

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST
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Policy Analysis Report

To: Supervisor Connie Chan
From: Budget and Legislative Analyst's Office
Re: Options for Addressing Economic and Tax
Revenue Trends in Downtown San Francisco
Date: February 24, 2023



Summary of Requested Action

Your office requested that the Budget and Legislative Analyst conduct an analysis of the Covid-19 pandemic's economic impact on Downtown San Francisco, implications for tax revenues, and possible strategies for addressing associated challenges.

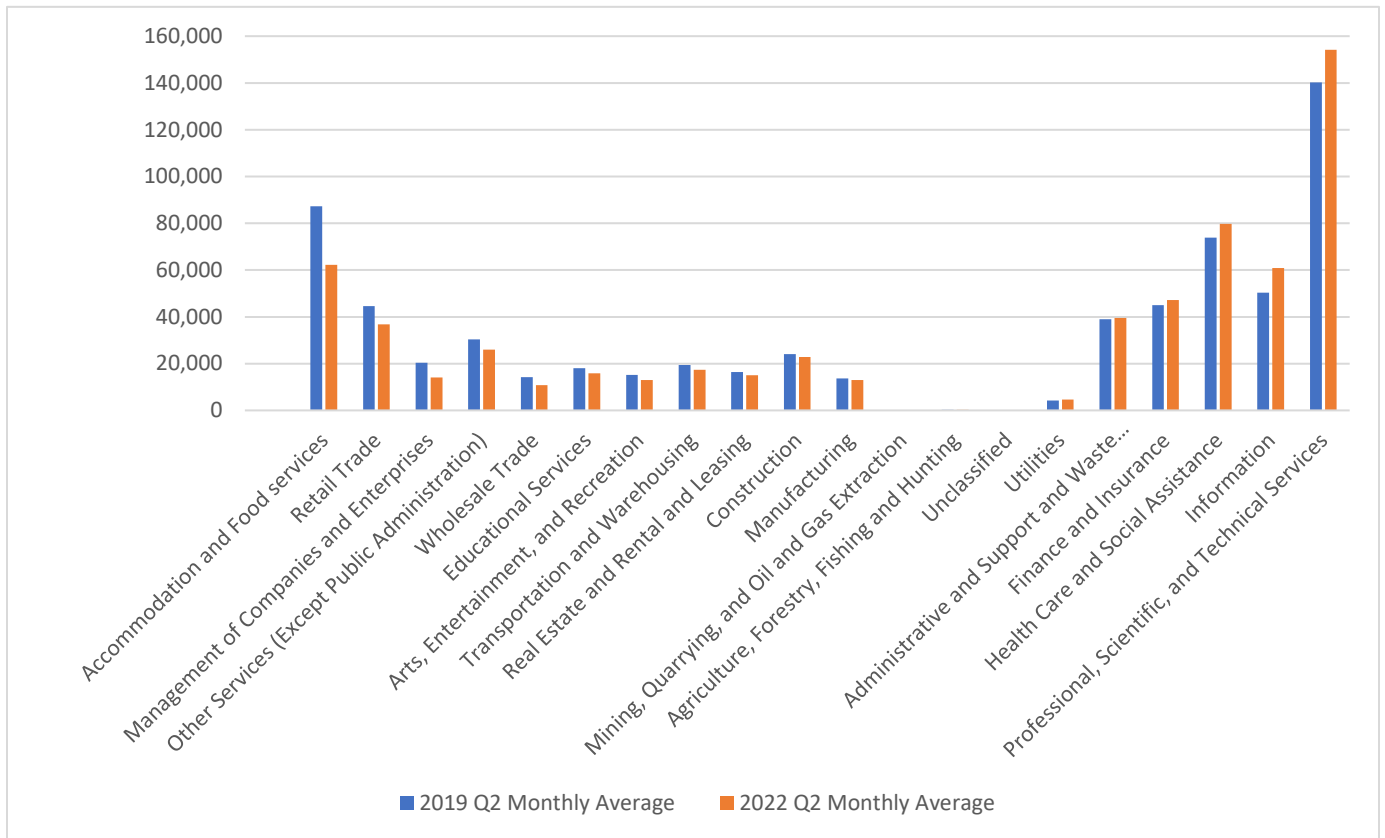
For further information about this report, contact Fred Brousseau, Director of Policy Analysis, at the Budget and Legislative Analyst's Office.

Executive Summary

- Downtown San Francisco has undergone dramatic changes in recent years, due largely to the pandemic, but also due to changes in the retail industry and the growth of online shopping. Pandemic-related impacts include the shift to remote working that has resulted in our estimate of 147,303 fewer office workers Downtown each workday. Working remotely is a development that some experts believe will be permanent for a significant portion of office workers who were present Downtown prior to the onset of the pandemic in March 2020.
- Starting in March 2020, some of the Downtown businesses that support office workers, such as restaurants, had to curtail their operations due to public health mandates and/or the absence of the office workers who made up their customer base.
- Other pandemic-related impacts included a sharp decline in tourism and convention business, affecting one of San Francisco's main industries as hotels, restaurants, and tourist attractions closed or diminished their operations.
- The net effect of these pandemic shifts was a dramatic reduction in workers and activity Downtown, resulting in major and ongoing impacts on City and County of San Francisco tax revenues. Between the second quarter of 2019 and the second quarter of 2022, there was a net decrease of 22,837 total private sector jobs across the City, from 656,303 to 633,466.
- As shown in Exhibit A, job losses were not spread evenly among industries. The most significant reductions were in Accommodations and Food Services and Retail jobs (-24,977 and -7,711, respectively). Increases were reported in Professional, Scientific and Technical services and Information jobs (+13,906 and +10,560, respectively), among others.

Budget and Legislative Analyst

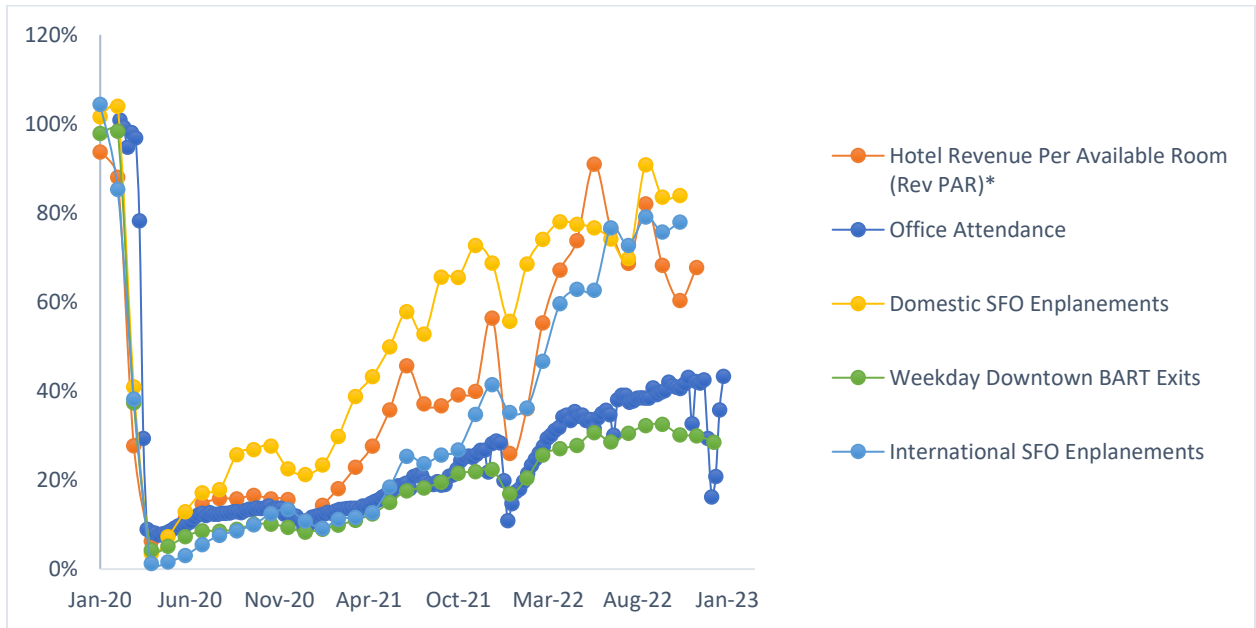
Exhibit A: Changes in San Francisco Private Sector Jobs by Selected Industries, 2019 Q2 vs. 2022 Q2



Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics

- While not back to pre-pandemic levels, there are indicators of some improvement in tourism since 2020 measured in airplane enplanements and hotel revenue per available room. Office attendance Downtown, however, remains well below pre-pandemic levels as demonstrated by office attendance rates and weekday BART exits at Downtown stations. These measures are shown in Exhibit B.

Exhibit B: Select Indicators as a Percentage of Pre-Pandemic Baselines



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.

- Assuming approximately 245,505 *office* jobs in Downtown San Francisco pre-pandemic in 2019 (based on an assumed average of 238 square feet per worker) and applying an office attendance rate of approximately 40 percent, there are approximately 147,303 fewer office workers Downtown due primarily to remote work.¹
- One notable academic study from 2021 concluded that remote and hybrid work arrangements with fewer days in the office are here to stay, based on the national Survey of Working Arrangements and Attitudes and applying decision making theory to business enterprises.²
- The same study estimated that workers in San Francisco spent an average of \$168 per week near their workplaces, prior to the pandemic. This means that expenditures Downtown by office workers alone would be reduced by approximately \$1.2 billion per year if the 40 percent office attendance rate holds into the future.

¹ This excludes changes in the base number of Downtown jobs, such as reductions due to layoffs and business closures.

² “Why Working from Home will Stick”, Barrero, J, Bloom, N., and Davis, S. Hoover Institution, 2021

- In a comparison of activity measured by cell phone activity in the downtowns of 62 U.S. and Canadian cities during the pandemic, the Institute of Governmental Studies (IGS) at U.C. Berkeley found that San Francisco had the lowest rate of recovery to pre-pandemic levels of downtown activity, with a “recovery quotient” of 31 percent.
- The IGS study found a correlation between San Francisco’s recovery quotient and the highest percentage of jobs in Professional, Scientific, and Management services Downtown (also 31 percent) compared to the 61 other cities analyzed. Jobs in these fields are considered very compatible with working remotely. For comparison, downtown Austin, Texas has fewer jobs in Professional, Scientific, and Management services at 13 percent and a downtown recovery quotient of pre-pandemic activity at 58 percent, much higher than San Francisco’s 31 percent. New York City was reported as having only 18 percent of its downtown jobs in Professional, Scientific and Management services and a much higher downtown recovery quotient of 74 percent.
- One of the key impacts of changing work patterns in Downtown San Francisco between 2019 and 2022 has been significant increases in office vacancies in the primary office markets Downtown, as shown in Exhibit C.

Exhibit C: Changes in Office Total Vacancy Rates by Area, 2019 and 2022

	2019 Q4	2022 Q4
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%
Total: Greater Downtown ³	5.2%	25.1%

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

- Tourism has made a comeback in San Francisco compared to the early days of the pandemic but is still not back to its pre-pandemic levels. There were 17.1 million tourists in 2021, still down from 26.3 million in 2019, but more than the low of 11.8 million in 2020. The mix of tourists has changed, however, with domestic and day visitors making up a greater share of all visitors and international tourists making up a reduced share, as of 2021. The impact of

³ 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.

these changes has been a reduction in average expenditures from \$365 in 2019 to \$211 per visitor in 2021. These changes have negatively affected the City's hotel tax revenues.

City revenue impacts of changes in working arrangements, jobs, and tourism Downtown

Property tax

- In the January 2023 Five Year Financial Plan prepared by the Controller, Mayor's Office, and our office, General Fund property tax revenues are projected to increase in FY 2022-23 to \$2.4 billion, or slightly higher than the \$2.3 billion in actual property tax revenue for FY 2021-22.⁴ However, the forecast projects these revenues will decrease annually from FY 2023-24 through FY 2026-27, with projected revenues not reaching their FY 2022-23 level again until FY 2027-28. While this projected reduction in property tax revenue between FYs 2023-24 and 2026-27 represents a net reduction of only approximately \$61 million, the comparison to what was forecast for property tax in prior years is more striking.
- Compared to projections published in January 2022, General Fund property tax revenue for Fiscal Years 2022-23 through 2025-26 is projected to be \$327.3 million less, or \$81.8 million per year on average based on more recent January 2023 projections. This reflects changes in economic conditions and decreases in Downtown office property values due to continuing remote work and a reduced demand for Downtown office space. Besides remote working, recent layoffs in the technology industry could further reduce demand for office space, though this may be a more cyclical phenomenon than remote working.
- Separate from City forecasts, a 2022 analysis from the Institute on Taxation and Economic Policy (ITEP), a nonprofit, nonpartisan tax policy organization, projects a 27 to 43 percent decrease in San Francisco's commercial real estate prices related to the increase in remote work. If all office properties were reassessed at their market value at the same time to reflect losses in value assumed by the study and applying the standard 1 percent property tax rate, this would translate to estimated property tax revenue losses for all funds of between \$186 million and \$297 million annually from Downtown commercial properties alone, as shown in Exhibit D below.
- While our projections indicate the potential magnitude of the property tax revenue impacts of the ITEP study's estimated change in property values, 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. Over time, however, these impacts would change the City's financial position.

⁴ Actual property tax revenue is from the Six-Month Budget Status Report from the Controller's Office, dated February 15, 2023.

