File No. 180916 Committee Item No. 6
Board Item No. ____

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Alisa Somera **Date** November 29, 2018
Completed by: ____ **Date** ____

[Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District]

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
Additions to Codes are in *single-underline italics Times New Roman font*.
Deletions to Codes are in ~~*strikethrough italics Times New Roman font*~~.
Board amendment additions are in double-underlined Arial font.
Board amendment deletions are in ~~strikethrough Arial font~~.
Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Environmental and Land Use Findings.

(a) The Planning Department has determined that the actions contemplated in this ordinance comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.). Said determination is on file with the Clerk of the Board of Supervisors in File No. 180916 and is incorporated herein by reference. The Board affirms this determination.

(b) On October 18, 2018, the Planning Commission, in Resolution No. 20317, adopted findings that the actions contemplated in this ordinance are consistent, on balance, with the City's General Plan and eight priority policies of Planning Code Section 101.1. The Board adopts these findings as its own. A copy of said Resolution is on file with the Clerk of the Board of Supervisors in File No. 180916, and is incorporated herein by reference.

(c) Pursuant to Planning Code Section 302, the Board finds that this Planning Code amendment will serve the public necessity, convenience, and welfare for the reasons set forth in Planning Commission Resolution No. 20317, and the Board incorporates such reasons herein by reference.

Section 2. Findings About the Need for Permanent Controls for Non-Retail Sales and Service Uses.

(a) Adopted in 1985, the Downtown Area Plan sets forth policies that guide land use decisions to create the physical form and pattern of a vibrant, compact, pedestrian-oriented, livable, and vital downtown San Francisco. The Downtown Area Plan grew out of a contemporaneous awareness of the public concern over the degree of change occurring downtown and the need to balance the often conflicting civic objectives of fostering a vital economy and retaining the urban patterns and structures which collectively form the physical essence of San Francisco.

(b) The twenty-three core objectives of the Downtown Area Plan continue to guide the evolution of one of the most successful core areas of any American city. The vitality, job and housing density, retail activity, and overall character of San Francisco's downtown area have improved dramatically since the inception of the Downtown Area Plan.

(c) Objective 3 of the Downtown Area Plan calls for the improvement of downtown San Francisco's position as the region's prime location for specialized retail trade. Policy 3.1 of the Downtown Area Plan mandates the maintenance of high quality, specialty retail shopping facilities in the retail core, and notes that the concentration of quality stores and merchandise allows the retail area to function as a regional, as well as a citywide attraction. Policy 3.1 also provides that the appeal of the downtown area is enhanced by the "sunny pedestrian environment" in and around Union Square, and directs that further development retain the area's compact and pleasant environmental setting.

(d) To enhance the viability of a vibrant retail environment, the Downtown Area Plan created the C-3-R Downtown Retail Zoning District (C-3-R District), and prioritized the concentration of retail uses within the district while recognizing that too much retail space in other scattered locations could weaken the strength of a concentrated retail district. The C-3-R District represented a retail core, and regulations were crafted to protect against retail to non-retail conversions. In spite of some decentralization and fragmentation of retail uses over the years, the retail environment of Union Square has remained strong.

(e) The C-3-R District is one of the more compact Downtown C-3 Zoning Districts and encompasses the Union Square neighborhood, with boundaries extending from Bush Street to the North, Kearny Street to the East, Mission Street to the South and Powell Street to the West. Also referred to as the Downtown Retail District, the C-3-R District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot.

(f) The Planning Department and Planning Commission have been studying ongoing trends and changes in the retail market in San Francisco. In response to applications seeking to convert existing retail space to office use within the C-3-R District, the Planning Commission held hearings on March 16, 2017, and February 22, 2018, to discuss conversions from retail to other uses in that district.

(g) At the March 16, 2017, Planning Commission hearing, the Office of Economic and Workforce Development (OEWD) reported on the trends in the C-3-R District as compared to local, regional, and national trends in retail (2017 OEWD Report). At that hearing, Planning Department staff outlined three potential approaches to reviewing retail-to-office conversions in the C-3-R District, which included (1) continuing to review projects seeking upper level retail-to-office conversions on a case-by-case basis; (2) adopting a policy that provides specific additional criteria that such projects must meet in order for approval; or (3) initiating changes to the Planning Code to codify the criteria that such projects must meet in order for approval. The 2017 OEWD Report is on file with the Clerk of the Board of Supervisors in Board File No. 180916 and is incorporated by reference.

(h) Since March 16, 2017, OEWD conducted additional research and analysis related to lease rates, vacancies, and tenant space sizes specific to the C-3-R District and found, in pertinent part, that Union Square retail lease rates have surpassed Citywide lease rates, and that Union Square has higher lease rates than any part of the City in all classes of office.

(i) At the February 22, 2018, Planning Commission hearing, OEWD reported on these changes (2018 OEWD Report), and cited dramatic changes in the retail landscape over the past 40 years in San Francisco and ongoing major restructuring in the national retail industry. OEWD found that although San Francisco's retail economy has somewhat slowed, retail stores and restaurants here have largely been insulated from national trends due to San Francisco's many competitive advantages, including the City's strong local economy, significant regional and international tourism, and granular approach to zoning controls aimed at enhancing the City's existing retail corridors and zoning districts. The 2018 OEWD Report is on file with the Clerk of the Board of Supervisors in Board File No. 180916 and is incorporated by reference.

(j) The Union Square area continues to be a world-class retail destination that draws both tourists and Bay Area residents with its combination of walkable shopping and dining, excellent transit access, and top-tier hospitality. A 2016 study showed that Union Square merchants generate approximately 37% of San Francisco's sales tax in general consumer goods, and 15% of all City sales tax dollars.

(k) To ensure that the City does not lose the opportunity to preserve the existing character of the C-3-R District, and to continue to develop and conserve the economic vitality of the City, it is necessary to consider the effects of conversions from Retail to Non-Retail Sales and Service use in the C-3-R District.

(l) On May 22, 2018, the Board of Supervisors passed Resolution No. 153-18, an interim controls resolution. In addition to the findings required by Planning Code Section 303, Resolution No. 153-18 requires the City to make additional findings regarding the viability of Retail in the C-3-R District to approve any conditional use permit seeking to convert from a Retail Use to Non-Retail Sales and Service Use. An applicant must also provide information regarding the vacancy and rental rates for Retail and Non-Retail Sales and Services Uses, and any other relevant information regarding neighborhood development, economic or demand changes in the C-3-R District. Resolution No. 153-18 became effective on June 1, 2018, and will expire 18 months from that date, or until the Board of Supervisors adopts permanent legislation regulating conversions from Retail to Non-Retail Sales and Service Use in the C-3-R District, whichever comes first.

(m) The Board of Supervisors hereby enacts permanent controls for Non-Retail Sales and Service Use in the C-3-R District, including conversions from Retail Use.

Section 3. The Planning Code is hereby amended by revising Section 210.2, to read as follows:

SEC. 210.2. C-3 DISTRICTS: DOWNTOWN COMMERCIAL.

Downtown San Francisco, a center for City, regional, national, and international commerce, is composed of five separate districts, as follows:

* * * *

C-3-R District: Downtown Retail. This District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions.

* * * *

Table 210.2

ZONING CONTROL TABLE FOR C-3 DISTRICTS

Zoning Category	§ References	C-3-O	C-3-O(SD)	C-3-R	C-3-G	C-3-S
* * * *						
NON-RESIDENTIAL STANDARDS AND USES						
* * * *						
Sales and Service Category						
* * * *						
Non-Retail Sales and Service*	§ 102	P (1)	P (1)	P (2)	P (1)	P (1)
Catering	§ 102	P	P	P	P	P
Design Professional	§ 102	P	P	P (2)	P	P

Laboratory	§ 102	P	P	P	P	P
Life Science	§ 102	P	P	P	P	P
Storage, Commercial	§ 102	NP	NP	NP	NP	NP
Storage, Wholesale	§ 102	NP	NP	NP	NP	NP
Wholesale Sales	§ 102	P	P	P	P	P
* * * *						

* Not listed below.

(1) C ~~is~~ required if at or below the ground floor.

(2) *N*P if located on *floors one through three* ~~the ground floor~~ and *does not* offer~~s~~ on-site services to the general public. ~~NP on the ground floor if it does not provide onsite services to the general public.~~ C ~~is~~ required if *located on floors four through six and* the use is larger than 5,000 gross square feet in size ~~or located above the ground floor~~.

In ~~the C-3-R District, in~~addition to the criteria set forth in Section 303, *a Conditional Use Authorization pursuant to this note* ~~approval~~ shall be given upon a determination that the use will not detract from the District's primary function as an area for comparison shopper retailing and direct consumer services.

(3) C ~~R~~*r*equired if operated on an open lot.

(4) Required to be in an enclosed building, NP if operated on open lot.

(5) C required if taller than 25 feet above roof, grade*,* or height limit depending on site or if within 1000 feet of an R District and includes a parabolic antenna with a diameter in excess of 3 meters or a composite diameter of antennae in excess of 6 meters. See definition in Section 102 for more information.

(6) C required for Formula Retail on properties in the C-3-G District with frontage on Market Street, between 6th Street and the intersection of Market Street, 12th Street*,* and Franklin Street.

(7) Construction of Accessory Dwelling Units may be permitted pursuant to Section 207(c)(4).

Section 4. Findings Regarding Park, Recreation, and Open Space Requirements in the Union Square C-3-R Downtown Retail Zoning District.

(a) In addition to the findings in Section 2 of this ordinance, the Board of Supervisors further finds that Union Square is both a neighborhood and open space attraction within the heart of Downtown San Francisco that is an incredibly popular destination for San Francisco residents, the regional San Francisco Bay Area, and for visitors and tourists from around the world. Union Square consists of many of the City's finest shops and hotels and is one of the strongest downtown retail districts in the country. The loss of retail space in the C-3-R District will diminish the existing character of the Union Square area by reducing the number of retailers, which may cause some shoppers to leave sooner than they might otherwise if a greater density of retailers were present.

(b) Fundamental to the C-3-R District at the time of its creation was its emphasis on a continuity of retail and consumer service uses, its ongoing encouragement of pedestrian interest and amenities, and efforts to minimize conflicts between shoppers and motor vehicles.

(c) The C-3-R District was created specifically to protect against conversions of retail use to other non-retail uses. Although the retail landscape was different in the 1980s when the Downtown Area Plan was initially crafted and conceived, the rapid growth of office space was and remains a threat to existing retail space, particularly on the upper floors. In furtherance of a dense, pedestrian-oriented retail environment, Downtown Area Plan Policy 3.3 requires City policymakers to prioritize retail service businesses in upper floor offices in the retail district.

(d) The 2017 OEWD Report found that (1) rents for smaller retail spaces in the C-3-R District had outpaced citywide rates, (2) space available for rent was at an all-time low, (3) the C-3-R District continued to contribute a large portion of City sales tax revenue to the economy, and (4) over the last 5 years, sales of General Consumer Goods had in fact grown both in the C-3-R District and citywide. The 2017 OEWD Report also identified trends in the retail industry, among them: (1) a shift away from the general department store model, (2) a general desire for smaller "footprints", and (3) an increase in retailers seeking to provide a more targeted "lifestyle specific" consumer experience.

(e) Meanwhile, the market for leasing office space throughout San Francisco continues to thrive, presenting external pressure on the competitiveness of retail space within the C-3-R District. According to the Jones Lang Lasalle Office Outlook Report for Q1 2018, leasing activity maintained its strong momentum from previous years, with tenants rushing to lease space in new office developments in the City, even before construction is finished. That report also found that San Francisco office tenants value spaces with creative and flexible build-outs that are move-in ready, meaning many office tenants are willing to convert existing retail spaces within the Downtown C-3-R to Office Use. The Jones Lang Lasalle Office Outlook Report for Q1 2018 is on file with the Clerk of the Board of Supervisors in Board File No. ________.

(f) Applicants continue to seek to convert retail space to office and other non-retail space. The applications to convert existing retail space contribute to the rising rents for existing retail space and limited amount of available retail space.

(g) The proposed conversion of retail to office space in the C-3-R District brings with it new impacts on the public realm, by virtue of bringing new office workers to this vibrant predominantly-retail area. When a space converts from retail to office, generally, there are more office workers per square foot than retail workers per square foot.

(h) As office space is approved, either as new construction or by way of conversion, public facilities will be more heavily and consistently used throughout the full day. This results in a more intense use for public facilities due to the larger worker population. The stress on these public facilities and the need for new and improved open space amenities and infrastructure is anticipated to increase as the creation of new office space occurs in the Downtown C-3-R.

(i) In 2012, the City contracted with Hausrath Economics Group to prepare the Downtown San Francisco Park, Recreation, and Open Space Development Impact Fee Nexus Study (Nexus Study). The Nexus Study examined the impacts of people living in new housing and working in new buildings in downtown San Francisco and the resulting increase in demand for park, recreation, and open space facilities created by the expected development of several land uses, including housing, office, retail, hotel and institutional development in the downtown area. The Nexus Study is on file with the Clerk of the Board of Supervisors in Board File No. 180916, and incorporated by reference.

(j) The Nexus Study examined development horizons through 2030 and found that the downtown area is expected to accommodate a substantial amount of the population and employment growth projected for San Francisco. The scenario reflects state, regional and local policies directing new development to dense urban centers served by transit. Office employment accounted for 75 percent of the total expected employment growth from 2005 through 2030.

(k) The Nexus Study found that new facilities and improvements to existing facilities are required to accommodate additional demand for park, recreation and open space facilities in order to maintain the current level of service. The Nexus Study found that any fee revenue would not be used to correct existing standards, but instead would be used to maintain the existing standards to meet the growing population and employment growth. If facility inventory were not expended or improved to accommodate increased demand, then the level of service would deteriorate as the increased activity associated with growth and new development would occur within the confines of constrained existing facilities.

(l) The Nexus Study found that costs for park, recreation, and open space facilities in the downtown area are higher than elsewhere in the City. The Nexus Study found that the higher cost is driven by: (1) the higher cost of land in the downtown area attributable to the limited amount of suitable open land, (2) space and locational restrictions that lead to higher development costs, and (3) the need for more expensive improvements due to the density of the existing development and intensity of expected use.

(m) According to the Nexus Study, park, recreation, and open space facilities are critical components of a quality of life analysis because they sustain the social, physical and mental health of residents and workers, and provide economic benefits as well. Adequate open space provides essential relief from the density and congestion associated with downtown high-rise development. The Nexus Study found that as development occurs, additional park and open space facilities are needed to maintain the quality of urban experience that makes downtown San Francisco an attractive place to do business, live, and visit.

(n) The Board of Supervisors recognizes that the Union Square Park, Recreation, and Open Space Fee is only one part of the City's overall strategy for addressing the need of open space. The Downtown Park Fee is a longstanding commercial development impact fee, initiated in 1985, which supports recreational space in the downtown area for the neighborhood's daytime employee population. In adopting the Downtown Park Fee, the Board of Supervisors recognized that continued office development downtown area increased the daytime population and created a need for additional public park and recreation facilities. The Downtown Park Fee is currently set at $2 per square foot.

(o) The Board of Supervisors finds that park, recreation, and open space facilities provide economic benefits, by sustaining the social, physical and mental health of residents, visitors, and workers. New park, recreation, and open space facilities may also attract shoppers to the retail core and offset any loss created by the conversion to office.

(p) The Board of Supervisors has reviewed the Nexus Study and finds that the study supports the current requirements for the Union Square Park, Recreation, and Open Space Fee. The Board of Supervisors finds that the Nexus Study: identifies the purpose of the fee to mitigate impacts on the demand for park, recreation, and open space in the downtown area, which includes the C-3-R District; identifies the facilities and improvements that the fee would support; and demonstrates a reasonable relationship between the planned new development and the use of the fee, the type of new development planned and the need for facilities to accommodate growth, and the amount of the fee and the cost of facilities and improvements.

(q) The Board of Supervisors finds that the Union Square Park, Recreation, and Open Space Fee would fund new improvements required by new developments, and would not be used to remedy existing deficiencies or used for maintenance or operation purposes.

(r) The Board of Supervisors finds that the Union Square Park, Recreation, and Open Space Fee is similar to the existing Downtown Park Fee, and that the Nexus Study establishes that the current requirements for both fees is less than the cost of mitigation created by new office development. The City may also fund the cost of remedying existing deficiencies through other public and private funds.

Section 5. The Administrative Code is hereby amended by adding section 10.100-354 and the Planning Code is hereby amended by revising sections 428, 428.1, 428.2, and 428.3 to read:

SEC. 10.100-354. UNION SQUARE PARK, RECREATION, AND OPEN SPACE FUND.

*(a) **Establishment of Fund**. The Union Square Park, Recreation, and Open Space Fund (the "Fund") is established as a category eight fund to receive any monies collected pursuant to the Union Square Park, Recreation, and Open Space Fee, or donated to pay for City activities designed to address park, recreation, or open space needs in the C-3-R Downtown Retail Zoning District.*

*(b) **Use of Fund**. Monies in the Fund shall be used exclusively by the Controller or his or her designee (the "Controller") to pay for new and improved facilities to meet the needs attributable to new recreation, park, and open space users in the C-3-R Downtown Retail Zoning District. The City Administrator shall propose specific projects for use of proceeds in the fund, subject to review, amendment, and approval by the Mayor and Board of Supervisor action through the City's budget process.*

*(c) **Administration of Fund**. The Controller shall submit a written report to the Board of Supervisors at least every two years describing expenditures made from the Fund during the prior two fiscal years.*

SEC. 428. UNION SQUARE PARK, RECREATION, AND OPEN SPACE FEE.

Sections 428.1 through 428.3 hereinafter referred to as Section 428.1 et seq. set forth the requirements and procedures for the Union Square Park, Recreation, and Open Space Fee.

SEC. 428.1 PURPOSE AND FINDINGS SUPPORTING UNION SQUARE PARK, RECREATION, AND OPEN SPACE FEE.

*(a) **Purpose**. The purpose of the Union Square Park, Recreation, and Open Space Fee is to provide funding to increase the supply of park, recreation, and open space facilities to serve the needs attributable to new office development in the C-3-R Downtown Retail Zoning District. The Board of Supervisors hereby finds that the Union Square area, most of which is zoned as the C-3-R Downtown*

Retail Zoning District, is a world-class retail destination that draws both tourists and Bay Area residents with its combination of walkable shopping and dining, excellent transit access, and top-tier hospitality. As new office development occurs, additional park, recreation, and open space facilities are needed to maintain the quality of urban experience that makes downtown San Francisco an attractive place to do business, live, and visit.

*(b) **Findings**. The Board of Supervisors has reviewed the Downtown San Francisco Park, Recreation, and Open Space Development Impact Fee Nexus Study, prepared by Hausrath dated April 13, 2012 ("Nexus Study"), on file with the Clerk of the Board of Supervisors in File No. 180916. In accordance with the California Mitigation Fee Act, Government Code 66001(a), the Board of Supervisors adopts the findings and conclusions of that study, and incorporates those findings and conclusions by reference to support the imposition of the fees under this Section.*

SEC. 428.2. DEFINITIONS.

See Section 401 of this Article.

SEC. 428.3. APPLICATION OF UNION SQUARE PARK, RECREATION, AND OPEN SPACE FEE.

*(a) **Application**. Section 428.1 et seq., shall apply to any office development project in the C-3-R Downtown Retail Zoning District.*

*(b) **Amount of fee**. The applicable fee shall be $4 per square foot.*

*(c) **Other Fee Provisions**. The Union Square Park, Recreation, and Open Space Fee shall be subject to the provisions of this Article, including, but not limited to Sections 401 through 410.*

Section 6. Effective Date. This ordinance shall become effective 30 days after enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board of Supervisors overrides the Mayor's veto of the ordinance.

Section 7. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors intends to amend only those words, phrases, paragraphs, subsections, sections, articles, numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal Code that are explicitly shown in this ordinance as additions, deletions, Board amendment additions, and Board amendment deletions in accordance with the "Note" that appears under the official title of the ordinance.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: ______________________
AUSTIN M. YANG
Deputy City Attorney

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FILE NO. 180916

REVISED LEGISLATIVE DIGEST
(Substituted, 10/16/2018)

[Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District]

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

Existing Law

Planning Code Section 210.2 defines the C-3-R Downtown Retail Zoning District (C-3-R District) as "a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions."

In this district, Non-Retail Sales are Service uses are principally permitted if they are located on the ground floor and offer on-site services to the general public. Non-Retail Sales are Service uses are not permitted on the ground floor if they do not provide onsite services to the general public. If the use is larger than 5,000 gross square feet in size or located above the ground floor, then a conditional use permit is required. In addition to the criteria set forth in Section 303, a conditional use permit for a Non-Retail Sales and Service use shall be approved upon a determination that the use will not detract from the District's primary function as an area for comparison shopper retailing and direct consumer services.
Downtown C-3-R

In Resolution No. 153-18, the Board of Supervisors passed interim controls for the C-3-R District. Resolution No. 153-18 became effective on June 1, 2018, and will expire 18 months from that date, or until the Board of Supervisors adopts permanent legislation regulating conversions from Retail to Non-Retail Sales and Service Use in the C-3-R District, whichever comes first.

The Downtown Parks fee was passed in 1985 and set at $2 per square foot. The fee applies to any office development.

Amendments to Current Law

This ordinance would amend the zoning controls for Non-Retail Sales and Service Uses in the C-3-R District, as stated in Planning Code section 210.2. The amendment would change the default zoning restriction for Non-Retail Sales and Services to Not Permitted. The zoning control would be Principally Permitted if the Non-Retail Sales and Service Use is either located on floors one through three and open to the general public, located on floors four through six and the size of the use is 5,000 gross square feet or smaller, or located on floor seven and above. If the Non-Retail Sales and Service Use is located on floors four through six and the size of the use is greater than 5,000 gross square feet, a conditional use authorization would be required.

This ordinance would also create a new fund and fee applicable to office development in the C-3-R District. The fee would apply to any project to that proposes to add or create new office space. The funds would be administered by the Controller.

Background Information

These permanent controls follow study and hearings held by the Planning Commission over several years. City policymakers have been concerned with developing reasonable controls to address the proposed conversion from retail to office space, and addressing the impacts created by new office space on the existing retail core and public facilities use by new office workers.

On October 16, 2018, the sponsor introduced a substitute ordinance clarifying the control for Non-Retail Sales and Service Uses located in the C-3-R District located on floors four through six and where the size of the use is 5,000 gross square feet or smaller. For those conditions, the Non-Retail Sales and Service Uses is considered Principally Permitted. The substitute ordinance also changed the approval process for use of the funds and modified the reporting obligation to once every two years from once every year.

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SAN FRANCISCO
PLANNING DEPARTMENT

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October 25, 2018

Ms. Angela Calvillo, Clerk
Honorable Supervisor Peskin
Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: **Transmittal of Planning Department Case Number: 2018-011057PCA**
Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District
Board File No. 180916
Planning Commission Recommendation: ***Approval with Modifications***

Dear Ms. Calvillo and Supervisor Peskin,

On October 18, 2018, the Planning Commission conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance that would change zoning controls for Non-Retail Sales and Service Uses in the C-3-R Downtown Retail Zoning District, and amend the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee. At the hearing the Planning Commission recommended approval with modifications. The modifications include the following:

1. Amend the applicability of the proposed Union Square Park, Recreation, and Open Space Fee to apply to office development over 5,000 square feet *only*.
2. Amend Table 210.2 (2) in the proposed Ordinance to clarify that Non-Retail Sales and Service Uses under 5,000 square feet are Permitted in the C-3-R.
3. Allow Non-Retail Sales and Service Uses (Office Uses) on the 3rd floor with Conditional Use authorization.
4. Grandfather all pending applications proposing to convert Retail to Non-Retail uses in the C-3-R District to be subject to the current controls.

The proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c) and 15378 because they do not result in a physical change in the environment.

Please find attached documents relating to the actions of the Commission. If you have any questions or require further information please do not hesitate to contact me.
Sincerely,

Aaron D. Starr
Manage of Legislative Affairs

cc:
Austin Yang, Deputy City Attorney
Lee Hepner, Aide to Supervisor Peskin
Erica Major, Office of the Clerk of the Board

Attachments :
Planning Commission Resolution
Planning Department Executive Summary

SAN FRANCISCO
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Planning Commission Resolution No. 20317

HEARING DATE OCTOBER 18, 2018

Project Name:	**Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District**
Case Number:	**2018-011057PCA** [Board File No. 180916]
Initiated by:	Supervisor Peskin / Introduced September 18, 2018
Staff Contact:	Audrey Butkus, Legislative Affairs audrey.butkus@sfgov.org, (415) 575-9129
Reviewed by:	Aaron Starr, Manager of Legislative Affairs aaron.starr@sfgov.org, 415-558-6362

RESOLUTION APPROVING A PROPOSED ORDINANCE THAT WOULDTO CHANGE ZONING CONTROLS FOR NON-RETAIL SALES AND SERVICE USES IN THE C-3-R DOWNTOWN RETAIL ZONING DISTRICT; AMENDING THE PLANNING AND ADMINISTRATIVE CODES TO CREATE THE UNION SQUARE PARK, RECREATION, AND OPEN SPACE FUND AND FEE; ADOPTING FINDINGS, INCLUDING ENVIRONMENTAL FINDINGS, PLANNING CODE SECTION 302 FINDINGS, AND FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN AND PLANNING CODE SECTION 101.1.

WHEREAS, on September 18, 2018 Supervisor Peskin introduced a proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 180916, which would change zoning controls for Non-Retail Sales and Service Uses in the C-3-R Downtown Retail Zoning District, and amend the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee;

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance on October 18, 2018; and,

WHEREAS, the proposed Ordinance has been determined to be categorically exempt from environmental review under the California Environmental Quality Acts Sections 15060(c)(2) and 15378; and

WHEREAS, the Planning Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of Department staff and other interested parties; and

WHEREAS, all pertinent documents may be found in the files of the Department, as the custodian of records, at 1650 Mission Street, Suite 400, San Francisco; and

WHEREAS, the Planning Commission has reviewed the proposed Ordinance; and

WHEREAS, the Planning Commission finds from the facts presented that the public necessity, convenience, and general welfare require the proposed amendment; and

MOVED, that the Planning Commission hereby **approves with modifications** the proposed ordinance.

FINDINGS

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

The proposed Ordinance, with recommended modifications, will successfully aid in implementing the intention of the Downtown Area Plan, which aims to foster a strong retail core, while providing appropriate avenues for office uses. The Downtown Area Plan created the C-3-R Downtown Retail Zoning District (C-3-R District) to prioritize the concentration of retail uses within the district. Although the retail landscape was different in the 1980's when the Downtown Plan was crafted, the rapid growth of office uses and the diminishing supply of available space led to concern about office encroachment into traditional retail areas. The concern was born out of conversions to office in spaces such as the former Livingston's and the Sloan Building. The Downtown Plan specifically identified the ease of converting upper story retail space for office users able to pay higher rents. Accordingly, the plan created the C-3-R District, which represented the retail core and in which regulations were crafted to protect against retail conversions.

The Downtown Plan also recognized that too much retail space in other scattered locations could weaken the strength of a concentrated retail district. The loss of retail space in the C-3-R District will diminish the existing character of the Union Square area by reducing the number of retailers. This in turn may cause some shoppers to leave sooner than they might otherwise if a greater density of retailers were present. To ensure that the City does not lose the existing character of the C-3-R District, it is necessary to maintain regulations that will foster a strong retail core on the lower floors, while providing avenues for Non-Retail Sales and Services to occupy the upper floors.

The conversion of retail to office space in the C-3-R District brings with it new impacts on the public realm. When a space converts from retail to office, there are generally more office workers per square foot than in retail. Public facilities, such as parks and open spaces, will be more heavily used throughout the day. This results in a more intense use for public facilities due to the larger worker population. The stress on these public facilities and the need for new and improved open space amenities and infrastructure necessitates the need for an impact fee to offset these costs.

<u>Recommended Modifications:</u>

1. Amend the applicability of the proposed Union Square Park, Recreation, and Open Space Fee to apply to office development over 5,000 square feet *only*.
2. Amend Table 210.2 (2) in the proposed Ordinance to clarify that Non-Retail Sales and Service Uses under 5,000 square feet are Permitted in the C-3-R.
3. Allow Non-Retail Sales and Service Uses (Office Uses) on the 3rd floor with Conditional Use authorization.
4. Grandfather all pending applications proposing to convert Retail to Non-Retail uses in the C-3-R District to be subject to the current controls.

1. **General Plan Compliance.** The proposed Ordinance and the Commission's recommended modifications are consistent with the following Objectives and Policies of the General Plan:

<u>General Plan Priorities:</u>
The proposed Ordinance is consistent with the following objectives and policies of the General Plan:

DOWNTOWN AREA PLAN

OBJECTIVE 1
MANAGE ECONOMIC GROWTH AND CHANGE TO ENSURE ENHANCEMENT OF THE TOTAL CITY LIVING AND WORKING ENVIRONMENT.

Policy 1.1
Encourage development which produces substantial net benefits and minimizes undesirable consequences. Discourage development which has substantial undesirable consequences which cannot be mitigated.

The proposed Ordinance ensures that the retail core in the Downtown is preserved, while also accommodating for Non-Retail uses on the upper floors. Geary Blvd.

OBJECTIVE 3
IMPROVE DOWNTOWN SAN FRANCISCO'S POSITION AS THE REGION'S PRIME LOCATION FOR SPECIALIZED RETAIL TRADE.

Policy 3.1
Maintain high quality, specialty retail shopping facilities in the retail core.

Policy 3.3
Preserve retail service businesses in upper floor offices in the retail district.

The proposed Ordinance fosters continued development of Retail uses on the first three floors of buildings in the C-3-R District by not permitting Non-Retail Sales and Service uses unless they provide on-site services to the general public.

OBJECTIVE 5
RETAIN A DIVERSE BASE OF SUPPORT COMMERCIAL ACTIVITY IN AND NEAR DOWNTOWN.

Policy 5.1
Provide space to support commercial activities within the downtown and in adjacent areas.

The strength of the prime office activities concentrated downtown is dependent upon a wide range of support commercial activities nearby. The proposed Ordinance reconfigures controls to better accommodate an appropriate amount of Retail uses and Non-Retail Sales and Service uses that provide on-site services to *the general public. In accordance with the Downtown Plan, these uses on lower floors serve to benefit Non-Retail and Office uses on upper floors.*

OBJECTIVE 9
PROVIDE QUALITY OPEN SPACE IN SUFFICIENT QUANTITY AND VARIETY TO MEET THE NEEDS OF DOWNTOWN WORKERS, RESIDENTS, AND VISITORS.

Policy 9.1
Require usable indoor and outdoor open space, accessible to the public, as part of new downtown development.

Policy 9.2
Provide different kinds of open space downtown.

The proposed Ordinance's impact fee will contribute to the development of adequate open space; which directly contributes to the desirability of downtown San Francisco as a place to visit, work, and live.

