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October 18, 2017

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

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

Re: Office of Economic Analysis Impact Report for File Numbers 170863-4

Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file numbers 170863-4, "Pier 70 Development Agreement and proposed SUD: Economic Impact Report." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan
Chief Economist

Cc: Linda Wong, Committee Clerk, Budget and Finance Committee
Erica Major, Committee Clerk, Land Use and Transportation Committee

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SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO
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Pier 70 Development Agreement and Proposed SUD: Economic Impact Report

Office of Economic Analysis
Items # 170863-64
October 19, 2017

Introduction

- On July 25, 2017 Mayor Lee introduced legislation (#170863) to approve a development agreement between the City and FC Pier 70, LLC, an affiliate of Forest City Development California, Inc. The agreement would redevelop 35 acres of property located in Pier 70 on the central waterfront.
- Accompanying legislation (#170864) would amend the planning code to create the Pier 70 Special Use District (SUD). The SUD legislation would change allowable heights and land uses for parcels in this area.
- In addition, an Infrastructure Financial District (IFD) is planned to use incremental property tax revenue to fund needed infrastructure for the area. As this district will not be officially formed through the bundle of Pier 70-related legislation, we are not considering the economic impact of this spending in this report.

Project Description

- The project consists of approximately 35 acres of land, comprising 19 parcels as outlined on pages 6 and 7.
- The project will be a mixed-use development of about 35 acres, containing two development areas:
  - (1) The "28 acres site" comprising of 15 parcels located between 20th, Michigan, and 22nd streets, and San Francisco Bay
  - (2) The "Illinois Parcels" comprising of 7 acres of land on four parcels, labelled as PKN, PKS, HDY2 and HDY3 on pages 6 and 7.
- The SUD zoning legislation, and the Design-for-Development agreement, define the maximum heights and density controls for the 19 parcels.
- Within those constraints, the developer, Forest City, has some discretion about how much housing and office space to build.
- Under a "maximum commercial" scenario the project can include 2,262,350 gsf of office space and space for 1,645 housing units.
- Under a "maximum residential" scenario the project can include 1,102,250 gsf of office space and space for 3,025 housing units.
- Both scenarios also include similar amounts of retail, restaurants, arts and light industrial space.

