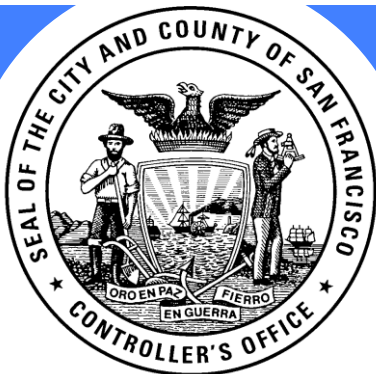


Mission Rock Proposed SUD & Development Agreement

Economic Impact Report

(Items # 170940 & 171313)



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
Office of Economic Analysis

02.07.2018

- On September 05, 2017 Mayor Lee, introduced legislation (#170940), co-sponsored by Supervisor Kim, to create the Mission Rock Special Use District (MR-SUD). The proposed SUD is bounded by real property known as Seawall Lot 337 (SWL 337), which is located east of Third Street between China Basin Channel and Mission Rock Street and the Pier 48. The total area of the SUD is approximately 28 acres including about 5 acres of Pier 48.
- The proposed legislation would change allowable heights and land uses for various parcels in the proposed SUD. Seawall Lot 337 is currently zoned as Mission Bay Open Space (MB-OS), whereas Pier 48 is currently zoned as Heavy Industrial (M-2) with a height limit of 40 feet.
- On December 12, 2017 the Mayor, co-sponsored by Supervisor Kim, also introduced the accompanying development agreement (#171313) between the City and SWL 337 Associates, an affiliate of the San Francisco Giants. The agreement would redevelop about 28 acres of land under the proposed Mission Rock SUD.
- The project is expected to create a mixed-use development near public transit area creating new housing, retail and commercial office space, increased public access to the waterfront, infrastructure improvements as well as preservation of historic pier 48.

Zoning Changes Under the MR-SUD

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- The project site (SWL 337 and Pier 48) currently contains open space and interim uses such as surface parking. Seawall lot 337 is currently zoned as Mission Bay Open Space (MB-OS), whereas Pier 48 is zoned as heavy industrial (M-2) with a height limit of 40 feet.
- The height limit for Pier 48 remains unchanged at 40 feet under the proposed MR-SUD.
- Residential, office, retail and parking uses will not be permitted in Pier 48. Only PDR and/or other uses (such as Community Recycling Collection Center, Open Recreation Area, Passive Outdoor Recreation, Public Transportation Facility, Utility Installation, and Wireless Telecommunications Facility) will be permitted (see Sec.249.80 (e)).
- The MR-SUD zoning legislation along with the Mission Rock Design Controls establish land use controls, building standards for the area and define the maximum heights (as shown on page 5) and density controls for the project area.
- Under the proposed MR-SUD, the SWL 337 is subdivided into 12 parcels with varying height limits ranging from 90 feet to 240 feet depending upon the parcel as shown on page 5.
- Parcels H, I and J that are fronting Terry A. Francois Boulevard will have maximum height limit of 120 feet, provided that floor area above 90 feet is used exclusively for residential uses and uses accessory to restaurant uses.

Zoning Changes Under the MR-SUD: Continued

- Three buildings (parcels A, D1 and F) within the SUD will be allowed to reach maximum height of 240 feet, provided that floor area above 190 feet is used exclusively for residential uses and uses accessory to restaurant uses; typical floors above a height of 190 feet can not exceed 12,000 square feet of gross floor area to ensure slender towers.
- Parking will only be permitted on parcel D2 under the proposed MR-SUD zoning.
- Furthermore, the height limit will only increase on a maximum of 10 acres of the approximately 28 acres land of the project site.
- The 18 acres on which the height limit will not increase would include areas that are devoted to open space (approximately 8 acres), circulation network for pedestrians, bicycles and vehicles (approximately 5 acres), and Pier 48 (approximately 5 acres).