COMMERCE AND INDUSTRY ELEMENT

OBJECTIVE 1
MANAGE ECONOMIC GROWTH AND CHANGE TO ENSURE ENHANCEMENT OF THE TOTAL CITY LIVING AND WORKING ENVIRONMENT.

Policy 1.3
Locate commercial and industrial activities according to a generalized commercial and industrial land use plan.

The proposed Ordinance follows the directives laid out in the Downtown Area Plan, to improve and preserve the Downtown as San Francisco's primer location for retail and commercial activity, while also fostering office development where appropriate.

OBJECTIVE 2
MAINTAIN AND ENHANCE A SOUND AND DIVERSE ECONOMIC BASE AND FISCAL STRUCTURE FOR THE CITY.
Policy 2.1
Seek to retain existing commercial and industrial activity and to attract new such activity to the city.

The proposed Ordinance ensures the preservation of highly valued retail space in the Downtown, while also loosening some restrictions for certain types of Non-Retail Sales and Service uses in order to encourage their development on higher floors.

2. **Planning Code Section 101 Findings.** The proposed amendments to the Planning Code are consistent with the eight Priority Policies set forth in Section 101.1(b) of the Planning Code in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced;

   The proposed Ordinance would not have a negative effect on neighborhood serving retail uses and will not have a negative effect on opportunities for resident employment in and ownership of neighborhood-serving retail.

2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods;

   The proposed Ordinance would not have a negative effect on housing or neighborhood character.

3. That the City's supply of affordable housing be preserved and enhanced;

   The proposed Ordinance would not have an adverse effect on the City's supply of affordable housing.

4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking;

   The proposed Ordinance would not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced;

   The proposed Ordinance would not cause displacement of the industrial or service sectors due to office development, and future opportunities for resident employment or ownership in these sectors would not be impaired.

6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake;

   The proposed Ordinance would not have an adverse effect on City's preparedness against injury and loss of life in an earthquake.

7. That the landmarks and historic buildings be preserved;

   The proposed Ordinance would not have an adverse effect on the City's Landmarks and historic buildings.

8. That our parks and open space and their access to sunlight and vistas be protected from development;

   The proposed Ordinance would not have an adverse effect on the City's parks and open space and their access to sunlight and vistas.

3. **Planning Code Section 302 Findings.** The Planning Commission finds from the facts presented that the public necessity, convenience and general welfare require the proposed amendments to the Planning Code as set forth in Section 302.

NOW THEREFORE BE IT RESOLVED that the Commission hereby APPROVES WITH MODIFICATIONS the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on October 18, 2018.

Jonas P. Ionin
Commission Secretary

AYES: Fong, Hillis, Johnson, Koppel, Melgar

NOES: Moore

ABSENT: Richards

ADOPTED: October 18, 2018

SAN FRANCISCO
PLANNING DEPARTMENT

Executive Summary
Planning Code Text Amendment
HEARING DATE: OCTOBER 18, 2018
EXPIRATION DATE: DECEMBER 17, 2018

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Project Name:	**Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District**
Case Number:	**2018-011057PCA** [Board File No. 180916]
Initiated by:	Supervisor Peskin / Introduced September 18, 2018
Staff Contact:	Audrey Butkus, Legislative Affairs audrey.butkus@sfgov.org, (415) 575-9129
Reviewed by:	Aaron Starr, Manager of Legislative Affairs aaron.starr@sfgov.org, 415-558-6362
Recommendation:	**Recommend Approval with Modifications**

PLANNING CODE AMENDMENT
The Ordinance would amend the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District. The Ordinance would additionally amend the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee.

The Way It Is Now:
In the C-3-R Zoning District:

1. Non-Retail Sales and Service Uses are Permitted[1] (P) on the ground floor if they offer on-site services to the general public. Non-Retail Sales and Services are Not Permitted (NP) on the ground floor if they do *not* offer on-site services to the general public.
2. On the second floor and above, Non-Retail Sales and Services require a Conditional Use authorization.
3. Non-Retail Sales and Services that offer on-site services to the general public with a use size over 5,000 sq. ft. on any floor require a Conditional Use authorization.
4. Section 412 of the Planning Code established a Downtown Park Fee for new office development in the C-3-R. There is not currently an open space fee for new office development in the C-3-R.

The Way It Would Be:
In the C-3-R Zoning District:

1. Non-Retail Sales and Service Uses[2] would be Permitted (P) on floors one through three if they offer on-site services to the general public. Non-Retail Sales and Services would be Not Permitted (NP) on the ground floor if they do *not* offer on-site services to the general public.

[1] Except for Catering, Laboratory, and Wholesale Sales, which are Principally Permitted with no conditions. Commercial and Wholesale Storage are Not Permitted.

2. Non-Retail Sales and Services would be Not Permitted on the second and third floors unless they provide on-site services to the general public. On the fourth through sixth floors Non-Retail Sales and Services would require a Conditional Use authorization.
3. Non-Retail Sales and Service Uses with a footprint smaller than 5,000 sq. ft. would be Permitted on the fourth through sixth floors. Non-Retail Sales and Services with a use size over 5,000 sq. ft. on floors four through 6 would require a Conditional Use authorization.
4. A new fund and fee would be created that will apply to any development in the C-3-R District proposing to add or create new office space.

THE WAY IT IS		THE WAY IT WOULD BE
Non-Retail Sales Uses of any size (P)	**7TH + FLOOR**	Non-Retail Sales Uses of any size (P)
Non-Retail Sales Uses **UNDER** or **OVER** 5,000sqft (C)	**4TH - 6TH FLOORS**	Non-Retail Sales Uses **UNDER** 5,000sqft (P) & Non-Retail Sales Uses **OVER** 5,000sqft (C)
Non-Retail Sales Uses **UNDER** or **OVER** 5,000sqft (C)	**2ND & 3RD FLOORS**	Non-Retail Sales Uses who provide on-site services to public (P)
Non-Retail Sales Uses who provide on-site services to public (P) If over 5,000sqft (C)	**(1ST) GROUND**	Non-Retail Sales Uses who provide on-site services to public (P)

BACKGROUND

In 2017, the Mayor's Office of Economic and Workforce Development (OEWD) wrote a memo to the Planning Commission on the state of the retail sector. The report found that (1) rents for retail spaces in the C-3-R District had outpaced citywide rates, (2) space available for rent was at an all-time low, (3) the C-3-R District continued to contribute a large portion of City sales tax revenue to the economy, and (4)

[2] Except for Catering, Laboratory, and Wholesale Sales, which are Principally Permitted with no conditions. Commercial and Wholesale Storage are Not Permitted.

over the last 5 years, sales of General Consumer Goods had in fact grown both in the C-3-R District and citywide. The 2017 OEWD memo also identified trends in the retail industry, among them: (1) a shift away from the general department store model, (2) a general desire for smaller "footprints", and (3) an increase in retailers seeking to provide a more targeted "lifestyle specific" consumer experience.

The market for leasing office space throughout San Francisco continues to thrive, presenting external pressure on the competitiveness of retail space within the C-3-R District. According to the Jones Lang Lasalle Office Outlook Report for Q1 2018, leasing activity maintained its strong momentum from previous years, with tenants rushing to lease space in new office developments in the City, even before construction is finished. That report also found that San Francisco office tenants value spaces with that posess creative and flexible build-outs that are move-in ready, meaning building owners may be incentiviezed to convert existing C-3-R retail sales and service spaces to General Office Use under the current market conditions.

In March of 2017, OEWD and the Planning Department reported to the Planning Commission on the trends in the C-3-R District compared to local, regional, and national trends. At that hearing, the Planning Department recommended three approaches for reviewing retail to office conversions in the C-3-R District: 1) Continuing to review projects seeking upper level retail-to-office conversions on a case-by-case basis through the CU authorization process; 2) Adopting a policy that provides specific additional criteria that such projects must meet in order for approval, or; 3) Initiate changes to the Code to codify the criteria that projects in the C-3-R must meet in order to be approved. After the initial hearing, OEWD conducted additional analysis which it presented to the Planning Commission in February 2018, at a second informational hearing about C3R retail to office conversion policy, and found that union Square lease rates have surpassed Citywide lease rates, and that Union Square has higher lease rates than any part of the City in all classes of office.

Map of the C-3-R District

ISSUES AND CONSIDERATIONS

<u>Interim Controls in the C-3-R:</u>

On May 22, 2018, the Board of Supervisors passed interim controls, sponsored by Supervisor Peskin, requiring applications to convert Retail to Non-Retail Uses to make additional findings regarding the viability of the proposed conversion. The applicant must also provide information regarding the vacancy and rental rates for Retail and Non-Retail Sales and Service Uses, and any other relevant information regarding neighborhood development, economic or demand changes in the C-3-R District. The interim controls became effective on June 1, 2018, and will expire 18 months from that date, or until the Board of Supervisors adopts permanent legislation.

<u>The C-3-R Downtown District:</u>

The District is described in the Code as *"a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service use is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. "*.

The C-3-R District is one of the more compact Downtown C-3 Zoning Districts and encompasses the Union Square neighborhood, with boundaries extending from Bush Street to the North, Kearny Street to the East, Mission Street to the South and Powell Street to the West. The District prioritizes the concentration of retail uses within the district while recognizing that too much retail space in other scattered locations could weaken the strength of a concentrated retail district. A 2016 study showed that Union Square merchants generate approximately 37% of San Francisco's sales tax in general consumer goods, and 15% of all City sales tax dollars. The C-3-R District represents a retail core, and in spite of some decentralization and fragmentation of retail uses over the years, the retail environment of Union Square has remained strong.

<u>Mayor's Office of Economic and Workforce Development C-3-R Survey :</u>

At the February 2018 Informational Hearing about C3R retail sales and services office conversion policy, the Planning Commission voiced opposition to vote on the Planning Department staff policy recommendations for retail to office conversion without further data analysis on what uses are located on the second and third floors within buildings in the C3R zone. Following the February 2018 informational hearing OEWD contracted with the Union Square Business Improvement District (USBID) to provide additional use mix data through a field survey of the 2nd and 3rd floors of buildings located on all C-3-R parcels. USBID worked through the summer to survey and classify the use of the 605 parcels located within the C-3-R zone. The results of the survey are attached as Exhibit B. The survey found that 73.8% of available C-3-R 2nd and 3rd floor space is occupied by Retail Sales & Services or other uses open to the general public: 78.9% on 2nd floors and 67.7% on 3rd floors. The amount of total square footage dedicated to these types of uses on the 2nd and 3rd floors in the C-3-R District is 2,556,601 square feet across 226 parcels. The overall vacancy rate on the 2nd and 3rd floors was a low 8.2%: The vacancy rates average 7.7% on floor 2 and 8.8% on floor 3 within the C3R zone. These rates are within a healthy commercial vacancy range between 5%-10%.

<u>Proposals to Convert Retail to Office in the C-3-R:</u>
A chart summarizing the recent proposals the Department has received to convert retail space to office in the C-3-R is included in this report as Exhibit C. The chart shows that between the ten proposals, approximately 268,268 square feet of retail would be converted to office (*please note that as each project evolves, these numbers may change*). An example of one of these projects is described below:

> The building at 77 Geary currently contains legal, existing office occupancy for the entirety of the 4th and 5th floors. There are additional existing office uses at 6th and 7th floors. The property owner is seeking to create office uses at the entirety of the 2nd and 3rd floors. The current proposal would lease all but 5,000 square feet of the 2nd floor to a company called "Mulesoft". Mulesoft currently occupies a fully built-out office space at the 3rd floor, and uses the 2nd floor as an employee break area/lounge. The space at the 2nd floor is currently without much tenant improvement. Floors 2 and 3 are the subject of an active enforcement case for converting retail space to office use without a Conditional Use authorization.
>
> The remaining 5,000sf of office space at the 2nd floor is currently leased by Nespresso, who is also the ground-floor retail tenant. The Planning Department was unable to consider the Nespresso offices on the 2nd floor an accessory space to the retail at the ground floor because the offices are physically separate from the floor below.

<u>Protecting Class B and Small Office Space:</u>
Class B office space is middle-grade office space. The space is usually older, with technological capacities that are sufficient to run a typical non-retail business, but do not usually offer the newest technological office features. The buildings tend to attract rents that are average for the market, and usually host a large variety of business types.

In their initial 2017 study of the C-3-R District's retail health, MOEWD found that Union Square contained approximately 10% of the City's overall Class B office space. The study also found that although the vacancy rates of Class B office space in Union Square were slightly higher than average, so too were the average rent prices compared to other Class B offices in the rest of the city. This type of office is typically considered extremely desirable to local, and smaller office tenants, as Class B offices tend to be in prime market areas while being more affordable than Class A office space. It is this type of office that the city should seek to protect and encourage and Union's Square's larger than average concentration of Class B office space should be considered when formulating new regulations.

<u>The Proposed Union Square Park, Recreation, and Open Space Fee:</u>
The proposed fee is to provide funding to increase the supply of park, recreation, and open space facilities to serve the needs attributable to new office development in the C-3-R District. As new office development occurs, additional park, recreation, and open space facilities are needed to maintain the quality of urban experience that makes downtown San Francisco an attractive place to be. Open space will become increasingly important as the number of people in downtown increases. Meeting the demand for additional open space in the face of intense competition for land requires both private and public-sector action. The Union Square Park, Recreation, and Open Space Fee would apply to any proposed project in the C-3-R District that proposes to build or expand office space. The fee would be $4 per every square foot of development, and would function to offset the increased impacts that office development brings.

__Implementation:__

The Department determined that this Ordinance will impact our current implementation procedures; Tenant Improvement permits allow the demolition of interior walls. Currently, these types of permits are usually approved over the counter. Under the proposed Ordinance, potential mergers of space may result in suites with square footages of over 5,000sqft. The legislation states that Non-Retail Sales and Services Uses over 5,000sqft require Conditional Use authorization. The proposed Ordinance will likely cause Planning staff to route all Tenant Improvement permits on floors four through six in the C-3-R to a staff planner for further review. The additional review will be needed to ensure the proposed Tenant Improvements do not result in the creation of an individual suite for Non-Retail Sales and Service that is over 5,000sqft. Additionally, this may impact the Department's Enforcement Division, as tracking when a Non-Retail space has been illegally merged to create a space over 5,000 square feet can prove difficult due to the lack of public access to these types of spaces.

__General Plan Priorities:__

The proposed Ordinance is consistent with the following objectives and policies of the General Plan:

DOWNTOWN AREA PLAN

OBJECTIVE 1

MANAGE ECONOMIC GROWTH AND CHANGE TO ENSURE ENHANCEMENT OF THE TOTAL CITY LIVING AND WORKING ENVIRONMENT.

Policy 1.1

Encourage development which produces substantial net benefits and minimizes undesirable consequences. Discourage development which has substantial undesirable consequences which cannot be mitigated.

The proposed Ordinance ensures that the retail core in the Downtown is preserved, while also accommodating for Non-Retail uses on the upper floors.

OBJECTIVE 3

IMPROVE DOWNTOWN SAN FRANCISCO'S POSITION AS THE REGION'S PRIME LOCATION FOR SPECIALIZED RETAIL TRADE.

Policy 3.1

Maintain high quality, specialty retail shopping facilities in the retail core.

Policy 3.3

Preserve retail service businesses in upper floor offices in the retail district.

The proposed Ordinance fosters continued development of Retail uses on the first three floors of buildings in the C-3-R District by not permitting Non-Retail Sales and Service uses unless they provide on-site services to the general public.

OBJECTIVE 5

RETAIN A DIVERSE BASE OF SUPPORT COMMERCIAL ACTIVITY IN AND NEAR DOWNTOWN.

Policy 5.1
Provide space to support commercial activities within the downtown and in adjacent areas.

The strength of the prime office activities concentrated downtown is dependent upon a wide range of support commercial activities nearby. The proposed Ordinance reconfigures controls to better accommodate an appropriate amount of Retail uses and Non-Retail Sales and Service uses that provide on-site services to the general public. In accordance with the Downtown Plan, these uses on lower floors serve to benefit Non-Retail and Office uses on upper floors.

OBJECTIVE 9
PROVIDE QUALITY OPEN SPACE IN SUFFICIENT QUANTITY AND VARIETY TO MEET THE NEEDS OF DOWNTOWN WORKERS, RESIDENTS, AND VISITORS.

Policy 9.1
Require usable indoor and outdoor open space, accessible to the public, as part of new downtown development.

Policy 9.2
Provide different kinds of open space downtown.

The proposed Ordinance's impact fee will contribute to the development of adequate open space; which directly contributes to the desirability of downtown San Francisco as a place to visit, work, and live.

COMMERCE AND INDUSTRY ELEMENT

OBJECTIVE 1
MANAGE ECONOMIC GROWTH AND CHANGE TO ENSURE ENHANCEMENT OF THE TOTAL CITY LIVING AND WORKING ENVIRONMENT.

Policy 1.3
Locate commercial and industrial activities according to a generalized commercial and industrial land use plan.

The proposed Ordinance follows the directives laid out in the Downtown Area Plan, to improve and preserve the Downtown as San Francisco's primer location for retail and commercial activity, while also fostering office development where appropriate.

OBJECTIVE 2
MAINTAIN AND ENHANCE A SOUND AND DIVERSE ECONOMIC BASE AND FISCAL STRUCTURE FOR THE CITY.
Policy 2.1
Seek to retain existing commercial and industrial activity and to attract new such activity to the city.

The proposed Ordinance ensures the preservation of highly valued retail space in the Downtown, while also loosening some restrictions for certain types of Non-Retail Sales and Service uses in order to encourage their development on higher floors.

RECOMMENDATION

The Department recommends that the Commission ***approve with modifications*** the proposed Ordinance and adopt the attached Draft Resolution to that effect.

<u>Recommended Modifications:</u>

1. Amend the applicability of the proposed Union Square Park, Recreation, and Open Space Fee to apply to office development over 5,000 square feet *only*.
2. Amend Table 210.2 (2) in the proposed Ordinance to clarify that Non-Retail Sales and Service Uses under 5,000 square feet are Permitted in the C-3-R.

BASIS FOR RECOMMENDATION

The proposed Ordinance, with recommended modifications, will successfully aid in implementing the intention of the Downtown Area Plan, which aims to foster a strong retail core, while providing appropriate avenues for office uses. The Downtown Area Plan created the C-3-R Downtown Retail Zoning District (C-3-R District) to prioritize the concentration of retail uses within the district. Although the retail landscape was different in the 1980's when the Downtown Plan was crafted, the rapid growth of office uses and the diminishing supply of available space led to concern about office encroachment into traditional retail areas. The concern was born out of conversions to office in spaces such as the former Livingston's and the Sloan Building. The Downtown Plan specifically identified the ease of converting upper story retail space for office users able to pay higher rents. Accordingly, the plan created the C-3-R District, which represented the retail core and in which regulations were crafted to protect against retail conversions.

The Downtown Plan also recognized that too much retail space in other scattered locations could weaken the strength of a concentrated retail district. The loss of retail space in the C-3-R District will diminish the existing character of the Union Square area by reducing the number of retailers. This in turn may cause some shoppers to leave sooner than they might otherwise if a greater density of retailers were present. To ensure that the City does not lose the existing character of the C-3-R District, it is necessary to maintain regulations that will foster a strong retail core on the lower floors, while providing avenues for Non-Retail Sales and Services to occupy the upper floors.

The conversion of retail to office space in the C-3-R District brings with it new impacts on the public realm. When a space converts from retail to office, there are generally more office workers per square foot than in retail. Public facilities, such as parks and open spaces, will be more heavily used throughout the day. This results in a more intense use for public facilities due to the larger worker population. The stress on these public facilities and the need for new and improved open space amenities and infrastructure necessitates the need for an impact fee to offset these costs.

Recommended Modifications:

1. **Amend the applicability of the proposed Union Square Park, Recreation, and Open Space Fee to apply to office development over 5,000 square feet *only*.**

   The proposed Ordinance seeks to protect not only Retail Sales and Services uses, but also small Non-Retail Sales and Service Uses by Permitting (P) Non-Retail Sales and Services under 5,000 square feet to locate on floors four through six. Placing size limits on floors four through six for Non-Retail Sales and Services uses will assist in protecting the smaller and Class B offices that are heavily concentrated in the C-3-R. It is important to keep these types of offices not only accessible, but affordable, as they are the ideal spaces to host smaller, locally-based businesses. To further assist these types of businesses from establishing in the C-3-R, the fee should be waived if the office development proposed is 5,000 square feet or less.

2. **Amend Table 210.2 (2) in the proposed Ordinance to clarify that Non-Retail Sales and Service Uses under 5,000 square feet are Permitted in the C-3-R.**

   Due to a drafting error, the legislation currently states a Conditional Use authorization is required for Non-Retail Sales and Service Uses if located on floors four through six *and* the use is larger than 5,000 gross square feet. This is not the intention of the legislation. The intention of the legislation is to require a Conditional Use authorization on the fourth through sixth floors *only if* the Non-Retail Sales and Service is over 5,000 square feet. Otherwise, the Use shall be Permitted.

REQUIRED COMMISSION ACTION

The proposed Ordinance is before the Commission so that it may recommend adoption, rejection, or adoption with modifications to the Board of Supervisors.

ENVIRONMENTAL REVIEW

The proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c)(2) and 15378 because they do not result in a physical change in the environment.

PUBLIC COMMENT

As of the date of this report, the Planning Department has received one email from the public. The comment is from the Union Square Business Improvement District and is attached as Exhibit D. The letter requests that the proposed Ordinance be amended to be more flexible to allowing Non-Retail Sales and Service Uses on the lower floors.

RECOMMENDATION:	**Recommendation of Approval with Modifications**

Attachments:

Exhibit A: Draft Planning Commission Resolution
Exhibit B: Results of MOEWD Survey of 2nd & 3rd Floors in the C-3-R

Exhibit C:	Proposals to Convert Retail to Office in the C-3-R
Exhibit D:	Letter from Union Square BID
Exhibit E:	Board File No. 180916

Exhibit A

SAN FRANCISCO
PLANNING DEPARTMENT

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Planning Commission Draft Resolution

HEARING DATE OCTOBER 18, 2018

Project Name:	**Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District**
Case Number:	**2018-011057PCA** [Board File No. 180916]
Initiated by:	Supervisor Peskin / Introduced September 18, 2018
Staff Contact:	Audrey Butkus, Legislative Affairs audrey.butkus@sfgov.org, (415) 575-9129
Reviewed by:	Aaron Starr, Manager of Legislative Affairs aaron.starr@sfgov.org, 415-558-6362

RESOLUTION APPROVING A PROPOSED ORDINANCE THAT WOULDTO CHANGE ZONING CONTROLS FOR NON-RETAIL SALES AND SERVICE USES IN THE C-3-R DOWNTOWN RETAIL ZONING DISTRICT; AMENDING THE PLANNING AND ADMINISTRATIVE CODES TO CREATE THE UNION SQUARE PARK, RECREATION, AND OPEN SPACE FUND AND FEE; ADOPTING FINDINGS, INCLUDING ENVIRONMENTAL FINDINGS, PLANNING CODE SECTION 302 FINDINGS, AND FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN AND PLANNING CODE SECTION 101.1.

WHEREAS, on September 18, 2018 Supervisor Peskin introduced a proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 180916, which would to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R Downtown Retail Zoning District, and amend the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee;

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance on October 18, 2018; and,

WHEREAS, the proposed Ordinance has been determined to be categorically exempt from environmental review under the California Environmental Quality Acts Sections 15060(c)(2) and 15378; and

WHEREAS, the Planning Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of Department staff and other interested parties; and

WHEREAS, all pertinent documents may be found in the files of the Department, as the custodian of records, at 1650 Mission Street, Suite 400, San Francisco; and

WHEREAS, the Planning Commission has reviewed the proposed Ordinance; and
WHEREAS, the Planning Commission finds from the facts presented that the public necessity, convenience, and general welfare require the proposed amendment; and

MOVED, that the Planning Commission hereby **approves with modifications** the proposed ordinance.

FINDINGS

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

The Downtown Area Plan created the C-3-R Downtown Retail Zoning District (C-3-R District) to prioritize the concentration of retail uses within the district. Although the retail landscape was different in the 1980's when the Downtown Plan was crafted, the rapid growth of office uses and the diminishing supply of available space led to concern about office encroachment into traditional retail areas. The concern was born out of conversions to office in spaces such as the former Livingston's and the Sloan Building. The Downtown Plan specifically identified the ease of converting upper story retail space for office users able to pay higher rents. Accordingly, the plan created the C-3-R District, which represented the retail core and in which regulations were crafted to protect against retail conversions.

The Downtown Plan also recognized that too much retail space in other scattered locations could weaken the strength of a concentrated retail district. The loss of retail space in the C-3-R District will diminish the existing character of the Union Square area by reducing the number of retailers. This in turn may cause some shoppers to leave sooner than they might otherwise if a greater density of retailers were present. To ensure that the City does not lose the existing character of the C-3-R District, it is necessary to maintain regulations that will foster a strong retail core on the lower floors, while providing avenues for Non-Retail Sales and Services to occupy the upper floors.

The conversion of retail to office space in the C-3-R District brings with it new impacts on the public realm. When a space converts from retail to office, there are generally more office workers per square foot than in retail. Public facilities, such as parks and open spaces, will be more heavily used throughout the day. This results in a more intense use for public facilities due to the larger worker population. The stress on these public facilities and the need for new and improved open space amenities and infrastructure necessitates the need for an impact fee to offset these costs.

1. **General Plan Compliance.** The proposed Ordinance and the Commission's recommended modifications are consistent with the following Objectives and Policies of the General Plan:

<u>**General Plan Priorities:**</u>
The proposed Ordinance is consistent with the following objectives and policies of the General Plan:

DOWNTOWN AREA PLAN

OBJECTIVE 1
MANAGE ECONOMIC GROWTH AND CHANGE TO ENSURE ENHANCEMENT OF THE TOTAL CITY LIVING AND WORKING ENVIRONMENT.

Policy 1.1

Encourage development which produces substantial net benefits and minimizes undesirable consequences. Discourage development which has substantial undesirable consequences which cannot be mitigated.

The proposed Ordinance ensures that the retail core in the Downtown is preserved, while also accommodating for Non-Retail uses on the upper floors. Geary Blvd.

OBJECTIVE 3
IMPROVE DOWNTOWN SAN FRANCISCO'S POSITION AS THE REGION'S PRIME LOCATION FOR SPECIALIZED RETAIL TRADE.

Policy 3.1
Maintain high quality, specialty retail shopping facilities in the retail core.

Policy 3.3
Preserve retail service businesses in upper floor offices in the retail district.

The proposed Ordinance fosters continued development of Retail uses on the first three floors of buildings in the C-3-R District by not permitting Non-Retail Sales and Service uses unless they provide on-site services to the general public.

OBJECTIVE 5
RETAIN A DIVERSE BASE OF SUPPORT COMMERCIAL ACTIVITY IN AND NEAR DOWNTOWN.

Policy 5.1
Provide space to support commercial activities within the downtown and in adjacent areas.

The strength of the prime office activities concentrated downtown is dependent upon a wide range of support commercial activities nearby. The proposed Ordinance reconfigures controls to better accommodate an appropriate amount of Retail uses and Non-Retail Sales and Service uses that provide on-site services to the general public. In accordance with the Downtown Plan, these uses on lower floors serve to benefit Non-Retail and Office uses on upper floors.

OBJECTIVE 9
PROVIDE QUALITY OPEN SPACE IN SUFFICIENT QUANTITY AND VARIETY TO MEET THE NEEDS OF DOWNTOWN WORKERS, RESIDENTS, AND VISITORS.

Policy 9.1
Require usable indoor and outdoor open space, accessible to the public, as part of new downtown development.

Policy 9.2
Provide different kinds of open space downtown.

The proposed Ordinance's impact fee will contribute to the development of adequate open space; which directly contributes to the desirability of downtown San Francisco as a place to visit, work, and live.

COMMERCE AND INDUSTRY ELEMENT

OBJECTIVE 1
MANAGE ECONOMIC GROWTH AND CHANGE TO ENSURE ENHANCEMENT OF THE TOTAL CITY LIVING AND WORKING ENVIRONMENT.

Policy 1.3
Locate commercial and industrial activities according to a generalized commercial and industrial land use plan.

The proposed Ordinance follows the directives laid out in the Downtown Area Plan, to improve and preserve the Downtown as San Francisco's primer location for retail and commercial activity, while also fostering office development where appropriate.

OBJECTIVE 2
MAINTAIN AND ENHANCE A SOUND AND DIVERSE ECONOMIC BASE AND FISCAL STRUCTURE FOR THE CITY.
Policy 2.1
Seek to retain existing commercial and industrial activity and to attract new such activity to the city.

The proposed Ordinance ensures the preservation of highly valued retail space in the Downtown, while also loosening some restrictions for certain types of Non-Retail Sales and Service uses in order to encourage their development on higher floors.

2. **Planning Code Section 101 Findings.** The proposed amendments to the Planning Code are consistent with the eight Priority Policies set forth in Section 101.1(b) of the Planning Code in that:

    1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced;

       The proposed Ordinance would not have a negative effect on neighborhood serving retail uses and will not have a negative effect on opportunities for resident employment in and ownership of neighborhood-serving retail.

    2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods;

       The proposed Ordinance would not have a negative effect on housing or neighborhood character.

    3. That the City's supply of affordable housing be preserved and enhanced;

The proposed Ordinance would not have an adverse effect on the City's supply of affordable housing.

4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking;

   The proposed Ordinance would not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced;

   The proposed Ordinance would not cause displacement of the industrial or service sectors due to office development, and future opportunities for resident employment or ownership in these sectors would not be impaired.

6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake;

   The proposed Ordinance would not have an adverse effect on City's preparedness against injury and loss of life in an earthquake.

7. That the landmarks and historic buildings be preserved;

   The proposed Ordinance would not have an adverse effect on the City's Landmarks and historic buildings.

8. That our parks and open space and their access to sunlight and vistas be protected from development;

   The proposed Ordinance would not have an adverse effect on the City's parks and open space and their access to sunlight and vistas.

3. **Planning Code Section 302 Findings.** The Planning Commission finds from the facts presented that the public necessity, convenience and general welfare require the proposed amendments to the Planning Code as set forth in Section 302.

NOW THEREFORE BE IT RESOLVED that the Commission hereby APPROVES WITH MODIFICATIONS the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on October 18, 2018.

Jonas P. Ionin
Commission Secretary

AYES:

NOES:

ABSENT:

ADOPTED: October 18, 2018

OEWD/USBID C-3-R 2nd and 3rd Floor Survey Highlights

Overview

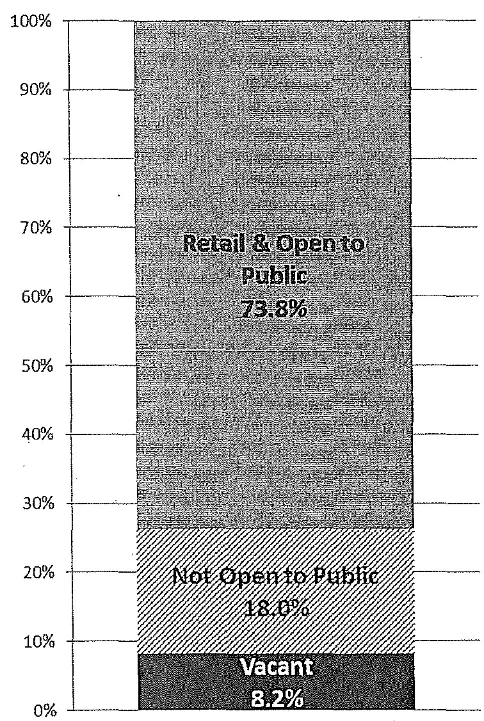
On March 16, 2017 and on February 22, 2018 Planning Department Staff and OEWD presented data in two informational hearings on Retail Conversions in the C-3-R.

