community Development, and the Office of Economic and Workforce Development report on existing efforts and future options for increasing housing construction Downtown including specific legislative proposals to streamline housing construction and commercial property conversions in certain areas of Downtown, to include creating a ministerial path for awarding permits to certain types of conversion, for consideration by the Board of Supervisors.



# Questions and Comments

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<https://sfbos.org/budget-legislative-analyst-reports>

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