Exhibit D: Annual Effects of Decreased Downtown Office Property Values due to Loss in Market Value Projected by Institute on Taxation and Economic Policy (millions)

	27% loss	43% loss
Current assessed value, Downtown commercial	\$69,000	\$69,000
Current property tax revenue (@1%)	\$690.0	\$690.0
Projected property tax revenue (w/ loss)	<u>\$503.7</u>	<u>\$393.3</u>
Reduction in property tax revenue	\$186.3	\$296.7

Source: BLA Analysis of San Francisco Office of the Assessor-Recorder data

Business tax

- Reduced office attendance Downtown has and will continue to affect City business tax revenue. More than half of the City’s business tax obligations comes from businesses located Downtown,⁵ according to the Office of Economic Analysis of the San Francisco Controller’s Office.⁶ Among these businesses, business tax obligations declined by an estimated \$144 million between Calendar Years 2019 and 2021 from \$862 to \$718 million, as shown in Exhibit E. By contrast, total business tax obligations for other businesses increased by approximately \$14 million during the same period, resulting in a Citywide net decrease of \$130 million. The reduction in obligations for Downtown only businesses was 16.7 percent, greater than the 9.5 percent reduction for all businesses Citywide.

⁵ These businesses include some entities with one location and others with multiple locations, as long as all locations are Downtown; they do not include businesses with locations both Downtown and elsewhere.

⁶ In the analysis used in this section, the Office of Economic Analysis defined Downtown as comprising the following zip codes: 94102, 94103, 94104, 94105, 94107, 94108, 94109, 94111, 94133, and 94158.

Exhibit E: Business Tax Obligations: Downtown and Citywide, 2019 and 2021 (millions)⁷

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

- The January 2023 five-year revenue projections issued jointly by the Controller, Mayor’s Office, and our office show Citywide business tax projections between FY 2022-23 and FY 2025-26 that increase each year over the baseline \$831.1 million projected for FY 2022-23. However, compared to what was projected for FY 2022-23 through FY 2025-26 in January 2022, total business tax revenues over that period are forecast to be \$555.2 million less than forecast, or \$138.8 million annually on average.
- Business taxes include not only gross receipts taxes, which are tied to the work location of employees, but also business registration fees and the administrative office tax. The gross receipts tax component will be most affected by the extent of the ongoing shift to remote work started during the pandemic as well as due to changes in the City’s population.
- The January 2023 five-year business tax revenue projections assume a 40 percent reduction in taxable gross receipts due to the increase in telecommuting from outside the City.

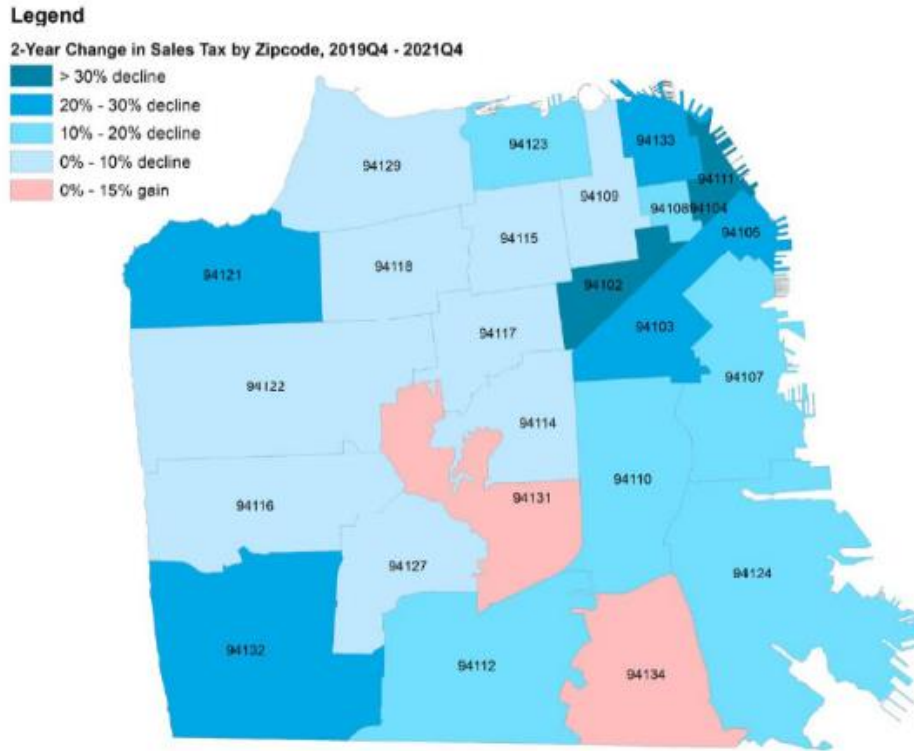
Sales tax

- Sales tax revenue provides an additional indicator of economic activity Downtown generated by office workers, business travelers, tourists, and other customers. Citywide sales tax General Fund revenue was \$171.2 million in 2021, of which \$34.7 million, or 20 percent, was generated in the Financial District/South Beach and SOMA.
- Neighborhood-level sales tax data shows a steeper drop in sales tax revenue Downtown between 2019 and 2021 compared to most neighborhoods, as shown in Exhibit F. Comparing all of 2019 to all of 2021, revenues generated in the Financial District/South Beach neighborhoods (zip codes 94111, 94114, 94105), declined by 38.6 percent, more than the

⁷ 2014 totals consist of Payroll and Gross Receipts tax obligations; 2019 totals consist of Gross Receipts, Homelessness Gross Receipts, Payroll, Commercial Rents, Administrative Office Tax (AOT), and Homelessness AOT tax obligations; 2021 totals consist of Gross Receipts, Homelessness Gross Receipts, Commercial Rents, AOT, Homelessness AOT tax obligations. Dollar amounts are rounded to the nearest million.

Citywide reduction of 20.7 percent. The loss Citywide between 2019 and 2021 was \$44.6 million, of which the Financial District/South Beach and SOMA areas were responsible for \$19.9 million of that loss.

Exhibit F: Change in Sales Tax Revenue by Neighborhood, 2019 - 2021



Slide developed by Dr. Ted Egan - Chief Economist for the City and County of San Francisco

Hotel Tax

- As shown in Exhibit G below, hotel tax revenue decreased significantly following the onset of the pandemic. Due to a rebound of tourism, General Fund hotel tax revenue is currently projected to increase to \$264.9 million in FY 2022-23, an increase over the prior year. Even with such an increase, it will remain below the FY 2018-19 pre-pandemic level. Although SF Travel projects that the average daily room rate for hotels – calculated by dividing room revenue by the number of room nights sold – will surpass 2019 rates by 2024, it does not anticipate hotel occupancy matching 2019 levels until 2025.

Exhibit G: General Fund Hotel Tax Revenue, FY 2016-17 through FY 2022-23

Fiscal Year	Hotel Room Tax Revenue (millions)
2016-17	\$370.3
2017-18	\$382.2
2018-19	\$392.3
2019-20	\$252.2
2020-21	\$33.2
2021-22	\$158.2
2022-23	\$264.9 (Projected)

Source: Six-Month Budget Status Reports, FY 2016-17 through FY 2022-23, San Francisco Controller's Office

Policy Considerations

We present the following strategies and policy options for consideration by the Board of Supervisors to address challenges related to the current and future state of downtown San Francisco.

Based on our analysis presented in this report, we conclude that there is no one solution to address the impacts of changes that have occurred in the use of Downtown since the onset of the Covid-19 pandemic. While conditions can change in unforeseen ways, waiting for the market to correct itself in terms of the demand for office space may be a very long-term prospect and may not ever result in a return to pre-pandemic conditions. For these reasons, we present a multi-pronged approach to policy interventions for consideration by the Board of Supervisors that we conclude could improve the use of and level of activity Downtown. However, the absence of an estimated 147,303 office workers who were Downtown every workday will be difficult to offset in terms of activity levels and City revenue at least in the short run.

Challenge 1: The Rise of Remote Work Carries Risk for Citywide Tax Revenue

Strategy 1: Prepare for an uncertain tax revenue environment.

Policy Option 1.1: The Board of Supervisors could 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 Downtown visitors and foot traffic is hurting small businesses and neighborhood vitality.*

Strategy 2: Support interventions designed to increase visitors and Downtown foot traffic.

Policy Option 2.1: 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.

Policy Option 2.2: 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, 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*

Strategy 3: Explore additional strategies for reducing commercial vacancies through programmatic interventions.

Policy Option 3.1: 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: *The City's economy is heavily concentrated in a small number of industries*

Strategy 4: Build on efforts to diversify the City's industrial mix.

Policy Option 4.1: 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: *A limited housing supply in the core areas of Downtown compounds challenges to economic recovery, particularly outside of business hours*

Strategy 5: Pursue new ways of incentivizing office conversion and housing construction downtown.

Policy Option 5.1: 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.

Project Staff: Fred Brousseau, Adam Sege

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Trends Affecting Downtown Economic Activity

While definitions vary, Downtown San Francisco generally refers to the City's Financial District and adjacent commercial areas. This part of the City is characterized by its heavy concentration of office buildings and small businesses supporting the office occupants, and it also includes the George R. Moscone Convention Center, the Yerba Buena Center for the Arts, and the San Francisco Museum of Modern Art, as well as numerous restaurants, hotels, and retailers. A hub for local and regional transit, it includes the Ferry Building, the Salesforce Transit Center, four Bay Area Rapid Transit stations and a car-free stretch of Market Street that serves as a central artery for Muni buses and trains and for cyclists. The greater Downtown area includes most of the City's office submarkets, which are depicted in the map below, created by real estate brokerage firm Cushman and Wakefield.

For the purposes of this report, unless otherwise indicated, we are defining Downtown as the Financial District north of Market Street (North Financial District), the Financial District south of Market Street (South Financial District), Union Square and the Mid-Market area.

Relative to its size, Downtown has historically generated a disproportionate amount of the City's economic activity. It was particularly hard hit by the pandemic, which caused hundreds of thousands of workers to abandon the area. Office workers to a great extent were able to hold their jobs but began working from home or remotely in great numbers. Tourism plummeted and those in businesses that served office workers and the tourist industry in businesses Downtown such as restaurants, retail, and hotels reduced their presence and employment as their businesses closed or reduced hours.

Exhibit 1: San Francisco's Primary Office Submarkets



Source: MarketBeat San Francisco: Office Q3 2022, Cushman & Wakefield

Exhibit 2 shows changes in the number of jobs by industry between the second quarters of 2019 and 2022, as recorded by the U.S. Bureau of Labor Statistics. As can be seen, job losses during the pandemic were not equally allocated. The total number of jobs in San Francisco decreased by 22,837 between the second quarter of 2019 and the second quarter of 2022, but the Accommodation and Food Services and Retail sectors lost 24,977 and 7,711 jobs, respectively, while other fields that make up San Francisco's office workforce either added jobs or decreased by relatively smaller amounts.

The differences in job losses between industries during the pandemic in San Francisco help explain the current situation Downtown. Many office-using workers Downtown began working remotely when the pandemic shutdown commenced, found the advantages of doing so largely outweighed the drawbacks, and have continued to work remotely even as the virus has subsided. Their absence

Downtown, combined with the loss of tourism, reduced the customer base and employment prospects for workers in Accommodation and Food Services and Retail businesses, many of whom are no longer working Downtown or in the City at all. While similar trends have occurred in cities across the country and around the world, the impacts have been higher and longer term in San Francisco due to the concentration of jobs that lend themselves to working remotely and due to the City's dependence on tourism.

Exhibit 2: San Francisco Private Sector Jobs by Industry, 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
Administrative and Support and Waste Management and Remediation Services	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
Total	656,303	633,466	-22,837

Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics

A number of federal, state, and local programs were established during the pandemic to assist those who had lost their jobs temporarily and permanently and to assist businesses affected by the loss of their customer bases. The assistance was needed and distributed across the City but, for Downtown, the loss in the customer base has been pronounced because both leisure and business tourists have been slow to return, and office workers have not returned in the numbers present prior to the pandemic.

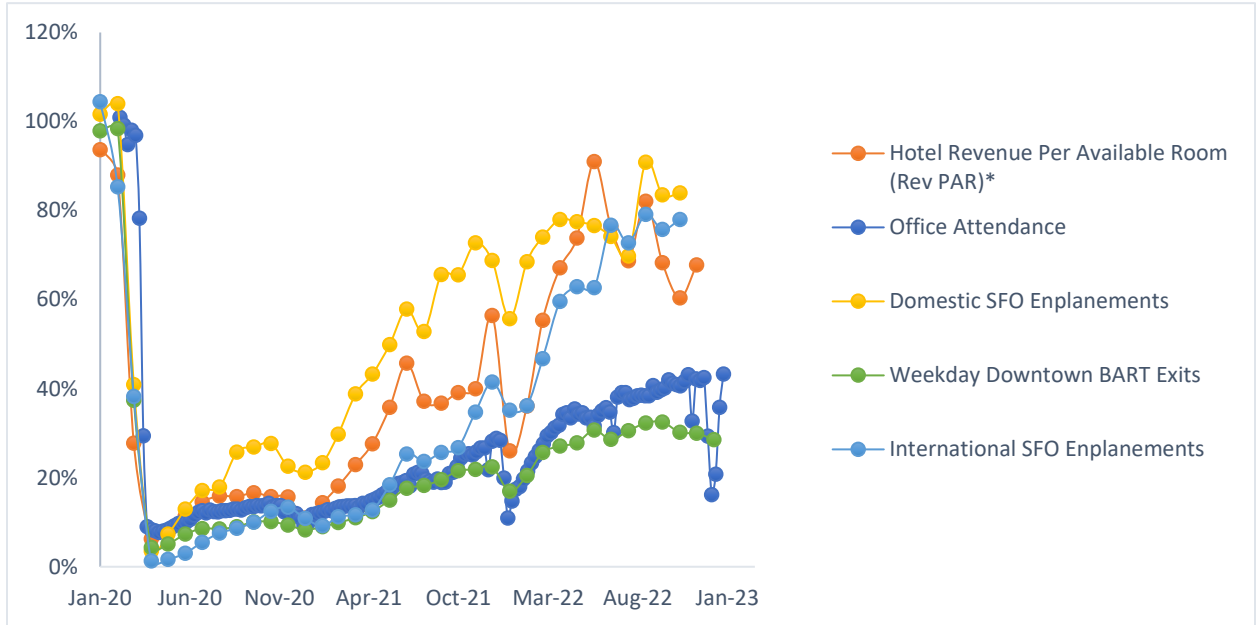
The changes in the Downtown economy during the pandemic have affected City and County of San Francisco revenues, as detailed below. A key difference going forward, however, is that tourism has been making a comeback, and though it still hasn't returned to its pre-pandemic levels as of the preparation of this report, it is projected to do so in the future. By contrast, it appears that reduced office attendance patterns for many Downtown workers may continue for some time or may be permanent, with corresponding ongoing reductions in economic activity. According to a 2022 study published by the Institute of Governmental Studies at U.C. Berkeley, cell phone activity recording the presence and movement of office workers, visitors and residents in Downtown San Francisco stood at 31 percent of pre-pandemic levels during September – November 2022.⁸ This covers all activity, but a good share of that before the pandemic was based on office workers and tourists as well as City and local Bay Area residents visiting Downtown to work, shop, dine, visit cultural institutions, attend medical appointments, and other activities.