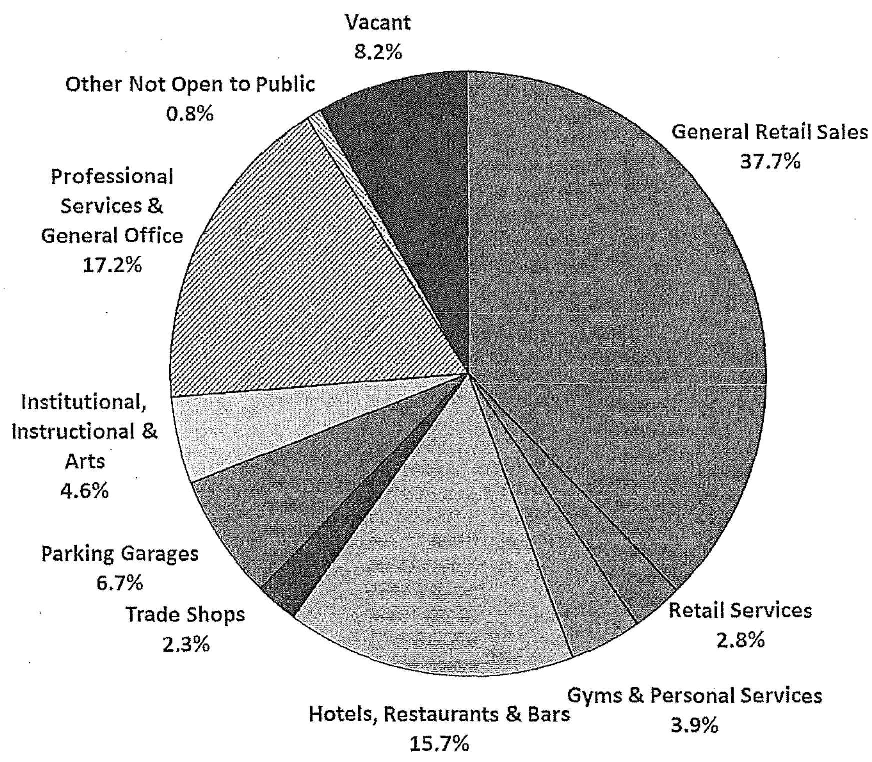
Field Survey Methodology

Following the February 2018 Informational Hearing. OEWD contracted with the USBID to conduct a field use mix survey of the 2nd and 3rd floors of buildings located in parcels within the C3R zone.

USBID worked through the summer of 2018 to survey and classify the use mix located within buildings occupying 605 parcels that make up the C-3-R

Uses on 2nd and 3rd floors: Overview of uses by category





Nearly 74% of the surveyed 2nd and 3rd space is retail or open to the public

% Sq Ft by Use

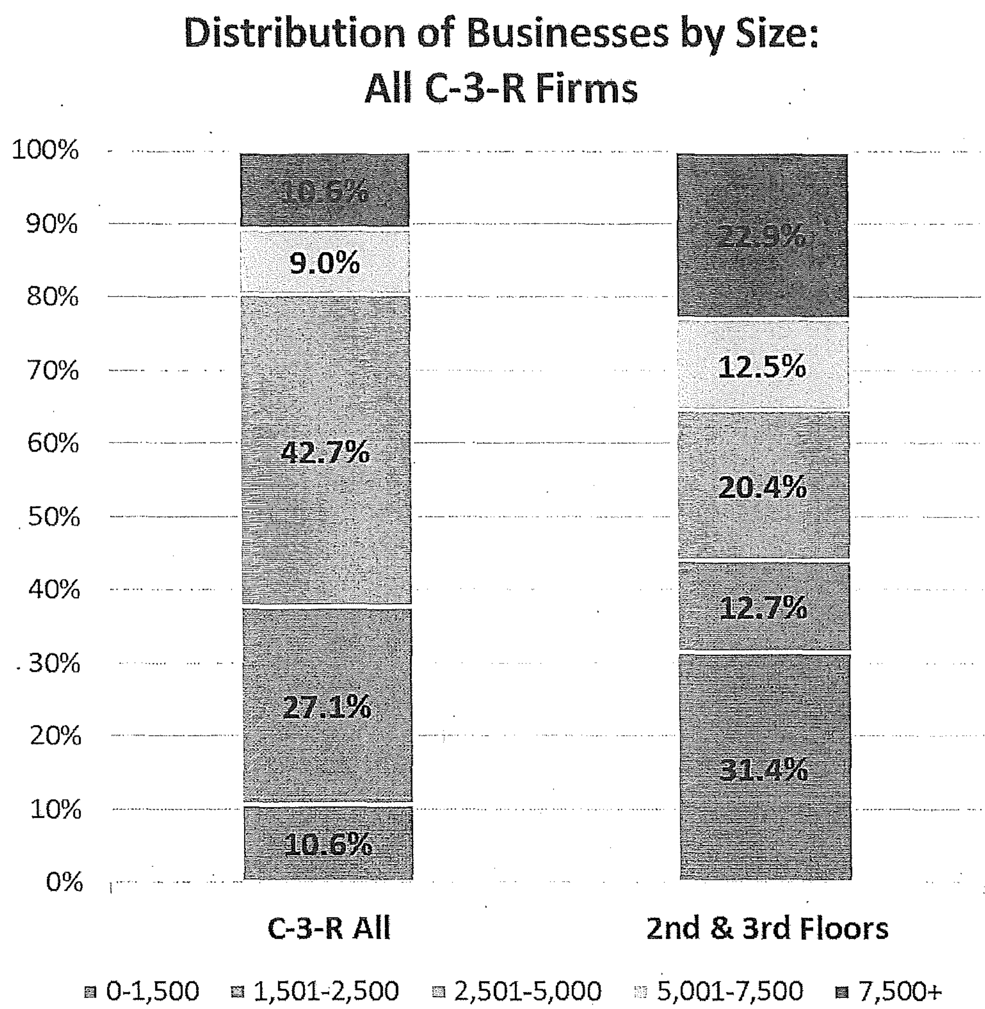
Category	2nd Floor	3rd Floor	Both Floors
Retail & Open to Public	**78.9%**	**67.7%**	**73.8%**
Retail Sales & Services	*65.6%*	*58.7%*	*62.4%*
Other Open to Public	*13.3%*	*9.0%*	*11.3%*
Not Open to Public	**13.4%**	**23.5%**	**18.0%**
Professional Services & General Office	*12.6%*	*22.7%*	*17.2%*
Other Not Open to Public	*0.8%*	*0.8%*	*0.8%*
Vacant	**7.7%**	**8.8%**	**8.2%**
Share of Square Footage	**100.0%**	**100.0%**	**100.0%**

Share of Total Square Footage

	Category	Open to Public?	2nd Floor	3rd Floor	Both Floors
Retail & Open to Public	General Retail	Yes	40.9%	33.9%	**37.7%**
	Hotel	Yes	13.2%	15.3%	**14.2%**
	Trade Shop	Yes	2.6%	1.9%	**2.3%**
	Gyms	Yes	2.1%	2.5%	**2.3%**
	Personal Services	Yes	1.9%	1.3%	**1.7%**
	Restaurants & Bars	Yes	2.1%	0.8%	**1.5%**
	Retail Professional Services	Yes	0.2%	1.3%	**0.7%**
	Financial Services	Yes	1.2%	0.1%	**0.7%**
	Non-Retail Professional Service	Yes	0.7%	0.6%	**0.7%**
	Health Services	Yes	0.5%	0.8%	**0.6%**
	Parking Garages	Yes	7.5%	5.7%	**6.7%**
	Institutional & Instructional Uses	Yes	5.2%	3.3%	**4.3%**
	Entertainment, Arts and Recreation	Yes	0.6%	0.0%	**0.3%**
Not Open to Public	General Office	No	9.2%	14.3%	**11.6%**
	Non-Retail Professional Service	No	2.1%	5.9%	**3.8%**
	Design Professional	No	1.1%	2.4%	**1.7%**
	Financial Services	No	0.2%	0.1%	**0.1%**
	Laboratory	No	0.0%	0.1%	**0.1%**
	Institutional & Instructional Uses	No	0.1%	0.0%	**0.0%**
	N/A	No	0.7%	0.7%	**0.7%**
Vac-ant	Vacant	Vacant	7.7%	8.1%	**7.9%**
	Partial Vacancy	Vacant	0.0%	0.7%	**0.3%**
Share of Total Square Footage			**100.0%**	**100.0%**	**100.0%**

Union Square: Size distribution of all C-3-R businesses vs. those on 2nd and 3rd floors

- 80.4% of all C-3-R spaces are 5,000 square feet or less
- 64.5% of 2nd and 3rd floor spaces are 5,000 square feet or less



Average footprints of C-3-R businesses on 2nd and 3rd floors

Average Square Footage

Category	2nd Floor	3rd Floor	Both Floors
Retail & Open to Public	**6,824**	**5,461**	**6,175**
Retail Sales & Services	*6,345*	*5,151*	*5,769*
Other Open to Public	*10,869*	*8,961*	*10,087*
Not Open to Public	**5,463**	**4,982**	**5,165**
Professional Services & General Office	*5,772*	*5,304*	*5,480*
Other Not Open to Public	*2,928*	*1,850*	*2,299*
Vacant	**4,816**	**3,506**	**4,068**
Average Square Footage	**6,405**	**5,095**	**5,729**

Square Footage

	Category	Open to Public?	2nd Floor	3rd Floor	Both Floors
Retail & Open to Public	General Retail	Yes	768,231	538,975	**1,307,206**
	Hotel	Yes	248,144	243,849	**491,993**
	Trade Shop	Yes	48,590	30,953	**79,543**
	Gyms	Yes	39,184	39,184	**78,368**
	Personal Services	Yes	36,158	21,218	**57,376**
	Restaurants & Bars	Yes	40,180	12,558	**52,738**
	Retail Professional Services	Yes	4,654	21,167	**25,821**
	Financial Services	Yes	22,957	1,856	**24,813**
	Non-Retail Professional Service	Yes	13,701	9,966	**23,667**
	Health Services	Yes	9,060	12,640	**21,700**
	Parking Garages	Yes	141,682	90,667	**232,349**
	Institutional & Instructional Uses	Yes	97,806	52,713	**150,519**
	Entertainment, Arts and Recreation	Yes	10,508	0	**10,508**
Not Open to Public	General Office	No	173,363	227,406	**400,769**
	Non-Retail Professional Service	No	38,794	94,491	**133,285**
	Design Professional	No	21,538	37,855	**59,393**
	Financial Services	No	2,971	944	**3,915**
	Laboratory	No	0	1,872	**1,872**
	Institutional & Instructional Uses	No	1,411	0	**1,411**
	N/A	No	13,230	11,077	**24,307**
Vac-ant	Vacant	Vacant	144,469	129,510	**273,979**
	Partial Vacancy	Vacant	0	10,749	**10,749**
Share of Total Square Footage			**1,876,631**	**1,589,650**	**3,466,281**

Exhibit C

Retail Conversions in C-3-R as of 10/10/18

	Address	SF	Floors	Office Allocation	Subject to Interim Controls?	Fees
Already Entitled	925 Market (The Melt)	2,400	3	No	No	- DT Park (412)
	945 Market (6x6)	47,522	4-5	Small Cap	No	- DT Park (412) - Childcare
	120 Stockton (Macy's Mens)	49,999	6-7	Small Cap	No	- DT Park (412) - Jobs/Housing (413) - Childcare - Public Art - TSF
Pending Applications	77 Geary (Mulesoft)	24,999	2-3	No	Yes	- DT Park (412)
	146 Geary (Britex)	6,000	3-4	No	Yes	- DT Park (412)
	233 Geary (Macy's)	49,999	5-7	Small Cap	Yes	- DT Park (412) - Childcare
	222 Sutter (Loehman's)	12,000	3	No	Yes	- DT Park (412)
	865 Market (Westfield)	49,999	7-8	Small Cap	No	- DT Park (412) - Childcare
	220 Post (Saks Mens)	19,000	3-5	No	Yes	- DT Park (412)
	167 Powell	6,350	2-3 (hotel to office)	No	Yes	- DT Park (412)
		268,268				

Exhibit D

UNION SQUARE

UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

October 10, 2018

Dear President Hillis and San Francisco Planning Commission Members,

Thank you for bringing attention to the Union Square Business Improvement District. We share your concerns of offices taking over a vibrant, international retail destination. Union Square remains resilient and looks toward the future as the retail landscape changes across the country. Responding to rapidly changing conditions requires agility and the ability to respond to those changes. What is retail becoming in Union Square?

The footprint of retail is shrinking to favor a "showroom" model of doing business. It remains a priority of big brands to have a physical presence, but not necessarily as a way to move large amounts of inventory. New generations of shoppers are going to stores to experience something unique and to try products to then purchase online from home. Shoppers are not going up and down multiple levels to search for products. Big brands are finding major increases in sales when their footprint shrinks down to a single ground floor level, especially in Union Square.

Traditional retail on the ground floor is essential and conditional use on the upper floors is appropriate. As new uses emerge, Union Square needs to respond with flexibility. San Francisco is dynamic but we are concerned that rigid rules and prohibitions may inhibit the development of the welcoming district we want to be.

Thoughtful planning reviews, utilizing CUP's, and offering incentives will provide the flexibility to achieve the vibrancy we all desire. **We are strongly requesting an ease of restrictions on the 3rd floor within the C-3-R to allow conditionally permitted office use.**

Concerns for Consideration:

- 23 buildings within the C-3-R that have vacancies on the ground floor are also vacant on the 2nd and/or 3rd floor.
- Tying together the ground floor with the 2nd and/or 3rd floor is unfavorable to retailers, which creates additional vacancies.
- Prohibiting office spaces on the 3rd floor would increase vacancy rates as retailers typically only want to lease ground floor spaces in this market.

- "Stranded" floors (i.e. retail or public serving uses without street presence if a multilevel retailer cannot lease all retail-zoned floors) are increasing.
- More operating and security costs for retailers to have multiple floors. Retail theft is a major quality of life issue in Union Square. Security issues are better managed with smaller footprints.
- Not all buildings are suitable for retail on the 3rd floors. Many buildings in Union Square would need to install elevators and escalators to accommodate build out needs. Either the expense for these renovations would be cost prohibitive to do business or the building just does not have enough space to do so.
- Prada on 201 Post left for Westfield for a smaller footprint approximately two years ago. Space was split for Fendi and Cartier because formula retail did not want the entire space.
- Macy's is currently building independent retail shops on the ground floor on Geary as they are shrinking their footprint.
- Nordstrom's at Westfield is currently looking at giving up retail space for office spaces.

Suggestions for Consideration:

- USBID supports ground floor retail. Offices should remain prohibited on the ground floor.
- Offices on the 2nd floor should be allowed if they serve the general public in the form of retail or professional services.
- Office uses should be conditionally permitted on the 3rd floor at any size pursuant to interim controls (offices permitted when 5,000sqft or less).
- USBID supports Supervisor Peskin's $4 per square foot development impact fee for Union Square public realm projects and initiatives.

Additional Items for Consideration:

- Offer an incentive to convert and upgrade previously non-retail to encourage retail development. Destination businesses generating foot traffic preferred.
- Encourage redevelopment of a vacant space by offering an incentive to buildings that are at least 30 years old and has been completely vacant for at least 18 months.

Key Findings from C-3-R 2nd and 3rd Floor Uses Study Summer 2018 by USBID:

- 8.2% vacancy rate on 2nd and 3rd floors.
- 13% vacancy rate on 2nd and 3rd floors near Sutter area in C-3-R.

Union Square Economic Impact:

- Properties in Union Square generated $61 million in property tax revenues for the City in FY 2016-17.
- In 2017, Union Square businesses generated over $20 million in sales tax revenue for the City.
- Union Square generated one-third of citywide sales in general consumer goods.
- Union Square generated $2.5 billion in total sales of goods.

Thank you in advance for your consideration.

Sincerely,

Karin Flood

Karin Flood

Executive Director

Union Square Business Improvement District

[Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R (Downtown Retail) District]

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
Additions to Codes are in *single-underline italics Times New Roman font*.
Deletions to Codes are in ~~*strikethrough italics Times New Roman font*~~.
Board amendment additions are in double-underlined Arial font.
Board amendment deletions are in ~~strikethrough Arial font~~.
Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Environmental and Land Use Findings.

(a) The Planning Department has determined that the actions contemplated in this ordinance comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.). Said determination is on file with the Clerk of the Board of Supervisors in File No. 180916 and is incorporated herein by reference. The Board affirms this determination.

(b) On __________, the Planning Commission, in Resolution No. __________, adopted findings that the actions contemplated in this ordinance are consistent, on balance, with the City's General Plan and eight priority policies of Planning Code Section 101.1. The Board adopts these findings as its own. A copy of said Resolution is on file with the Clerk of the Board of Supervisors in File No. __________, and is incorporated herein by reference.

(c) Pursuant to Planning Code Section 302, the Board finds that this Planning Code amendment will serve the public necessity, convenience, and welfare for the reasons set forth in Planning Commission Resolution No. ______, and the Board incorporates such reasons herein by reference.

Section 2. Findings About the Need for Permanent Controls for Non-Retail Sales and Service Uses.

(a) Adopted in 1985, the Downtown Area Plan sets forth policies that guide land use decisions to create the physical form and pattern of a vibrant, compact, pedestrian-oriented, livable, and vital downtown San Francisco. The Downtown Area Plan grew out of a contemporaneous awareness of the public concern over the degree of change occurring downtown and the need to balance the often conflicting civic objectives of fostering a vital economy and retaining the urban patterns and structures which collectively form the physical essence of San Francisco.

(b) The twenty-three core objectives of the Downtown Area Plan continue to guide the evolution of one of the most successful core areas of any American city. The vitality, job and housing density, retail activity, and overall character of San Francisco's downtown area have improved dramatically since the inception of the Downtown Area Plan.

(c) Objective 3 of the Downtown Area Plan calls for the improvement of downtown San Francisco's position as the region's prime location for specialized retail trade. Policy 3.1 of the Downtown Area Plan mandates the maintenance of high quality, specialty retail shopping facilities in the retail core, and notes that the concentration of quality stores and merchandise allows the retail area to function as a regional, as well as a citywide attraction. Policy 3.1 also provides that the appeal of the downtown area is enhanced by the "sunny pedestrian environment" in and around Union Square, and directs that further development retain the area's compact and pleasant environmental setting.

(d) To enhance the viability of a vibrant retail environment, the Downtown Area Plan created the C-3-R Downtown Retail Zoning District (C-3-R District), and prioritized the concentration of retail uses within the district while recognizing that too much retail space in other scattered locations could weaken the strength of a concentrated retail district. The C-3-R District represented a retail core, and regulations were crafted to protect against retail to non-retail conversions. In spite of some decentralization and fragmentation of retail uses over the years, the retail environment of Union Square has remained strong.

(e) The C-3-R District is one of the more compact Downtown C-3 Zoning Districts and encompasses the Union Square neighborhood, with boundaries extending from Bush Street to the North, Kearny Street to the East, Mission Street to the South and Powell Street to the West. Also referred to as the Downtown Retail District, the C-3-R District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot.

(f) The Planning Department and Planning Commission have been studying ongoing trends and changes in the retail market in San Francisco. In response to applications seeking to convert existing retail space to office use within the C-3-R District, the Planning Commission held hearings on March 16, 2017, and February 22, 2018, to discuss conversions from retail to other uses in that district.

(g) At the March 16, 2017, Planning Commission hearing, the Office of Economic and Workforce Development (OEWD) reported on the trends in the C-3-R District as compared to local, regional, and national trends in retail (2017 OEWD Report). At that hearing, Planning Department staff outlined three potential approaches to reviewing retail-to-office conversions in the C-3-R District, which included (1) continuing to review projects seeking upper level retail-to-office conversions on a case-by-case basis; (2) adopting a policy that provides specific additional criteria that such projects must meet in order for approval; or (3) initiating changes to the Planning Code to codify the criteria that such projects must meet in order for approval. The 2017 OEWD Report is on file with the Clerk of the Board of Supervisors in Board File No. _________ and is incorporated by reference.

(h) Since March 16, 2017, OEWD conducted additional research and analysis related to lease rates, vacancies, and tenant space sizes specific to the C-3-R District and found, in pertinent part, that Union Square retail lease rates have surpassed Citywide lease rates, and that Union Square has higher lease rates than any part of the City in all classes of office.

(i) At the February 22, 2018, Planning Commission hearing, OEWD reported on these changes (2018 OEWD Report), and cited dramatic changes in the retail landscape over the past 40 years in San Francisco and ongoing major restructuring in the national retail industry. OEWD found that although San Francisco's retail economy has somewhat slowed, retail stores and restaurants here have largely been insulated from national trends due to San Francisco's many competitive advantages, including the City's strong local economy, significant regional and international tourism, and granular approach to zoning controls aimed at enhancing the City's existing retail corridors and zoning districts. The 2018 OEWD Report is on file with the Clerk of the Board of Supervisors in Board File No. _________ and is incorporated by reference.

(j) The Union Square area continues to be a world-class retail destination that draws both tourists and Bay Area residents with its combination of walkable shopping and dining, excellent transit access, and top-tier hospitality. A 2016 study showed that Union Square merchants generate approximately 37% of San Francisco's sales tax in general consumer goods, and 15% of all City sales tax dollars.

(k) To ensure that the City does not lose the opportunity to preserve the existing character of the C-3-R District, and to continue to develop and conserve the economic vitality of the City, it is necessary to consider the effects of conversions from Retail to Non-Retail Sales and Service use in the C-3-R District.

(l) On May 22, 2018, the Board of Supervisors passed Resolution No. 153-18, an interim controls resolution. In addition to the findings required by Planning Code Section 303, Resolution No. 153-18 requires the City to make additional findings regarding the viability of Retail in the C-3-R District to approve any conditional use permit seeking to convert from a Retail Use to Non-Retail Sales and Service Use. An applicant must also provide information regarding the vacancy and rental rates for Retail and Non-Retail Sales and Services Uses, and any other relevant information regarding neighborhood development, economic or demand changes in the C-3-R District. Resolution No. 153-18 became effective on June 1, 2018, and will expire 18 months from that date, or until the Board of Supervisors adopts permanent legislation regulating conversions from Retail to Non-Retail Sales and Service Use in the C-3-R District, whichever comes first.

(m) The Board of Supervisors hereby enacts permanent controls for Non-Retail Sales and Service Use in the C-3-R District, including conversions from Retail Use.

Section 3. The Planning Code is hereby amended by revising Section 210.2, to read as follows:

SEC. 210.2. C-3 DISTRICTS: DOWNTOWN COMMERCIAL.

Downtown San Francisco, a center for City, regional, national, and international commerce, is composed of five separate districts, as follows:

* * * *

C-3-R District: Downtown Retail. This District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions.

* * * *

Table 210.2

ZONING CONTROL TABLE FOR C-3 DISTRICTS

Zoning Category	§ References	C-3-O	C-3-O(SD)	C-3-R	C-3-G	C-3-S
* * * *						
NON-RESIDENTIAL STANDARDS AND USES						
* * * *						
Sales and Service Category						
* * * *						
Non-Retail Sales and Service*	§ 102	P (1)	P (1)	NP (2)	P (1)	P (1)
Catering	§ 102	P	P	P	P	P
Design Professional	§ 102	P	P	NP (2)	P	P

Laboratory	§ 102	P	P	P	P	P
Life Science	§ 102	P	P	P	P	P
Storage, Commercial	§ 102	NP	NP	NP	NP	NP
Storage, Wholesale	§ 102	NP	NP	NP	NP	NP
Wholesale Sales	§ 102	P	P	P	P	P
* * * *						

* Not listed below.

(1) C ~~is~~ required if at or below the ground floor.

(2) P if located on *floors one through three* ~~*the ground floor*~~ and offers on-site services to the general public. ~~*NP on the ground floor if it does not provide onsite services to the general public.*~~ C ~~*is*~~ required if *located on floors four through six and* the use is larger than 5,000 gross square feet in size ~~*or located above the ground floor*~~. *P if located on floor seven and above.*

In ~~*the C-3-R District, in*~~ addition to the criteria set forth in Section 303, *a Conditional Use Authorization pursuant to this note* ~~*approval*~~ shall be given upon a determination that the use will not detract from the District's primary function as an area for comparison shopper retailing and direct consumer services.

(3) C ~~*R*~~*r*equired if operated on an open lot.

(4) Required to be in an enclosed building, NP if operated on open lot.

(5) C required if taller than 25 feet above roof, grade, or height limit depending on site or if within 1000 feet of an R District and includes a parabolic antenna with a diameter in excess of 3 meters or a composite diameter of antennae in excess of 6 meters. See definition in Section 102 for more information.

(6) C required for Formula Retail on properties in the C-3-G District with frontage on Market Street, between 6th Street and the intersection of Market Street, 12th Street, and Franklin Street.

(7) Construction of Accessory Dwelling Units may be permitted pursuant to Section 207(c)(4).

Section 4. Findings Regarding Park, Recreation, and Open Space Requirements in the Union Square C-3-R Downtown Retail Zoning District.

(a) In addition to the findings in Section 2 of this ordinance, the Board of Supervisors further finds that Union Square is both a neighborhood and open space attraction within the heart of Downtown San Francisco that is an incredibly popular destination for San Francisco residents, the regional San Francisco Bay Area, and for visitors and tourists from around the world. Union Square consists of many of the City's finest shops and hotels and is one of the strongest downtown retail districts in the country. The loss of retail space in the C-3-R District will diminish the existing character of the Union Square area by reducing the number of retailers, which may cause some shoppers to leave sooner than they might otherwise if a greater density of retailers were present.

(b) Fundamental to the C-3-R District at the time of its creation was its emphasis on a continuity of retail and consumer service uses, its ongoing encouragement of pedestrian interest and amenities, and efforts to minimize conflicts between shoppers and motor vehicles.

(c) The C-3-R District was created specifically to protect against conversions of retail use to other non-retail uses. Although the retail landscape was different in the 1980s when the Downtown Area Plan was initially crafted and conceived, the rapid growth of office space was and remains a threat to existing retail space, particularly on the upper floors. In furtherance of a dense, pedestrian-oriented retail environment, Downtown Area Plan Policy 3.3 requires City policymakers to prioritize retail service businesses in upper floor offices in the retail district.

(d) The 2017 OEWD Report found that (1) rents for smaller retail spaces in the C-3-R District had outpaced citywide rates, (2) space available for rent was at an all-time low, (3) the C-3-R District continued to contribute a large portion of City sales tax revenue to the economy, and (4) over the last 5 years, sales of General Consumer Goods had in fact grown both in the C-3-R District and citywide. The 2017 OEWD Report also identified trends in the retail industry, among them: (1) a shift away from the general department store model, (2) a general desire for smaller "footprints", and (3) an increase in retailers seeking to provide a more targeted "lifestyle specific" consumer experience.

(e) Meanwhile, the market for leasing office space throughout San Francisco continues to thrive, presenting external pressure on the competitiveness of retail space within the C-3-R District. According to the Jones Lang Lasalle Office Outlook Report for Q1 2018, leasing activity maintained its strong momentum from previous years, with tenants rushing to lease space in new office developments in the City, even before construction is finished. That report also found that San Francisco office tenants value spaces with creative and flexible build-outs that are move-in ready, meaning many office tenants are willing to convert existing retail spaces within the Downtown C-3-R to Office Use. The Jones Lang Lasalle Office Outlook Report for Q1 2018 is on file with the Clerk of the Board of Supervisors in Board File No. ________.

(f) Applicants continue to seek to convert retail space to office and other non-retail space. The applications to convert existing retail space contribute to the rising rents for existing retail space and limited amount of available retail space.

(g) The proposed conversion of retail to office space in the C-3-R District brings with it new impacts on the public realm, by virtue of bringing new office workers to this vibrant predominantly-retail area. When a space converts from retail to office, generally, there are more office workers per square foot than retail workers per square foot.

(h) As office space is approved, either as new construction or by way of conversion, public facilities will be more heavily and consistently used throughout the full day. This results in a more intense use for public facilities due to the larger worker population. The stress on these public facilities and the need for new and improved open space amenities and infrastructure is anticipated to increase as the creation of new office space occurs in the Downtown C-3-R.

(i) In 2012, the City contracted with Hausrath Economics Group to prepare the Downtown San Francisco Park, Recreation, and Open Space Development Impact Fee Nexus Study (Nexus Study). The Nexus Study examined the impacts of people living in new housing and working in new buildings in downtown San Francisco and the resulting increase in demand for park, recreation, and open space facilities created by the expected development of several land uses, including housing, office, retail, hotel and institutional development in the downtown area. The Nexus Study is on file with the Clerk of the Board of Supervisors in Board File No. __________, and incorporated by reference.

(j) The Nexus Study examined development horizons through 2030 and found that the downtown area is expected to accommodate a substantial amount of the population and employment growth projected for San Francisco. The scenario reflects state, regional and local policies directing new development to dense urban centers served by transit. Office employment accounted for 75 percent of the total expected employment growth from 2005 through 2030.

(k) The Nexus Study found that new facilities and improvements to existing facilities are required to accommodate additional demand for park, recreation and open space facilities in order to maintain the current level of service. The Nexus Study found that any fee revenue would not be used to correct existing standards, but instead would be used to maintain the existing standards to meet the growing population and employment growth. If facility inventory were not expended or improved to accommodate increased demand, then the level of service would deteriorate as the increased activity associated with growth and new development would occur within the confines of constrained existing facilities.

(l) The Nexus Study found that costs for park, recreation, and open space facilities in the downtown area are higher than elsewhere in the City. The Nexus Study found that the higher cost is driven by: (1) the higher cost of land in the downtown area attributable to the limited amount of suitable open land, (2) space and locational restrictions that lead to higher development costs, and (3) the need for more expensive improvements due to the density of the existing development and intensity of expected use.

(m) According to the Nexus Study, park, recreation, and open space facilities are critical components of a quality of life analysis because they sustain the social, physical and mental health of residents and workers, and provide economic benefits as well. Adequate open space provides essential relief from the density and congestion associated with downtown high-rise development. The Nexus Study found that as development occurs, additional park and open space facilities are needed to maintain the quality of urban experience that makes downtown San Francisco an attractive place to do business, live, and visit.