General Map of the Proposed SUD Project Area

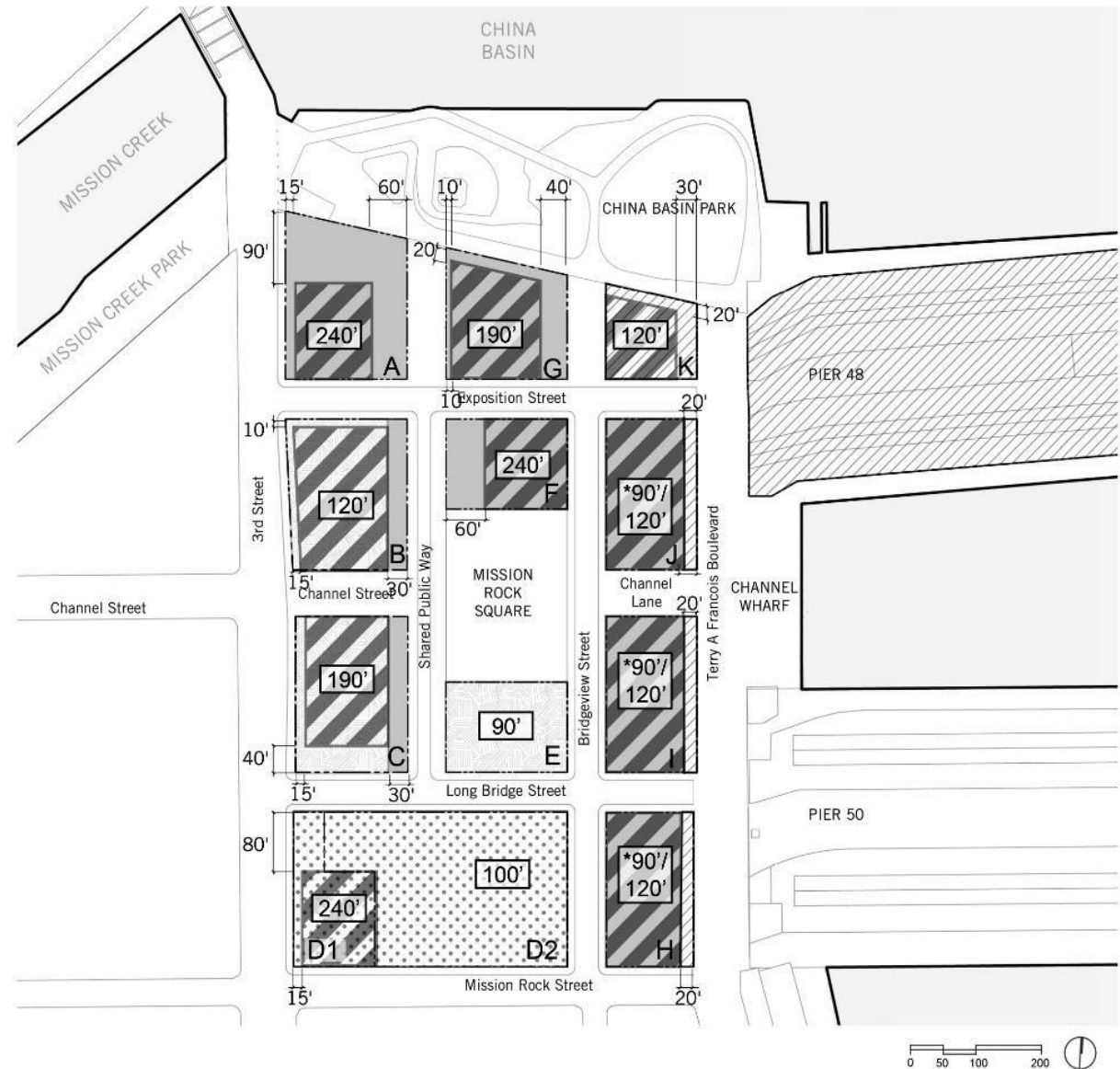


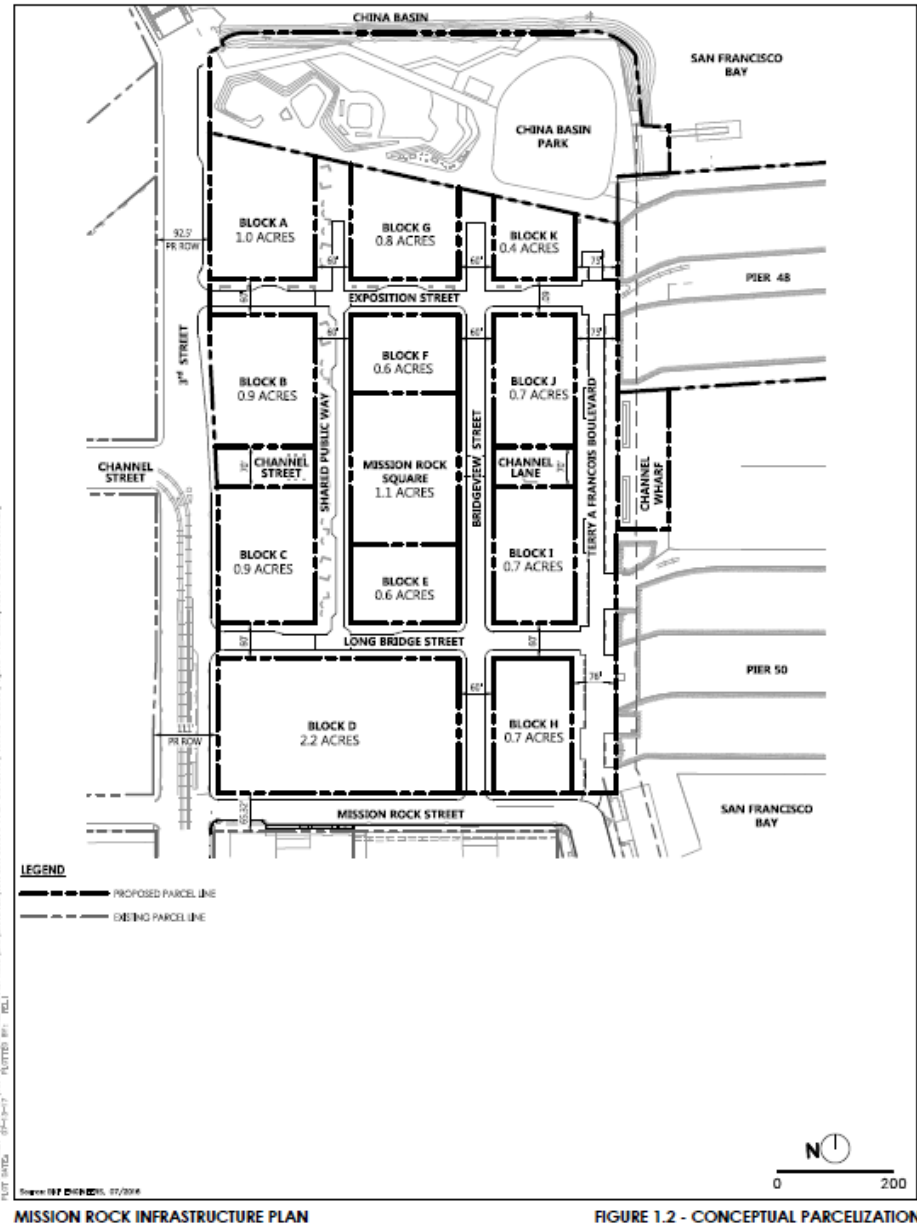
FIGURE 291-MR1 Maximum Height and Bulk

Project Description as Proposed Under the DA

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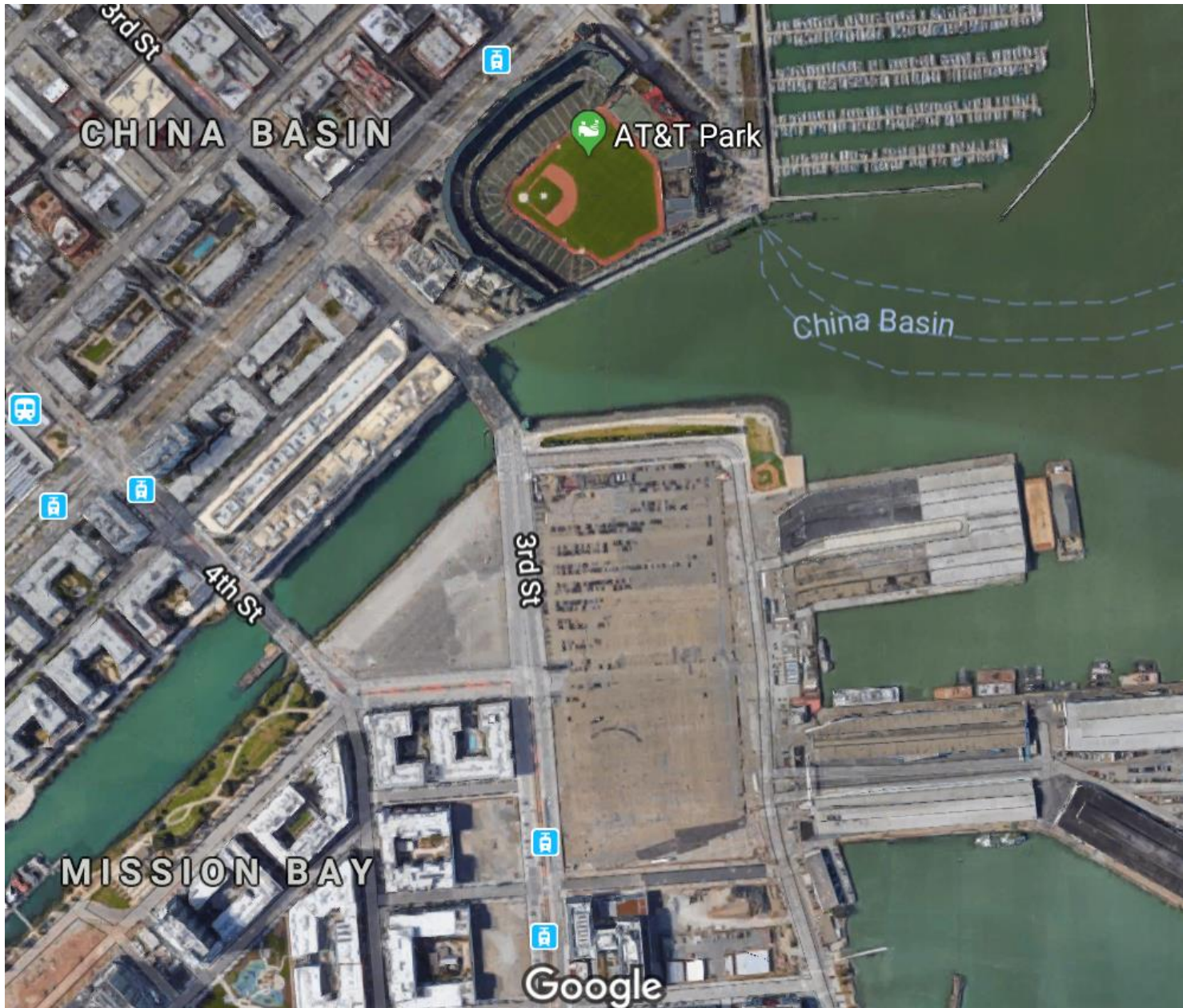
- The project site currently contains open space and interim uses, such as surface parking. The Port of San Francisco has been leasing to an affiliate of the San Francisco Giants for surface parking on about 16 acres of the lot known as SWL 337.
- The proposed project will be a mixed-use development of about 28 acres, containing two development areas. The SWL 337 (an approximately 23 acres site) comprising of 12 parcels located east of 3rd Street between China Basin Channel and Mission Rock Street, China Basin park and the portion of Terry A and the Pier 48 (approximately 5 acres site).
- As proposed, the project has dedicated parcels A, D1, F, I and K to residential buildings, while parcels B, E, G, H and J will be dedicated to office space; whereas parcel D2 will be reserved for structured parking.
- As proposed, the project is expected to produce the following results:
 1. 1,327 housing units (about 1.2 million sq. ft. of residential space) and of which 526 units (or 40%) will be affordable to households earning less than 150% of AMI.
 2. 1,231,091 sq. ft. of office space, 248,931 sq. ft. of retail space as well as 202,500 sq. ft. of PDR space.
 3. 983,876 sq. ft. of structured parking.
 4. Over 8 acres of parks and open space.
- Within the constraints set by the MR-SUD, the developer has some discretion about how much housing and office space could be built depending upon the market conditions.