Exhibit 3 presents key metrics representing the number of office workers Downtown and business and leisure visitors before and after the onset of the pandemic. As can be seen, daily office occupancy was approximately 40 percent of pre-pandemic baselines as of January 2023, according to data from Kastle Systems. Representing visitors to the City, enplanements and hotel revenue per available room are now closer to pre-pandemic baselines than to the lows while stay-at-home orders were in effect, though reaching baseline levels will still take time. As of August 2022, the San Francisco Travel Association (SF Travel), the City's travel and convention marketing organization, projects that global visitor volume and hotel revenue per available room (RevPAR) will not reach 2019 levels until 2025.⁹

⁸ Karen Chapple, Michael Leong, Daniel Huang, Hannah Moore, Laura Schmahmann, Joy Wang *Death of Downtown? Pandemic Recovery Trajectories across 62 North American Cities*, Institute of Governmental Studies, U.C. Berkeley. June 2022. See downtownrecovery.com for most current data.

⁹ San Francisco Travel. *San Francisco Tourism Rebounds in 2022*. August 2022.

Exhibit 3: Select Indicators as a Percentage of Pre-Pandemic Baselines



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.

Office Attendance

The implications of the reduction in office attendance rates and BART exits shown in Exhibit 3 are significant. Assuming approximately 245,505 office jobs in Downtown San Francisco pre-pandemic in 2019 and applying an office attendance rate of approximately 40 percent,¹⁰ there are approximately 147,303 fewer office workers Downtown due primarily to remote work.¹¹ Whatever estimation methods are used to derive this number, we conclude that office attendance has increased compared to earlier in the pandemic but is still far below pre-pandemic rates.

The extent to which remote work remains the common practice in the future is still to be determined. However, many experts and observers of workplace trends have concluded that remote work will be

¹⁰ The number of estimated office jobs is based on that standard of 238 square feet of office space per worker established by Keyser Marston Associates, Inc. in their May 2019 *Jobs Housing Nexus Analysis* prepared for the City and County of San Francisco. This standard was applied to an office inventory of approximately 61.9 million square feet in the North Financial District, South Financial District, Mid-Market and Union Square areas, as reported by JLL, less approximately 3.5 million square feet to account for vacancies, as reported by JLL for the third quarter of 2019.

¹¹ This excludes changes in the base number of Downtown jobs, such as reductions due to layoffs and business closures.

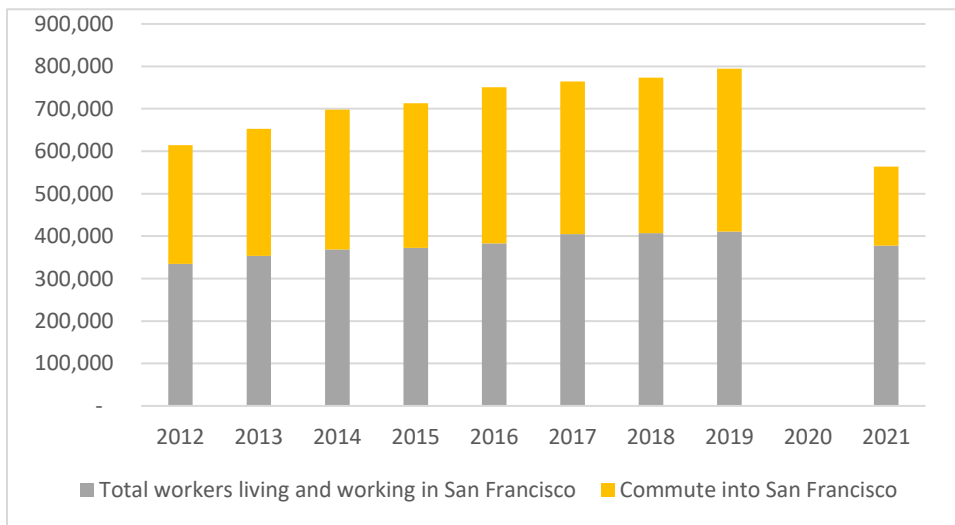
a long-term, or permanent arrangement for many professions. At least one academic study from 2021 concluded that remote and hybrid work arrangements with fewer days in the office is here to stay based on the national Survey of Working Arrangements and Attitudes and applying decision making theory to business enterprises.¹²

The same study estimated that workers in San Francisco spent an average of \$168 per week near their workplaces, prior to the pandemic. This means that expenditures Downtown by office workers alone would be reduced by approximately \$1.2 billion per year if an office attendance rate of approximately 40 percent holds into the future. These reductions affect small businesses Downtown that have lost a substantial portion of their customer base and will also flow through to City sales tax revenues, which in fact declined between 2019 and 2021.

Of course, many Downtown workers reside in the City and, in theory, may be making more daily expenditures in their residential neighborhoods instead of Downtown when they work remotely, but it is possible that they are not spending at the same level in the absence of the social aspect of going out to lunch or after work with coworkers. Sales tax data, presented below, shows a decline in revenue in most neighborhoods throughout the City.

Census data shows that commuters from other jurisdictions made up 48 percent of San Francisco's total daily workforce in 2019, but that percentage dropped to 33 percent in 2021, as shown in Exhibit 4 below. While this data is Citywide, it is reasonable to assume that many of those jobs were Downtown and the reduction reflects an across-the-board loss in worker expenditures for the City.

Exhibit 4: San Francisco Daytime Working Population



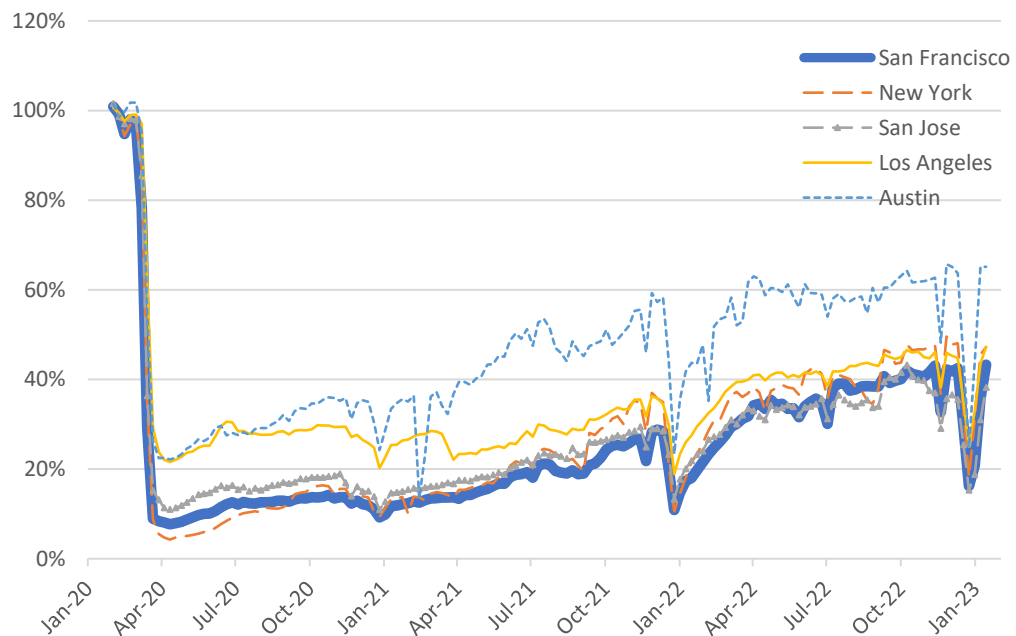
Source: BLA analysis of data from the U.S. Census Bureau, based on American Community Survey
Note: The Census Bureau did not release standard 1-year data from the American Community Survey for 2020, including the data referenced above, due to data collection disruptions caused by the Covid-19 pandemic.

¹² "Why Working from Home will Stick", Barrero, J, Bloom, N., and Davis, S. Hoover Institution, 2021

Besides the impact of reduced employee expenditures, some employers that rent office space Downtown will need less space if their employees don't return to work in the office or even if they do return but only a few days a week, as is the case now for many "hybrid" office work regimes.

As in other cities, the percentage rebound in weekly office attendance in San Francisco continues to significantly lag rebounds in tourism indicators. Since the spring of 2022, the Office of Economic Analysis of the San Francisco Controller's office reports that office attendance has hovered between 30 and 45 percent of pre-pandemic levels, as shown in Exhibit 5. As of mid-January 2023, the City's office attendance rate of 43.3% relative to pre-pandemic levels lagged that of Austin (65.1%), and to a lesser extent Los Angeles (47.3%) and New York City (47.2%). While this office attendance data covers all of San Francisco, 78 percent of San Francisco's office space lies in the Financial District, Union Square and Mid-Market neighborhoods.¹³

Exhibit 5: Weekly Office Attendance in San Francisco and Other Metro Areas



Source: Kastle Systems data, provided by the Office of Economic Analysis, San Francisco Controller's Office

Composition of Downtown Workforce

In addition to comparing downtown activity across 62 cities in the U.S. and Canada during the pandemic, the Institute of Governmental Studies study referenced above sought to identify possible drivers of decreased activity during the pandemic. To do this, researchers gathered data from the cities in their sample on 43 possible explanatory variables, from resident demographics to the

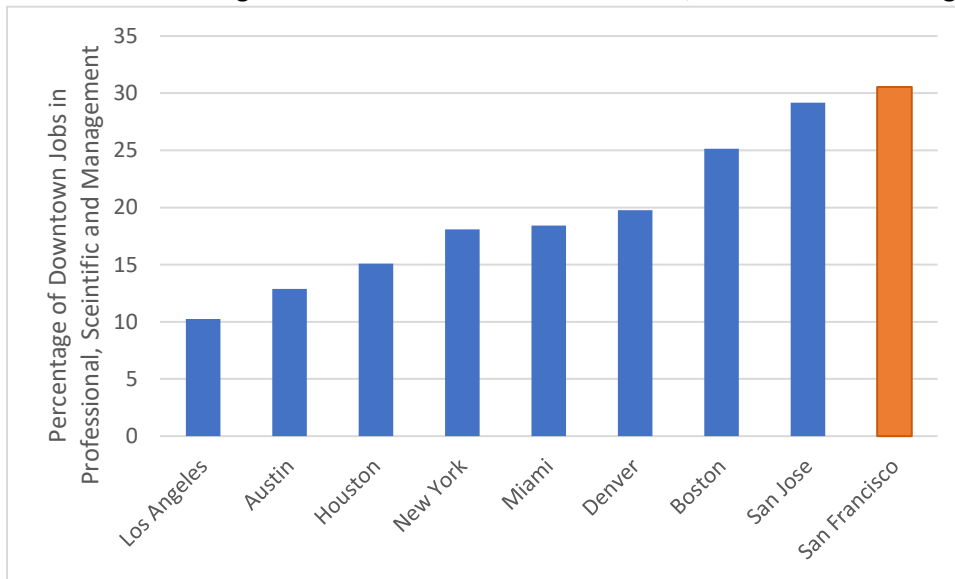
¹³ San Francisco Office Insight. JLL. Q4 2022.

percentage of workers in various industries. They then analyzed the relationship between each of these variables and cell phone activity, a proxy for downtown activity.

Among the four strongest correlations was the relationship between cell phone activity and the concentration of jobs classified as Professional, Scientific, and Management services, many of which can easily be performed remotely.¹⁴ The study used U.S. Census employment data by zip code, categorized by the North American Industry Classification System, an industry breakdown used by the federal government. Of all cities in the sample, San Francisco had the highest percent of downtown jobs in this sector (30.5%), and it also had the lowest downtown recovery quotient (31%), or indicator of activity Downtown.¹⁵

Exhibit 6 compares the percentage of downtown jobs in Professional, Scientific and Management services in San Francisco and several other cities analyzed in the study.¹⁶

Exhibit 6: Percentage of Downtown Jobs in Professional, Scientific and Management Sectors, 2022



Source: BLA Analysis of Institute of Governmental Studies, University of California, Berkeley data published online in conjunction with “Death of Downtown” policy brief, June 2022. [Link](#).