(n) The Board of Supervisors recognizes that the Union Square Park, Recreation, and Open Space Fee is only one part of the City's overall strategy for addressing the need of open space. The Downtown Park Fee is a longstanding commercial development impact fee, initiated in 1985, which supports recreational space in the downtown area for the neighborhood's daytime employee population. In adopting the Downtown Park Fee, the Board of Supervisors recognized that continued office development downtown area increased the daytime population and created a need for additional public park and recreation facilities. The Downtown Park Fee is currently set at $2 per square foot.

(o) The Board of Supervisors finds that park, recreation, and open space facilities provide economic benefits, by sustaining the social, physical and mental health of residents, visitors, and workers. New park, recreation, and open space facilities may also attract shoppers to the retail core and offset any loss created by the conversion to office.

(p) The Board of Supervisors has reviewed the Nexus Study and finds that the study supports the current requirements for the Union Square Park, Recreation, and Open Space Fee. The Board of Supervisors finds that the Nexus Study: identifies the purpose of the fee to mitigate impacts on the demand for park, recreation, and open space in the downtown area, which includes the C-3-R District; identifies the facilities and improvements that the fee would support; and demonstrates a reasonable relationship between the planned new development and the use of the fee, the type of new development planned and the need for facilities to accommodate growth, and the amount of the fee and the cost of facilities and improvements.

(q) The Board of Supervisors finds that the Union Square Park, Recreation, and Open Space Fee would fund new improvements required by new developments, and would not be used to remedy existing deficiencies or used for maintenance or operation purposes.

(r) The Board of Supervisors finds that the Union Square Park, Recreation, and Open Space Fee is similar to the existing Downtown Park Fee, and that the Nexus Study establishes that the current requirements for both fees is less than the cost of mitigation created by new office development. The City may also fund the cost of remedying existing deficiencies through other public and private funds.

Section 5. The Administrative Code is hereby amended by adding section 10.100-354 and the Planning Code is hereby amended by revising sections 428, 428.1, 428.2, and 428.3 to read:

SEC. 10.100-354. UNION SQUARE PARK, RECREATION, AND OPEN SPACE FUND.

*(a) **Establishment of Fund**. The Union Square Park, Recreation, and Open Space Fund (the "Fund") is established as a category eight fund to receive any monies collected pursuant to the Union Square Park, Recreation, and Open Space Fee, or donated to pay for City activities designed to address park, recreation, or open space needs in the C-3-R Downtown Retail Zoning District.*

*(b) **Use of Fund**. Monies in the Fund shall be used exclusively by the Controller or his or her designee (the "Controller") to pay for new and improved facilities to meet the needs attributable to new recreation, park, and open space users in the C-3-R Downtown Retail Zoning District.*

*(c) **Administration of Fund**. The Controller shall submit an annual written report to the Board of Supervisors describing expenditures made from the Fund during the previous fiscal year.*

SEC. 428. UNION SQUARE PARK, RECREATION, AND OPEN SPACE FEE.

Sections 428.1 through 428.3 hereinafter referred to as Section 428.1 et seq. set forth the requirements and procedures for the Union Square Park, Recreation, and Open Space Fee.

SEC. 428.1 PURPOSE AND FINDINGS SUPPORTING UNION SQUARE PARK, RECREATION, AND OPEN SPACE FEE.

*(a) **Purpose**. The purpose of the Union Square Park, Recreation, and Open Space Fee is to provide funding to increase the supply of park, recreation, and open space facilities to serve the needs attributable to new office development in the C-3-R Downtown Retail Zoning District. The Board of Supervisors hereby finds that the Union Square area, most of which is zoned as the C-3-R Downtown Retail Zoning District, is a world-class retail destination that draws both tourists and Bay Area residents with its combination of walkable shopping and dining, excellent transit access, and top-tier hospitality. As new office development occurs, additional park, recreation, and open space facilities*

are needed to maintain the quality of urban experience that makes downtown San Francisco an attractive place to do business, live, and visit.

*(b) **Findings**. The Board of Supervisors has reviewed the Downtown San Francisco Park, Recreation, and Open Space Development Impact Fee Nexus Study, prepared by Hausrath dated April 13, 2012 ("Nexus Study"), on file with the Clerk of the Board of Supervisors in File No. ________. In accordance with the California Mitigation Fee Act, Government Code 66001(a), the Board of Supervisors adopts the findings and conclusions of that study, and incorporates those findings and conclusions by reference to support the imposition of the fees under this Section.*

SEC. 428.2. DEFINITIONS.

See Section 401 of this Article.

SEC. 428.3. APPLICATION OF UNION SQUARE PARK, RECREATION, AND OPEN SPACE FEE.

*(a) **Application**. Section 428.1 et seq., shall apply to any office development project in the C-3-R Downtown Retail Zoning District.*

*(b) **Amount of fee**. The applicable fee shall be $4 per square foot.*

*(c) **Other Fee Provisions**. The Union Square Park, Recreation, and Open Space Fee shall be subject to the provisions of this Article, including, but not limited to Sections 401 through 410.*

Section 6. Effective Date. This ordinance shall become effective 30 days after enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board of Supervisors overrides the Mayor's veto of the ordinance.

Section 7. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors intends to amend only those words, phrases, paragraphs, subsections, sections, articles, numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal Code that are explicitly shown in this ordinance as additions, deletions, Board amendment additions, and Board amendment deletions in accordance with the "Note" that appears under the official title of the ordinance.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: ______________________________
AUSTIN M. YANG
Deputy City Attorney

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BOARD of SUPERVISORS

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TDD/TTY No. 554-5227

October 24, 2018

File No. 180916-2

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On October 16, 2018, Supervisor Peskin submitted the proposed substitute legislation:

File No. 180916-2

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1, and findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

This substitute legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it would not result in a direct or indirect physical change in the environment.

Joy Navarrete

Digitally signed by Joy Navarrete
DN: cn=Joy Navarrete, o=Planning, ou=Environmental Planning, email=joy.navarrete@sfgov.org, c=US
Date: 2018.11.01 16:01:34 -07'00'

BOARD of SUPERVISORS

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September 26, 2018

File No. 180916

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On September 18, 2018, Supervisor Peskin submitted the proposed legislation:

File No. 180916

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it does not result in a physical change in the environment.

Joy Navarrete

Digitally signed by Joy Navarrete
DN: cn=Joy Navarrete, o=Planning, ou=Environmental Planning, email=joy.navarrete@sfgov.org, c=US
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SAN FRANCISCO
PLANNING DEPARTMENT

MEMO

Memo to the Planning Commission

HEARING DATE: MARCH 16, 2017

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

Date:	March 9, 2017
Subject:	**Retail to Office Conversions in Union Square (C-3-R District)**
Staff Contact:	Claudine Asbagh – (415) 575-9165 Claudine.asbagh@sfgov.org
Recommendation:	**None – Informational Only**

Background

On November 3, 2016, the Planning Commission held a public hearing on the project at 222 Sutter Street, the site previously home to Loehman's department store. The project requested a Conditional Use Authorization to convert approximately 12,000 square feet of retail space at the third floor into office space. At that hearing, the Planning Department recommended that the Commission deny the request, and adopt a general policy to preserve non-office uses at the third floor and below within the Downtown Retail Core (C-3-R) Zoning District. After deliberation, the Commission continued the project to a future hearing date and directed staff to work with the Mayor's Office of Economic and Workforce Development (OEWD) to research the issue and return with an informational presentation to help guide the Commission's review of this and other future such applications. OEWD has prepared the attached report that analyzes trends within the C-3-R in comparison to City, regional, and national trends.

Key Points of the Report

The report compiled data on existing conditions in the C-3-R Zoning District and determined that:

- Union Square remains an important regional shopping destination for tourists and Bay Area residents.
- In the past two years, rents for smaller retail spaces in the C-3-R District have outpaced city-wide rates.
- Space available for rent is at a 10-year low.
- The C-3-R consistently contributes a large portion of City sales tax revenue to the economy, although that share has slightly decreased.
- Over the last 5 years, sales of General Consumer Goods has grown both in the C-3-R and citywide.

The report identifies the following trends in the retail industry:

- Shifts away from the large department store model;
- Needs for smaller footprints;
- Needs for expanded on-line presence; and
- Increase in retailers providing a targeted "life-style specific" consumer experience.

The report also identifies other commercial sectors that are permitted within the C-3-R District that are performing well and that would support the goals and policies of the Downtown Plan. Many of these uses still provide service to the general public however do not require a ground floor presence. They include but are not limited to uses such as tailors, shoe repair, jewelers, and design services.

Policy Foundation: The Downtown Plan

Although the retail landscape was different in the 1980's when the Downtown Plan was crafted, the rapid growth of office uses and the diminishing supply of available space led to concern about office encroachment into traditional retail areas. The concern was born out of conversions to office in spaces such as the former Livingston's and the Sloan building—which, incidentally, is the site of 222 Sutter Street[1].

The Downtown Plan specifically identified the ease of converting upper story retail space for office users able to pay higher rents. Accordingly, the plan created the C-3-R District, which represented the retail core and in which regulations were crafted to protect against retail conversions. It should be noted that the C-3-R is relatively small when compared to the rest of the C-3, and it is the only C-3 District that requires a Conditional Use Authorization ("CU") for Non-Retail Sales and Service Uses that don't have public access at all floors (others require a CU at ground level and basement only). In order to approve such a non-retail use, in addition to the standard Section 303 findings, the Commission must also find that the use will not detract from the District's primary function as an area for comparison shopper retailing and direct consumer services.

As the demand for office continues to grow, the pressure to convert retail and service uses to office will continue. At present, the Department has four applications on file that propose to convert existing upper-level retail space to office uses.

Discussion

Faced with an increase in the number of applications to convert retail uses to non-retail uses, the Department proposed a policy option to the Commission through which retail uses would generally be maintained at the third floor and below. The distinction between lower floors and upper floors was driven by a desire to balance competing interests in the community and a desire to preserve a connection with the street. In that earlier proposal, the Department recognized that oftentimes a more nuanced approach would be necessary because of the diversity of retail spaces within the C-3-R district.

To this end, the report recommends that future policy take into consideration a project's location, footprint, and current uses, including:

- The number of levels and square footage of retail to be converted or retained;
- Alternate uses for possible "stranded" floors (i.e. retail without a street presence if a multilevel retailer does not lease all floors zoned for retail);
- Significance of the building, its uses and location within the Union Square geography and retail mix;
- Effects of the proposed use on neighboring Zoning Districts.

The data in the report also show that the pressures that drove the zoning controls included in the C-3-R District during the 80's are just as significant today as they were then. With this in mind, the Commission has at least three options:

1. Continue to review projects seeking upper level retail conversions on a case-by-case basis, using the finding currently in the Planning Code.
2. Adopt a policy that provides specific additional criteria that projects must meet in order for approval.
3. Initiate changes to the Planning Code to codify the criteria that projects must meet in order for approval.

While the report recommends reviewing upper level retail conversion applications on a case-by-case basis, Planning Department staff would welcome additional guidance from the Commission in order to enhance, and add consistency to, the review of each of the forthcoming applications. We look forward to a robust conversation from the Commission on the 16th.

Attachments: OEWD Memo, March 8, 2017

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[1] p.15, *Downtown Area Plan, City and County of San Francisco*. San Francisco: Department of City Planning, 1985. Print.

ECONOMIC AND WORKFORCE DEVELOPMENT
TODD RUFO, DIRECTOR

CITY AND COUNTY OF SAN FRANCISCO
EDWIN M. LEE, MAYOR

MEMORANDUM

TO: San Francisco Planning Commission

FROM: Todd Rufo, Director, Office of Economic and Workforce Development

CC:

DATE: March 8, 2016

RE: Retail to Office Conversions in Union Square (C-3-R Zoning District)

Several multi-level retail properties in Union Square are seeking or contemplating Conditional Use Authorization ("CU") to convert upper floor retail space to offices. Property owners assert a likelihood that retailers simply do not need as much space as they used to. Indeed, shifts in technology and consumer preferences moved retail away from big spaces and towards smaller physical footprints and expanded online presence.

But City policy need not approach conversion of upper floor retail solely through the lens of multi-floor retailers with street-level access. It is possible for policy to consider alternate uses in upper floors—retailers or other public-serving complementary uses that that do not require street-level access. Such an approach conforms with the C-3-R Planning Code designation from the 1985 Downtown Plan, which emphasizes preserving Union Square retail over office use. Thus, in considering retail-to-office conversions, the City weighs historic use, current use, and retail trends. Additionally, it must be considered that Union Square buildings have a wide range of footprint sizes. OEWD recommends policy consider upper level retail conversions on a case-by-case basis, balancing the following factors:

1) Compatibility of proposed use with the City's Planning Code and Downtown Plan

2) The building's location, footprint, and current uses, including:
    a. The number of levels and square footage of retail to be converted or retained
    b. Alternate use for possible "stranded" floors (i.e. retail or public serving uses without street presence if a multilevel retailer cannot lease all retail-zoned floors)
    c. Significance of the building, its uses and location to the Union Square retail mix
    d. Effects of the proposed use on neighboring Zoning Districts

3) Local real estate and retail trends, such as:
    a. Area retail sales and competition, including key citywide and regional comparables
    b. Current and potential alternate retail and public-serving non-retail uses

4) National retail market dynamics, such as:
    a. New competition and businesses
    b. Consumer preferences and technology

Union Square remains an important shopping destination

Union Square[1] is a world-class retail destination that draws tourists and Bay Area residents with its combination of walkable shopping and dining, excellent transit access, and top tier hospitality. Union Square merchants generate over 37% of San Francisco's sales tax in General Consumer Goods, and over 15% of all City sales tax dollars (see "Sales Tax in C-3-R lagging citywide results"). Unique to the Union Square experience is walkable multi-story retail shopping in the form of department stores, flagship luxury outposts, and more recently discounters like DSW Shoe Warehouse or casual brands like Uniqlo.

National and local retail trends point towards smaller footprints, expanded e-commerce

Apparel remains a big draw to Union Square, and changing consumer preferences and technology have already led Union Square retailers to rethink their physical space needs. Importantly, all but two of Union Square's 16 retail sites with three or more levels are in apparel. Regional and national competition is growing, with expanded luxury and discount offerings within driving distance in all directions from San Francisco. Additionally, some of the fastest growing retail segments have been in smaller, specialized single-merchant sites that offer a more targeted, lifestyle-specific consumer experience (e.g. Cuyana, lululemon athletica). Even Amazon has begun opening small brick and mortar storefronts to showcase key products. The Amazon retail pilot is occurring in limited markets outside of San Francisco, and features retail spaces well under 1,000 square feet.

Technology is also opening up new opportunities to provide customers unique retail experiences that physical sites must compete with. Large format, multi-story retail faces particularly acute challenges, competing with smartphone-toting consumers who can go to a store to try on a sweater, and buy it from a competing online retailer before leaving the dressing room. Tellingly, Amazon has focused aggressively on apparel sales, and is now the nation's #2 apparel retailer. And as e-commerce grows, it has already crowded out many department stores and large format retailers along the way. Already, music, books, toys, and sporting goods have little to no national large format presence, especially in urban retail centers like Union Square.

Additionally, recent area real estate deals point to rents rising in the near future. In 2014, Union Square already had the highest retail rents outside of Manhattan or Rodeo Drive. Since then, several Union Square buildings have sold at elevated prices ranging from $1,000 per square foot (e.g. Phelan Building) to upwards of $3,000 per square foot (e.g. Britex Building). The new landlords will pass these costs onto tenants, who will either move or shrink their footprints to focus on maximizing sales per square foot. It has already been seen that landlords will seek to convert space deemed no longer fiscally viable for retail into more profitable office use.

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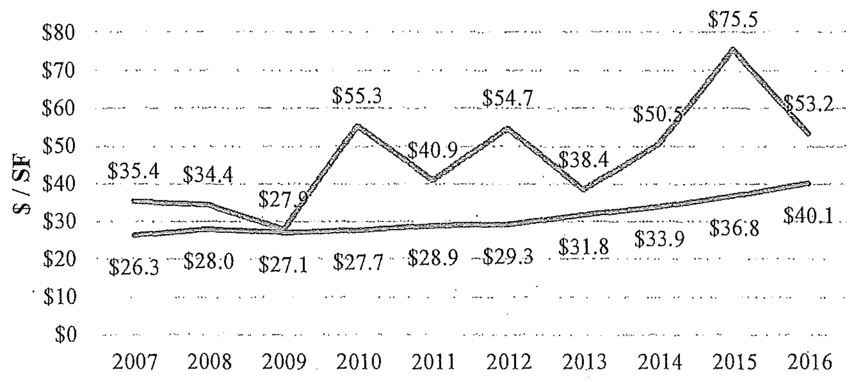
[1] For the purposes of this memo, unless noted otherwise, data in this report represents the C-3-R District: Downtown Retail. Section 210.2 of the San Francisco Planning Code defines C-3-R thusly (all emphasis added): "This District is **a regional center for comparison shopper retailing and direct consumer services**... Within the District, **continuity of retai l and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities** and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions."

Union Square retail lease rates increase as square footage shrinks

Union Square retail rents have historically exceeded citywide rates, but the last two years have seen retail rents outpace citywide rate growth. In 2015, average rents in C-3-R jumped by nearly 50% of 2015 rates before declining somewhat, while citywide rates continued in a more moderate trajectory (Chart 1). As other retailers are experiencing regionally and nationwide, retail lease rates rose in the C-3-R, while the average size of leased space decreased (Table 1, Chart 2).

Although leasing volume in Union Square's C-3-R decreased significantly since 2014, the increase in lease rates remains outsized relative to space demand and citywide trends. Citywide retail lease rates increased a more modest 26% during the same period, despite slowed delivery of new retail space. Deliveries of new retail space averaged 3 newly constructed spaces and 53,000 new square feet per year. This represents a 50% decrease in average new space delivered from 2009-2013.

Chart 1: C-R-3 Retail Lease Growth Outpaces Citywide Lease Rates



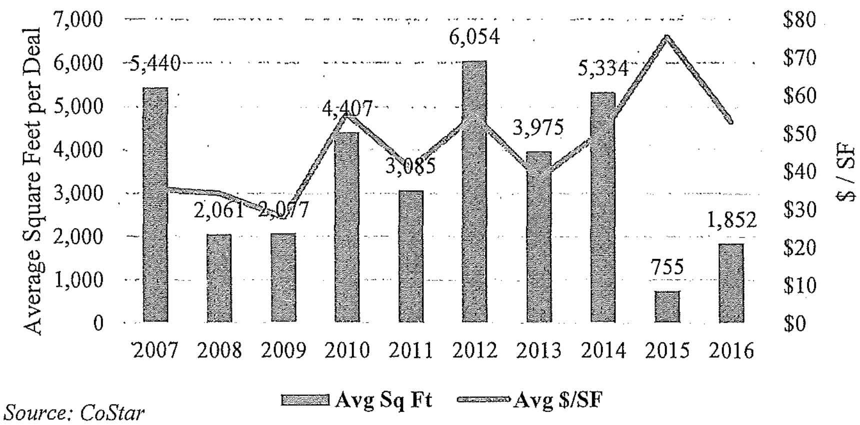
Source: CoStar

Table 1: 2016 C-3-R Retail Leases Trended Smaller, More Costly

Year	Avg SF	Avg $/SF	# Deals	Tot SF	Median $/SF	High $/SF
5 Year	4,104	$49.05	45	184,659	$42.00	$145.47
2008-2016	3,722	$47.94	84	312,618	$39.68	$162.12
2016	*1,852*	*$53.25*	*9*	*16,672*	*$48.00*	*$93.00*

Consistent with national trends, retail lease rates rose in the C-3-R, while the average size of leased space decreased

Chart 2: C-3-R Retail Leasing: Smaller Spaces, at Higher Rates



Source: CoStar

Sales tax in C-3-R lagging citywide trends

Sales tax receipts help highlight how Union Square is one of the most important components of San Francisco's economic engine. It remains by far the largest contributor of sales tax from traditional retail activities. However, despite sales tax collections recovering past pre-recession levels in 2011, area retailers are experiencing stress as sales tax growth in Union Square lags behind citywide receipts. While it is too early to tell if these trends are temporary, continued slow growth would threaten the vitality of Union Square's retail mix.

Table 2: C-3-R Share of Citywide Sales Tax Receipts

	General Consumer Goods	Restaurants & Hotels	Food & Drugs	Business & Industry	Other	Total
5 Year	37.3%	8.1%	7.1%	2.8%	0.3%	**15.1%**
10 Year	37.2%	8.4%	7.5%	3.0%	0.3%	**15.5%**
2008-Present	*37.3%*	*8.4%*	*7.4%*	*3.0%*	*0.3%*	*15.4%*
2015	*36.6%*	*7.8%*	*6.9%*	*2.8%*	*0.3%*	*14.6%*

Source: California Board of Equalization

The C-3-R has reliably accounted for over 1/3 of San Francisco's sales tax receipts in the "General Consumer Goods" category, which encompasses most traditional retailers. Also, the C-3-R has consistently generated over 15% of citywide sales tax receipts. However, the C-3-R's share of citywide sales taxes began dipping in 2015.

Table 3: Annual Sales Tax Growth Rate

	2008-2015		2010-2015		2014-2015	
	C-3-R	Citywide	C-3-R	Citywide	C-3-R	Citywide
General Consumer Goods	1.4%	1.4%	3.9%	4.2%	-3.1%	-0.7%
Restaurants & Hotels	3.7%	6.0%	6.5%	8.6%	0.8%	7.2%
Food & Drugs	1.8%	4.0%	4.1%	5.9%	8.0%	7.2%
Business & Industry	1.1%	2.4%	0.5%	6.9%	9.9%	6.7%
Other	5.0%	0.6%	7.0%	5.5%	-5.1%	-7.1%
Total	**1.8%**	**2.9%**	**4.3%**	**6.2%**	**-1.8%**	**2.0%**

Source: California Board of Equalization

While Union Square retail is still a significant contributor to the San Francisco economy, its sales are not growing as fast as its peers citywide. Sales tax has grown more rapidly citywide compared to C-3-R over the last complete year (2014-2015), over the last 5 years (2010-2015), or since the recession (2008-2015).

Chart 3: C-3-R Sales Tax Receipts 2008-Present ($000)

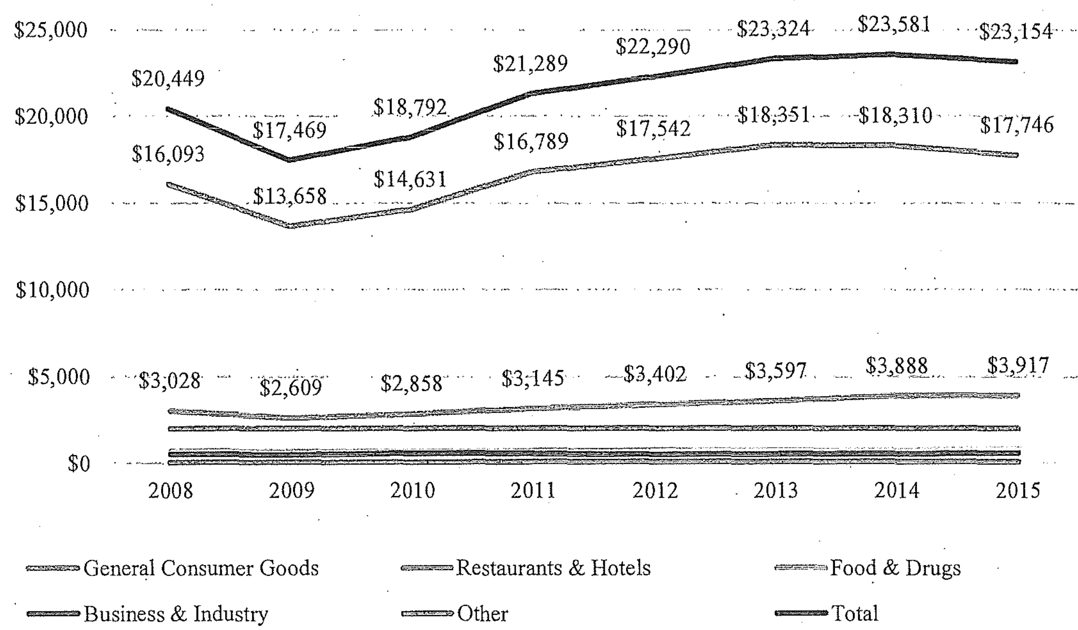
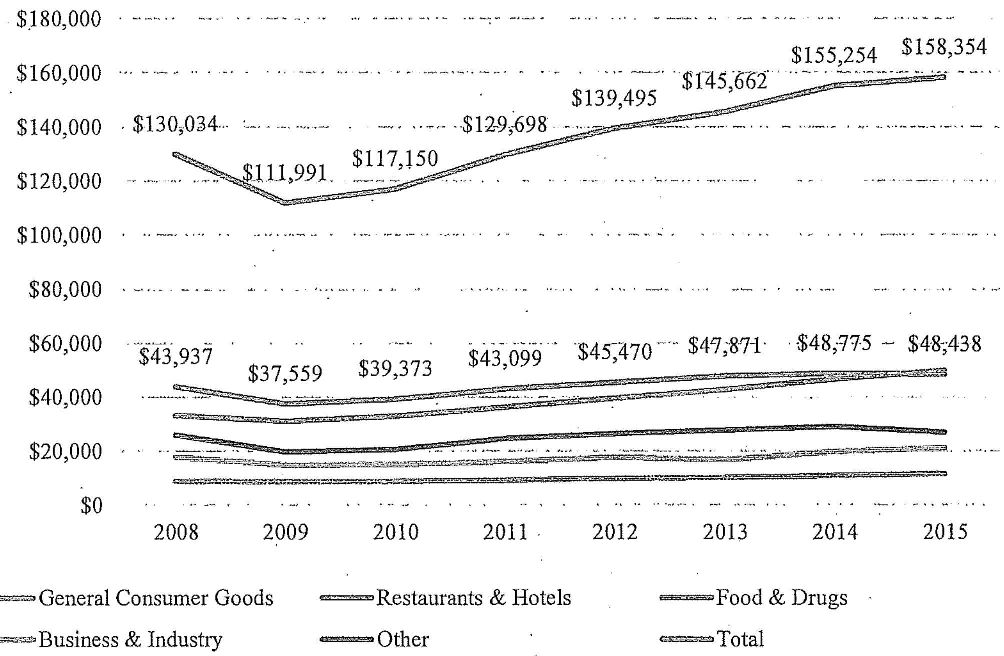


Chart 4: Citywide Sales Tax Receipts
2005-Present ($000)



Retail space consolidation has begun Union Square, retail-to-office conversions increasing

Shrinking retail and conversion proposals have begun in Union Square, and OEWD anticipates this trend to continue into the next 4-5 years. Current retail trends indicate movement towards smaller physical footprints coupled with expanded online presence. OEWD's analysis of C-3-R business license data receipts since 2008 verify the appearance of more, smaller, retailers. Despite overall flat collections in General Consumer Goods, the number of business registered in the C-3-R has increased from 1,634 to 2,089 over the past nine years (Table 4). We do not yet know how small these retailers may shrink, but recent local headlines show a clear trend towards reduction or repurposing retail spaces:

1) A CU proposal is pending to convert the third floor of 222 Sutter St from retail to office. The building's retail space, comprised of 12,000 square feet of basement and 24,000 square feet on floors 1-3, has been vacant since 2014, when Loehmann's national discount apparel chain closed all of its physical locations. Loehmann's still exists, but it is now an online-only merchant.

   222 Sutter St lies at the northwest edge of the Union Square BID: at the intersection of the Financial District, Union Square and Chinatown. It houses the only 3+ story retail space for two blocks in any direction, although it is one block north of Banana Republic's new 2 story flagship store. The third floor accommodates 12,000 square feet of retail, or 1/3 of the building's current retail space.

2) The Britex Building at 146 Geary St was owner-occupied until its sale in 2015. The now-tenants have announced intentions to move the business, and the new owners intend to seek conversion of the whole building, except the ground floor, to office. The rates sought by

the new owner to justify a purchase price of $3,000 per square foot may rule out all but the most profitable retailers. The owners may feel that the rates may be more easily obtained from premium office use.

The Britex building will be a particularly important test case. It is a building with historical retail significance on a very small footprint that has already been sold at a great premium. With 12,500 square feet of total space over four levels, eliminating the top three levels of retail would be a significant loss of the type of smaller spaces that are more desirable today, within a significant corridor of Union Square retail.

3) In 2016, Both Macy's and Saks Fifth Avenue are consolidating standalone Union Square men's stores into their retailers' primary locations. The 38,000 square foot vacated Saks Men's Store sold for over $1,800 per square foot, and the new owner is said to be looking for retail tenants. Given its massive size at 256,000 square foot and its prime location on 120 Stockton St, the Macy's Men's Store space might sell for more than the Saks space. Macy's has expressed interest in converting much of the Men's Store space into offices.

   Interestingly, in 2016 Barney's New York opened a standalone men's store a half block from the Macy's Men's Store. The new Barney's men's store is half the size of the former Sak's Men's Store space, and the two floors being vacated in the main Barney's building are being repurposed into an upscale restaurant.

Trends towards smaller space leaves San Francisco multilevel retail vulnerable

There is likely still a need for retail occupying 3 stories and over 45,000 square feet of space, as is the current vacancy in the Loehmann's Building. But landlords assert that there are no large format retailers stepping forward at current market lease rates. New construction is not immune to supply challenges, as 6X6, a New Class A retail center in Mid-Market, is completing construction of 250,000 square foot of retail space without a single lessor in hand.

Given market dynamics, building owners are applying to convert as much retail as possible into office space. They would like to prevent "stranded" floors, where the tenant does not rent out all floors which are permitted for retail use. These floors would have no street-level storefront, or indirect access to the street level. However, there may be creative ways to accommodate more than one retailer or other public-serving complementary use in an otherwise stranded space. Such strategies could include occupying an upper level space with one or more smaller merchants that do not rely on street-level presence, such as jewelry, laboratories, or boutiques; or demising a retail space to create two smaller multilevel retailers.

City Downtown Plan and Planning Code dictate strong preference towards preserving retail

The conversion of upper level Union Square retail is in fact achievable through CU, including conversion to office or residential use. City policies place the burden on the CU applicant to demonstrate that the conversion of a retail space is consistent with policy and do not undermine the historic nature of Union Square as walkable retail center. The 1985 Downtown Plan and City Planning Code both emphasize preserving Union Square retail in the face of expanding office demand.

The Downtown Plan confronted the tension between office and retail, offering:

> Despite the health of retail trade downtown, rapid growth of office space...[leads to] concern about encroachment of office development into the traditional retail areas. Upper story space traditionally used by retail services could easily be converted for office users able to pay higher rents. Conversions from retail to office space...give rise to concern

Further, Downtown Plan Policy Objective 3.1 states that Union Square landlords ought to "Maintain high quality, specialty retail shopping facilities in the retail core," further expanding that "Only growth compatible with existing uses and reinforcing the retail function should be encouraged."