Map of Block Parcel Areas



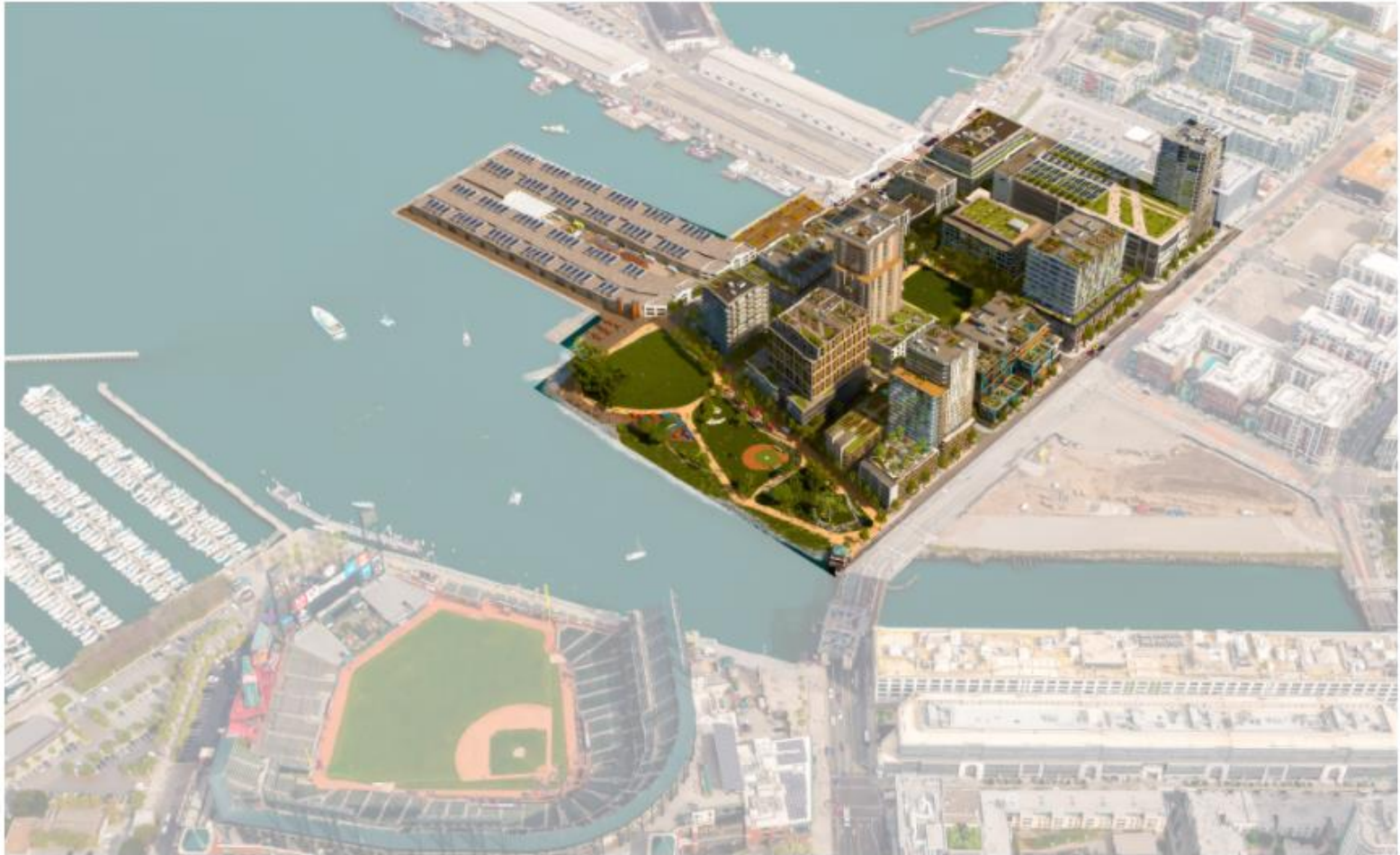
Area Map of Existing Structures

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Rendering of the Project Area as Proposed

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Source: <http://sfport.com/missionrock>

- The proposed MR-SUD development is expected to affect the local economy in three major ways:
 1. The re-zoning of Seawall Lot 337 will greatly expand the potential development capacity on the site, leading to an increase in housing, retail and office space. This will put downward pressure on prices and rents for residential and commercial real estate across the city, making it more attractive for residents and businesses.
 2. The investment activity following the rezoning and development agreement will generate additional construction activity.
 3. The direct value of the subsidy associated with the on-site affordable housing will both help to alleviate the housing burden of low-income households, and increase consumer spending in the local economy.
- These changes were modelled by estimating how much more development could be accommodated under the re-zoning, compared to the existing zoning.
- Since the new development could occur in different ways, we examine scenarios: one maximizing housing, one maximizing office development, and one reflecting the mid-point average of proposed development agreement.
- These scenarios, and the baseline development potential under the current zoning, are described in more detail on the next page.

Development Baseline and Scenarios

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- Since most of the site is currently zoned for open space, our baseline scenario assumes that only PDR space could be built under the existing M-2 zoning due to state public trust law prohibiting any residential space on Pier 48.