Exhibit 7 shows the percentage distribution of Downtown San Francisco jobs by industry, as reported in data published online by the Institute of Governmental Studies study’s authors.

¹⁴ “Death of Downtown? Pandemic Recovery Trajectories across 62 North American Cities”, *Institute of Governmental Studies, U.C. Berkeley*, June 2022, page 7, [Link](#).

¹⁵ “Explanatory Variables,” *Institute of Governmental Studies, U.C. Berkeley*, accessed November 21, 2022. [Link](#)

¹⁶ These job classifications may not exactly match those used by the California Employment Development Department though the proportions are similar.

**Exhibit 7: Composition of Downtown San Francisco Workforce
September 2022 – November 2022**

Sector	Jobs, as Percentage of All Downtown Jobs
Professional, Scientific and Management	30.5%
Finance and Insurance	12.2
Information	9.3
Administrative Support and Waste Management	8.4
Accommodation and Food Services Management	7.5
Retail Trade	5.7
Transportation and Warehousing	4.0
Utilities	3.3
Real Estate	2.5
Healthcare and Social Assistance	2.4
Educational Services	1.9
Wholesale Trade	1.8
Construction	1.8
Manufacturing	1.3
Arts, Entertainment and Recreation	1.2
Public Administration	1.2
Agriculture, Forestry, Fishing and Hunting	0.0
Mining, Quarrying, Oil and Gas	0.0
Other	2.5
Total	100.0%

Source: Data published in connection with the policy brief “The Death of Downtown? Pandemic Recovery Trajectories across 62 North American Cities,” published by the Institute of Governmental Studies (IGS) at the University of California, Berkeley and the School of Cities at the University of Toronto, updated January 2023.¹⁷ Accessed Feb. 17, 2023. [Link](#).

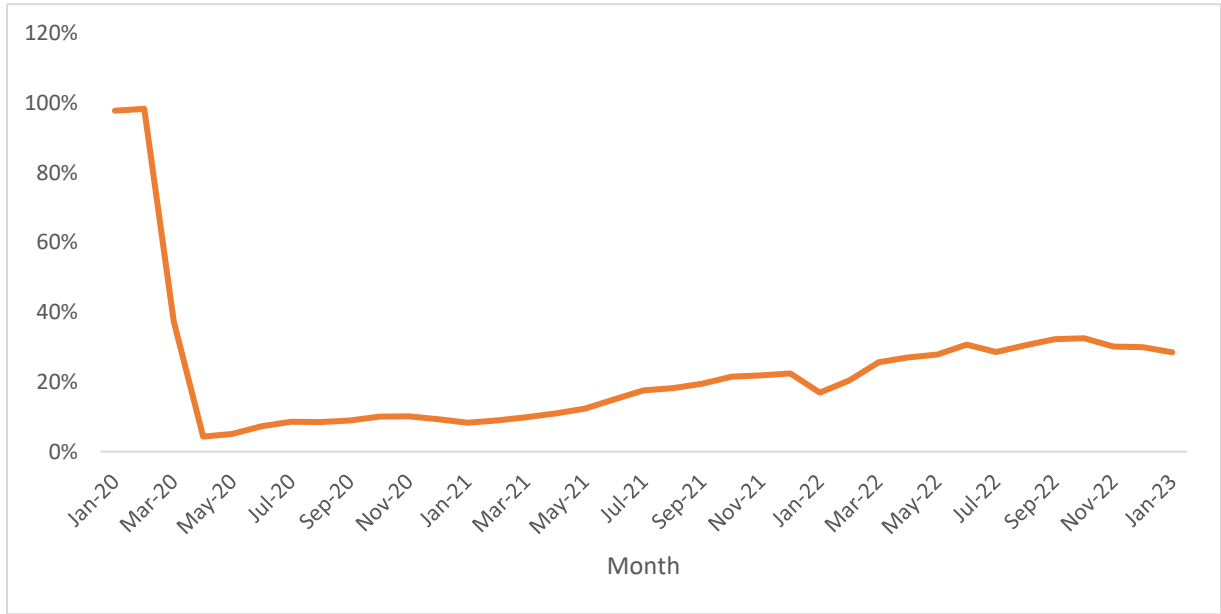
Weekday Transit

Weekday travel data suggests a stronger rebound in driving commutes than in public transit usage. Monthly Bay Bridge crossings, one indicator of driving commutes, surpassed 90 percent of 2019 baselines in March of 2021 and have remained at or above 90 percent for most months since then. By contrast, average weekday exits at four downtown BART stations – Embarcadero, Montgomery, Powell, and Civic Center – did not surpass 30% of 2019 levels until June of 2022 and stood at 29 percent of baselines in January of 2023. MUNI usage trends are in between BART and driving

¹⁷ IGS defines Downtown San Francisco as consisting of the zip codes 94104, 94105, 94111 which covers an area composed of the North and South Financial Districts.

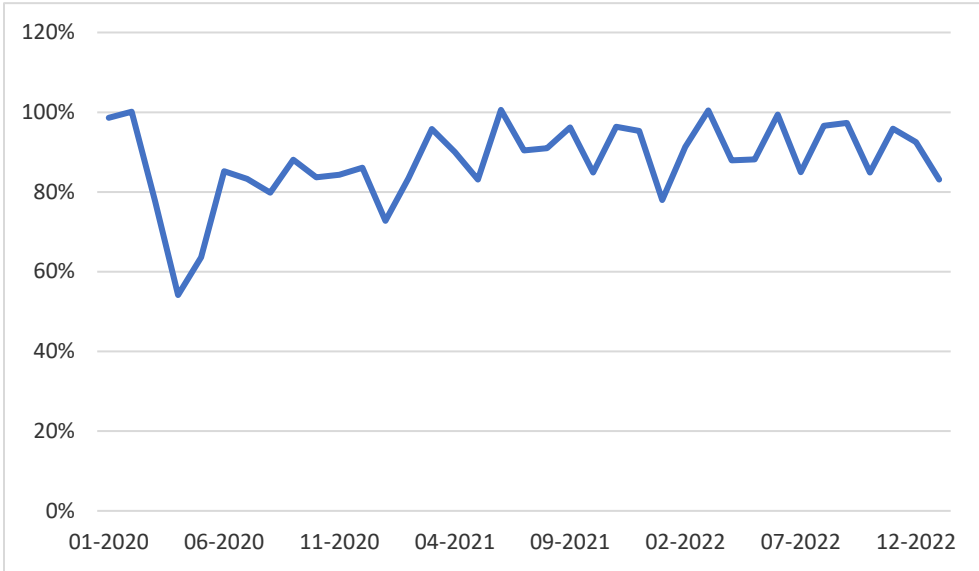
indicators: Citywide, weekday trolley bus, motor bus and light rail usage stood at 69, 63, and 40 percent of baselines, respectively, as of January 2023. Bridge crossings measure all vehicles regardless of their destination. These vehicles could be travelling to other San Francisco neighborhoods besides Downtown or to other cities.

Exhibit 8: Weekday BART Exits at Downtown San Francisco Stations, as a Percentage of the Same Month in 2019



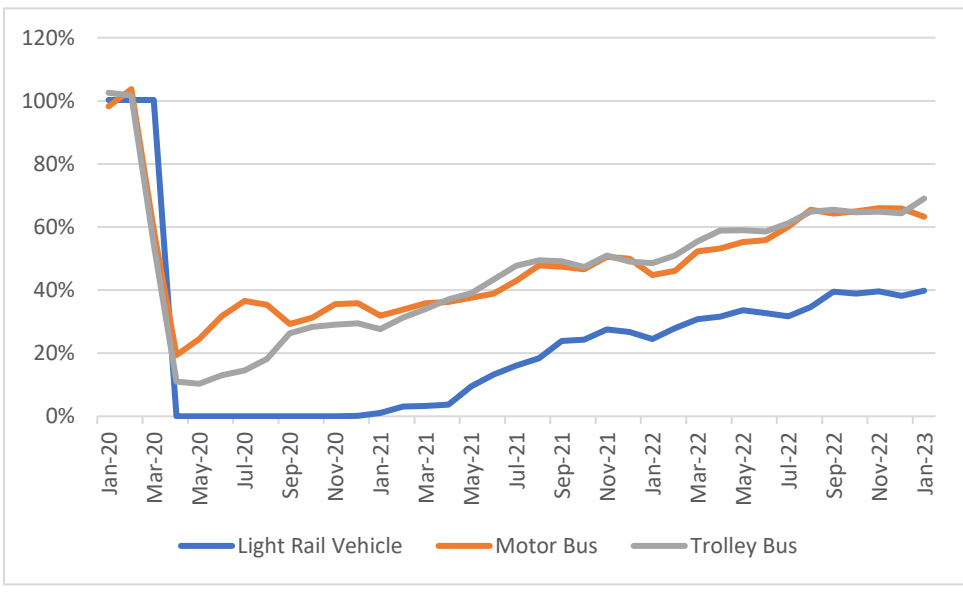
Source: BLA Analysis of Bay Area Rapid Transit Monthly Ridership Reports data.

Exhibit 9: Weekday Bay Bridge Crossings, Compared to the Same Month of 2019



Source: BLA Analysis of Bay Area Toll Authority data

Exhibit 10: MUNI Ridership for Select Modes of Transit, Compared to the Same Month of 2019

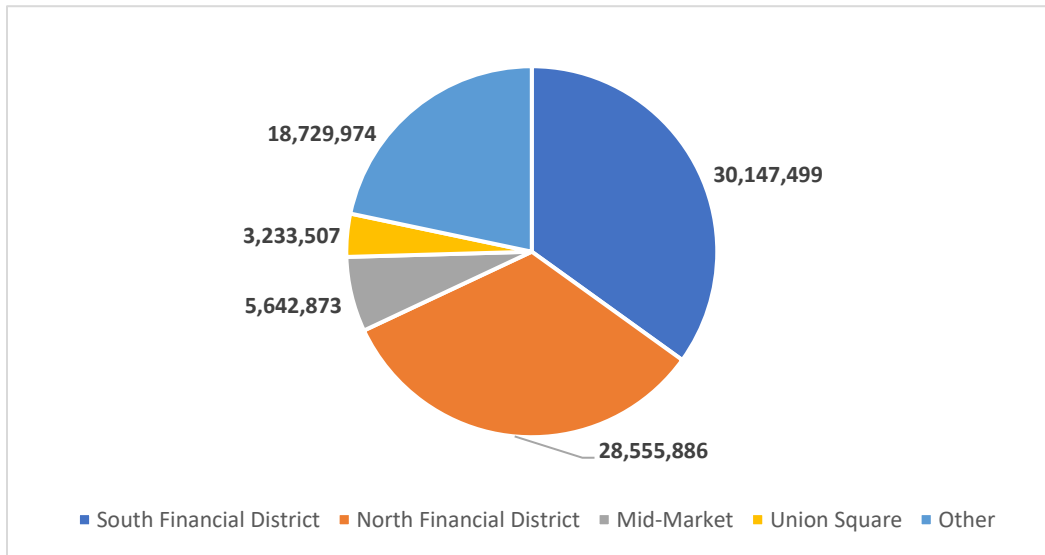


Source: BLA Analysis of San Francisco Municipal Transportation Agency data

Office Inventory and Vacancies

Of the 86.3 million square feet of office space reported by real estate brokerage firm JLL in San Francisco for the fourth quarter of 2022, 67.6 million square feet, or approximately 78 percent, is in the North and South Financial Districts, Mid-Market, and Union Square areas, as shown in Exhibit 11.

Exhibit 11: Total Office Inventory in Select Downtown Neighborhoods, 2022 Quarter 4 (Square Feet)



Source: JLL San Francisco Office Insight, Q4 2022.

Reflecting the reduction in demand for office space due to the shift in working arrangements for many office workers, Downtown areas with significant office space experienced increases in vacancy rates between 2019 and 2022, as shown in Exhibit 12.

Exhibit 12: Changes in Office Total Vacancy Rates by Area, 2019 and 2022

	2019 Q4	2022 Q4
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%
Total: Greater Downtown ¹⁸	5.2%	25.1%

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

To the extent remote working continues and the demand for Downtown office space is permanently reduced, City revenues will be affected due to reductions in building values, potentially affecting property tax revenue, and reduced work being performed in San Francisco, affecting City business tax revenue. The absence of workers Downtown will also affect sales tax revenue. These impacts are discussed further subsequently in this report.

Tourism: Air Travel and Hotel Revenue

Tourism is a major industry in San Francisco, with visitors spending an estimated \$9.6 billion in 2019. While overnight visitors stay in lodging and visit attractions throughout the City, there is a concentration of hotels Downtown, as well as restaurants, cultural and recreational attractions, and businesses supported by tourists. With the onset of the pandemic, the number of visitors to the City declined from an estimated 26.3 million in 2019 to 11.8 million in 2020, then increased to 17.1 million in 2021, still resulting in a 35 percent reduction compared to 2019.¹⁹ This visitor data is presented in Exhibit 13.

¹⁸ 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.

¹⁹ *Visitor Volume and Direct Spending Estimates, 2021*. SF Travel, August 2022

Exhibit 13: Visitors to San Francisco, by Type 2018 – 2021 (millions)

Type	2018	2019	2020	2021
Domestic Overnight	7.4	7.5	2.4	4.0
International Overnight	2.9	3	0.5	0.6
Day Visitors	15.5	15.8	8.9	12.5
Total	25.8	26.3	11.8	17.1
<i>Distribution of Number of Visitors</i>				
Domestic Overnight	28.7%	28.5%	20.3%	23.4%
International Overnight	11.2%	11.4%	4.2%	3.5%
Day Visitors	60.1%	60.1%	75.4%	73.1%
Total	100.0%	100.0%	100.0%	100.0%

Source: Visitor Volume and Direct Spending Estimates, 2021. SF Travel, August 2022

As shown in Exhibit 14 below, tourist spending decreased to \$3.6 billion in 2021, or by 62 percent, from \$9.56 billion in 2019. This amount represented an increase in spending above the 2020 level but is still well below pre-pandemic spending levels. As discussed further below, these changes in tourism are captured in the City’s hotel tax revenues, which declined significantly with the onset of the pandemic and have since increased but not to the level received prior to the pandemic.