The Planning Code also incorporates a strong preference towards maintaining retail in the context of a holistic Union Square experience:

> **C-3-R District: Downtown Retail.** *This District is a regional center for comparison shopper retailing* and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District.... Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles."

That San Francisco codified concern over retail-to-office conversions 30 years ago challenges the City to proceed systematically with these types of CU requests. The context of the proposed Loehmann's building conversion is quite different than that of the Britex building. Not only are they different sizes, they play different roles in the Union Square retail mix. A "one-size-fits-all" rule, such as a hard line on the total square footage or number of floors that may be preserved, does not adequately address the unique concerns of both properties.

In contrast to Loehmann's building, the Britex building represents a desirably-sized retail space in a location whose retail presence is more in line with the "continuity of retail and consumer service uses." A conversion of the Britex building may prove injurious to the Downtown Plan's goal to "Maintain high quality, specialty retail shopping facilities in the retail core."

Possible complementary uses to populate "stranded" floors

OEWD has identified a subset of complementary public-serving business types that are permitted in upper floor C-3-R (Table 3).These represent most of the permitted public-serving (as opposed to business-serving) uses that can fill upper floor vacancies without a street-level presence, while attracting foot traffic within the C-3-R district. OEWD's analysis of SF OpenData business registration information showed firms like these make up about half of existing firms in C-3-R (Table 4).

Many of these business types offer personal, professional and administrative services while serving the general public. Additionally, while available data on these businesses does not include square footage per firm, OEWD maintains that many of these firms can join together to occupy a larger, demised space—either by sharing floors or splitting a large multi-floor floorplate into two, or more, smaller multi-floor retailers.

Given sales trends outlined above, any proposed conversion of retail space to non-retail use in the C-3-R district should include consideration as to whether the conversion could permanently exacerbate this downward retail trend. It is possible that a retail to office conversion policy which draws a bright line on conversion at a particular floor number could have unintended consequences. Thus, it may be appropriate to place more onus on landlords to consider repurposing existing upper level retail space in innovative ways that help preserve the vitality of Union Square retail, but policy ought to provide the City a balanced set of tools to serve the district's best interests.

Table 3: Sample Eligible Complementary Business Types by Use Categories

Business Services
Accounting, Tax Preparation, Bookkeeping, and Payroll Services
Architectural, Engineering, and Related Services
Convention and Trade Show Organizers
Funds, Trusts, and Other Financial Vehicles
Graphic Design Services
Independent Artists, Writers, and Performers
Industrial Design Services
Insurance Carriers and Related Activities
Legal Services
Photofinishing
Photographic Services
Department Stores
Department Stores (except Discount Department Stores)
Sewing, Needlework, and Piece Goods Stores
Drug Stores
Pharmacies and Drug Stores
Electronics/Appliance Stores
Household Appliance Stores
Radio, Television, and Other Electronics Stores
Fine Dining
Drinking Places (Alcoholic Beverages)
Full-Service Restaurants
Florist Shops
Florists
Garden/Agricultural Supplies
Nursery, Garden Center, and Farm Supply Stores
Hardware Stores
Hardware Stores
Home Furnishings
All Other Home Furnishings Stores
Floor Covering Stores
Furniture Stores
Window Treatment Stores
Jewelry Stores
Jewelry Stores
Leisure/Entertainment
Dance Companies
Musical Groups and Artists
Other Performing Arts Companies
Theater Companies and Dinner Theaters
Lumber/Building Materials
Home Centers
Medical
Medical and Diagnostic Laboratories
Offices of Dentists
Offices of Other Health Practitioners
Offices of Physicians
Other Ambulatory Health Care Services
Outpatient Care Centers
Motion Pictures/Equipment
Motion Picture and Video Distribution
Motion Picture and Video Production
Postproduction Services and Other Motion Picture and Video Industries
Music Stores
Musical Instrument and Supplies Stores
New Motor Vehicles
New Car Dealers
Paint/Glass/Wallpaper
Paint and Wallpaper Stores

Table 3: Sample Eligible Complementary Business Types by Use Categories, cont.

Personal Service-No Liquor
All Other Amusement and Recreation Industries
All Other Personal Services
Amusement Arcades
Barber Shops
Beauty Salons
Bowling Centers
Fitness and Recreational Sports Centers
Formal Wear and Costume Rental
Industrial Launderers
Interior Design Services
Linen Supply
Motion Picture Theaters (except Drive-Ins)
Nail Salons
Other Personal Care Services
Photographic Equipment
Camera and Photographic Supplies Stores
Portrait Studios
Photography Studios, Portrait
Quick-Service Restaurants
Cafeterias, Grill Buffets, and Buffets
Caterers
Food Service Contractors
Limited-Service Restaurants
Snack and Nonalcoholic Beverage Bars

Repair Shops & Tool Rental
Consumer Electronics and Appliances Rental
Investigation, Guard, and Armored Car Services
Locksmiths
Office Machinery and Equipment Rental and Leasing
Second-Hand Stores
Used Merchandise Stores
Shoe Repair Shops
Footwear and Leather Goods Repair
Specialty Stores
All Other Health and Personal Care Stores
Art Dealers
Cosmetics, Beauty Supplies, and Perfume Stores
Luggage and Leather Goods Stores
Optical Goods Stores
Textiles/Furnishings
Apparel, Piece Goods, and Notions Merchant
Sound Recording Industries
Transportation & Rentals
Couriers and Messengers
Travel Arrangement and Reservation Services
Warehousing and Storage
Variety Stores
All Other General Merchandise Stores

Source: SF OpenData, California Board of Equalization, North American Industry Classification System (NAICS)

Table 4: Firms Opened and Closed since 2007

	Open Pre-2007	Open 2007-2016	Closed 2007-2016	Now Open	Share of firms	Percent of Firms Closed 2007-2016
Complementary Firms	361	778	-175	**964**	**46.10%**	**15.4%**
Other Firms	431	856	-162	**1,125**	**53.90%**	**12.6%**
Total Firms	**792**	**1,634**	**-337**	**2,089**	**100.0%**	**13.9%**

Industry Codes	Open Pre-2007	Open 2007-2016	Closed 2007-2016	Now Open	Share of firms	Percent of Firms Closed 2007-2016
Wholesale Trade	20	37	-10	**47**	**4.9%**	**17.5%**
Retail Trade	149	284	-69	**364**	**37.8%**	**15.9%**
Insurance	2	3	0	**5**	**0.5%**	**0.0%**
Administrative and Support Services	22	47	-12	**57**	**5.9%**	**17.4%**
Private Education and Health Services	82	129	-28	**183**	**19.0%**	**13.3%**
Arts, Entertainment, and Recreation	13	54	-12	**55**	**5.7%**	**17.9%**
Food Services	38	124	-23	**139**	**14.4%**	**14.2%**
"Certain Services"	35	100	-21	**114**	**11.8%**	**15.6%**
Total Firms	**361**	**778**	**-175**	**964**	**100.0%**	**100.0%**

Source: SF OpenData

Appendix 1: C-3-R Zoning Control Table

Commercial Use Characteristics		
Land Use	**As Defined...**	**Permitted?**
Drive-up Facility	§ 102	NP
Formula Retail	§§ 102, 303.1	P
Open Air Sales	§ 102	P
Outdoor Activity Area	§ 102	P
Walk-up Facility	§ 102	P
Waterborne Commerce	§ 102	NP
Agricultural Use Category		
Agricultural Uses	§§ 102, 202.2(c)	P
Greenhouse	§§ 102, 202.2(c)	NP
Automotive Use Category		
Automotive Repair	§ 102	NP
Automotive Sale/Rental	§ 102	P [1]
Automotive Service Station	§§ 102, 202.2(b), 202.5	NP
Automotive Wash	§§ 102, 202.2(b)	NP
Gas Station	§§ 102, 187.1, 202.2(b)	NP
Parking Garage, Private	§ 102	C
Parking Garage, Public	§ 102	C
Parking Lot, Private	§ 102, 142, 156	NP
Parking Lot, Public	§ 102, 142, 156	NP
Service, Motor Vehicle Tow	§ 102	NP
Service, Parcel Delivery	§ 102	C
Services, Ambulance	§ 102	NP
Vehicle Storage Garage	§ 102	NP
Vehicle Storage Lot	§ 102, 142	NP
Entertainment, Arts and Recreation Use Category		
Entertainment, Arts and Recreation Uses	§ 102	P
Entertainment, Outdoor	§ 102	NP
Livery Stable	§ 102	NP
Open Recreation Area	§ 102	NP
Sports Stadium	§ 102	NP

Industrial Use Category		
Industrial Uses	§ 102	NP
Manufacturing, Light	§ 102	P
Institutional Use Category		
Institutional Uses	§§ 102, 202.2(e)	P
Child Care Facility	§ 102	P
Hospital	§ 102	C
Residential Care Facility	§ 102	P
Trade School	§ 102	NP
Sales and Service Category		
Retail Sales and Service Uses	§§ 102, 202.2(a)	P
Animal Hospital	§ 102	NP
Hotel	§ 102	C
Kennel	§ 102	NP
Massage Establishment	§ 102	C
Mortuary	§ 102	NP
Motel	§§ 102, 202.2(a)	NP
Storage, Self	§ 102	C
Tobacco Paraphernalia Store	§ 102	C
Non-Retail Sales and Service	§ 102	P [2]
Catering	§ 102	P
Design Professional	§ 102	P [2]
Laboratory	§ 102	P
Life Science	§ 102	P
Storage, Commercial	§ 102	NP
Storage, Wholesale	§ 102	NP
Wholesale Sales	§ 102	P
Utility and Infrastructure Use Category		
Utility and Infrastructure	§ 102	NP
Internet Service Exchange	§ 102	C
Public Transportation Facility	§ 102	C
Utility Installation	§ 102	C

[1] P if located on the ground floor and offers on-site services to the general public. NP on the ground floor if it does not provide onsite services to the general public. C is required if the use is larger than 5,000 gross square feet in size or located above the ground floor.

[2] Required to be in an enclosed building

Source: *San Francisco Planning Code Section 201.2 C-3 Districts: Downton Commercial*

Appendix 2: C-3-R Zoning Definition[2]

C-3-R District: Downtown Retail. This District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions. This District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions.

[2] San Francisco Planning Code Section 201.2 C-3 Districts: Downton Commercial

Appendix 3: C-3-R Key Definitions[3]

Business Service. A Non-Retail Sales and Service Use that provides the following kinds of services to businesses and/or to the general public and does not fall under the definition of Office: radio and television stations, newspaper bureaus, magazine and trade publication publishing, microfilm recording, slide duplicating, bulk mail services, parcel shipping services, parcel labeling and packaging services, messenger delivery/courier services, sign painting and lettering services, or building maintenance services.

Design Professional. A Non-Retail Sales and Service Use that provides professional design services to the general public or to other businesses and includes architectural, landscape architectural, engineering, interior design, and industrial design services. It does not include (1) the design services of graphic artists or other visual artists which are included in the definition of Arts Activities; or (2) the services of advertising agencies or other services which are included in the definition of Professional Service or Non-Retail Professional Service, Financial Service or Medical Service

Non-Retail Professional Service. A Non-Retail Sales and Service Office Use that provides professional services to other businesses including, but not limited to, accounting, legal, consulting, insurance, real estate brokerage, advertising agencies, public relations agencies, computer and data processing services, employment agencies, management consultants and other similar consultants, telephone message services, and travel services. This use may also provide services to the general public but is not required to. This use shall not include research services of an industrial or scientific nature in a commercial or medical laboratory, other than routine medical testing and analysis by a health-care professional or hospital.

Non-Retail Sales and Service. A Commercial Use category that includes uses that involve the sale of goods or services to other businesses rather than the end user, or that does not provide for direct sales to the consumer on site. Uses in this category include, but are not limited to: Business Services, Catering, Laboratory, Life Science, Commercial Storage, Design Professional, Non-Retail Professional Service, General Office, Wholesale Sales, Wholesale Storage, and Trade Office.

Retail Sales and Services. A Commercial Use Category that includes uses that involve the sale of goods, typically in small quantities, or services directly to the ultimate consumer or end user with some space for retail service on site excluding Retail Entertainment Arts and Recreation, and Retail Automobile Uses and including, but not limited to: Adult Business, Animal Hospital, Bar, Cat Boarding, Fringe Financial Services, Tourist Oriented Gift Store, General Grocery Store, Specialty Grocery Store, Gym, Hotel, Jewelry Store, Kennel, Liquor Store, Massage Establishment, Chair and Foot Massage, Mobile Food Facility, Mortuary (Columbarium), Non-Auto Sales, Pharmacy, Restaurant, Limited Restaurant, General Retail Sales and Service, Financial Services, Limited Financial Services, Health Services, Motel, Personal Services, Instructional Services, Retail Professional Services, Self-Storage, Take-Out Food Facility, Tobacco Paraphernalia Store, and Trade Shop.

[3] San Francisco Planning Code: Section 102 Definitions, Section 201.2 C-3 Districts: Downton Commercial, 202.2 Location and Operating Conditions,

SAN FRANCISCO
PLANNING DEPARTMENT

MEMO

Memo to the Planning Commission

HEARING DATE: FEBRUARY 22, 2018

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Date:	February 15, 2018
Subject:	Retail Conversions in C-3-R
Staff Contact:	Claudine Asbagh – (415) 575-9165 Claudine.asbagh@sfgov.org
Recommendation:	**None – Informational Only**

Background

On March 16, 2017, the Planning Commission held a public hearing on office conversions in the Downtown Retail Core (C-3-R) Zoning District. At that hearing, the Mayor's Office of Economic and Workforce Development (OEWD) presented the findings of a report that analyzed trends within the C-3-R in comparison to City, regional and national trends (Attachment 2). Since that time, OEWD has conducted additional research and analysis related to lease rates, vacancies, and tenant space sizes specific to C-3-R and the findings are summarized below and in the tables attached to this memo.

- Retail rents and vacancy rates citywide and in Union Square indicate that Union Square retail lease rates have surpassed citywide lease rates by a wide margin.
- Union Square retail vacancy for 4th quarter 2017 was 4%, still below the 5% - 10% economic development specialists traditionally consider is within a healthy or normal retail vacancy range.
- 2018 Dun & Bradstreet data for the general area of Union Square[1] indicate:
  - 86.0% of Non-Retail Sales and Service Use storefronts are 5,000 square feet or less;
  - 78.5% of *all other* uses are also 5,000 square feet or less; and
  - Overall, 82.7% of all uses located in Union Square average 5,000 square feet.
- Office square footage and vacancy data indicate that Union Square has the higher lease rates than any part of the City in all classes of office. This is despite somewhat higher vacancy rates in Class B and C in Union Square as compared to citywide.

Policy Foundation: The Downtown Plan

Although the retail landscape was different in the 1980's when the Downtown Plan was crafted, the rapid growth of office uses and the diminishing supply of available space led to concern about office encroachment into traditional retail areas. The concern was born out of conversions to office in spaces such as the former Livingston's and the Sloan building, more recently the Loehman's building[1].

The Downtown Plan specifically identified the ease of converting upper story retail space for office users able to pay higher rents. Accordingly, the plan created the C-3-R District, which represented the retail core and in which regulations were crafted to protect against retail to non-retail conversions. It should be noted that the C-3-R is relatively small when compared to the rest of the C-3, and it is the only C-3 District that requires Conditional Use Authorization ("CU") for Non-Retail Sales and Service Uses that don't have public access at all floors (others require a CU at ground level and basement only). In order to approve such a non-retail use, in

[1] 94108 zip code, which encompasses most of Union Square

[1] p.15, *Downtown Area Plan, City and County of San Francisco.* San Francisco: Department of City Planning, 1985. Print.

addition to the standard Section 303 findings, the Commission must also find that the use will not detract from the District's primary function as an area for comparison shopper retailing and direct consumer services.

As the demand for office continues to grow, the pressure to convert retail and service uses to office will continue. At present, the Department has four applications on file that propose to convert existing upper-level retail space to office uses

Recommendation

The Planning Commission had previously requested that the Department suggest policies to help guide decisions related to office conversions in the C-3-R. Based on the studies and analyses completed by OEWD, the Department has created a framework of limitations for Non-Retails Sales and Service Uses by size and location:

1) Non-Retail Sales and Service uses (that do not serve general public) would be prohibited on floors 1-3;
2) Non-Retail Sales and Service uses (including General Office) would be permitted on the 4th floor and above when they are 5,000 square feet or less (per firm); and
3) Non-Retail Sales and Service uses greater than 5,000 square feet would need to obtain a Conditional Use Authorization.

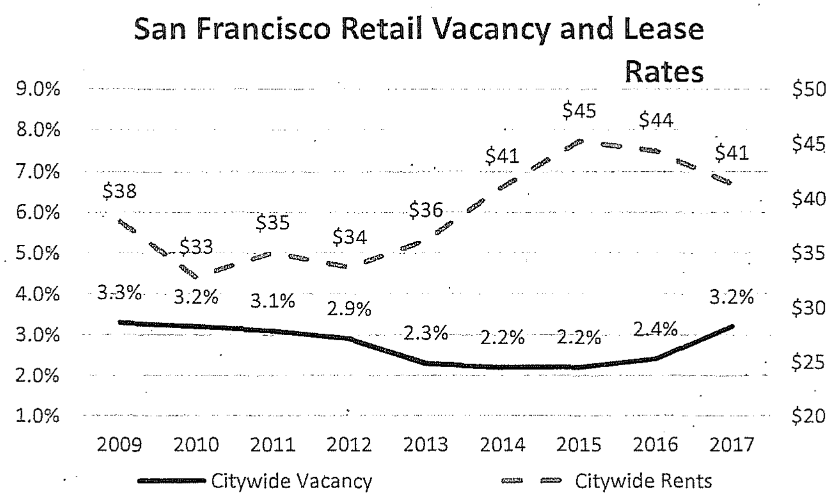
These recommendations were informed by the data summarized above as well as the Downtown Area Plan's goals and objectives for the retail core. These limitations attempt to strike a balance between providing greater flexibility and diversity of uses within the retail core while also protecting against large office uses that could undermine the district's primary function as a retail center. The proposed controls would reduce the amount of CU's and provide more certainty for both planning department and applicants.

In addition to the above recommendations, the Department will need to create criteria that provide guidance for the Commission when approving CU's. Planning Department staff welcomes additional guidance from the Commission on this proposal.

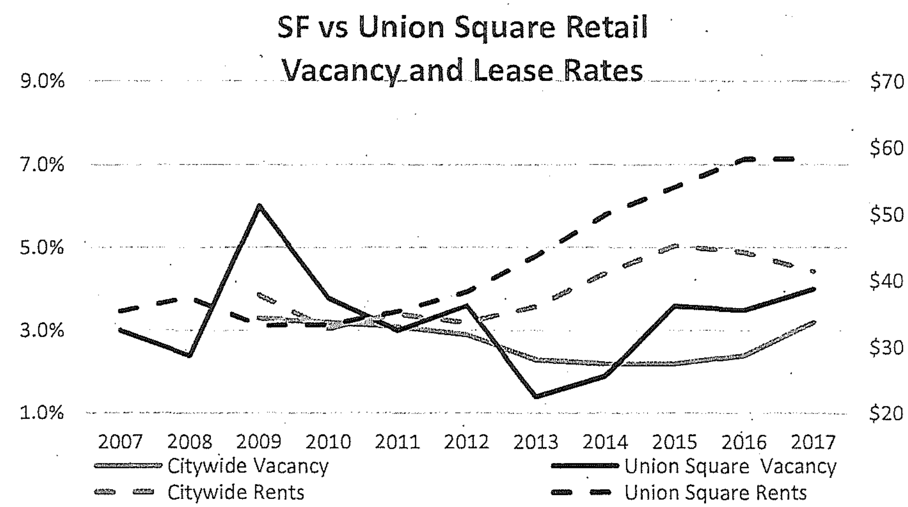
Attachments: 1) Tables and Data on Lease, Vacancy and Firm Size

2) Staff Memo to Planning Commission, March 16, 2017 & OEWD Memo, March 8, 2017

ATTACHMENT 1
2-22-18 CPC Hearing Retail to Office Conversions in C-3-R
Informational Item



Source: CoStar 2017 Q4



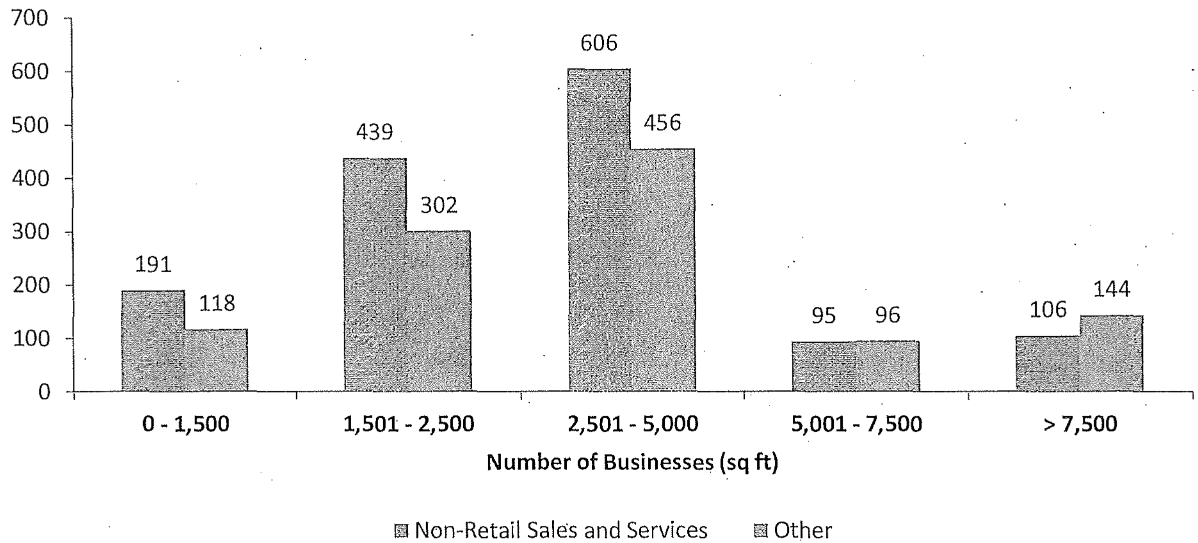
Source: CoStar 2017 Q4, Cushman/Wakefield MarketBeat 2017 Q4

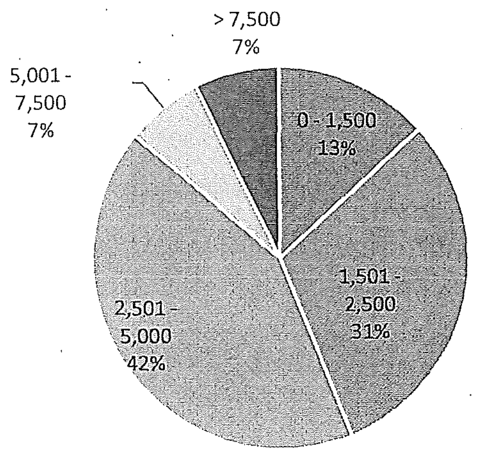
San Francisco vs Union Square Retail Vacancy and Lease Rates

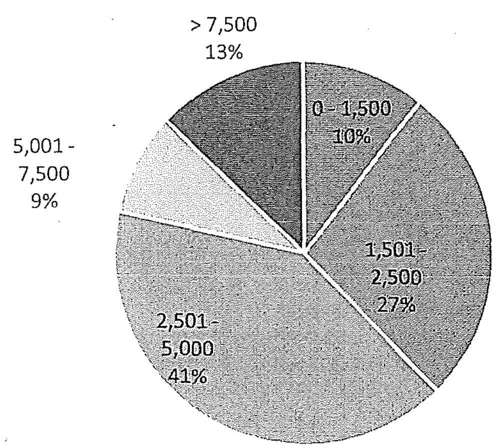
Year	Citywide Vacancy	Union Square Vacancy	Citywide Rents	Union Square Rents
2007		3.0%		$35
2008		2.4%		$38
2009	3.3%	6.0%	$38	$33
2010	3.2%	3.8%	$33	$33
2011	3.1%	3.0%	$35	$35
2012	2.9%	3.6%	$34	$38
2013	2.3%	1.4%	$36	$44
2014	2.2%	1.9%	$41	$50
2015	2.2%	3.6%	$45	$54
2016	2.4%	3.5%	$44	$58
2017	3.2%	4.0%	$41	$58

Source: CoStar 2017 Q4, Cushman/Wakefield MarketBeat Q4

Distribution of Business Size: Non-Retail Sales and Services in 94108







94108 Zip Code	Total Firms	Average sq ft per firm	Median sq ft per firm	% Below 5,000 sq ft	Average Employees /firm	Average Revenue
Non-Retail Sales and Service	*1,467*	*3,867*	*2,770*	*86.0%*	*9.9*	*$1,620,062*
All Other	1,176	6,490	2,848	78.5%	15.0	$9,140,565
Grand Total	**2,643**	**5,034**	**2,771**	**82.7%**	**12.2**	**$4,966,302**

Source: Dun & Bradstreet, 2018

Class A Market Statistics

Year-End 2017

		Existing Inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total SF	Average SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
SF Downtown Core	99	43,419,001	438,576	3,892,262	9.0%	(477,177)	447,000	3,837,024	$65.48
SF Downtown North	7	1,160,082	165,726	61,776	5.3%	(17,858)	0	0	$70.54
SF Downtown South	17	5,767,151	339,244	314,143	5.4%	28,010	0	369,000	$65.40
SF Downtown West	10	2,385,548	238,555	35,172	1.5%	(26,746)	0		$63.75
SF Outer Areas	4	843,381	210,845	8,664	1.0%	2,717	0	0	$0.00
SF Southeast	12	2,944,252	245,354	118,734	4.0%	21,743	0	1,765,678	$35.61
SF Class A Total	**149**	**56,519,415**	**379,325**	**4,430,751**	**7.8%**	**(469,311)**	**447,000**	**5,971,702**	**$62.97**
Union Square	***2***	***213,125***	***106,563***	***6,207***	***2.9%***	***(6,207)***	***0***	***0***	***$73.00***

Class B Market Statistics

Year-End 2017

		Existing Inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total RBA	Average SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
SF Downtown Core	132	12,596,683	95,429	1,270,958	10.1%	(286,284)	0	0	$62.27
SF Downtown North	109	4,730,422	43,398	266,512	5.6%	3,401	0	0	$55.99
SF Downtown South	215	11,351,147	52,796	568,923	5.0%	47,309	0	817,764	$57.82
SF Downtown West	203	10,084,804	49,679	658,524	6.5%	80,057	2,000	234,000	$62.06
SF Outer Areas	233	3,547,885	15,227	78,422	2.2%	(7,739)	0	16,750	$54.54
SF Southeast	71	2,666,595	37,558	131,420	4.9%	61,797	0	0	$32.50
SF Class B Total	**963**	**44,977,536**	**46,706**	**2,974,759**	**6.6%**	**(101,459)**	**2,000**	**1,068,514**	**$58.06**
Union Square	***77***	***4,390,168***	***57,015***	***376,691***	***8.6%***	***(105,009)***	***0***	***0***	***$63.27***

Class C Market Statistics

Year-End 2017

		Existing Inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total SF	Average SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
SF Downtown Core	106	1,861,774	17,564	59,781	3.2%	(20,771)	0	0	$52.46
SF Downtown North	111	1,639,387	14,769	41,612	2.5%	(18,249)	0	0	$53.43
SF Downtown South	219	3,647,360	16,655	166,583	4.6%	14,570	0	0	$49.46
SF Downtown West	194	3,882,015	20,010	137,947	3.6%	(10,764)	0	0	$49.26
SF Outer Areas	390	3,585,593	9,194	108,535	3.0%	(32,252)	0	0	$45.25
SF Southeast	60	767,138	12,786	11,370	1.5%	(11,370)	0	0	$47.98
SF Class C Total	**1,080**	**15,383,267**	**14,244**	**525,828**	**3.4%**	**(78,836)**	**0**	**0**	**$49.14**
Union Square	***39***	***817,688***	***20,966***	***48,194***	***5.9%***	***16,375***	***0***	***0***	***$62.58***

Total Office Market Statistics

Year-End 2017

		Existing Inventory		Vacancy		YTD Net	YTD	Under	Quoted
Market	# Blds	Total SF	Average SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
SF Downtown Core	337	57,877,458	171,743	5,223,001	9.0%	(784,232)	447,000	3,837,024	$63.54
SF Downtown North	227	7,529,891	33,171	369,900	4.9%	(32,706)	0	0	$57.39
SF Downtown South	451	20,765,658	46,044	1,049,649	5.1%	89,889	0	1,186,764	$56.06
SF Downtown West	407	16,352,367	40,178	831,643	5.1%	42,547	2,000	234,000	$60.03
SF Outer Areas	627	7,976,859	12,722	195,621	2.5%	(37,274)	0	16,750	$49.13
SF Southeast	143	6,377,985	44,601	261,524	4.1%	72,170	0	1,765,678	$35.48
SF Total	**2,192**	**116,880,218**	**53,321**	**7,931,338**	**6.8%**	**(649,606)**	**449,000**	**7,040,216**	**$58.81**
Union Square	***118***	***5,420,981***	***45,941***	***431,092***	***8.0%***	***(94,841)***	***0***	***0***	***$63.45***

Office Market Stats: Union Square Compared to Citywide Inventory

		Existing Inventory		Vacancy		Under	Quoted
Market	# Blds	Total SF	Average SF	Total SF	Vac %	Const SF	Rates
Class A	1.3%	0.4%	28.1%	0.1%	37.2%	0.0%	115.9%
Class B	8.0%	9.8%	122.1%	12.7%	129.7%	0.0%	109.0%
Class C	3.6%	5.3%	147.2%	9.2%	172.4%	0.0%	127.3%
Union Square Total	5.4%	4.6%	86.2%	5.4%	117.2%	0.0%	107.9%

Source, CoStar Q4 2017

SAN FRANCISCO
PLANNING DEPARTMENT

MEMO

Memo to the Planning Commission

HEARING DATE: MARCH 16, 2017

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

Date:	March 9, 2017
Subject:	**Retail to Office Conversions in Union Square (C-3-R District)**
Staff Contact:	Claudine Asbagh – (415) 575-9165
	Claudine.asbagh@sfgov.org
Recommendation:	**None – Informational Only**

Background

On November 3, 2016, the Planning Commission held a public hearing on the project at 222 Sutter Street, the site previously home to Loehman's department store. The project requested a Conditional Use Authorization to convert approximately 12,000 square feet of retail space at the third floor into office space. At that hearing, the Planning Department recommended that the Commission deny the request, and adopt a general policy to preserve non-office uses at the third floor and below within the Downtown Retail Core (C-3-R) Zoning District. After deliberation, the Commission continued the project to a future hearing date and directed staff to work with the Mayor's Office of Economic and Workforce Development (OEWD) to research the issue and return with an informational presentation to help guide the Commission's review of this and other future such applications. OEWD has prepared the attached report that analyzes trends within the C-3-R in comparison to City, regional, and national trends.