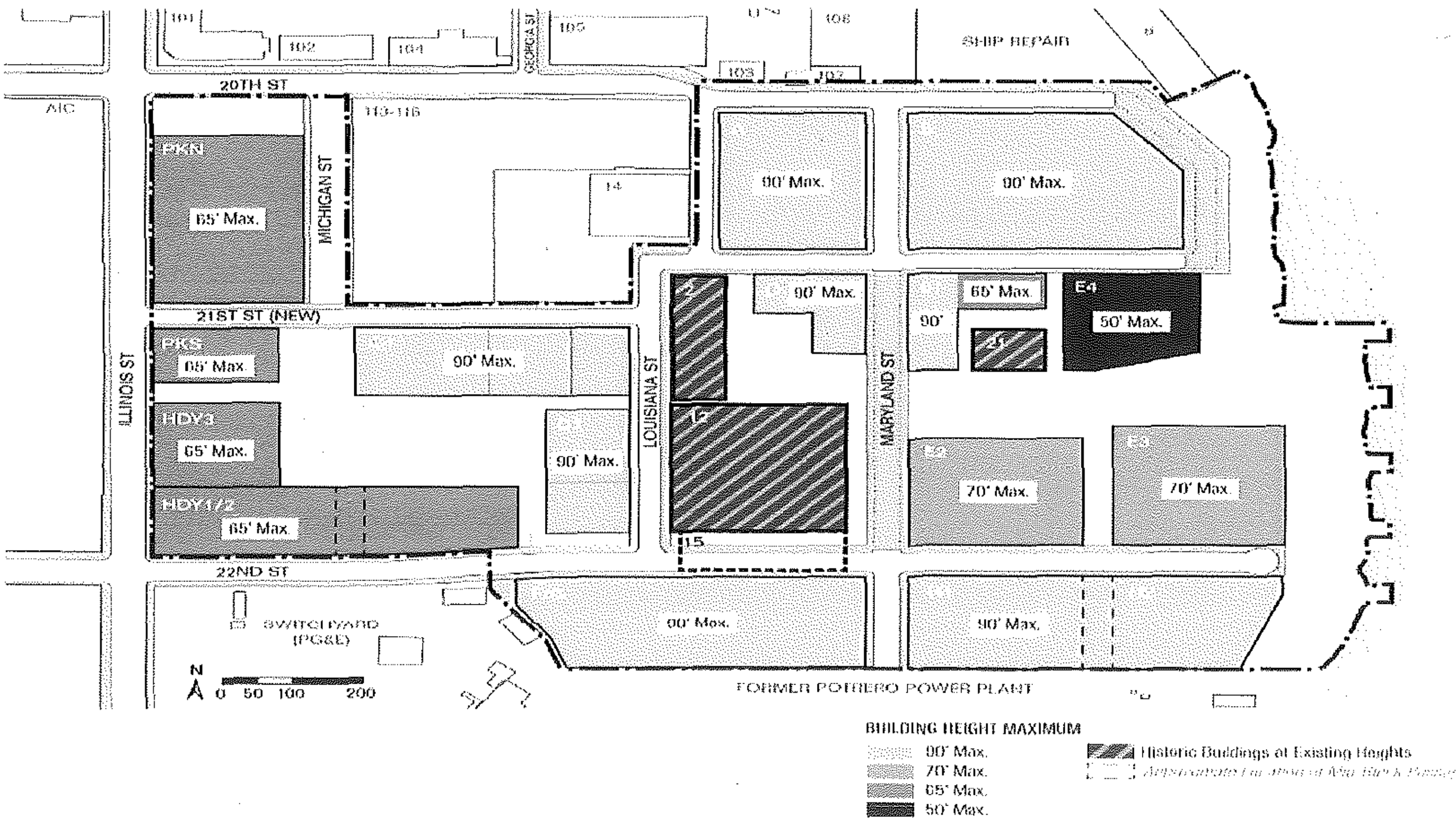
Project Description: Continued

- Under the Development Agreement, the developer will commit a set of public benefits including the revitalization of the Union Iron Works Historic District, and building waterfront parks, a playground, and recreational facilities and new open space for a variety of recreational activities.
- The project would restore and retain three historic building structures (labelled as parcel 2, 12 and 21 on slides 6 and 7) that are considered significant contributor to the Union Iron Works Historic District.
- Another element of the proposed project is the creation of new affordable housing. The developer will dedicate land for 327 units of affordable housing, whose construction will be funded by fees paid on market-rate housing and office development in the project area, and potentially the IFD as well. In addition, 20% of all new rental housing in the area will be required to be affordable.
- The project will also provide a new space in the project area for the artist community currently located in the Noonan Building.

Existing Uses, Retention & Rehabilitation of the Project Site

- The project site currently contains 11 buildings of approximately 351,800 gsf area.
- These 11 buildings and facilities currently serve various uses on the site ranging from special event venues, art studios, warehouses, self-storage facilities, auto storage, parking lot, soil recycling yard, as well as office spaces.
- Of the 11 buildings on the site, the Port has proposed to demolish one building (30,940 gsf) separately from and prior to the approval of the proposed project. The demolition of that building will undergo environmental review, as required by CEQA.
- Under the Development Agreement, the developer has agreed to retain and rehabilitate about 65% (or 227,800 gsf) of the existing building spaces in the project area. This retained and rehabilitated space will be located in the three historical buildings (labelled as parcel 2, 12 and 21 on the next two slides) that are deemed significant contributors to the Union Iron Works Historic District.

General Map of the Proposed SUD Project Area: Height Limits of the Parcels Under the Proposed Development Agreement