Exhibit 14: Visitor Spending, by Type of Visitor, 2018 – 2021 (Billions)

Type	2018	2019	2020	2021
Domestic Overnight	\$3.1	\$3.2	\$1.0	\$1.4
International Overnight	5.0	5.1	1.0	1.2
Day Visitors	1.2	1.3	0.6	1.0
Total	\$9.3	\$9.6	\$2.6	\$3.6
<i>Distribution of Visitor Spending</i>				
Domestic Overnight	33.3%	33.3%	38.5%	38.9%
International Overnight	53.8%	53.1%	38.5%	33.3%
Day Visitors	12.9%	13.5%	23.1%	27.8%
Total	100.0%	100.0%	100.0%	100.0%
Average spending/visitor ¹	\$360	\$365	\$220	\$211

Source: Visitor Volume and Direct Spending Estimates, 2021. SF Travel, August 2022

¹ Not in billions.

As shown in Exhibits 13 and 14, the distribution of tourists shifted during the pandemic, with a higher proportion of day visitors and lower shares of international and domestic overnight travelers. Day visitors contribute to the City’s economy but for the most part do not stay in hotels and contribute to the hotel industry and the City’s hotel tax revenues. The lower level of spending per visitor is reflected in average expenditures per visitor, shown in Exhibit 14. As can be seen, average spending per visitor was \$211 in 2021, down from \$365 in 2019. This shift in the makeup of visitors is part of the explanation of changes in the City’s hotel and sales tax revenue, details of which are provided in the next section.

As other measures of changes in tourism, domestic and international enplanements at San Francisco International Airport stood at 84 and 78 percent of 2019 baselines in November of 2022, the most recent month for which data is available. These figures were lower than those at New York City’s John F. Kennedy International Airport and Seattle-Tacoma International Airport, but slightly higher than those at Los Angeles International Airport.²⁰ For the San Francisco metro area, which as noted above includes 32 cities in San Francisco, San Mateo and Marin counties, hotel revenue per available room (Rev PAR) of \$99 stood at 68 percent of 2019 levels in December of 2022, according to data from the hospitality industry analytics firm STR.²¹ This was lower than the corresponding percentages in Los Angeles, New York, San Diego and Seattle.²²

²⁰ Office of Economic Analysis, San Francisco Controller’s Office.

²¹ Hotel revenue per available room (Rev PAR) is a measure of demand for hotel rooms, calculated by dividing total revenue generated during a specific time period by the number of rooms available for reservation. Rev PAR data for the San Francisco metro area covers 32 cities in the area, but San Francisco accounts for approximately 65 percent of the supply of hotel rooms, according to STR.

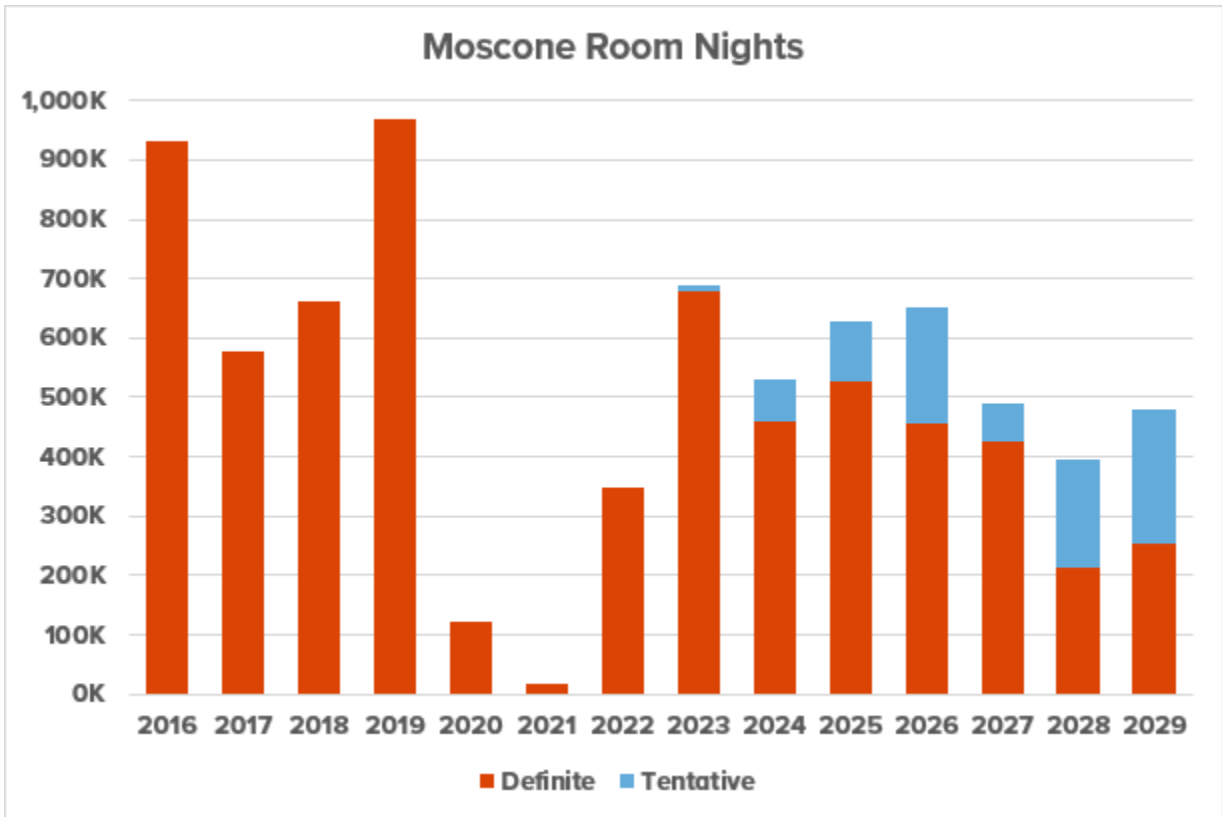
²² STR data compiled by the Office of Economic Analysis, San Francisco Controller’s Office.

Tourism: Convention Business

The convention business in San Francisco supports Downtown businesses and contributes directly to City hotel and sales tax revenue. As one measure of convention activity, SF Travel tracks Moscone Convention Center room nights: these refer to hotel rooms blocked for guests attending events at the Moscone Convention Center, with each night of a reservation representing one room night. (For past events, data generally reflects only those rooms and nights that are ultimately reserved by event guests, while for future events, data includes blocked rooms that have not yet been reserved, according to SF Travel.) As shown in Exhibit 15, Moscone Center room nights plummeted with the onset of the pandemic, but rebounded in 2022. While projected to continue improving in the out years, Moscone Center room nights will still be below their pre-pandemic level as presently forecast. Confirmed Moscone Center room nights for 2022 totalled 35 percent of 2019's total, an increase over the corresponding figures for 2020 and 2021.²³ Definite and tentative bookings for 2023 total 66 percent of 2019's total.

²³ For past events, data generally reflects only those rooms and nights that are ultimately reserved by event guests, while for future events, data includes blocked rooms that have not yet been reserved, according to SF Travel.

Exhibit 15: Definite and Tentative Moscone Convention Center Room Nights, As of January 2023



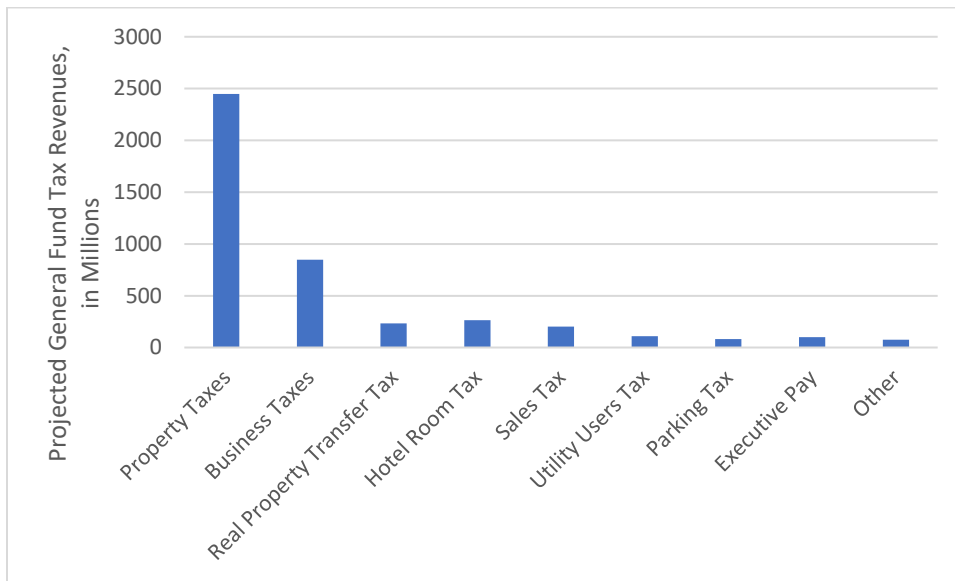
Source: S.F. Travel. Data [as of Jan. 31, 2023](#).

Trends in Downtown Tax Revenue

Background

Local tax revenues account for 67.8% of projected Citywide total General Fund revenues and transfers in for FY 2022-23, according to February 2023 projections from the Controller’s Office.²⁴ Other revenues include charges for services, licenses, fines, interest, rent, and payments from the state and federal governments. Among General Fund local tax revenues, property tax revenue is projected to contribute 56.2% of revenues, followed by business tax revenue, hotel room tax revenue, property transfer tax revenue, and sales and use tax revenue, among other tax revenue sources, as shown in Exhibits 16 and 17. This section will discuss four leading sources of tax revenue, all of which are dependent on Downtown: property, business, hotel, and sales taxes.²⁵

Exhibit 16: Projected Citywide General Fund Tax Revenue Sources by Type, FY 2022-23



Source: San Francisco Controller, *Six-Month Budget Status Report*. February 2023.

²⁴ Projections are from the Six-Month Budget Status Report from the Controller’s Office, dated February 15, 2023.

²⁵ This report does not analyze in detail property transfer tax revenue, which is relatively volatile, as explained [here](#).

Exhibit 17: Projected Citywide General Fund Tax Revenue Sources by Type, FY 2022-23

Tax Revenue Category	Projected FY 2022-3 General Fund Tax Revenue (Millions)	% Total
Property Tax	\$2,449.2	56.2%
Business Tax	848.9	19.5%
Real Property Transfer Tax	233.8	5.4%
Hotel Room Tax	264.9	6.1%
Sales Tax	201.4	4.6%
Utility Users Tax	108.2	2.5%
Parking Tax	80.2	1.8%
Executive Pay	100	2.3%
Other	74.70	1.7%
Total	\$4,361.30	100.0%

Source: San Francisco Controller, *Six-Month Budget Status Report*. February 2023.

Notes: "Other" includes Access Line Tax, Sugar Sweetened Beverage Tax and Stadium Admission Tax.

Property Tax

As of September 16, 2022, Downtown properties made up 33 percent (approximately \$106.1 billion) of the City's total assessed value of \$319 billion (before exemptions), according to the Assessor's Office.²⁶ Downtown commercial space accounts for nearly two thirds of this value, or 22 percent (approximately \$69 billion) of the City's total property tax roll. However, this total valuation could decrease in the coming years because of market conditions, including reduced demand for office space associated with the rise in remote work and related reductions in prices when these buildings are sold.

A 2021 analysis from the Institute on Taxation and Economic Policy (ITEP), a nonprofit, nonpartisan tax policy organization, projects a 27 to 43 percent decrease in San Francisco's commercial real estate prices related to the increase in remote work.²⁷ (The authors' model also factors in job losses between December of 2019 and December of 2020). If all properties were reassessed at their market value at the same time to reflect such losses and applying the standard 1 percent property tax rate, this would translate to estimated property tax revenue losses for all funds of between \$186 million and \$297 million annually from Downtown commercial properties alone, as shown in Exhibit 18 below (this includes San Francisco property tax revenue that would be apportioned to other entities such as San Francisco Unified School District).

²⁶ In this context, "Downtown" refers to the Financial District, Union Square, Embarcadero, and SOMA neighborhoods, as reflected in Assessor volumes 2, 3, and 25

²⁷ Howard Chernick, David Copeland, and David Merriman, "*The Impact of Work From Home on Commercial Property Values and the Property Tax in U.S. Cities*," Institute on Taxation and Economic Policy, November 2021, [Link](#)

Because of the way properties are assessed under California state law, any declines in assessed value will likely be smaller than declines in market value.²⁸ Thus, in each of these scenarios (a 27 percent decrease and 43 percent decrease), the City’s actual property tax revenue reductions Downtown would likely be somewhat smaller than the potential property tax revenue reductions estimated above. There is also a lag between changes in value, market prices, building sales, assessed value and property tax revenue.²⁹ Our estimates of value at risk are broadly consistent with recent projections from the Office of Economic Analysis showing that a downturn in the Downtown commercial real estate market could result in annual property tax reductions of \$100 million to \$200 million by 2028.³⁰

The exact timeline and magnitude of the effects of market changes on property tax revenues is unclear, as a lag exists between changes in value, market prices, building sales, and property tax revenue.