Key Points of the Report

The report compiled data on existing conditions in the C-3-R Zoning District and determined that:

- Union Square remains an important regional shopping destination for tourists and Bay Area residents.
- In the past two years, rents for smaller retail spaces in the C-3-R District have outpaced city-wide rates.
- Space available for rent is at a 10-year low.
- The C-3-R consistently contributes a large portion of City sales tax revenue to the economy, although that share has slightly decreased.
- Over the last 5 years, sales of General Consumer Goods has grown both in the C-3-R and citywide.

The report identifies the following trends in the retail industry:

- Shifts away from the large department store model;
- Needs for smaller footprints;
- Needs for expanded on-line presence; and
- Increase in retailers providing a targeted "life-style specific" consumer experience.

The report also identifies other commercial sectors that are permitted within the C-3-R District that are performing well and that would support the goals and policies of the Downtown Plan. Many of these uses still provide service to the general public however do not require a ground floor presence. They include but are not limited to uses such as tailors, shoe repair, jewelers, and design services.

Policy Foundation: The Downtown Plan

Although the retail landscape was different in the 1980's when the Downtown Plan was crafted, the rapid growth of office uses and the diminishing supply of available space led to concern about office encroachment into traditional retail areas. The concern was born out of conversions to office in spaces such as the former Livingston's and the Sloan building—which, incidentally, is the site of 222 Sutter Street[1].

The Downtown Plan specifically identified the ease of converting upper story retail space for office users able to pay higher rents. Accordingly, the plan created the C-3-R District, which represented the retail core and in which regulations were crafted to protect against retail conversions. It should be noted that the C-3-R is relatively small when compared to the rest of the C-3, and it is the only C-3 District that requires a Conditional Use Authorization ("CU") for Non-Retail Sales and Service Uses that don't have public access at all floors (others require a CU at ground level and basement only). In order to approve such a non-retail use, in addition to the standard Section 303 findings, the Commission must also find that the use will not detract from the District's primary function as an area for comparison shopper retailing and direct consumer services.

As the demand for office continues to grow, the pressure to convert retail and service uses to office will continue. At present, the Department has four applications on file that propose to convert existing upper-level retail space to office uses.

Discussion

Faced with an increase in the number of applications to convert retail uses to non-retail uses, the Department proposed a policy option to the Commission through which retail uses would generally be maintained at the third floor and below. The distinction between lower floors and upper floors was driven by a desire to balance competing interests in the community and a desire to preserve a connection with the street. In that earlier proposal, the Department recognized that oftentimes a more nuanced approach would be necessary because of the diversity of retail spaces within the C-3-R district.

To this end, the report recommends that future policy take into consideration a project's location, footprint, and current uses, including:

- The number of levels and square footage of retail to be converted or retained;
- Alternate uses for possible "stranded" floors (i.e. retail without a street presence if a multilevel retailer does not lease all floors zoned for retail);
- Significance of the building, its uses and location within the Union Square geography and retail mix;
- Effects of the proposed use on neighboring Zoning Districts.

The data in the report also show that the pressures that drove the zoning controls included in the C-3-R District during the 80's are just as significant today as they were then. With this in mind, the Commission has at least three options:

1. Continue to review projects seeking upper level retail conversions on a case-by-case basis, using the finding currently in the Planning Code.
2. Adopt a policy that provides specific additional criteria that projects must meet in order for approval.
3. Initiate changes to the Planning Code to codify the criteria that projects must meet in order for approval.

While the report recommends reviewing upper level retail conversion applications on a case-by-case basis, Planning Department staff would welcome additional guidance from the Commission in order to enhance, and add consistency to, the review of each of the forthcoming applications. We look forward to a robust conversation from the Commission on the 16th.

Attachments: OEWD Memo, March 8, 2017

[1] p.15, *Downtown Area Plan, City and County of San Francisco.* San Francisco: Department of City Planning, 1985. Print.

ECONOMIC AND WORKFORCE DEVELOPMENT
TODD RUFO, DIRECTOR

CITY AND COUNTY OF SAN FRANCISCO
EDWIN M. LEE, MAYOR

MEMORANDUM

TO: San Francisco Planning Commission

FROM: Todd Rufo, Director, Office of Economic and Workforce Development

CC:

DATE: March 8, 2016

RE: Retail to Office Conversions in Union Square (C-3-R Zoning District)

Several multi-level retail properties in Union Square are seeking or contemplating Conditional Use Authorization ("CU") to convert upper floor retail space to offices. Property owners assert a likelihood that retailers simply do not need as much space as they used to. Indeed, shifts in technology and consumer preferences moved retail away from big spaces and towards smaller physical footprints and expanded online presence.

But City policy need not approach conversion of upper floor retail solely through the lens of multi-floor retailers with street-level access. It is possible for policy to consider alternate uses in upper floors—retailers or other public-serving complementary uses that that do not require street-level access. Such an approach conforms with the C-3-R Planning Code designation from the 1985 Downtown Plan, which emphasizes preserving Union Square retail over office use. Thus, in considering retail-to-office conversions, the City weighs historic use, current use, and retail trends. Additionally, it must be considered that Union Square buildings have a wide range of footprint sizes. OEWD recommends policy consider upper level retail conversions on a case-by-case basis, balancing the following factors:

1) Compatibility of proposed use with the City's Planning Code and Downtown Plan

2) The building's location, footprint, and current uses, including:
    a. The number of levels and square footage of retail to be converted or retained
    b. Alternate use for possible "stranded" floors (i.e. retail or public serving uses without street presence if a multilevel retailer cannot lease all retail-zoned floors)
    c. Significance of the building, its uses and location to the Union Square retail mix
    d. Effects of the proposed use on neighboring Zoning Districts

3) Local real estate and retail trends, such as:
    a. Area retail sales and competition, including key citywide and regional comparables
    b. Current and potential alternate retail and public-serving non-retail uses

4) National retail market dynamics, such as:
    a. New competition and businesses
    b. Consumer preferences and technology

Union Square remains an important shopping destination

Union Square[1] is a world-class retail destination that draws tourists and Bay Area residents with its combination of walkable shopping and dining, excellent transit access, and top tier hospitality. Union Square merchants generate over 37% of San Francisco's sales tax in General Consumer Goods, and over 15% of all City sales tax dollars (see "Sales Tax in C-3-R lagging citywide results"). Unique to the Union Square experience is walkable multi-story retail shopping in the form of department stores, flagship luxury outposts, and more recently discounters like DSW Shoe Warehouse or casual brands like Uniqlo.

National and local retail trends point towards smaller footprints, expanded e-commerce

Apparel remains a big draw to Union Square, and changing consumer preferences and technology have already led Union Square retailers to rethink their physical space needs. Importantly, all but two of Union Square's 16 retail sites with three or more levels are in apparel. Regional and national competition is growing, with expanded luxury and discount offerings within driving distance in all directions from San Francisco. Additionally, some of the fastest growing retail segments have been in smaller, specialized single-merchant sites that offer a more targeted, lifestyle-specific consumer experience (e.g. Cuyana, lululemon athletica). Even Amazon has begun opening small brick and mortar storefronts to showcase key products. The Amazon retail pilot is occurring in limited markets outside of San Francisco, and features retail spaces well under 1,000 square feet.

Technology is also opening up new opportunities to provide customers unique retail experiences that physical sites must compete with. Large format, multi-story retail faces particularly acute challenges, competing with smartphone-toting consumers who can go to a store to try on a sweater, and buy it from a competing online retailer before leaving the dressing room. Tellingly, Amazon has focused aggressively on apparel sales, and is now the nation's #2 apparel retailer. And as e-commerce grows, it has already crowded out many department stores and large format retailers along the way. Already, music, books, toys, and sporting goods have little to no national large format presence, especially in urban retail centers like Union Square.

Additionally, recent area real estate deals point to rents rising in the near future. In 2014, Union Square already had the highest retail rents outside of Manhattan or Rodeo Drive. Since then, several Union Square buildings have sold at elevated prices ranging from $1,000 per square foot (e.g. Phelan Building) to upwards of $3,000 per square foot (e.g. Britex Building). The new landlords will pass these costs onto tenants, who will either move or shrink their footprints to focus on maximizing sales per square foot. It has already been seen that landlords will seek to convert space deemed no longer fiscally viable for retail into more profitable office use.

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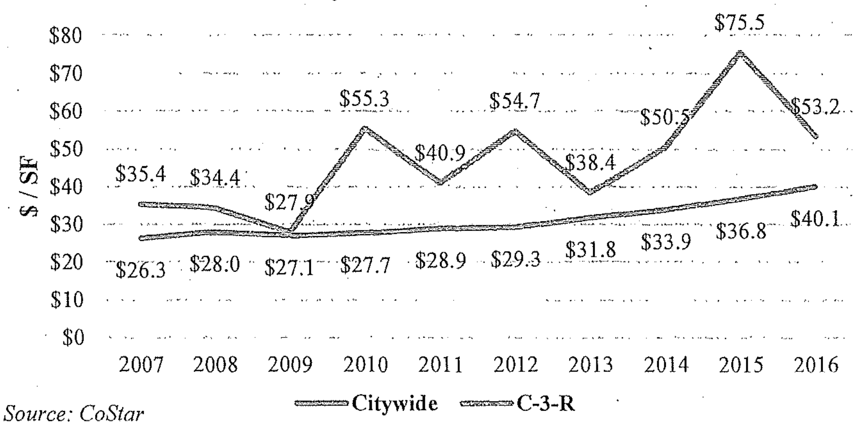
[1] For the purposes of this memo, unless noted otherwise, data in this report represents the C-3-R District: Downtown Retail. Section 210.2 of the San Francisco Planning Code defines C-3-R thusly (all emphasis added): "This District is **a regional center for comparison shopper retailing and direct consumer services**... Within the District, **continuity of retai l and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities** and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions."

Union Square retail lease rates increase as square footage shrinks

Union Square retail rents have historically exceeded citywide rates, but the last two years have seen retail rents outpace citywide rate growth. In 2015, average rents in C-3-R jumped by nearly 50% of 2015 rates before declining somewhat, while citywide rates continued in a more moderate trajectory (Chart 1). As other retailers are experiencing regionally and nationwide, retail lease rates rose in the C-3-R, while the average size of leased space decreased (Table 1, Chart 2).

Although leasing volume in Union Square's C-3-R decreased significantly since 2014, the increase in lease rates remains outsized relative to space demand and citywide trends. Citywide retail lease rates increased a more modest 26% during the same period, despite slowed delivery of new retail space. Deliveries of new retail space averaged 3 newly constructed spaces and 53,000 new square feet per year. This represents a 50% decrease in average new space delivered from 2009-2013.

Chart 1: C-R-3 Retail Lease Growth Outpaces Citywide Lease Rates



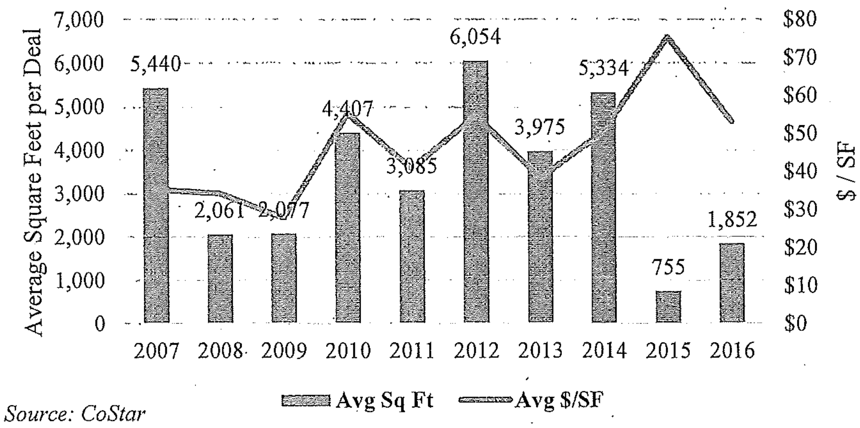
Source: CoStar

Table 1: 2016 C-3-R Retail Leases Trended Smaller, More Costly

Year	Avg SF	Avg $/SF	# Deals	Tot SF	Median $/SF	High $/SF
5 Year	4,104	$49.05	45	184,659	$42.00	$145.47
2008-2016	3,722	$47.94	84	312,618	$39.68	$162.12
2016	*1,852*	*$53.25*	*9*	*16,672*	*$48.00*	*$93.00*

Consistent with national trends, retail lease rates rose in the C-3-R, while the average size of leased space decreased

Chart 2: C-3-R Retail Leasing:
Smaller Spaces, at Higher Rates



Source: CoStar

Sales tax in C-3-R lagging citywide trends

Sales tax receipts help highlight how Union Square is one of the most important components of San Francisco's economic engine. It remains by far the largest contributor of sales tax from traditional retail activities. However, despite sales tax collections recovering past pre-recession levels in 2011, area retailers are experiencing stress as sales tax growth in Union Square lags behind citywide receipts. While it is too early to tell if these trends are temporary, continued slow growth would threaten the vitality of Union Square's retail mix.

Table 2: C-3-R Share of Citywide Sales Tax Receipts

	General Consumer Goods	Restaurants & Hotels	Food & Drugs	Business & Industry	Other	Total
5 Year	37.3%	8.1%	7.1%	2.8%	0.3%	**15.1%**
10 Year	37.2%	8.4%	7.5%	3.0%	0.3%	**15.5%**
2008-Present	*37.3%*	*8.4%*	*7.4%*	*3.0%*	*0.3%*	***15.4%***
2015	*36.6%*	*7.8%*	*6.9%*	*2.8%*	*0.3%*	***14.6%***

Source: California Board of Equalization

The C-3-R has reliably accounted for over 1/3 of San Francisco's sales tax receipts in the "General Consumer Goods" category, which encompasses most traditional retailers. Also, the C-3-R has consistently generated over 15% of citywide sales tax receipts. However, the C-3-R's share of citywide sales taxes began dipping in 2015.

Table 3: Annual Sales Tax Growth Rate

	2008-2015		2010-2015		2014-2015	
	C-3-R	Citywide	C-3-R	Citywide	C-3-R	Citywide
General Consumer Goods	1.4%	1.4%	3.9%	4.2%	-3.1%	-0.7%
Restaurants & Hotels	3.7%	6.0%	6.5%	8.6%	0.8%	7.2%
Food & Drugs	1.8%	4.0%	4.1%	5.9%	8.0%	7.2%
Business & Industry	1.1%	2.4%	0.5%	6.9%	9.9%	6.7%
Other	5.0%	0.6%	7.0%	5.5%	-5.1%	-7.1%
Total	**1.8%**	**2.9%**	**4.3%**	**6.2%**	**-1.8%**	**2.0%**

Source: California Board of Equalization

While Union Square retail is still a significant contributor to the San Francisco economy, its sales are not growing as fast as its peers citywide. Sales tax has grown more rapidly citywide compared to C-3-R over the last complete year (2014-2015), over the last 5 years (2010-2015), or since the recession (2008-2015).

Chart 3: C-3-R Sales Tax Receipts 2008-Present ($000)

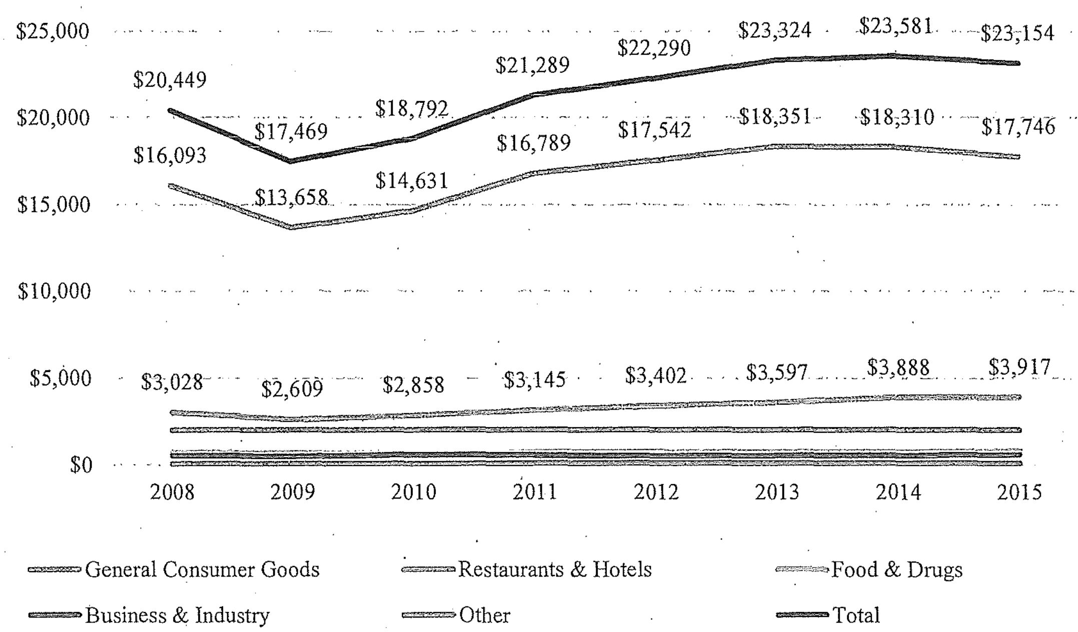
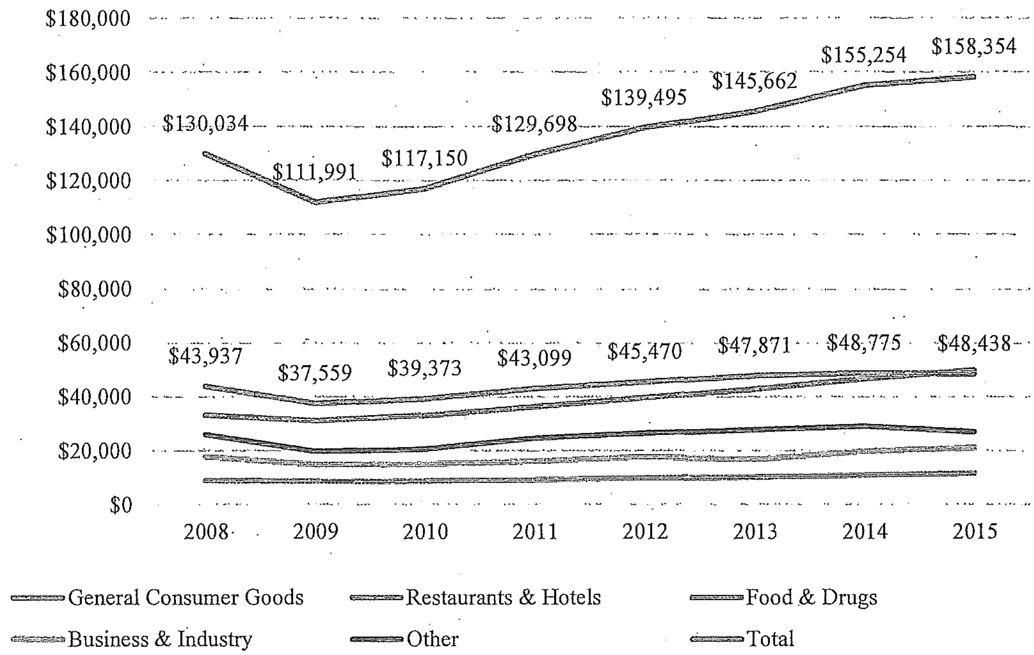


Chart 4: Citywide Sales Tax Receipts
2005-Present ($000)



<u>Retail space consolidation has begun Union Square, retail-to-office conversions increasing</u>

Shrinking retail and conversion proposals have begun in Union Square, and OEWD anticipates this trend to continue into the next 4-5 years. Current retail trends indicate movement towards smaller physical footprints coupled with expanded online presence. OEWD's analysis of C-3-R business license data receipts since 2008 verify the appearance of more, smaller, retailers. Despite overall flat collections in General Consumer Goods, the number of business registered in the C-3-R has increased from 1,634 to 2,089 over the past nine years (Table 4). We do not yet know how small these retailers may shrink, but recent local headlines show a clear trend towards reduction or repurposing retail spaces:

1) A CU proposal is pending to convert the third floor of 222 Sutter St from retail to office. The building's retail space, comprised of 12,000 square feet of basement and 24,000 square feet on floors 1-3, has been vacant since 2014, when Loehmann's national discount apparel chain closed all of its physical locations. Loehmann's still exists, but it is now an online-only merchant.

   222 Sutter St lies at the northwest edge of the Union Square BID: at the intersection of the Financial District, Union Square and Chinatown. It houses the only 3+ story retail space for two blocks in any direction, although it is one block north of Banana Republic's new 2 story flagship store. The third floor accommodates 12,000 square feet of retail, or 1/3 of the building's current retail space.

2) The Britex Building at 146 Geary St was owner-occupied until its sale in 2015. The now-tenants have announced intentions to move the business, and the new owners intend to seek conversion of the whole building, except the ground floor, to office. The rates sought by

the new owner to justify a purchase price of $3,000 per square foot may rule out all but the most profitable retailers. The owners may feel that the rates may be more easily obtained from premium office use.

The Britex building will be a particularly important test case. It is a building with historical retail significance on a very small footprint that has already been sold at a great premium. With 12,500 square feet of total space over four levels, eliminating the top three levels of retail would be a significant loss of the type of smaller spaces that are more desirable today, within a significant corridor of Union Square retail.

3) In 2016, Both Macy's and Saks Fifth Avenue are consolidating standalone Union Square men's stores into their retailers' primary locations. The 38,000 square foot vacated Saks Men's Store sold for over $1,800 per square foot, and the new owner is said to be looking for retail tenants. Given its massive size at 256,000 square foot and its prime location on 120 Stockton St, the Macy's Men's Store space might sell for more than the Saks space. Macy's has expressed interest in converting much of the Men's Store space into offices.

   Interestingly, in 2016 Barney's New York opened a standalone men's store a half block from the Macy's Men's Store. The new Barney's men's store is half the size of the former Sak's Men's Store space, and the two floors being vacated in the main Barney's building are being repurposed into an upscale restaurant.

Trends towards smaller space leaves San Francisco multilevel retail vulnerable

There is likely still a need for retail occupying 3 stories and over 45,000 square feet of space, as is the current vacancy in the Loehmann's Building. But landlords assert that there are no large format retailers stepping forward at current market lease rates. New construction is not immune to supply challenges, as 6X6, a New Class A retail center in Mid-Market, is completing construction of 250,000 square foot of retail space without a single lessor in hand.

Given market dynamics, building owners are applying to convert as much retail as possible into office space. They would like to prevent "stranded" floors, where the tenant does not rent out all floors which are permitted for retail use. These floors would have no street-level storefront, or indirect access to the street level. However, there may be creative ways to accommodate more than one retailer or other public-serving complementary use in an otherwise stranded space. Such strategies could include occupying an upper level space with one or more smaller merchants that do not rely on street-level presence, such as jewelry, laboratories, or boutiques; or demising a retail space to create two smaller multilevel retailers.

City Downtown Plan and Planning Code dictate strong preference towards preserving retail

The conversion of upper level Union Square retail is in fact achievable through CU, including conversion to office or residential use. City policies place the burden on the CU applicant to demonstrate that the conversion of a retail space is consistent with policy and do not undermine the historic nature of Union Square as walkable retail center. The 1985 Downtown Plan and City Planning Code both emphasize preserving Union Square retail in the face of expanding office demand.

The Downtown Plan confronted the tension between office and retail, offering:

> Despite the health of retail trade downtown, rapid growth of office space...[leads to] concern about encroachment of office development into the traditional retail areas. Upper story space traditionally used by retail services could easily be converted for office users able to pay higher rents. Conversions from retail to office space...give rise to concern

Further, Downtown Plan Policy Objective 3.1 states that Union Square landlords ought to "Maintain high quality, specialty retail shopping facilities in the retail core," further expanding that "Only growth compatible with existing uses and reinforcing the retail function should be encouraged."

The Planning Code also incorporates a strong preference towards maintaining retail in the context of a holistic Union Square experience:

> **C-3-R District: Downtown Retail.** *This District is a regional center for comparison shopper retailing* and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District.... Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles."

That San Francisco codified concern over retail-to-office conversions 30 years ago challenges the City to proceed systematically with these types of CU requests. The context of the proposed Loehmann's building conversion is quite different than that of the Britex building. Not only are they different sizes, they play different roles in the Union Square retail mix. A "one-size-fits-all" rule, such as a hard line on the total square footage or number of floors that may be preserved, does not adequately address the unique concerns of both properties.

In contrast to Loehmann's building, the Britex building represents a desirably-sized retail space in a location whose retail presence is more in line with the "continuity of retail and consumer service uses." A conversion of the Britex building may prove injurious to the Downtown Plan's goal to "Maintain high quality, specialty retail shopping facilities in the retail core."

Possible complementary uses to populate "stranded" floors

OEWD has identified a subset of complementary public-serving business types that are permitted in upper floor C-3-R (Table 3).These represent most of the permitted public-serving (as opposed to business-serving) uses that can fill upper floor vacancies without a street-level presence, while attracting foot traffic within the C-3-R district. OEWD's analysis of SF OpenData business registration information showed firms like these make up about half of existing firms in C-3-R (Table 4).

Many of these business types offer personal, professional and administrative services while serving the general public. Additionally, while available data on these businesses does not include square footage per firm, OEWD maintains that many of these firms can join together to occupy a larger, demised space—either by sharing floors or splitting a large multi-floor floorplate into two, or more, smaller multi-floor retailers.

Given sales trends outlined above, any proposed conversion of retail space to non-retail use in the C-3-R district should include consideration as to whether the conversion could permanently exacerbate this downward retail trend. It is possible that a retail to office conversion policy which draws a bright line on conversion at a particular floor number could have unintended consequences. Thus, it may be appropriate to place more onus on landlords to consider repurposing existing upper level retail space in innovative ways that help preserve the vitality of Union Square retail, but policy ought to provide the City a balanced set of tools to serve the district's best interests.

Table 3: Sample Eligible Complementary Business Types by Use Categories

Business Services
Accounting, Tax Preparation, Bookkeeping, and Payroll Services
Architectural, Engineering, and Related Services
Convention and Trade Show Organizers
Funds, Trusts, and Other Financial Vehicles
Graphic Design Services
Independent Artists, Writers, and Performers
Industrial Design Services
Insurance Carriers and Related Activities
Legal Services
Photofinishing
Photographic Services

Department Stores
Department Stores (except Discount Department Stores)
Sewing, Needlework, and Piece Goods Stores

Drug Stores
Pharmacies and Drug Stores

Electronics/Appliance Stores
Household Appliance Stores
Radio, Television, and Other Electronics Stores

Fine Dining
Drinking Places (Alcoholic Beverages)
Full-Service Restaurants

Florist Shops
Florists

Garden/Agricultural Supplies
Nursery, Garden Center, and Farm Supply Stores

Hardware Stores
Hardware Stores

Home Furnishings
All Other Home Furnishings Stores
Floor Covering Stores
Furniture Stores
Window Treatment Stores

Jewelry Stores
Jewelry Stores

Leisure/Entertainment
Dance Companies
Musical Groups and Artists
Other Performing Arts Companies
Theater Companies and Dinner Theaters

Lumber/Building Materials
Home Centers

Medical
Medical and Diagnostic Laboratories
Offices of Dentists
Offices of Other Health Practitioners
Offices of Physicians
Other Ambulatory Health Care Services
Outpatient Care Centers

Motion Pictures/Equipment
Motion Picture and Video Distribution
Motion Picture and Video Production
Postproduction Services and Other Motion Picture and Video Industries

Music Stores
Musical Instrument and Supplies Stores

New Motor Vehicles
New Car Dealers

Paint/Glass/Wallpaper
Paint and Wallpaper Stores

Table 3: Sample Eligible Complementary Business Types by Use Categories, cont.

Personal Service-No Liquor
All Other Amusement and Recreation Industries
All Other Personal Services
Amusement Arcades
Barber Shops
Beauty Salons
Bowling Centers
Fitness and Recreational Sports Centers
Formal Wear and Costume Rental
Industrial Launderers
Interior Design Services
Linen Supply
Motion Picture Theaters (except Drive-Ins)
Nail Salons
Other Personal Care Services
Photographic Equipment
Camera and Photographic Supplies Stores
Portrait Studios
Photography Studios, Portrait
Quick-Service Restaurants
Cafeterias, Grill Buffets, and Buffets
Caterers
Food Service Contractors
Limited-Service Restaurants
Snack and Nonalcoholic Beverage Bars

Repair Shops & Tool Rental
Consumer Electronics and Appliances Rental
Investigation, Guard, and Armored Car Services
Locksmiths
Office Machinery and Equipment Rental and Leasing
Second-Hand Stores
Used Merchandise Stores
Shoe Repair Shops
Footwear and Leather Goods Repair
Specialty Stores
All Other Health and Personal Care Stores
Art Dealers
Cosmetics, Beauty Supplies, and Perfume Stores
Luggage and Leather Goods Stores
Optical Goods Stores
Textiles/Furnishings
Apparel, Piece Goods, and Notions Merchant
Sound Recording Industries
Transportation & Rentals
Couriers and Messengers
Travel Arrangement and Reservation Services
Warehousing and Storage
Variety Stores
All Other General Merchandise Stores

Source: SF OpenData, California Board of Equalization, North American Industry Classification System (NAICS)

Table 4: Firms Opened and Closed since 2007

	Open Pre-2007	Open 2007-2016	Closed 2007-2016	Now Open	Share of firms	Percent of Firms Closed 2007-2016
Complementary Firms	361	778	-175	964	46.10%	15.4%
Other Firms	431	856	-162	1,125	53.90%	12.6%
Total Firms	**792**	**1,634**	**-337**	**2,089**	**100.0%**	**13.9%**

Industry Codes	Open Pre-2007	Open 2007-2016	Closed 2007-2016	Now Open	Share of firms	Percent of Firms Closed 2007-2016
Wholesale Trade	20	37	-10	**47**	**4.9%**	**17.5%**
Retail Trade	149	284	-69	**364**	**37.8%**	**15.9%**
Insurance	2	3	0	**5**	**0.5%**	**0.0%**
Administrative and Support Services	22	47	-12	**57**	**5.9%**	**17.4%**
Private Education and Health Services	82	129	-28	**183**	**19.0%**	**13.3%**
Arts, Entertainment, and Recreation	13	54	-12	**55**	**5.7%**	**17.9%**
Food Services	38	124	-23	**139**	**14.4%**	**14.2%**
"Certain Services"	35	100	-21	**114**	**11.8%**	**15.6%**
Total Firms	**361**	**778**	**-175**	**964**	**100.0%**	**100.0%**

Source: SF OpenData

Appendix 1: C-3-R Zoning Control Table

Land Use	As Defined...	Permitted?
Commercial Use Characteristics		
Land Use	**As Defined...**	**Permitted?**
Drive-up Facility	§ 102	NP
Formula Retail	§§ 102, 303.1	P
Open Air Sales	§ 102	P
Outdoor Activity Area	§ 102	P
Walk-up Facility	§ 102	P
Waterborne Commerce	§ 102	NP
Agricultural Use Category		
Agricultural Uses	§§ 102, 202.2(c)	P
Greenhouse	§§ 102, 202.2(c)	NP
Automotive Use Category		
Automotive Repair	§ 102	NP
Automotive Sale/Rental	§ 102	P[1]
Automotive Service Station	§§ 102, 202.2(b), 202.5	NP
Automotive Wash	§§ 102, 202.2(b)	NP
Gas Station	§§ 102, 187.1, 202.2(b)	NP
Parking Garage, Private	§ 102	C
Parking Garage, Public	§ 102	C
Parking Lot, Private	§ 102, 142, 156	NP
Parking Lot, Public	§ 102, 142, 156	NP
Service, Motor Vehicle Tow	§ 102	NP
Service, Parcel Delivery	§ 102	C
Services, Ambulance	§ 102	NP
Vehicle Storage Garage	§ 102	NP
Vehicle Storage Lot	§ 102, 142	NP
Entertainment, Arts and Recreation Use Category		
Entertainment, Arts and Recreation Uses	§ 102	P
Entertainment, Outdoor	§ 102	NP
Livery Stable	§ 102	NP
Open Recreation Area	§ 102	NP
Sports Stadium	§ 102	NP

Land Use	As Defined...	Permitted?
Industrial Use Category		
Industrial Uses	§ 102	NP
Manufacturing, Light	§ 102	P
Institutional Use Category		
Institutional Uses	§§ 102, 202.2(e)	P
Child Care Facility	§ 102	P
Hospital	§ 102	C
Residential Care Facility	§ 102	P
Trade School	§ 102	NP
Sales and Service Category		
Retail Sales and Service Uses	§§ 102, 202.2(a)	P
Animal Hospital	§ 102	NP
Hotel	§ 102	C
Kennel	§ 102	NP
Massage Establishment	§ 102	C
Mortuary	§ 102	NP
Motel	§§ 102, 202.2(a)	NP
Storage, Self	§ 102	C
Tobacco Paraphernalia Store	§ 102	C
Non-Retail Sales and Service	§ 102	P[2]
Catering	§ 102	P
Design Professional	§ 102	P[2]
Laboratory	§ 102	P
Life Science	§ 102	P
Storage, Commercial	§ 102	NP
Storage, Wholesale	§ 102	NP
Wholesale Sales	§ 102	P
Utility and Infrastructure Use Category		
Utility and Infrastructure	§ 102	NP
Internet Service Exchange	§ 102	C
Public Transportation Facility	§ 102	C
Utility Installation	§ 102	C

[1] P if located on the ground floor and offers on-site services to the general public. NP on the ground floor if it does not provide onsite services to the general public. C is required if the use is larger than 5,000 gross square feet in size or located above the ground floor.