Map of Area Parcels' Width & Heights

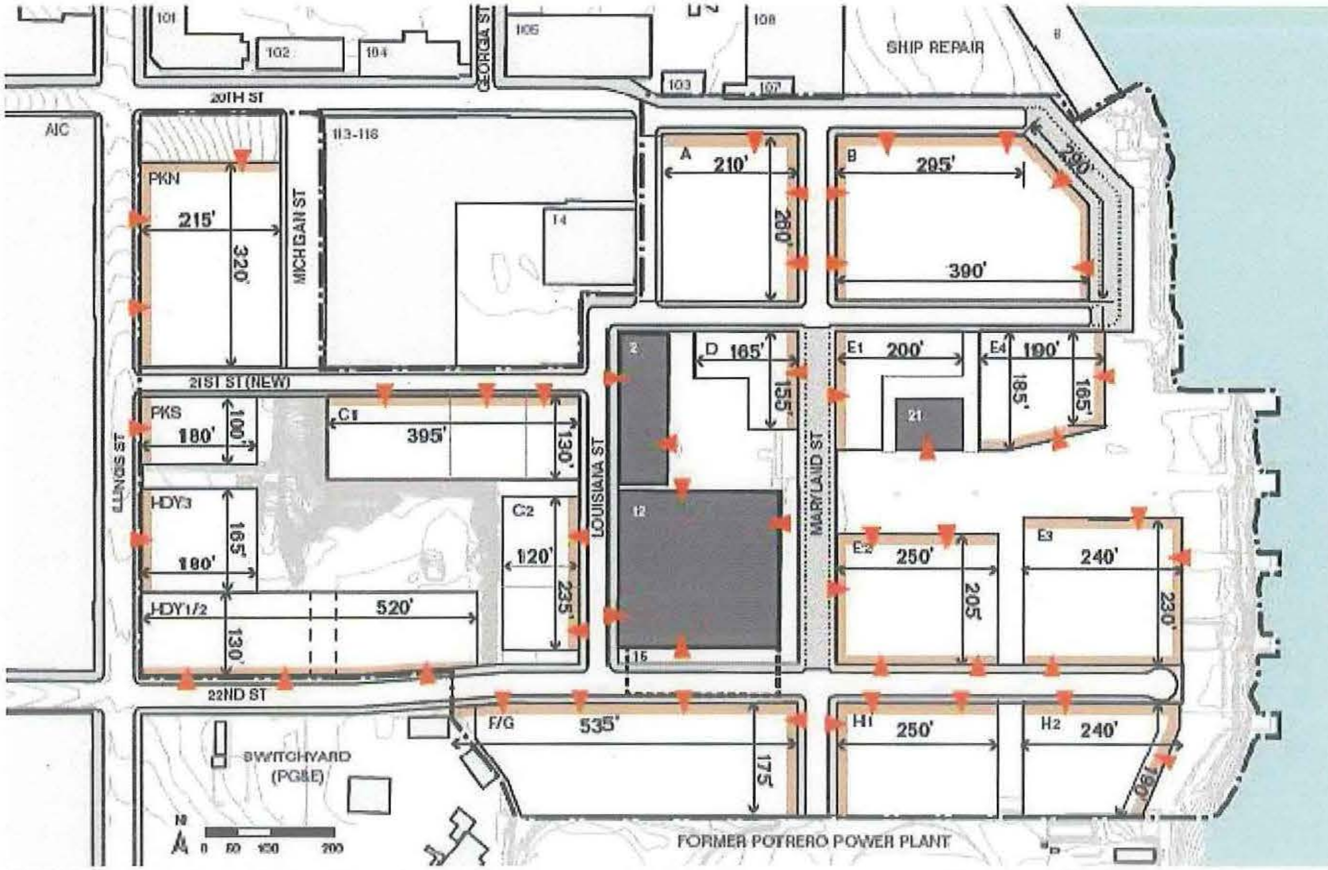


FIGURE 6.8.5: Illustrative Plan of Building Entries from Public Right of Way

Note: All dimensions are rounded up to the nearest 5'.

Frontage with Required Building Entries

Illustrative of Minimum Building Entries

Source: Design for Development

Difference in Potential Development Capacity: Current Zoning versus Development Agreement under the Proposed Zoning

Land Uses	Existing Zoning Potential	Max Housing Scenario	Max Housing Difference from Existing	Max Office Scenario	Max Office Difference from Existing
Residential Units	1,067	3,025	1,958	1,645	578
Commercial Office (gsf)	871,156	1,102,250	231,094	2,262,350	1,391,194
Retail (gsf)	140,999	269,495	128,496	275,075	134,076
Restaurants (gsf)	35,249	67,375	32,126	68,765	33,516
Arts, Light Industrial (gsf)	74,108	143,110	69,002	143,110	69,002
TOTAL	2,049,516	4,212,230	2,162,714	4,179,300	2,129,784

Economic Impact Factors

The proposed Pier 70 SUD development is expected to affect the local economy in three major ways:

1. The re-zoning from 40' height to 90' height will expand the potential development capacity on the site, leading to an increase in housing, retail and office space in the city. This will put downward pressure on prices and rents for residential and commercial real estate.
2. The construction activity due rezoning and the development agreement will generate additional economic activity over and above what would have been possible under the existing zoning.
3. The direct value of the subsidy associated with the on-site affordable housing will both alleviate the housing burden of resident households, and also release additional consumer spending into the local economy.