Exhibit 18 Effects of Decreased Downtown Office Property Values if Assessed Values were Reduced Consistent with Loss in Market Value Estimated in 2021 ITEP Study (millions)

	27% loss	43% loss
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).

²⁸ "Remote Work and the San Francisco Office Market: Potential Property Tax Implications," San Francisco Controller’s Office, November 16, 2022, [Link](#). Discussed at Board of Supervisors Budget and Finance Committee Hearing, November 16, 2022, clip begins 2:12:47, [Link](#).

²⁹ Other than the up to 2 percent increase in assessed valuations allowed each year under California state law, assessed valuations can be changed only upon sale or modification of a building, as a result of a property owner’s assessment appeal being approved by the City’s Assessment Appeals Board, or if the Assessor authorizes such a reduction under the terms of Proposition 8, which can only occur depends on a property’s value decreasing below its base value, set when it was last sold. All of these mechanisms provide the possibility of decreases in assessed value and property tax revenue for San Francisco’s commercial Downtown properties but also limit the extent of decreases at any one time.

³⁰ "Remote Work and the San Francisco Office Market: Potential Property Tax Implications," San Francisco Controller’s Office, November 16, 2022, [Link](#). Discussed at Board of Supervisors Budget and Finance Committee Hearing, November 16, 2022, clip begins 2:12:47, [Link](#)

Numerous commercial properties have appealed their assessed value for Fiscal Year 2022-23.³¹ The Assessor's Office reported an increase from 372 to 559 appeals on commercial properties between FY 2019-20 and 2020-21. Although these appeals can result in lower assessments and thus lower property tax obligations, the San Francisco's Assessment Appeals Board has up to two years from the filing of an appeal to issue a decision following a hearing.³²

In the January 2023 Five Year Financial Plan prepared by the Controller, Mayor's Office, and our office, General Fund property tax revenues are projected to increase in FY 2022-23 to \$2.4 billion, up slightly from the \$2.3 and \$2.1 billion projected in January 2022 and January 2021, respectively. The forecast projects, however, that these revenues will decrease annually from FY 2023-24 through FY 2026-27 and that projected revenues will not reach their FY 2022-23 level again until FY 2027-28. The projected revenue reduction during the four-year period from FY 2023-24 through FY 2026-27 is \$61 million, or an average of approximately \$15.3 million per year.

The most recent forecast published in January 2023 projects decreases in property tax revenue compared to previous five-year forecasts based on more current information about assessment appeals, changes in the value of office and other properties in San Francisco, and other factors. For FYs 2022-23 through 2025-26, the January 2023 forecast amounts to approximately \$327.3 million less than the forecast in January 2022 for the same four-year period, or an average of \$81.8 million per year.

While this projected reduction doesn't mean a drop of \$327.3 million in property tax revenue from current year revenue, it does represent a loss in resources available compared to what was expected just a year ago to meet future expenditures. Increased assessment appeal payouts resulting from reduced property values are one factor contributing to this reduction. However, even if the ITEP study projections of a 27 to 43 percent reduction in commercial property prices are borne out, the California property tax system and the market for commercial properties in San Francisco would mean that the impact of such a change would be blunted over multiple years.

Business Tax

More than half of the City's business tax obligations comes from businesses located only Downtown,³³ according to the Office of Economic Analysis of the San Francisco Controller's Office.³⁴ Among these businesses, business tax obligations declined by approximately \$144 million between Calendar Years 2019 and 2021 from \$862 to \$718 million, as shown in Exhibit 19. By contrast, total business tax

³¹ Kevin Truong, "The Owners of Iconic SF Buildings Are Looking to Slash Their Property Values," the San Francisco Standard. [Link](#)

³² "Filing a Formal Appeal." Assessment Appeals Board. [Link](#)

³³ These businesses include some entities with one location and others with multiple locations, as long as all locations are Downtown; they do not include businesses with locations both Downtown and elsewhere.

³⁴ In the analysis used in this section, the Office of Economic Analysis defined Downtown as comprising the following zip codes: 94102, 94103, 94104, 94105, 94107, 94108, 94109, 94111, 94133, and 94158.

obligations for other businesses increased by a net of approximately \$14 million during the same period, resulting in a Citywide net decrease of \$130 million. The reduction in obligations for Downtown only businesses was 16.7 percent, greater than the 9.5 percent reduction for all businesses Citywide.

Remote work performed outside San Francisco is a factor in the reduction of business tax obligations among businesses located only Downtown. Under the City’s gross receipts tax, the centerpiece of the city’s business tax structure, one factor in a company’s tax obligations is the proportion of work performed within San Francisco. Remote work performed outside the City can therefore lower a firm’s business tax obligations.

Exhibit 19: Business Tax Obligations, 2019 and 2021 (millions)³⁵

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

The January 2023 revenue projections issued in January 2023 jointly by the Controller, Mayor’s Office, and our office show Citywide business tax projections between FY 2022-23 and FY 2025-26 are \$138.8 million lower per year, on average, than what had been projected in January 2022. These latest projections assume a 40 percent reduction in taxable gross receipts due to the increase in telecommuting from outside the City.

Sales Tax

Sales tax revenue provides an additional indicator of economic activity Downtown generated by office workers, business travelers, tourists, and other customers. Citywide sales tax General Fund revenue was \$171.2 million in 2021, of which \$34.7 million, or 20 percent, was generated in the Financial

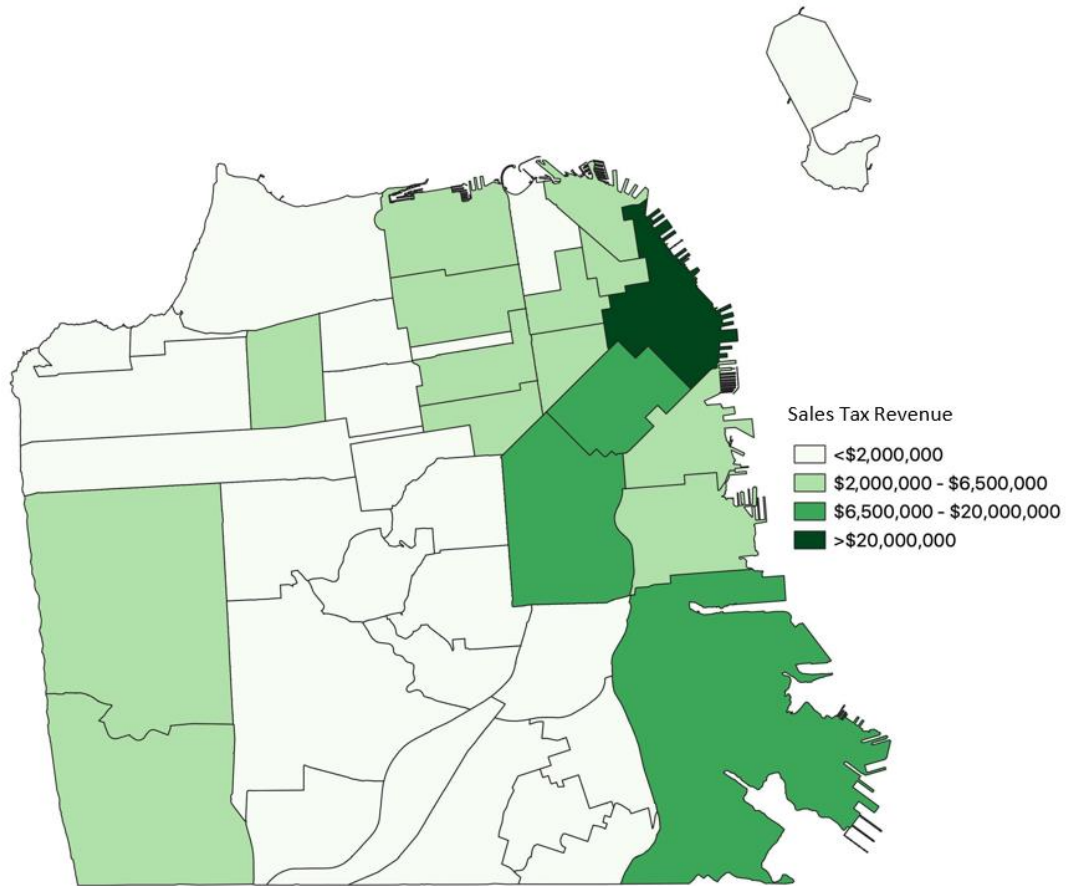
³⁵ 2014 totals consist of Payroll and Gross Receipts tax obligations; 2019 totals consist of Gross Receipts, Homelessness Gross Receipts, Payroll, Commercial Rents, Administrative Office Tax (AOT), and Homelessness AOT tax obligations; 2021 totals consist of Gross Receipts, Homelessness Gross Receipts, Commercial Rents, AOT, Homelessness AOT tax obligations.

District/South Beach and SOMA.³⁶³⁷ As shown in Exhibit 20, the Financial District – South Beach neighborhood, which makes up the majority of Downtown’s office space, generated the highest sales tax revenue of any neighborhood in 2021.

³⁶ Sales tax revenue from a data set shared by the San Francisco Controller’s Office titled *San Francisco: Sales Tax Revenues by Geographic Area*. The subareas delineated by the Controller’s Office when breaking down sales tax differ somewhat from the submarkets used by commercial estate firms cited elsewhere in this report.

³⁷ According to the San Francisco Controller’s Office, if a company has multiple locations in the City, their total sales tax is divided equally among all locations. Sales tax totals for specific areas are therefore approximations.

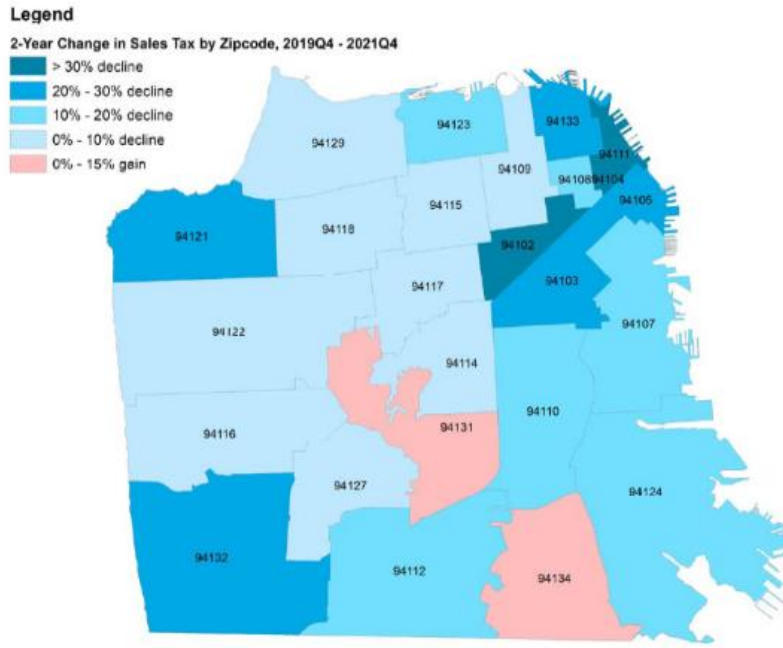
Exhibit 20: Sales Tax General Fund Revenue by Neighborhood, 2021



Source: BLA Analysis of *City of San Francisco: Sales Tax Revenues by Geographic Area*, shared by San Francisco Controller's Office

Neighborhood-level sales tax data shows a steeper drop in sales tax revenue Downtown between 2019 and 2021 as compared to most neighborhoods, as shown in Exhibit 21. Comparing all of 2019 and all of 2021, the 38.6 percent reduction in the Financial District/South Beach neighborhood was greater than the Citywide reduction of 20.7 percent. The loss Citywide between 2019 and 2021 was \$44.6 million, of which the Financial District/South Beach area was responsible for \$13.6 million of that loss and SOMA \$6.2 million. Additionally, while Downtown saw an increase between 2020 and 2021, sales tax revenue remained approximately \$13.6 million below what it had been in 2019.

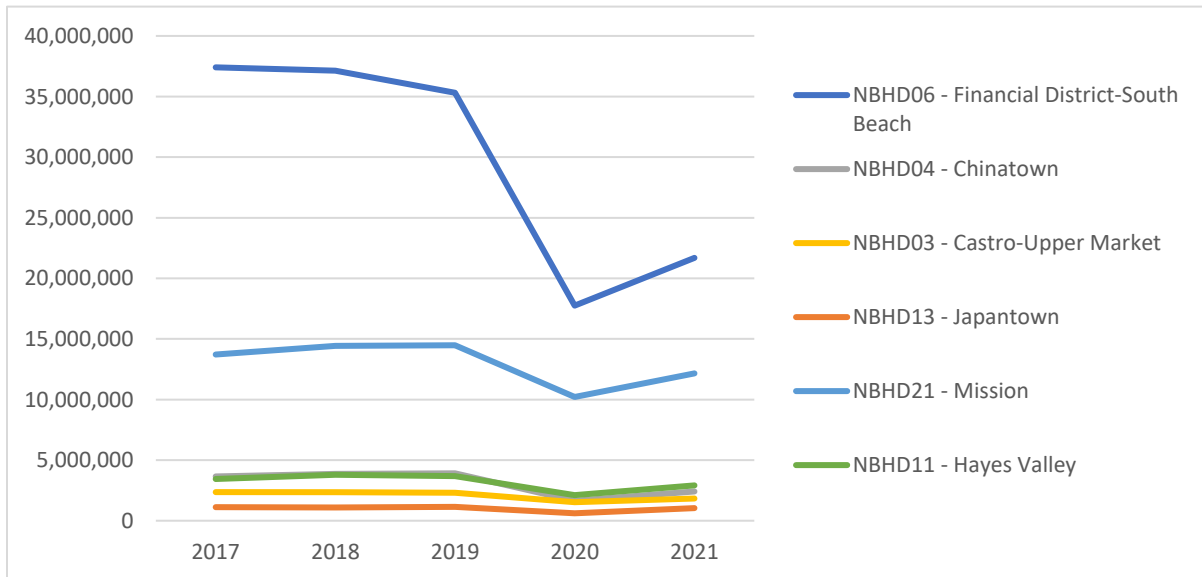
Exhibit 21: Change in Sales Tax Revenue by Neighborhood, 2019 - 2021



Slide developed by Dr. Ted Egan - Chief Economist for the City and County of San Francisco

Source: Chief Economist for the City and County of San Francisco

Exhibit 22: Sales Tax General Fund Revenue in Selected Neighborhoods, 2017 - 2021



Source: BLA Analysis of *City of San Francisco: Sales Tax Revenues by Geographic Area*, shared by San Francisco Controller's Office

Hotel Tax

As shown in Exhibit 23 below, hotel tax revenue decreased significantly following the onset of the pandemic. Due to a rebound of tourism, General Fund hotel tax revenue is currently projected to increase to \$264.9 million in FY 2022-23, an increase over the prior year. Even with such an increase, it will remain below the FY 2018-19 level. Although SF Travel projects that the average daily room rate for hotels – calculated by dividing room revenue by the number of room nights sold – will surpass 2019 rates by 2024, it does not anticipate hotel occupancy matching 2019 levels until 2025.