- Scenario 1 (High Residential) assumes the site would maximize residential development per requirements of the parcels designated as residential mixed-use, commercial mixed-use, flex commercial or residential mixed use. This scenario can be found in Table 2-5 of the draft EIR report.
- Scenario 2 (High Commercial) assumes the site would maximize commercial development per requirements of the parcels designated as residential mixed-use, commercial mixed-use, flex commercial or residential mixed use. Similarly, this scenario can be found in Table 2-5 of the draft EIR report.
- Scenario 3 (Mid-Point) reflects the project as proposed under the development agreement.
- The table on the next page indicates the presumed construction by type, for the baseline and each scenario relative to the baseline.

Difference in Potential Development Capacity

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Land Uses	Existing Zoning Potential	High Residential	High Commercial	Mid-Point as Proposed	Scenario 1: High Residential - Existing (Potential Diff)	Scenario 2: High Commercial - Existing (Potential Diff)	Scenario 3: Mid-Point - Existing (Potential Diff)
Residential (gsf)	0	1,600,000	1,100,000	1,200,000	1,600,000	1,100,000	1,200,000
<i>Total Units</i>	0	1,600	1,000	1,327	1,600	1,000	1,327
<i>BMR Units*</i>	0	288	400	531	288	400	531
Office (gsf)	0	972,200	1,400,000	1,231,091	972,200	1,400,000	1,231,091
Retail (gsf)	0	241,200	244,800	248,931	241,200	244,800	248,931
PDR (gsf)	345,029	208,700	208,700	202,500	-136,329	-136,329	-142,529
Total (gsf)	345,029	3,022,100	2,953,500	2,882,522	2,677,072	2,608,472	2,537,494

* Scenario 1 assumes 18% inclusionary housing requirement, whereas scenarios 2 and 3 reflect the project's commitment to 40%, due to higher commercial development that can support those BMR units. However, it may be possible to achieve higher inclusionary housing under scenario 1 through a different negotiated agreement, if development revenue and cost conditions change significantly in the future.