Because the actual amount of housing and non-residential space that will be constructed is unknown, we modeled both the Maximum Housing and Maximum Office scenarios, both relative to what could be constructed under existing zoning.

Impact of New Housing and Non-Residential Space

- Increase in the housing supply will put downward pressure on residential rents and home prices in San Francisco.
- The proposed re-zoning and development agreement could expand the city's housing development capacity anywhere from 587 units under the "maximum office" scenario, to 1,958 units under the "maximum housing" scenario. This represents the increased amount of housing that could be built, under each scenario, compared to what is allowed under current zoning.
- The OEA estimates that under the two scenarios (as outlined on slide 8) the expanded development capacity created by the re-zoning would result in housing prices in the range of 0.23% to 0.79% lower than they would have been otherwise.
- Given the amount of non-residential space that may be developed, including office, retail, restaurants, and arts/light industrial space, we similarly project a citywide decline in non-residential rents of between -0.8% to -3.0%, depending on the scenario.

Impact of the Affordable Housing Subsidy

- Increasing the number of subsidized housing units will particularly benefit low-income households, who experience higher housing burdens than higher-income households in the city.
- Based on requirements in the development agreement, we project the affordable housing supply would increase by in anywhere from 299 to 437, compared to what would be required through the City's inclusionary housing as applied to the existing development capacity and zoning on the site.
- We project that, at full build-out, these additional affordable units would reduce housing payment the range of $1.2 million to $4.1 million per year for their low-income residents. In addition to reducing low-income housing burdens, this subsidy frees funds for additional spending that stimulates the local economy.

Construction Spending: Residential and Commercial

- According to San Francisco housing construction costs published by RSMeans, average residential construction cost (excluding land) is currently about $259 per square foot; whereas average non-residential construction costs (excluding land) is about $255 per square foot.
- The expected increase in construction spending–resulting from increased development potential as a results of rezoning and the development agreement–in the city is projected to increase anywhere from $532 million (max office scenario) to $545 million (max housing scenario).

Assumptions and REMI Model Inputs

- The OEA uses the REMI model to simulate the impact of the proposed re-zoning and development agreement on the city's economy. The project was assumed to be completed over a 20-year horizon beginning in 2018.
- Based on the discussion the previous pages, the model inputs are summarized below.

	Max Housing	Max Office
Housing price reduction (at full build-out)	-0.8%	-0.2%
Non-residential rent reduction (at full build-out)	-0.8%	-3.0%
Affordable housing subsidy value (at full build-out)	$1.2 million	$4.0 million
Construction Spending (over 20 years)	$545 million	$532 million

Economic Impact Assessment and Conclusions

- The proposed Pier 70 SUD rezoning and the associated development agreement will expand the city's economy, by accommodating the city's growing demand for housing and office space.
- As shown on the table on the next page, the maximum office scenario would lead to a larger economy, with greater employment and GDP. In fact, population is expected to also grow more under this scenario, even though it produces less housing. Housing prices are expected to rise, although other prices would fall, and incomes would rise.
- In the maximum housing scenario, on the other hand, less job and income growth would occur, but housing prices fall.
- Both scenarios would lead to higher per capita incomes, which would be even higher when reduced prices are taken into account.
- In general, the maximum office scenario would have greater aggregate benefits for more people. On a per capita basis, however, inflation-adjusted personal income would grow by more in the maximum housing scenario, leading to greater per capita benefits for a smaller number of people.

Comparison of the Maximum Office and Maximum Housing Scenarios

	Max Housing (at full build-out)	Max Office (at full build-out)
Employment growth	1,740	2,785
Population growth	3,430	-4,125
GDP growth ($2016)	$380 million	$730 million
Housing price change	-0.3%	0.4%
Overall price change	-0.06%	-0.03%
Inflation-adjusted per capita income ($2016)	$83	$52

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