Exhibit 23: General Fund Hotel Tax Revenue, FY 2016-17 through FY 2022-23

Fiscal Year	Hotel Room Tax Revenue (millions)
2016-17	\$370.3
2017-18	\$382.2
2018-19	\$392.3
2019-20	\$252.2
2020-21	\$33.2
2021-22	\$158.2
2022-23	\$264.9 (Projected)

Source: Six-Month Budget Status Reports, FY 2016-17 through FY 2022-23, San Francisco Controller's Office

Policy Considerations

The trends presented above suggest San Francisco faces a number of interconnected challenges associated with the economic effects of Covid-19 on Downtown. This section identifies five interconnected challenges: Citywide tax revenue risks, reduced visitors and foot traffic, commercial vacancies, an economy dominated by a few industries, and a scarcity of housing. For each challenge, we propose one or more intervention strategies and specific areas for policy intervention.

Based on our analysis presented in this report, we conclude that there is no one solution to address the impacts of changes that have occurred in the use of Downtown since the onset of the Covid-19 pandemic. While conditions can change in unforeseen ways, waiting for the market to correct itself in terms of the demand for office space may be a very long-term prospect and may not ever result in a return to pre-pandemic conditions. For these reasons, we present a multi-pronged approach to policy interventions for consideration by the Board of Supervisors that we conclude could improve the use of and level of activity Downtown. However, the absence of an estimated 147,303 office workers who were Downtown every workday will be difficult to offset in terms of activity levels and City revenue at least in the short run.

Challenge 1: The Rise of Remote Work Carries Risk for Citywide Tax Revenue

Even as the pandemic subsides, a return to 100 percent in-person work among office workers is unlikely, according to many experts. The January 2023 Five-Year Financial Plan prepared by the Controller, Mayor's Office and our office shows less General Fund property and business tax revenue compared to forecasts from the prior two years.

Separately, national survey data for those who can work remotely shows employee and employer preferences are converging around a hybrid model of work weeks split roughly evenly between the office and remote locations.³⁸ Preferences among both groups now average between two and three days of remote work per week.³⁹ Given the high number of jobs in San Francisco that can be performed remotely and the high cost of living, the City – and Downtown specifically – are likely to see a higher rate of remote work than many cities.

Because the gross receipt tax factors in whether work is performed within the boundaries of San Francisco, this rise in hybrid and remote work carries direct implications for business tax revenue. As discussed above, business tax revenue obligations from Downtown-only businesses were \$144 million lower in 2021 than in 2019, and future business tax revenues will hinge to a significant degree on the extent of hybrid and remote work. Although the Controller's Office has factored current trends into future projections published in the most recent five-year revenue projections, these projections can shift and indeed already have: as of January 2023, business tax projections for FY 2022-23 through FY 2025-26 are \$555.2 million, or \$138.8 million lower per year on average, than what had been projected in the January 2022 five-year forecast, driven largely by an increased estimate of long-term telecommuting rates among office workers and reductions in the City's population.

As discussed in this report, a lasting shift away from in-person work could also result in decreased property tax revenue from downtown commercial real estate. If Downtown commercial real estate prices decrease between 27 to 43 percent, as projected in a policy study by the Institute of Taxation and Economic, this could theoretically translate to potential annual property tax revenue losses of up to between \$186 million and \$297 million annually from Downtown commercial properties alone. These estimates of value at risk are broadly consistent with recent projections from the City's Office of Economic Analysis showing that a downturn in the Downtown commercial real estate market could result in annual property tax revenue reductions of \$100 million to \$200 million by 2028. In the January 2023 Five Year Financial Plan prepared by the Controller, Mayor's Office, and our office, Citywide General Fund property tax revenues are projected to decrease annually from FY 2023-24 through FY 2026-27, with projected revenues not reaching their FY 2022-23 level again until FY 2027-28. Other City tax revenues affected by pandemic-induced

³⁸ Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731. Cited in "The Economic Context for Development in Post-COVID San Francisco," a presentation by the San Francisco Controller's Office. June 2022.

³⁹ Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

changes in activity and behavior Downtown have declined since 2020. Specifically, business tax, hotel tax, and sales tax revenue allocated to the General Fund were all lower than their FY 2018-19 levels through FY 2021-22 and, while improving, none of these three sources is projected to exceed its pre-pandemic FY 2018-19 levels in FY 2022-23. Hotel tax revenue plummeted dramatically in FY 2020-21 from \$252.2 million the prior fiscal year to \$33.2 million. It increased to \$158.2 million in FY 2021-22, still down substantially from its pre-pandemic level.

In addition to working to minimize tax revenue impacts (including through Strategies 2-5 below), the Board of Supervisors can prepare now for the likelihood of such impacts and consider ways to respond.

Strategy 1: Prepare for an uncertain tax revenue environment.

Policy Option 1.1: 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.

Already, members of the Board of Supervisors receive regular updates from the Controller’s Office forecasting future revenues and identifying the current state of revenues and expenditures. Board members have recently requested detailed analyses and input from City officials on revenue impacts to property taxes and business taxes associated with office vacancies, telecommuting, and other factors.⁴⁰ As the Board of Supervisors review these analyses, it could consider possible tax code changes to help address any revenue shortfalls and request input from City departments through hearings in addition to the annual budget review process to identify areas of potential multi-year revenue enhancements or expenditure reductions that would have the least impact on City services. These might include one-time capital or other projects that have not yet commenced and could be deferred or other areas of expenditure where reductions would have minimal impact on services.

The Board of Supervisors could work with the Mayor’s Office of Legislative and Government Affairs to advocate for increased state relief, particularly given the disproportionate tax revenue impact on cities, and San Francisco specifically, of changes to the commercial real estate market. In conjunction with other cities, for instance, San Francisco could call for a shift in state aid toward cities and away from suburban areas that have experienced housing market growth during the pandemic, as researchers at the Institute on Taxation and Economic Policy have called for based on their projections of declining commercial real estate values in cities.⁴¹

⁴⁰ San Francisco Chronicle. “How much will downtown S.F.’s struggles hurt the city budget? Supervisors want to know.” Sept. 13, 2022.

⁴¹ Chernick, Howard, David Copeland and David Merriman, 2021. “The Impact of Work From Home on Commercial Property Values and the Property Tax in U.S. Cities,” Institute on Taxation and Economic Policy.

Challenge 2: Decreased Downtown visitors and foot traffic is hurting small businesses and neighborhood vitality.

Multiple indicators make clear the decrease in daily activity Downtown. As cited in this report, a study tracking smartphone data found that Downtown activity is less than a third of what it was before the pandemic. Much of this decrease is due to the drop in daily commuters, with Citywide office attendance estimated to be approximately 40 percent of what it was prior to the pandemic. While tourism indicators have rebounded to some extent, they too remain below pre-pandemic baselines.

These changes have upended business as usual for restaurants, bars and retail outlets Downtown, many of which have closed (creating ground floor vacancies, discussed further below). These challenges compound each other: With fewer establishments drawing them Downtown, commuters and tourists alike have fewer reasons to visit; with fewer visitors, businesses have fewer potential customers and may struggle to remain open. Although addressing vacancies directly is an important part of the equation and is discussed below, investments in public space are also necessary to draw commuters and visitors back Downtown in greater numbers.

Strategy 2: Support interventions designed to increase visitors and Downtown foot traffic.

Policy Option 2.1: 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.

Multiple City departments and SF Travel have initiatives under way designed to improve experiences in public spaces Downtown. So do community benefits districts, such as Downtown SF Partnership, the Yerba Buena Community Benefit District and the East Cut Community Benefit District. Ongoing efforts include:

- Ambassador programs to mitigate quality of life issues (OEWD, SF Travel, community benefit districts)
- Enhanced street cleaning (Department of Public Works, community benefit districts)
- The S.F. Shines program, which reimburses businesses for qualifying storefront improvements (OEWD)
- Rental incentives to lower the cost of holding events at Moscone Center (City Administrator's Office and SF Travel)
- Public space activations and live events (OEWD)
- Planned marketing initiative targeting select out-of-state markets (SF Travel)

Other possible interventions are laid out in the Public Realm Action Plan created by the Downtown SF Partnership and include restricting vehicle traffic on selected streets, improving Downtown’s bikeway network, creating new public spaces, planting trees and other vegetation, enhancing privately owned public open spaces, and holding regularly occurring activations.⁴²

Reports to the Board of Supervisors on the results of these and other initiatives should include numbers of attendees or visitors to the events and change in activity levels Downtown to help determine if additional investments are warranted to further attract visitors. Marketing efforts undertaken by SF Travel and other organizations to promote tourism should be reviewed by the Board of Supervisors to assess results and determine if further funding may be appropriate to further bolster tourism.

Policy Option 2.2: 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.

Weekday Downtown BART exits remain lower than tourism, weekday driving commute, and weekday MUNI ridership indicators. For at least some of those workers commuting into San Francisco from outside the City – an estimated 383,427 people each workday prior to the pandemic⁴³ – improvements to ridership experiences could also increase willingness to commute into Downtown. Although regional transit agencies are separate from the City and County, there may be opportunities for San Francisco to partner with agencies on specific initiatives, including on actions laid out in the Bay Area Transit Transformation Plan. These include actions aimed at improving real-time mapping and scheduling information, coordination among transit networks, and travel times.

Challenge 3: Vacant commercial space, particularly on the ground floor, reflects missed opportunities to boost street vibrancy.

Across Downtown, vacant commercial spaces stymie other efforts to support economic recovery. Ground floor vacancies are a particular concern, as they are most visible to passerby – and thus represent missed opportunities to most visibly increase street vibrancy. Upper floor vacancies also affect street life, by contributing to reduced numbers of commuters.

OEWD has several strategies in place already to address vacancies, including the creation of a position dedicated solely to addressing this issue and the Vacant to Vibrant initiative, which is facilitating pop-up businesses in ground floor retail locations. As part of Citywide efforts to keep existing businesses in place, the City has also provided direct grant support to small businesses and has worked to provide flexibility to ground floor businesses through the Shared Spaces program, which provides permits for use of outdoor spaces such as sidewalks and parking lanes for outdoor dining and other uses. Other

⁴² “Public Realm Action Plan,” *Downtown S.F. Partnership*, July 2022, [Link](#)

⁴³ U.S. Census Bureau

City efforts to reduce some of the burdens facing small businesses include the new Permit Center, created to be a one-stop hub for obtaining permits from various City departments. As part of its Public Realm Action Plan, Downtown S.F. Partnership has also outlined strategies for filling ground-floor spaces, including through targeted incentives and pilot pop-ups.

Strategy 3: Explore additional strategies for reducing commercial vacancies through programmatic interventions.

Policy Option 3.1: 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.

Besides some zoning restrictions particularly in the Union Square area, market conditions appear to be driving Downtown vacancies, with commercial property owners and would-be tenants far apart on what rent would be acceptable. Creative leasing arrangements can help fill this gap, and they can also attract specific types of tenants that could bring vitality to Downtown spaces but face challenges. Small businesses and nonprofit community organizations, for instance, often have limited credit histories, and they may be unable to commit to yearlong leases or entire ground-floor spaces. One model for addressing these obstacles is having a Community Development Corporation or foundation obtain a lease and then sublet the leased space to small businesses or nonprofit organizations for shorter time periods. Another option is co-location, in which multiple businesses share a single retail space, often on the ground floor.⁴⁴ The Board of Supervisors could ask OEWD staff to report on programmatic options for incentivizing such arrangements.

Co-location and short-term commercial sublet arrangements do not require Planning Code changes, according to Planning Department staff. For the Union Square area (C-3-R zone), the Board of Supervisors could advocate for less restrictive requirements in the Planning Code, particularly for uses of second and third floors which are restricted or require conditional use approval for non-retail uses.