Impact of New Housing

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- An 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 have a potential to expand the city's housing development capacity anywhere from a gain of 1,600 units under Scenario 1 to 1,000 units under Scenario 2. The project as proposed (Scenario 3) would result in net increase of 1,327 housing units.
- The OEA estimates that the expanded development capacity created by the re-zoning would result in decline in housing prices in the range of 0.6% to 0.4% than they would have been otherwise (see page 16).

Impact of Affordable Housing Subsidy

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- 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.
- The OEA estimates (see page 12) that the affordable housing supply could increase between 288 units (Scenario 1) to 531 units (Scenario 3).
- The OEA further estimates that at build-out (see page 16), these additional affordable units would reduce low-income housing payments by \$2.0 million, \$2.8 million and \$3.7 million for Scenarios 1, 2 and 3, respectively.

Impact of Commercial Space

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- Increase in the non-residential supply will put downward pressure on commercial office, retail and PDR rents in San Francisco.
- Under the high residential scenario (Scenario 1) the city's office space is expected to increase by about 1.0 million square feet; whereas under the high commercial scenario (Scenario 2), the office space is expected to increase by 1.4 million square feet.
- Given the amount of non-residential space that may be developed, including office, retail, and PDR space, the OEA similarly projects a decline in non-residential rents citywide by 0.9%, 1.3%, and 1.1% under scenarios 1, 2, and 3, respectively. These rent declines reflect a combined weighted average rent decline for office, retail and PDR space under each scenario.
- This citywide decline in rents due to added space will result in total citywide rent savings for the commercial space by \$103 million, \$144 million, and \$128 million, under scenario 1, 2 and 3, respectively.

REMI Model Inputs

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- The OEA uses the REMI model to simulate the impact of the proposed re-zoning and development agreement on the city's economy. The simulation inputs are shown below.

	Maximum Residential (Scenario 1)	Maximum Commercial (Scenario 2)	Mid-Point (Scenario 3)
Housing Price Change	-0.6%	-0.4%	-0.5%
Affordable Housing Subsidy Value (\$ million)	\$2.0	\$2.8	\$3.7
Value of Residential Investment (\$ million)	\$1,280	\$800	\$1,061
Value of Non-Residential Investment (\$ million)	\$800	\$1,123	\$996
Change in Rent for Office Space (\$ million)	-\$93	-\$134	-\$118
Change in Rent for Retail Space (\$ million)	-\$12	-\$12	-\$12
Change in Rent for PDR Space (\$ million)	+2	+\$2	+\$2

Economic Impact Assessment

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- The project was assumed to develop over a twenty-year period, from 2019-2038. The impacts as of 2038, for each Scenario, are shown in the table below. These impacts reflect the total city-wide impacts when compared with the baseline.

	Maximum Residential (Scenario 1)	Maximum Commercial (Scenario 2)	Mid-Point (Scenario 3)
Citywide Employment Change	1,370	1,245	1,347
Citywide Population Change	2,723	2,158	2,501
GDP Change (\$2017, million)	246	234	247
Disposable Personal Income Per Capita (\$2017)	+\$24	+\$20	+\$23
Housing Price Change	-0.28%	-0.11%	-0.20%
Real Disposable Personal Income Per Capita (reflecting housing price change) (\$2017)	+\$43	+\$26	+\$35

- The proposed Mission Rock 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.
- Jobs, population, the city's GDP, and average per capita income for San Francisco residents are all expected to rise as a result of the proposed legislation under each alternative scenario.
- The economic impact as measured by GDP will be slightly higher under the scenario 3 (project as proposed) when compared to high residential scenario (scenario 1)
- However, employment growth will be slightly higher under the high residential scenario (scenario 1) due to higher level of total capital investment and the longer-term benefit of lower housing prices.
- Similarly, disposable per capita income (adjusted for housing price decline) will be higher under high residential scenario compared to either high commercial or project as proposed scenarios.

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