[2] Required to be in an enclosed building

Source: *San Francisco Planning Code Section 201.2 C-3 Districts: Downton Commercial*

Appendix 2: C-3-R Zoning Definition[2]

C-3-R District: Downtown Retail. This District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions. This District is a regional center for comparison shopper retailing and direct consumer services. It covers a compact area with a distinctive urban character, consists of uses with cumulative customer attraction and compatibility, and is easily traversed by foot. Like the adjacent Downtown Office District, this District is well-served by City and regional transit, with automobile parking best located at its periphery. Within the District, continuity of retail and consumer service uses is emphasized, with encouragement of pedestrian interest and amenities and minimization of conflicts between shoppers and motor vehicles. A further merging of this District with adjacent, related Districts is anticipated, partially through development of buildings which combine retailing with other functions.

[2] San Francisco Planning Code Section 201.2 C-3 Districts: Downton Commercial

Appendix 3: C-3-R Key Definitions[3]

Business Service. A Non-Retail Sales and Service Use that provides the following kinds of services to businesses and/or to the general public and does not fall under the definition of Office: radio and television stations, newspaper bureaus, magazine and trade publication publishing, microfilm recording, slide duplicating, bulk mail services, parcel shipping services, parcel labeling and packaging services, messenger delivery/courier services, sign painting and lettering services, or building maintenance services.

Design Professional. A Non-Retail Sales and Service Use that provides professional design services to the general public or to other businesses and includes architectural, landscape architectural, engineering, interior design, and industrial design services. It does not include (1) the design services of graphic artists or other visual artists which are included in the definition of Arts Activities; or (2) the services of advertising agencies or other services which are included in the definition of Professional Service or Non-Retail Professional Service, Financial Service or Medical Service

Non-Retail Professional Service. A Non-Retail Sales and Service Office Use that provides professional services to other businesses including, but not limited to, accounting, legal, consulting, insurance, real estate brokerage, advertising agencies, public relations agencies, computer and data processing services, employment agencies, management consultants and other similar consultants, telephone message services, and travel services. This use may also provide services to the general public but is not required to. This use shall not include research services of an industrial or scientific nature in a commercial or medical laboratory, other than routine medical testing and analysis by a health-care professional or hospital.

Non-Retail Sales and Service. A Commercial Use category that includes uses that involve the sale of goods or services to other businesses rather than the end user, or that does not provide for direct sales to the consumer on site. Uses in this category include, but are not limited to: Business Services, Catering, Laboratory, Life Science, Commercial Storage, Design Professional, Non-Retail Professional Service, General Office, Wholesale Sales, Wholesale Storage, and Trade Office.

Retail Sales and Services. A Commercial Use Category that includes uses that involve the sale of goods, typically in small quantities, or services directly to the ultimate consumer or end user with some space for retail service on site excluding Retail Entertainment Arts and Recreation, and Retail Automobile Uses and including, but not limited to: Adult Business, Animal Hospital, Bar, Cat Boarding, Fringe Financial Services, Tourist Oriented Gift Store, General Grocery Store, Specialty Grocery Store, Gym, Hotel, Jewelry Store, Kennel, Liquor Store, Massage Establishment, Chair and Foot Massage, Mobile Food Facility, Mortuary (Columbarium), Non-Auto Sales, Pharmacy, Restaurant, Limited Restaurant, General Retail Sales and Service, Financial Services, Limited Financial Services, Health Services, Motel, Personal Services, Instructional Services, Retail Professional Services, Self-Storage, Take-Out Food Facility, Tobacco Paraphernalia Store, and Trade Shop.

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[3] San Francisco Planning Code: Section 102 Definitions, Section 201.2 C-3 Districts: Downton Commercial, 202.2 Location and Operating Conditions,

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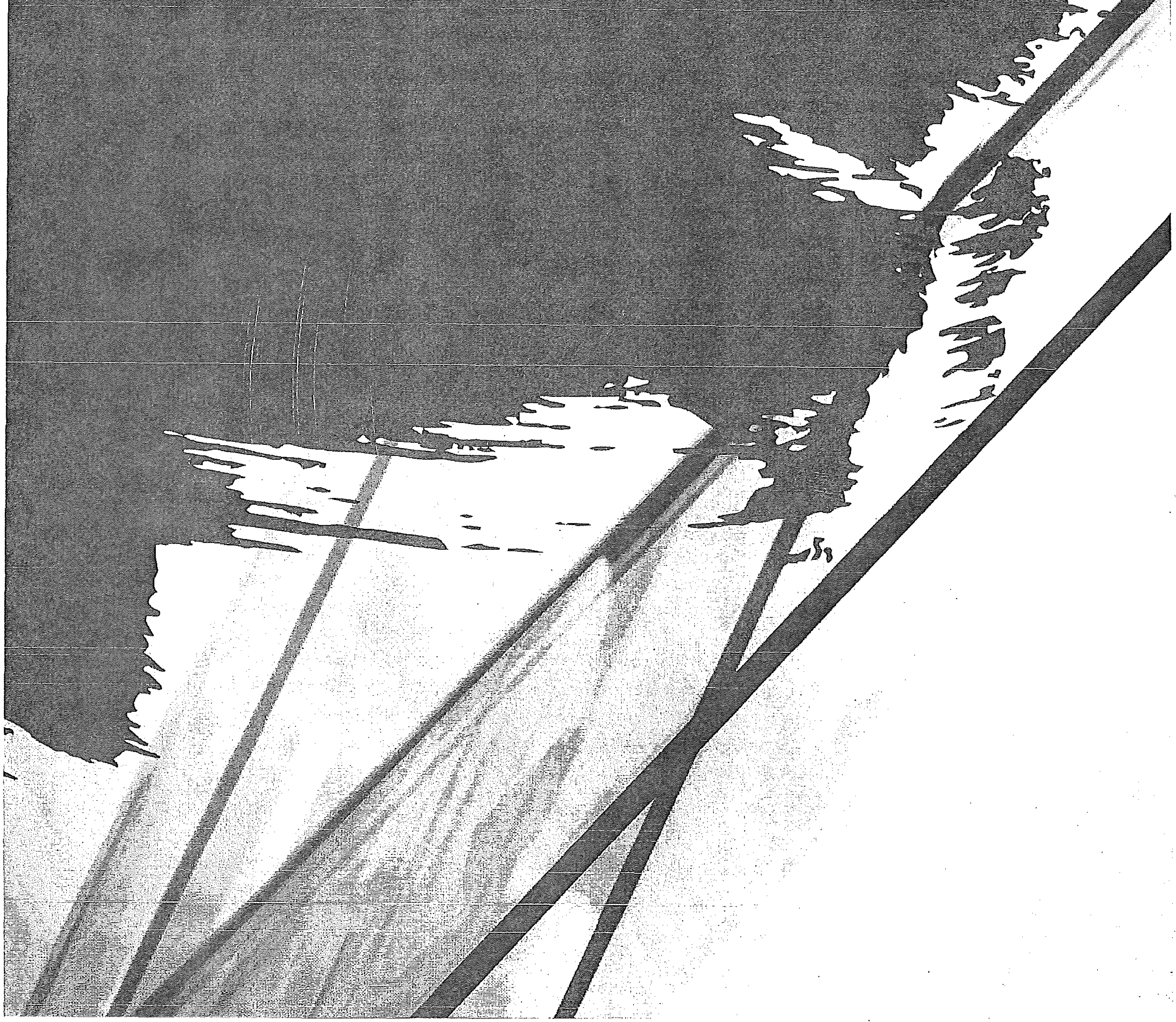
JLL Research Report

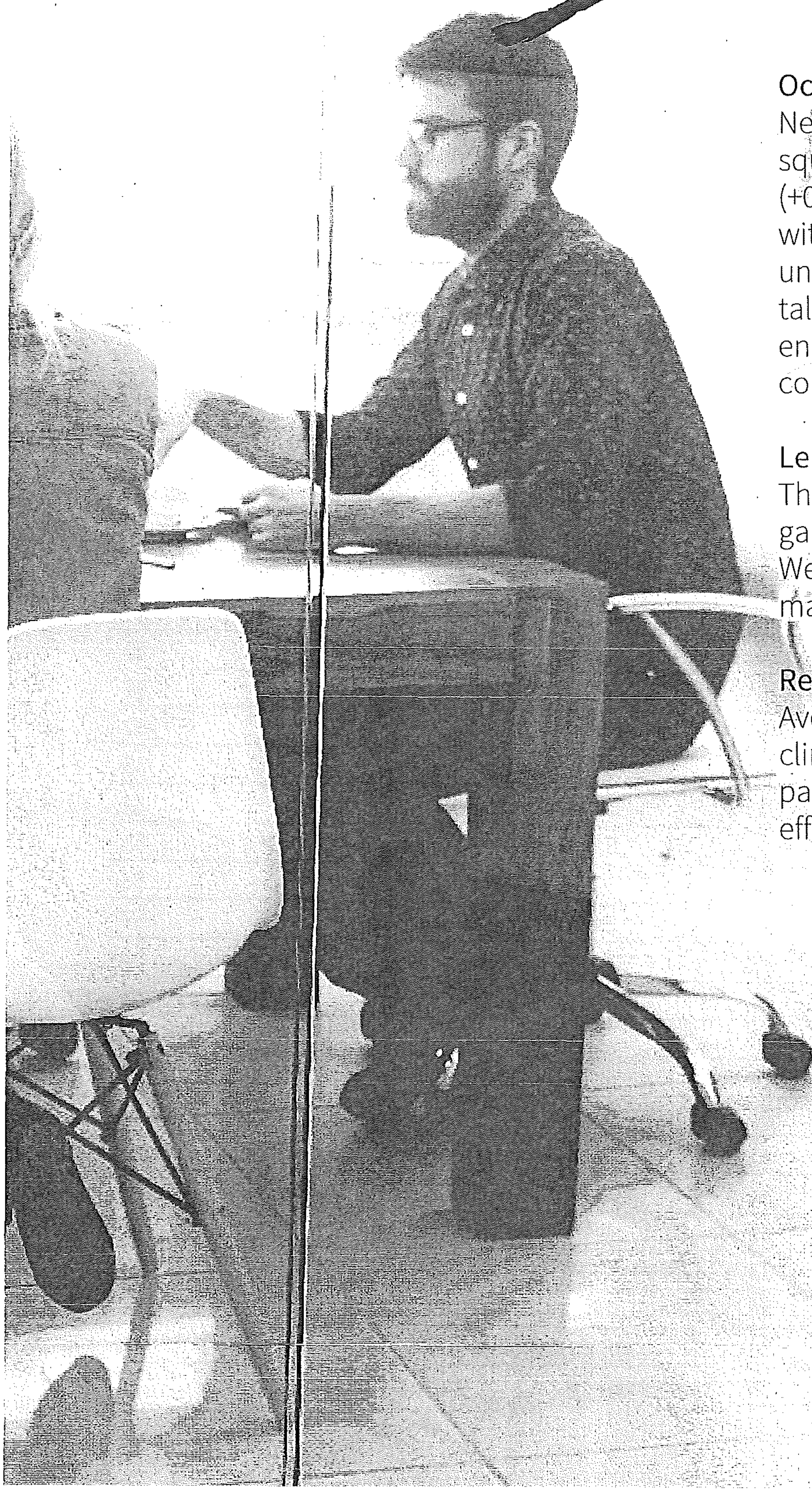
Office Outlook

Robust growth of the flexible space/coworking sector contrasts with deceleration in broader office demand



Contents

3 key trends



Occupancy growth

Net absorption slowed to 3.7 million square feet during the first quarter (+0.1 percent of inventory), as activity within the tech sector was uncharacteristically slow, skilled talent shortages intensified and the energy sector remained under continued pressure.

Leasing activity

The flexible space/coworking sector gained additional momentum, as WeWork and Spaces led the U.S. office market in leasing activity.

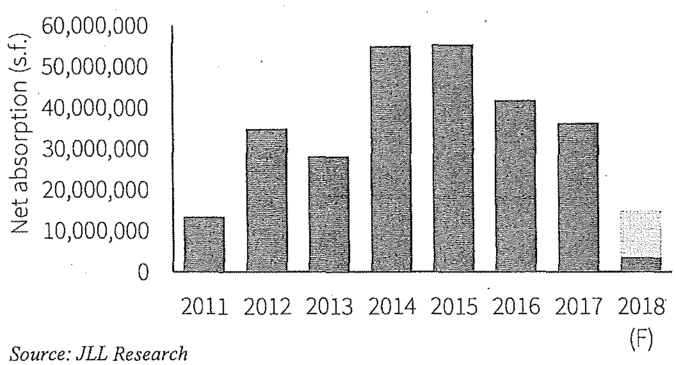
Rents and concessions

Average asking rents continued to climb, but increased concession packages placed pressure on net effective rents in many gateway cities.

Building upon the shifts in trends, fundamentals and sentiment seen throughout 2017, the U.S. office market demonstrated further signs of movement into a more balanced, slower-growth phase of the real estate cycle. Both new construction and second-generation space options are expanding, giving tenants across a variety of industries, geographies and price ranges newfound opportunities. Expectations continue to be positive, with buoyant economic growth likely to lead to stable output, employment and consumption levels in 2018.

As the market remains near peak employment and talent shortages become even more acute in an environment of rising supply, occupancy growth continues to cool. During Q1, net absorption nationally totaled just 3.7 million square feet; annualized, this rate of absorption would result in the slowest year of the expansionary cycle since 2010. Compounding this slowdown were three markets— Houston, Silicon Valley and New Jersey—posting more than 1.0 million square feet of negative net absorption each during the first quarter, in part due to remaining subleases from the energy price collapse, tech-sector consolidation and flight to quality. Absorption should recover to a degree as net new demand from creative and knowledge-intensive tenants preleasing new space move into delivered assets, but it will remain below previous years.

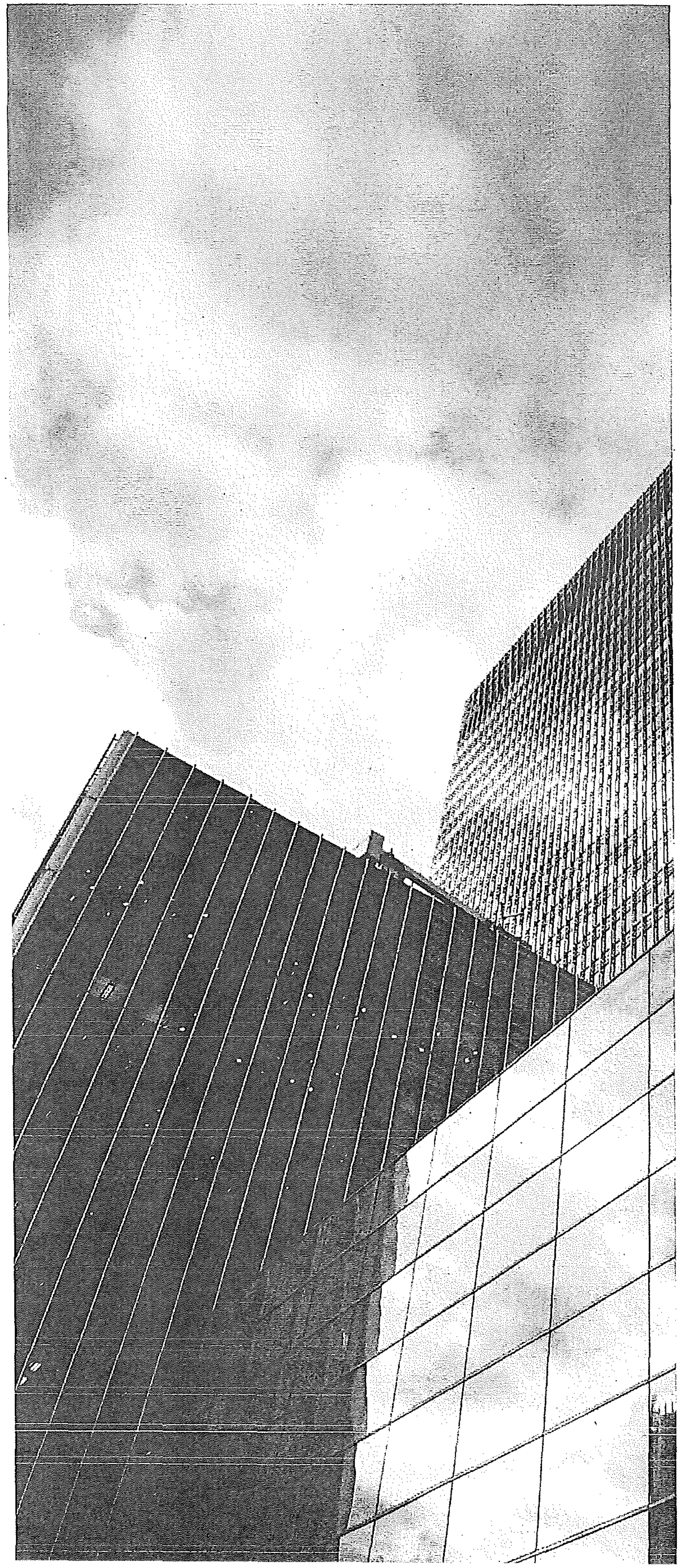
If occupancy growth continues at Q1 rate, 2018 absorption will be 59% slower than in 2017

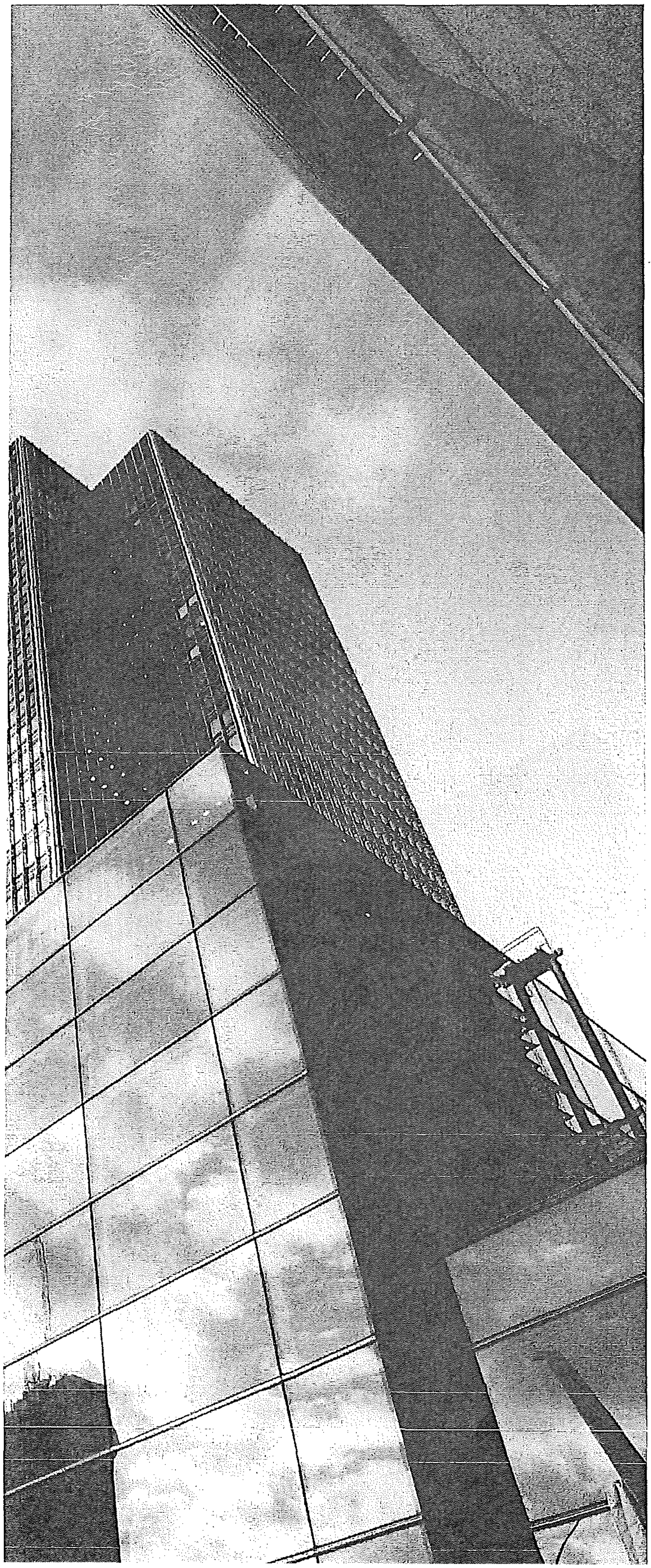


Source: JLL Research

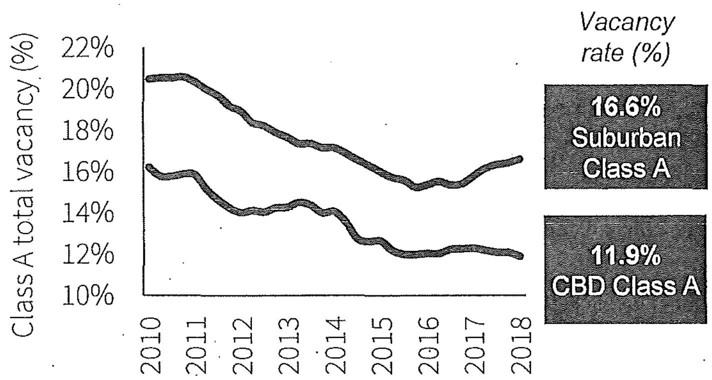
Vacancy didn't budge in Q1 but set to rise steadily in the coming quarters

At 14.8 percent, total vacancy showed no meaningful change during the first quarter, but it remains on an upward trend with the delivery of new product set to accelerate through year-end 2018 and the first half of 2019. However, this lack of change masks underlying shifts in performance at the asset class and geography level: CBD Class A vacancy, under continued demand from tenants and with higher levels of preleasing for new supply, dropped by 20 basis points to 11.9 percent, while suburban Class A vacancy rose by 20 basis points to 16.6 percent.





Class A vacancy now diverging between urban and suburban assets



Source: JLL Research

Construction activity will decline after temporary spike as developers and lenders stay cautious

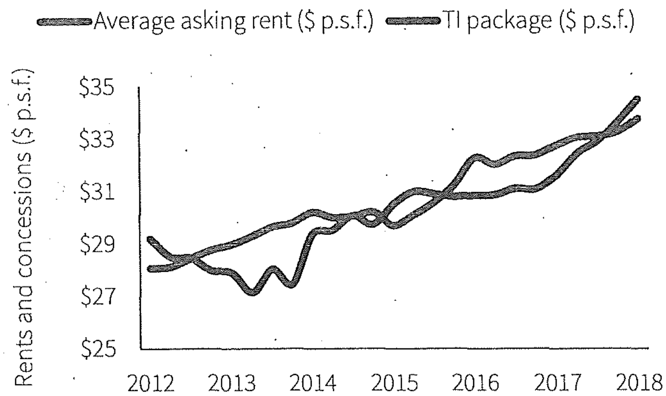
Construction jumped back above the 100 million-square-foot mark during the first quarter as a result of a select few large starts, most notably the Old Main Post Office renovation in Chicago. Development activity, however, is highly concentrated in select cities: New York, Washington, DC, and Chicago account for 33.7 percent of all construction under way in the United States despite only representing roughly one-quarter of national office space. Further large-scale deliveries will exacerbate potential oversupply in these markets, which are dominated by rightsizing and consolidating industries.

On the other hand, construction activity outside of these markets remains somewhat constrained, and while deliveries will hit 52.9 million square feet by the end of the year in the rest of the country, the active pipeline will almost entirely deliver by the end of 2019, which will also see completions halve from 2018 levels. This pullback and a similar slowdown in starts will keep vacancy increases more restrained, leading to a steady rise rather than a sharp upward swing in vacancy through the remainder of the cycle.

For tenants, this dynamic will present varying degrees of relief. In primary markets outside of Boston, Los Angeles and Seattle, where non-preleased speculative construction remains muted, a slew of new supply will open up blocks in commodity Class A product from relocating tenants, leading to cascading flight to quality and downward movement in net effective rents for cost-conscious tenants in lower-quality space. On the other hand, other markets will see sustained tightening or only moderate improvements in availability outside of select submarkets. In addition, sublease vacancy remains limited and stable at 1.4 percent and up only 1.4 million square feet over the quarter, limiting its utility as a relief valve.

Rent growth to be strong throughout 2018 before stabilizing and correcting

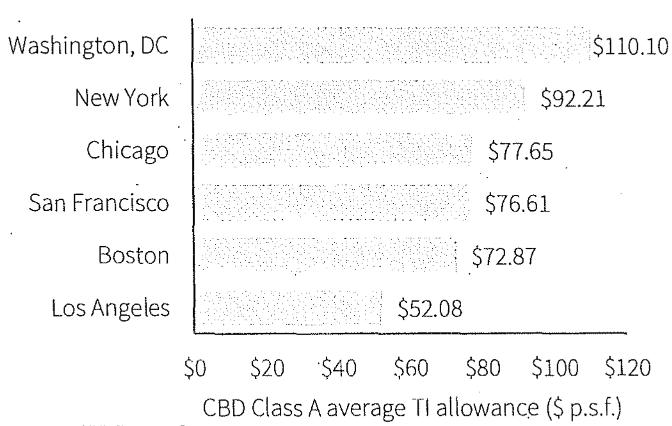
Concessions have now overtaken asking rents on a per-square-foot basis



Source: JLL Research

New supply, coupled with persistent demand in key asset classes and submarkets, is leading average asking rents higher. Direct asking rents posted overall gains of 1.6 percent to $33.78 per square foot, driven by a strong 2.7 percent rise in suburban rents. On the other hand, CBD asking rents registered a slight decrease of 0.2 percent, falling back below the $50-per-square-foot threshold achieved at the end of 2017. The lower level of preleasing in speculative developments (47.7 percent) and larger volume of completions (6.6 million square feet) are disproportionately boosting suburban rents, whereas CBD rents are beginning to stabilize, with top-tier blocks being taken off the market and commodity blocks coming back on, in many cases as discounted sublease space.

