



**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER**

**Ben Rosenfield
Controller**

**Monique Zmuda
Deputy Controller**

June 25th, 2014

The Honorable Board of Supervisors
City and County of San Francisco
Room 244, City Hall

Angela Calvillo
Clerk of the Board of Supervisors
Room 244, City Hall

*Msg: GAO + LU clerks
c: BDS-11
COTB*

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BOARD OF SUPERVISORS
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Re: Office of Economic Analysis Impact Report for File Number 140444

Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file number 140444, "Development Agreement for the Visitacion Valley/Schlage Lock Special Use District: Economic Impact Report." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan
Chief Economist

cc Erika Major, Committee Clerk, Government Audit and Oversight Committee
Andrea Ausberry, Committee Clerk, Land Use and Economic Development Committee

BOS-11

✓ EAO clerk
COB

Development Agreement for the Visitacion Valley/Schlage Lock Special Use District: Economic Impact Report

Office of Economic Analysis
June 26th, 2014

Item #140444

Office of the Controller – Office of Economic Analysis

City and County of San Francisco



Introduction

- The proposed development agreement and accompanying legislation is expected to develop up to 1,679 new housing units on the former Schlage Lock site in Visitacion Valley, an industrial brownfield.
- Through the City's inclusionary housing program, 15% of the new housing will be sold at below market prices.
- The first phase of the project must include a full-service grocery store and at least 20,000 square feet of retail space. The developer will have the right to develop up to an additional 27,600 square feet of new retail space.
- The proposed development will also rehabilitate 18,000 square feet of historic office space. At least 25% of the interior space will be dedicated for community use.
- The planned development will create housing for 3,900 new residents. It will also generate \$57 million in community benefits for transit, childcare, a park, and other public services.



Economic Impact Factors

- The development agreement is expected to affect the local economy in the following ways:
 1. Economic activity resulting from construction spending.
 2. Economic activity resulting from spending on community benefits included in the development agreement
 3. Downward pressure on housing prices caused by the expansion of housing supply, which will expand personal income and employment in the city.
- Each of these factors contributes to the overall economic impact of the development agreement, which has been modelled using the OEA's REMI model of the San Francisco economy.



Residential Construction

- The development agreement includes complete construction and rehabilitation of the former Schlage Lock 20-acre brownfield site located in Visitacion Valley.
- The proposed development include up to 1,679 low to mid-rise condominium and apartment units with a total to 12 building parcels with 5 stories to 8 stories in height.
- The prices for the units will be considerably less than new units in other parts of the city. Exclusive of parking, a new 850 square foot condominium is expected to sell from between \$420,000 and \$465,000.
- The total construction and development cost of the project is estimated to be around \$637 million, of which about \$572.6 million will be spent on residential construction.
- The development project is expected to be completed by 2026.



Non-residential Construction Impacts

- The proposed development will also rehabilitate 18,000 square feet of historic office space.
- A full service grocery store and at least 20,000 square feet of retail space, and additional retail space up to 26,700 square feet, will be located along an extension of Leland Ave.
- The grocery store must be included in Phase 1 of the development, unless this requirement is waived by the Planning Commission. If the grocery store is not provided in Phase 1, no further development can occur.
- The development cost of the non-residential portion of the project, including infrastructure, is estimated to be \$64.5 million.



Community Benefits

- According to the development agreement, the project will result in the following community benefits:
 - An estimated \$16 million in Transit and Visitacion Valley Community Facilities & Infrastructure impact fees.
 - Transit impact fee revenue will be used to mitigate the impacts of non-residential development on public transit service.
 - Visitacion Valley impact fee revenue will be used to pay for public infrastructure such as parks and recreation, new library, child care facility, transportation and community facilities.
 - An estimated \$41 million for new infrastructure, including streets, sewer and water system, drainage systems, electrical utilities, parks, and landscaping.
- This report does not attempt to quantify the benefits to neighborhood residents, and owners of surrounding properties, from the development's planned investments in infrastructure and cleanup. Only the value of the spending associated with the community benefits is considered in this impact report.



Impact of Increasing Housing Supply

- The 1,679 new housing units permitted by the development agreement are projected to be built as 1,268 for-sale units, and 411 rental units. This would represent a 1.0% increase in the number for-sale units in the city, and a 0.2% increase in the number of rental units.
- This expansion of housing supply will put downward pressure on both market rents and housing prices in the city.
- The OEA projects housing prices across the city would drop by an average of 0.8%, and market rents would drop by an average of 0.2%, compared to what prices and rents would have been without the development.
- To put these numbers in context, 0.8% of the average housing price in San Francisco in 2014 is approximately \$7,350, and 0.2% of average rents is approximately \$7.50/month. These lower housing prices and rents would benefit home-seekers across the city, not only in the Visitacion Valley area.
- In addition, the affordable housing component of the development agreement will raise incomes for the households benefitting from the subsidy.



REMI Model Simulation Inputs

- The OEA’s REMI economic model was used to simulate the effects on the city’s economy of the following impacts of the proposed development:
 - \$637 million in construction spending over the 2015-26 construction period.
 - \$57 million in community benefits spending, also spread over the construction period.
 - \$52.7 million in affordable housing subsidy, affecting the economy as an increase in personal income assumed to be spread over 20 years.
 - A decrease in market rents across the city of 0.2%, phasing in over the construction period.
 - A decrease in housing prices across the city of 0.8%, phasing in over the construction period.



Economic Impact Assessment: REMI Model Simulation Results

- The proposed development agreement is projected to expand the city's economy (its "GDP") by an average of \$151 million over the 20 year period.
- The city's economy is expected to expand by an average of 985 jobs over the forecast horizon of 20 years (2015-2034).
- These jobs include an average of 340 FTE equivalent construction jobs during the construction period.
- Post-construction employment gains are the result of higher spending associated with the increases in personal income caused by the drop in housing prices, as well as the employment needed to support the new population.



Staff Contacts

Asim Khan, Ph.D., Principal Economist (415) 554-6369 asim.khan@sfgov.org

Ted Egan, Ph.D., Chief Economist (415) 554-5268 ted.egan@sfgov.org