Challenge 4: The City's economy is heavily concentrated in a small number of industries

Relative to the recoveries in other city centers, Downtown San Francisco's economic recovery appears to be limited by a disproportionate share of jobs that can be performed remotely concentrated in a small number of industries. In the Institute of Governmental Studies report cited in this report, the return to daily activity in Downtown San Francisco ranked last among 62 North American downtowns studied, at 31 percent of its pre-pandemic rate as of September – November 2022, according to cell phone data.⁴⁵ In looking at 43 variables potentially tied to recovery rates, the research team found

⁴⁴ Central Business District Washington D.C.: Strategies for Recovery and Economic Resilience, 2020. Urban Land Institute.

⁴⁵ "Death of Downtown? Pandemic Recovery Trajectories across 62 North American Cities", Institute of Governmental Studies, U.C. Berkeley. June 2022.

that San Francisco differed most from other comparable cities in its mix of industries, with 31 percent of the City's downtown workforce employed in Professional, Scientific and Management services. By contrast, this sector employs 18 percent of downtown New York City's workforce and 13 percent of downtown Austin's. Relatedly, while 18 percent of downtown Seattle's workforce works in health care and social assistance – a sector less conducive to remote work – this sector employs just two percent of downtown San Francisco's workforce.

Downtown zoning is relatively permissive, with few restrictions about what types of businesses can operate. Still, there are certain restrictions for particular zoning districts within Downtown that could be revisited, including specific regulations related to hotels and laboratories. Already, the Planning Department is considering whether relaxing any of these restrictions would lead to new business formations Downtown or help diversify the area's industrial mix, including nonprofit organizations. The City has also commissioned an independent study of Downtown's economic recovery, which will include recommendations for recruiting underrepresented sectors that can help diversify San Francisco's industrial mix.⁴⁶

Strategy 4: Build on efforts to diversify the City's industrial mix.

Policy Option 4.1: 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.

In addition to acting on the recommendations of the independent study of Downtown's economic recovery commissioned by the City,⁴⁷ the Board of Supervisors could request that the Planning Department and the Office of Economic and Workforce Development report back on current initiatives and future options for attracting underrepresented industries and nonprofit organizations to Downtown. Planning Department staff are researching possible modifications to the Planning Code, for instance, to facilitate laboratory uses, particularly in places where offices are already permitted. Other efforts could specifically incentivize the conversion of commercial space for other commercial uses.

Across the Bay Area, more than 600,000 square feet of office space were being converted to laboratories during the first quarter of 2022,⁴⁸ demonstrating the potential feasibility of such projects. The Board could also request that Planning Department staff provide insight on

⁴⁶ *Next Steps for Our Downtown*. Mayor London Breed, September 6, 2022, Medium, [Link](#).

⁴⁷ *Roadmap to Downtown San Francisco's Future*. (Relevant section: *Attract and retain a diverse range of industries and employers*.) City and County of San Francisco, February 9, 2023. [Link](#).

⁴⁸ *San Francisco Bay Area Second Largest Percentage Gain in Life Sciences Conversions*, CBRE, May 6, 2022, [Link](#)

encouraging the development of new clusters or corridors for target sectors, to complement the life sciences neighborhood in Mission Bay.

Challenge 5: A limited housing supply in the core areas of Downtown compounds challenges to economic recovery, particularly outside of business hours

Much of the new housing construction in San Francisco has taken place in or near Downtown over the past three decades,⁴⁹ and the greater Downtown area is home to thousands of residential units. However, these units are not spread evenly throughout Downtown, and the housing supply in parts of the area remains limited. The Downtown S.F. Community Benefit District, which includes the North Financial District and Jackson Square, is home to only approximately 350 units of housing.⁵⁰

City staff caution that determining the correct mix of housing and office space within Downtown is complex, as is determining the precise locations where new residential construction could be viable. Families, for example, need convenient access to schools and parks, and residents of all ages need access to groceries and other neighborhood services. The pandemic's lasting effects on demand for Downtown living also remain unclear, further complicating project viability. Converting office stock into housing also carries long-term opportunity costs, as office space (when occupied) can generate significant economic activity and higher contributions to City tax revenue.

Still, the pandemic has made clear that there are risks to the current heavy reliance on office workers concentrated in a few industries and tourists to generate Downtown's economic activity. Facilitating new housing options Downtown could help mitigate these risks by increasing neighborhood activity outside of business hours and contributing to a diversification of the neighborhood's economy.

One option for increasing residential units is adaptive reuse, in which buildings constructed for one purpose, such as offices, are modified for another purpose, such as residential.⁵¹ Such conversions, however, are often as expensive as new construction and more technically complicated. This is particularly true for Class A commercial office properties, which generally have wider footprints and thus less natural light per floor; these properties also bring in higher rents per square foot as offices, raising the opportunity costs of conversion. The financial landscape can be somewhat more conducive to conversion among Class B and C properties, though high construction costs may still make conversion financially unviable.

As of Quarter 4 of 2022, JLL reports a total of 15.9 million square feet of Class B and C office space in the North and South Financial Districts, Mid-Market, and Union Square.⁵² Conversion of even a fraction of this space could result in thousands of residential units. A RAND study of conversion

⁴⁹ *Next Steps for Our Downtown*. Mayor London Breed, September 6, 2022, Medium, [Link](#).

⁵⁰ DiFelicianantonio, Chase. "Downtown S.F. keeps adding housing units, but does anyone actually want to live there?" San Francisco Chronicle, July 6, 2022. [Link](#)

⁵¹ Our office issued a report on this topic, *Repurposing Commercial Real Estate for Residential Use*, to Supervisor Gordon Mar, on January 6, 2023. The report can be accessed [here](#).

⁵² JLL San Francisco Office Insight, Q4 2022.

opportunities in the Los Angeles area estimated that 13.19 million square feet of underutilized office space represented the potential for between 12,565 and 26,387 residential units.⁵³ An estimated 12,000 residential units have already been built through adaptive reuse in Downtown Los Angeles since 2000, encouraged by the City of Los Angeles's adoption of its Adaptive Reuse Ordinance in 1999, which streamlined the development project approval process. Conversions of Class B and C properties in Lower Manhattan have also produced more than 25,000 units of housing in recent decades.⁵⁴

The San Francisco Business Times reported 11,090 new apartments converted nationwide from office uses in 2020 and 2021, 43 percent more than in the previous two-year period, primarily in older cities with older building stock such as Philadelphia and Chicago. While San Francisco shares some of the characteristics of older East Coast cities, office to housing conversions have not yet taken hold.

The approximately 15.9 million square feet of Class B and C office buildings in the North and South Financial Districts, Mid-Market and Union Square represents the potential for up to 15,862 housing units based on 800 square feet per unit (less 20 percent of the gross square footage for common space and exterior walls). Given the benefits of a 24-hour presence of people committed to the neighborhood's vitality, even a small number of conversions – or conversions that take years to materialize – could represent significant steps toward ensuring long-term stability Downtown. City staff note that there would be tradeoffs associated with decreasing available Class B and Class C office space. For instance, Class B and Class C office space generally rents at a lower rate than Class A inventory, so decreasing available Class B and Class C inventory could make it more difficult to attract categories of businesses that face more barriers in accessing capital, such as women- and minority-owned enterprises. Based on the experience in other cities, we do not assume that anywhere close to all Class B and C space would be converted to housing. Even if the City adopts incentive programs, there would still be many buildings for which such conversion would not be structurally or financially feasible.

Strategy 5: Pursue new ways of incentivizing office conversion to housing and new housing construction Downtown.

Policy Option 5.1: 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 and possible changes to the Charter to streamline housing construction of all or certain types of housing and commercial property conversions in certain areas of Downtown for consideration by the Board of Supervisors.

⁵³ Ward, Jason M. and Daniel Schwam. "Can Adaptive Reuse of Commercial Real Estate Address the Housing Crisis in Los Angeles?" RAND Corporation. 2022.

⁵⁴ The Real Estate Board of New York. *Testimony to New York State Assembly Standing Committee on Housing Regarding Repurposing Vacant and Underutilized Real Estate for Affordable Housing Development*. December 2020.

Staff in the Planning Department, Mayor’s Office of Housing and Community Development, and Office of Economic and Workforce Development are working on multiple fronts to facilitate housing construction in and near Downtown. In addition to MOHCD’s ongoing investment in the development of new affordable housing, the Planning Department is leading a cross-department initiative focused on identifying barriers in the Building Code and Planning Code to building housing. The Planning Department is also working with City departments and external partners to identify possible opportunities, for both new housing construction and conversion of existing buildings, among other current efforts.⁵⁵

Staff could also provide insight and legislative proposals for consideration by the Board of Supervisors to streamline the City’s development project review processes and lower the costs for certain types of conversions of commercial buildings to residential use, such as affordable and mixed income housing through creation of a ministerial approval pathway for qualified projects, eliminating the need for CEQA review and/or specific discretionary approval processes and public hearings for qualified projects. As we have recommended in our January 2023 report on repurposing commercial real estate for residential use, areas to be considered for modification could include development impact fees, permitting processes, and below market rate housing requirements. To the extent that the current permitting process impedes housing development or conversion of commercial buildings to housing, the Board of Supervisors could advocate for or initiate necessary changes in the City Charter and codes.

The Board of Supervisors could also request that staff advise on other possible interventions, including:

- **Reducing or eliminating certain City requirements on specific types of housing construction and conversions of office or other commercial uses Downtown to residential, including by:**⁵⁶
 - a. Reducing or removing Below Market Rate requirements for qualified projects,
 - b. Exempting qualified projects from density and other development limitations, or relaxing existing limitations,
 - c. Temporarily delaying the collection of impact fees, or reducing or eliminating impact fees for qualified projects,
 - d. Updating sections of the Building Code to facilitate adaptive reuse in conjunction with the review underway headed by the Planning Department,
 - e. Streamlining review of qualified projects where possible through legislative and administrative action, to include exemptions from Discretionary Review hearings by

⁵⁵ “Next Steps for Our Downtown,” Mayor London Breed, Medium, September 6, 2022, [Link](#)

⁵⁶ These recommendations are also presented in our office’s January 6, 2023 report “*Repurposing Commercial Real Estate for Residential Use*”, prepared for Supervisor Gordon Mar. [Link](#)

the Planning Commission and possible elimination or reduction of conditional use requirements, and

- f. Setting hard time limits on determining when applications are complete and processing applications for certain types of projects, including consideration of any additional staffing resources needed to achieve this change.
- **Leveraging State incentives for adaptive reuse – and advocating for additional State investment.** Current incentives include a new State of California adaptive reuse program that will allocate up to \$400 million over two years for grants incentivizing adaptive reuse for affordable housing construction, particularly in infill areas.⁵⁷ In addition to seeking ways to tap into existing funding, the City and County could also advocate for additional State spending to further assist cities in incentivizing conversions.
 - **Offering new local incentives for adaptive reuse.** A recent Gensler analysis, commissioned by the San Francisco Bay Area Planning and Urban Research Association (SPUR), analyzed 36 Downtown buildings and determined that 12 of them were strong candidates for conversion.⁵⁸ The analysis’s findings could help Planning Department staff determine the extent to which adaptive reuse projects are feasible Downtown and how the Department could help facilitate such projects. Possible models for incentives include Chicago, where local officials are offering tax incentives for adaptive reuse of buildings within a specific downtown corridor;⁵⁹ Los Angeles,⁶⁰ where Planning Department staff have recommended expanding incentives for adaptive reuse projects beyond those included in that city’s Adaptive Reuse Ordinance adopted in 1999; Washington, D.C., where Mayor Muriel Bowser has proposed a tax break as an incentive for converting downtown commercial space into housing that includes affordable units;⁶¹ and the Canadian city of Calgary, where as of October 2022 five office-to-housing conversion projects have been approved since the launch of an incentive program in 2021.^{62 63 64}

⁵⁷ “The 2022-23 California Spending Plan: Housing and Homelessness,” *Legislative Analyst’s Office*, September 16, 2022, [Link](#)

⁵⁸ Amy Campbell, Holly Arnold, and Doug Zucker, “How Office-to-Residential Conversions Could Revitalize Downtown San Francisco,” Gensler, February 16, 2023, [Link](#)

⁵⁹ “LaSalle Street Reimagined,” *City of Chicago*, accessed November 18, 2022, [Link](#)

⁶⁰ “Downtown Community Plan: CPC Recommendation Draft Summer 2022,” *Los Angeles City Planning*, Summer 2022, [Link](#)

⁶¹ Marisa M. Kashino, “Should DC’s Empty Office Buildings Get Turned Into Apartments?,” *Washingtonian*, July 28, 2022, [Link](#)

⁶² Noah Arroyo, “Yes, S.F. could turn empty downtown offices into housing. Here’s what it would take,” *San Francisco Chronicle*, Oct. 17, 2022, [Link](#)

⁶³ Jason Herring, “Three downtown Calgary office buildings converting to residential,” *Calgary Herald*, June 19, 2022, [Link](#)

⁶⁴ Kate Marino, “Cities push to convert deserted office buildings into housing,” *Axios*, September 28, 2022, [Link](#)

- **Creating a task force of housing experts and community representatives focused on adaptive reuse:** In January of 2022, New York City enacted legislation creating an office conversions task force, subsequently named the Office Adaptive Reuse Task Force, which will report recommendations within two years. In San Francisco, a similar panel could explore options specific to Downtown.
- **Identifying and addressing barriers to factory built residential components,** which involves constructing components of buildings in factory-controlled settings before assembling them on-site. Although this construction method carries potential cost benefits, regulatory, political and logistics barriers may be reducing the feasibility of such projects in San Francisco, including Downtown.⁶⁵

Separately, the Board of Supervisors could convene a working group that includes private sector leaders and community representatives to discuss additional opportunities to attracting new businesses Downtown.

⁶⁵ “Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing,” *San Francisco Civil Grand Jury*, July 5, 2018, pages 12-13, [Link](#)