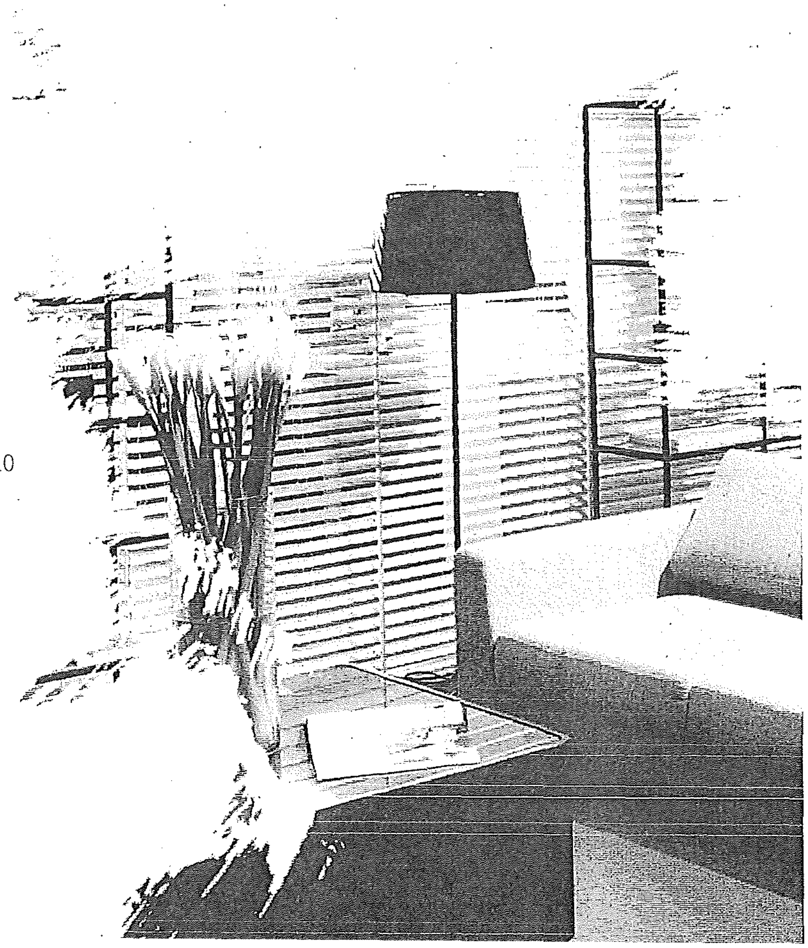
Concession packages in primary markets continue to rise to new heights

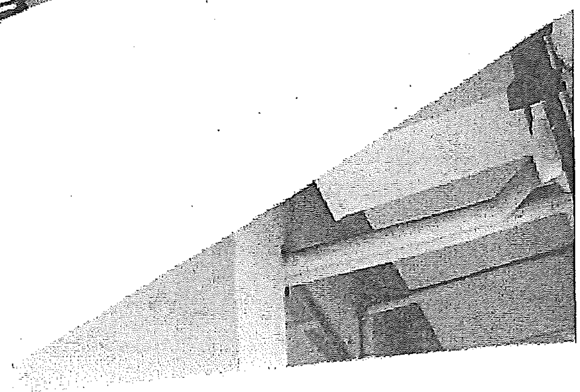


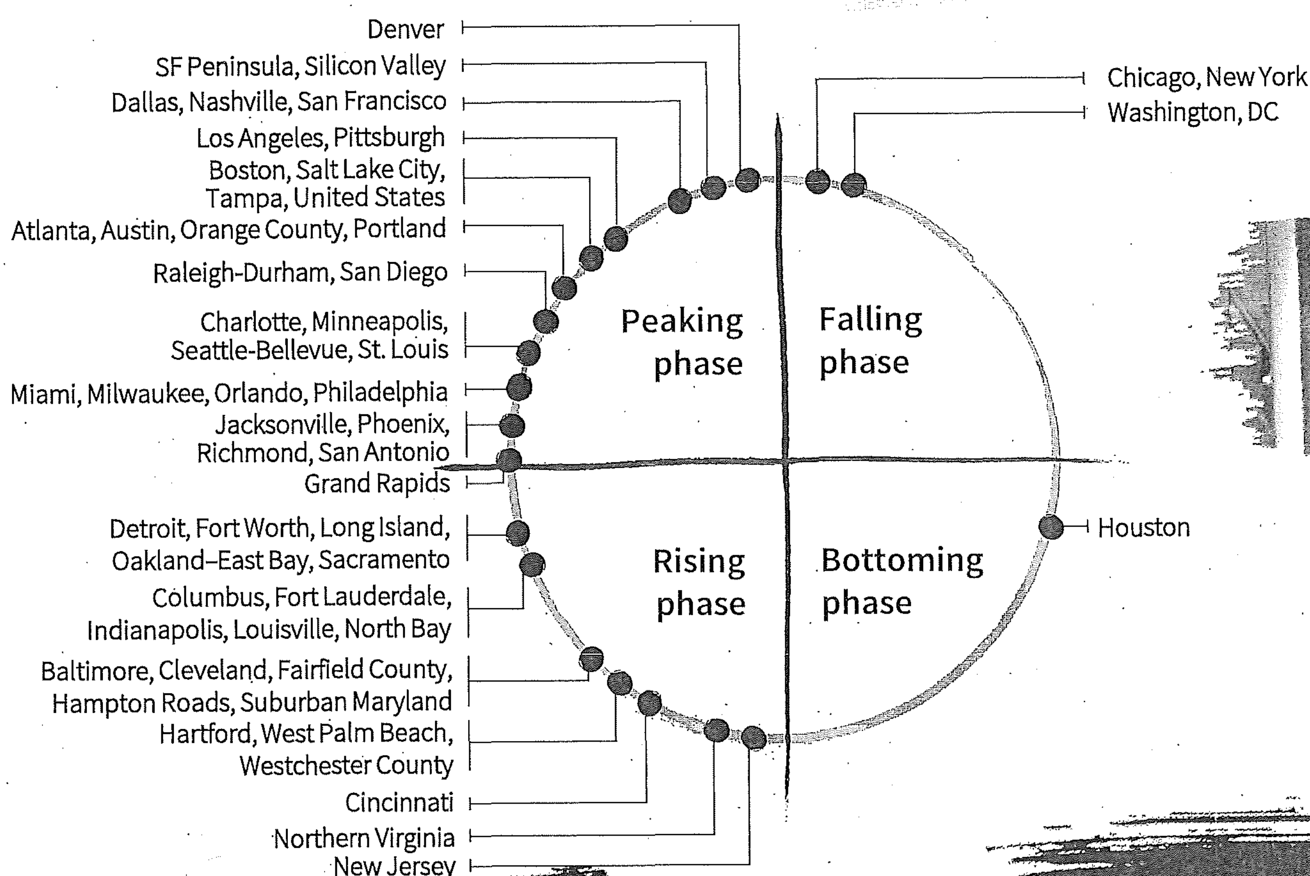
Source: JLL Research

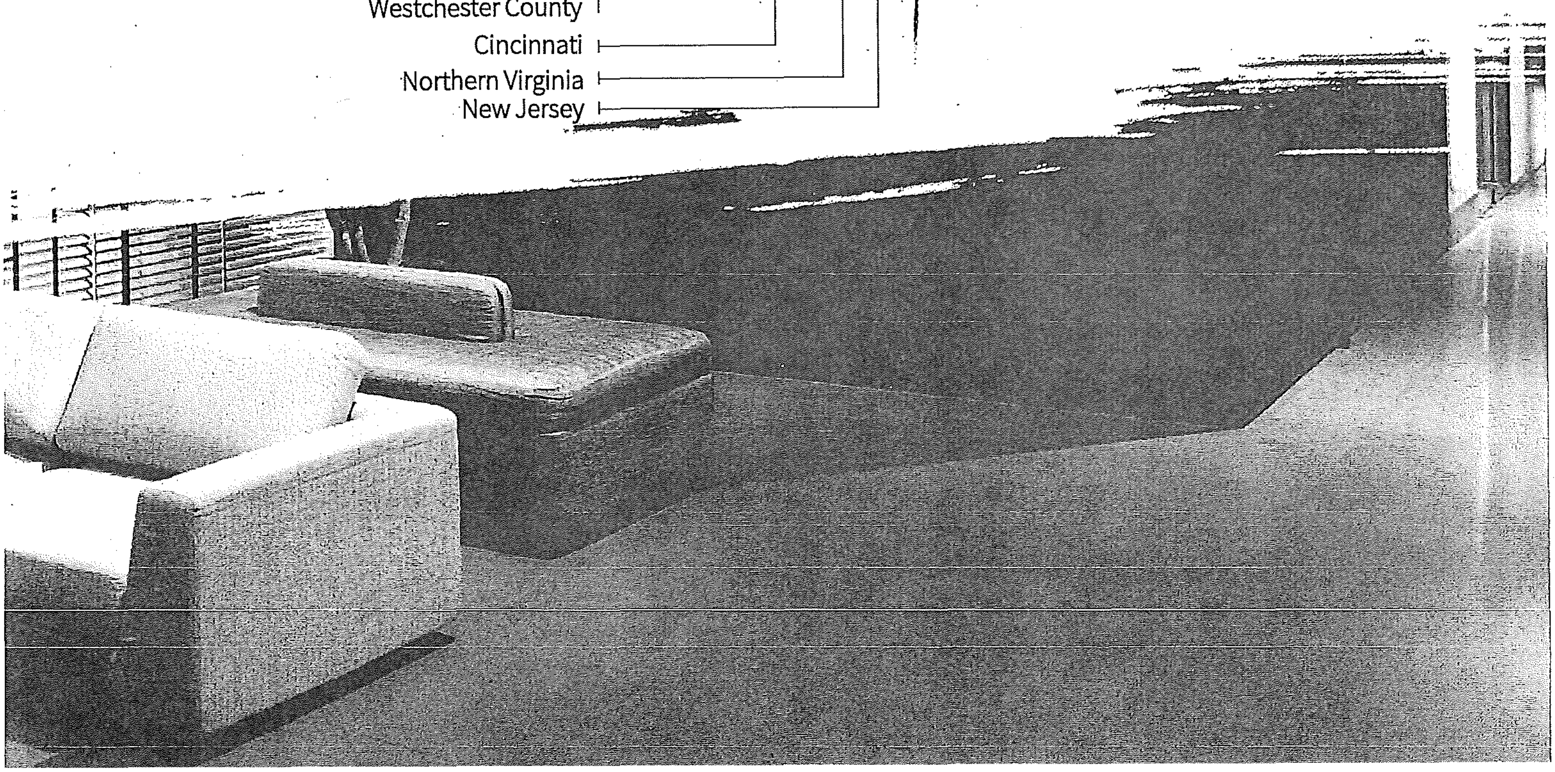
As a result of changing supply-and-demand dynamics, landlords across the board are raising concessions at the same rate or faster than asking rent growth, in many cases leading to flat or even declining effective rents. National concession packages rose by 3.5 percent during the first quarter and are now exceeding $75 per square foot in most primary markets and approaching or exceeding $100 per square foot on average in Washington, DC, Chicago, and New York for new supply. Given further expected competition for a more muted amount of organic new demand as hiring and expansion become more difficult, the rise in tenant improvement allowances and free months will remain at or above the ability of landlords to increase face rents.

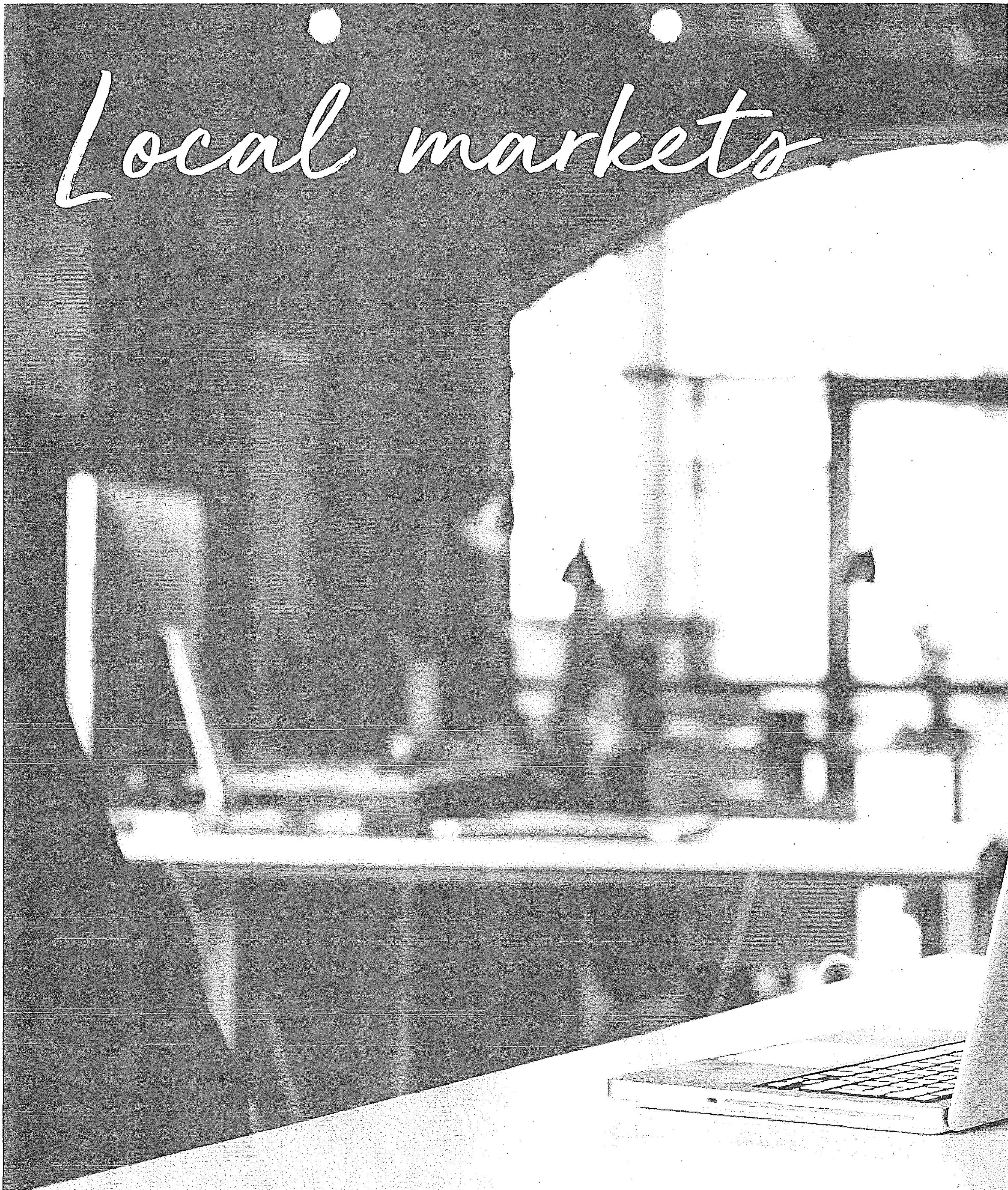
Despite a relatively slow first quarter in terms of occupancy growth, fundamentals remain highly positive looking ahead to the rest of 2018. New supply will enable tenants to be more active and flexible after years of constraints, while a short-term boost in rent growth will be countered by more balanced leverage dynamics and an emphasis on landlord-led action to reposition existing assets to compete with recently delivered product at more reasonable price points for a wider array of occupiers.

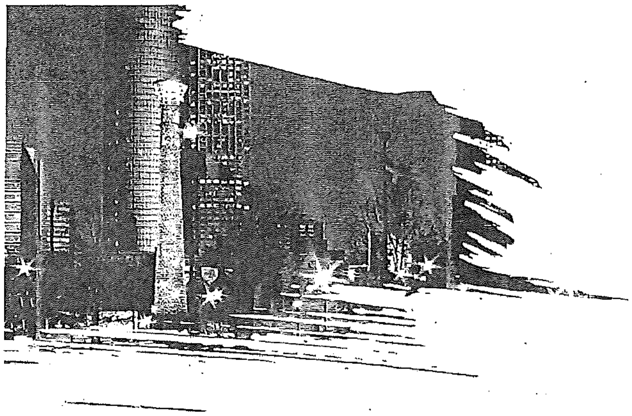





Denver
SF Peninsula, Silicon Valley
Dallas, Nashville, San Francisco
Los Angeles, Pittsburgh
Boston, Salt Lake City, Tampa, United States
Atlanta, Austin, Orange County, Portland
Raleigh-Durham, San Diego
Charlotte, Minneapolis, Seattle-Bellevue, St. Louis
Miami, Milwaukee, Orlando, Philadelphia
Jacksonville, Phoenix, Richmond, San Antonio
Grand Rapids
Detroit, Fort Worth, Long Island, Oakland–East Bay, Sacramento
Columbus, Fort Lauderdale, Indianapolis, Louisville, North Bay
Baltimore, Cleveland, Fairfield County, Hampton Roads, Suburban Maryland
Hartford, West Palm Beach, Westchester County
Cincinnati
Northern Virginia
New Jersey
Chicago, New York
Washington, DC
Houston
Peaking phase
Falling phase
Rising phase
Bottoming phase




Local markets



Atlanta

Robust leasing activity kicks off the new year as market fundamentals strengthen

- Positive net absorption of 357,357 square feet was recorded during the first quarter, helped by the delivery of Phase I of NCR's 485,000 square-foot build-to-suit office building in Midtown
- Overall asking rents continued their upward trajectory, increasing 8.4 percent over the past year, ending the first quarter at $26.28
- Investment sales start the year on a high note with Three Alliance closing at $534 per square foot, a record price for the Atlanta office market

Fundamentals	Forecast	
YTD net absorption	357,357 s.f.	▲
Under construction		
-Spec	1,564,212 s.f.	▶
-Build-to-Suit	462,500 s.f.	
Total vacancy	17.9%	▼
Average asking rent (gross)	$26.28 p.s.f.	▲
Concessions	Steady	▶

The first quarter of 2018 continued the positive momentum from the close of 2017. Lifted by the delivery of NCR's Phase I development, the new year led off with 357,357 square feet of positive net absorption. Overall asking rates increased 9.0 percent over the past 12-months, finishing the quarter at $26.28, a historic high for the Metro. Urban Class A rates rose even more, closing above $32.00 for the first time, a 10.7 percent year-over-year increase. Direct vacancy ticked slightly higher, but is expected to drop as some of the more-than 2 million square feet of deliveries from the past year begin to fill up.

Deal velocity picked up steam during the first quarter, with Central Perimeter being the notable beneficiary. Deals included Northside Hospital agreeing to nearly 180,000 square feet at 1001 Perimeter Summit, bringing 400 new jobs to the submarket. Additionally, Insight Global signed on to anchor a new 16-story office building named Twelve24 agreeing to take more than 205,000 square feet at the transit-friendly development at the Dunwoody MARTA station.

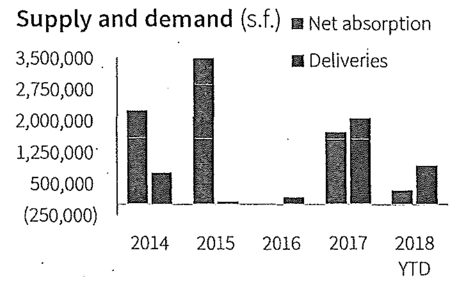
Investment sales, specifically in Buckhead, started off the year with a bang, as Three Alliance closed at a record price for the Atlanta market at more than $530 per square foot. The highly successful Armour Yards creative office project by JPMorgan and Third & Urban also traded hands during the first quarter, setting a high water mark in the segment. Moving forward, it's possible that this deal could set the benchmark for similar creative office sales.

Outlook

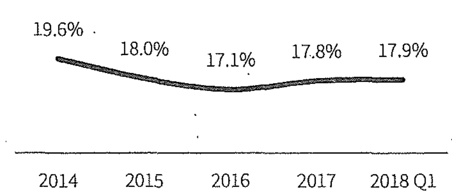
Several tenants are in the market actively looking for new space, which is an encouraging sign for the new year. Two large spec developments, 4004 Perimeter Summit, which delivered without a tenant in the first quarter, and 725 Ponce, which is scheduled to be delivered in the fourth quarter, will be looking to court these potential new tenants.

For more information, contact: Craig Van Pelt | craig.vanpelt@am.jll.com

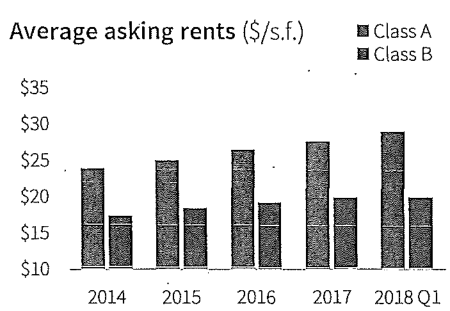
Supply and demand (s.f.)

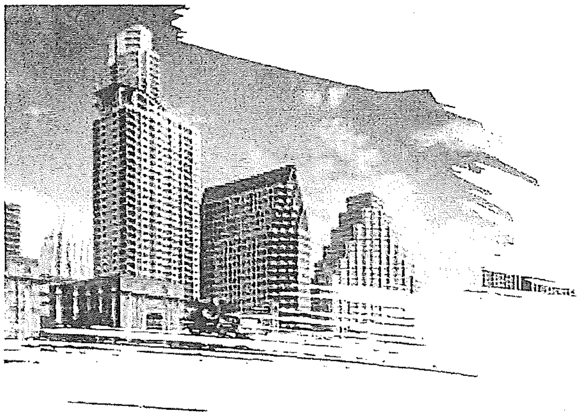


Total vacancy



Average asking rents ($/s.f.)





Austin

Austin office vacancy stabilizes as construction pipeline remains robust.

- Austin's inventory remains relatively the same at just under 52 million square feet across the MSA.
- Overall vacancy rates dropped to 10.7%, down from 11.7% in Q1 2017.
- Austin's overall average asking rent is $38.65, up 2.1% from $37.84 in Q1 2017.

Austin's office environment has remained stable from Q4 2017 into Q1 2018. An additional 156,049 s.f. delivered between Mopac Centre (NW – 95,863 s.f.) and The Overlook at Barton Creek (SW – 60,168 s.f.), bringing the total inventory to 51,868,418 s.f.

Construction activity remains robust around the city, with 3,330,927 s.f. under construction, approximately 50% of which is preleased. However, there is a clear concentration, with CBD, East, and NW making up nearly 70% of all active construction. Of the citywide development underway, 800,960 s.f. is expected to deliver in the next quarter. Some of these buildings will deliver large chunks of inventory, including Westview (CBD – 100,000 s.f.), The Summit II at La Frontera (Round Rock – 95,000 s.f.), and 801 Barton Springs (S - 90,500 s.f.). In addition, two buildings broke ground in Q1 2018 – Davenport 360 (SW – 33,911 s.f.) and The Foundry (E – 95,000 s.f.) – for a total of 128,911 s.f.

Austin's absorption levels remained positive for another quarter, coming in at 127,890 s.f. across all submarkets, accounting for 1.4% of the total inventory.

Outlook

Overall, the Austin office market has remained stable over the last several quarters and we continue to have positive absorption and significant square footage under development. Large multi-national companies continue to invest in the city and it's future, adding credibility to up and coming areas like the East submarket. With this said, rate growth is beginning to level off as Austin nears the peak of the economic cycle although there is no expectation for a downturn in the near future.

Other points to note: while large blocks tend to drive the market, they don't always exist in areas where company's want to be, thus smaller tenants have more optionality than vacancy might suggest.

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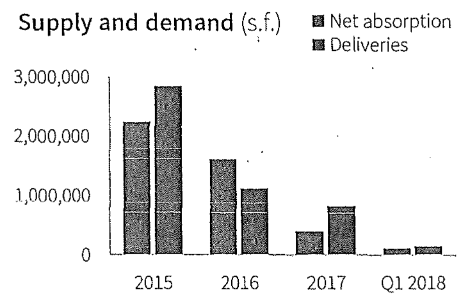
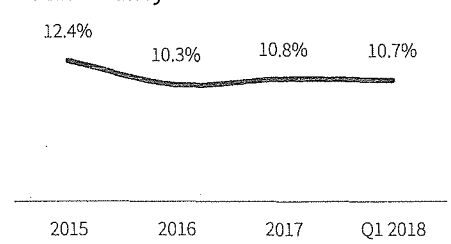
Fundamentals	Forecast
YTD net absorption	127,890 s.f. ▼
Under construction	3,330,927 s.f. ▲
Total vacancy	10.7% ▶
Average asking rent (gross)	$38.65 p.s.f. ▲
Concessions	Stable ▶

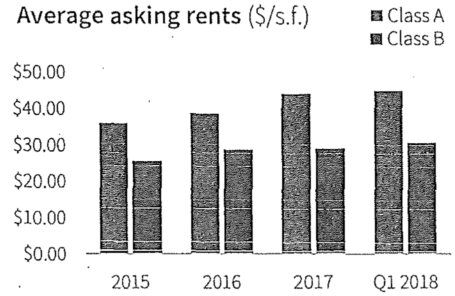
Supply and demand (s.f.)

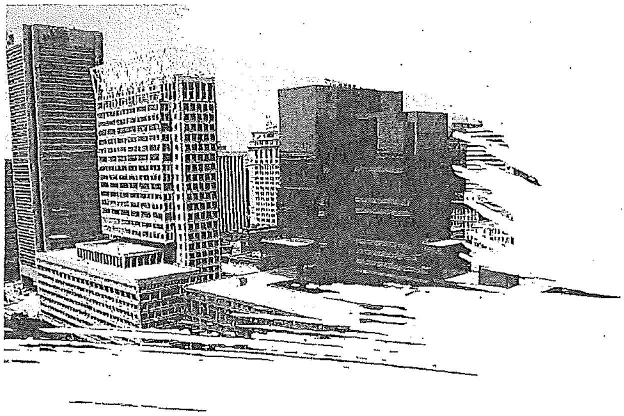


Total vacancy



Average asking rents ($/s.f.)



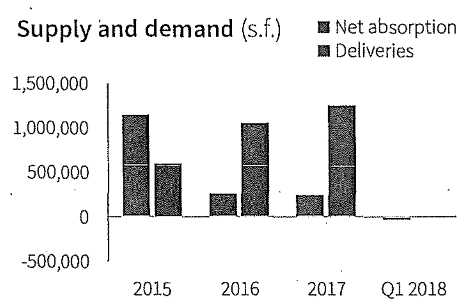


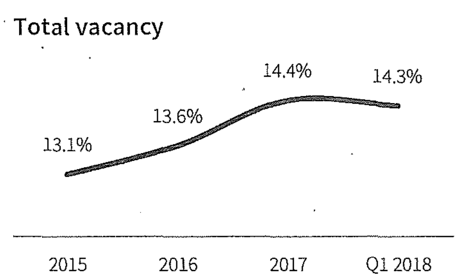
Baltimore

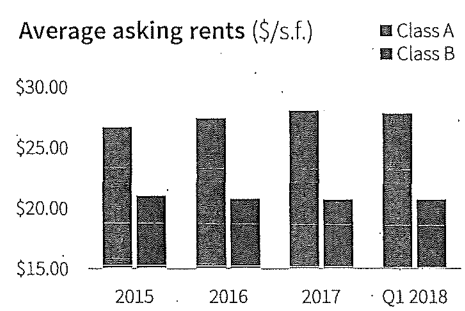
Leasing activity cools at the beginning of 2018 as rent and absorption growth slow down

- New supply has outpaced net absorption by a margin of 1.8 m.s.f. since 2016, yielding steadily climbing vacancy rates.
- With Class A vacancy up 140 basis points over the past year, Class A rents ticked downward by 0.8% compared to the previous quarter.
- Despite containing only 16.6% of the market's inventory, 39.8% of leasing volume during the quarter occurred in Howard County, where defense contractor, technology and healthcare tenants have driven activity.

Fundamentals	Forecast
YTD net absorption	-34,330 s.f. ▲
Under construction	1,057,045 s.f. ▶
Total vacancy	14.3% ▲
Average asking rent (gross)	$24.89 p.s.f. ▶
Concessions	Stable ▶







Baltimore faced rising vacancy rates as quarterly net absorption fell below the long-term average of 200,000 s.f. for the sixth straight quarter amidst a decline in overall leasing activity. Even with Class B supply shrinking by nearly 850,000 s.f. due to conversions and owner/user sales since early 2016, Baltimore's total vacancy rate has steadily risen from a cyclical low of 12.4% as new supply has outpaced below average occupancy growth. Growth in Class A asking rents has correspondingly slowed in the past 18 months.

The top leasing deal of the quarter landed in Annapolis Junction, where Verizon will relocate within Howard County to 59,161 s.f. of new construction as their footprint shrinks by 60%. The move characterizes Baltimore's recent sluggish occupancy growth: well positioned Class A product has driven leasing activity, but demand has largely come from relocations within the market, frequently with significant downsizing. While the overall market has trended flat, performance has increasingly diverged between mixed-use projects and general market trends. Downtown Columbia has led the market in leveraging its amenity base to attract tenants, experiencing nearly 300,000 s.f. of positive net absorption over the past year, while rents have spiked 9.3%.

Outlook

Aided by several speculative starts by St. John Properties, the development pipeline sat at only 50.1% preleased, with over 500,000 s.f. of vacant space scheduled to deliver in 2018. New supply will cause vacancy rates to continue to climb, and as a result inhibit rental rate growth in second generation Class A space. Howard County, and to a lesser extent BWI, will remain the exception, however, as they benefit from increasing activity surrounding cyber security and defense contractors.

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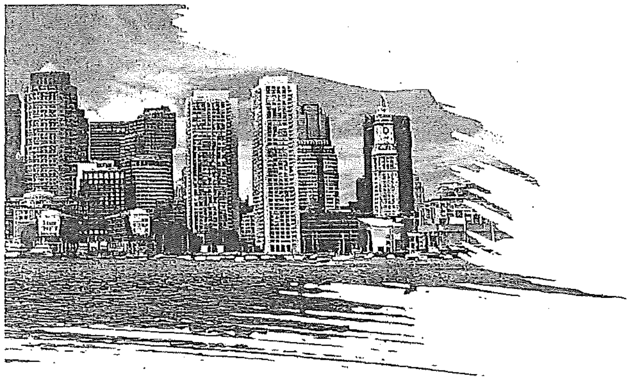


Boston

New supply is disappearing rapidly in the booming market

- Strong metro-wide demand in 2017 leads to largest first quarter absorption result since 2011.
- Rents remained flat during the quarter, but significant supply constraints are expected to result in more growth during the year.
- Overall market fundamentals remain incredibly tight, with vacancy now below the last low record of 13.9 percent in 2008.

Fundamentals	Forecast
YTD net absorption	609,847 s.f. ▲
Under construction	3,468,000 s.f. ▶
Total vacancy	13.2% ▼
Average asking rent (gross)	$36.67 p.s.f. ▲
Concessions	Rising ▲

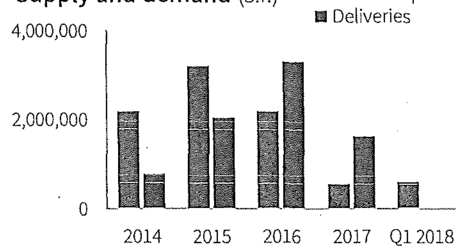
Boston's metro economy maintained its leading position going into 2018 as a hotbed for top employers and a skilled workforce. From 2016 to 2017, total nonfarm payroll grew by 2 percent, or more than 51,000 jobs. This surpasses the metro's 1.7 percent average on record since 2010 and the US average nonfarm payroll growth of 1.3 percent during that time. As a result, the perpetually strengthening labor force remained a major attraction for employers, and announcements of major expansions and relocations have become more of a norm than an exception over the past year.

These corporate expansions have been a boon to developers and by the end of the quarter the city of Boston's 1.4-million-square-foot development pipeline was 95 percent pre-leased, with the final large blocks of space going to Rapid7 at The Hub on Causeway and Cengage at Pier 4. A similar story is unfolding in Cambridge: the 1.3-million-square-foot pipeline is 61 percent preleased, with Phllips' lease at Cambridge Crossing one of the latest in the suburban to urban migration stories. With the only remaining blocks of new construction concentrated in the suburbs, the market's 70 percent pre-lease rate is the highest of any primary office market across the country.

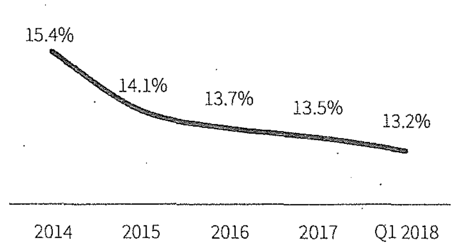
Outlook

Ever-present supply constraints plus recently awarded development approvals have many people thinking that new, speculative development could become a reality in Boston and Cambridge in the near term. And while certain suburban markets remain challenged by pockets of elevated vacancy, we expect to see urban proximity continue to push demand into the 128/Mass Pike submarket, and at the same time increase renewal activity in the less costly, broader suburban market during 2018.

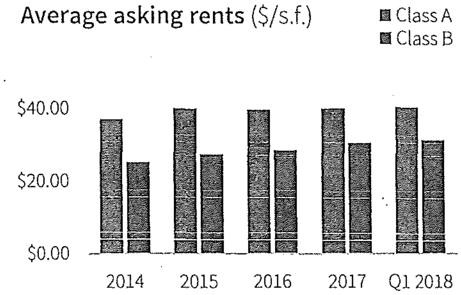
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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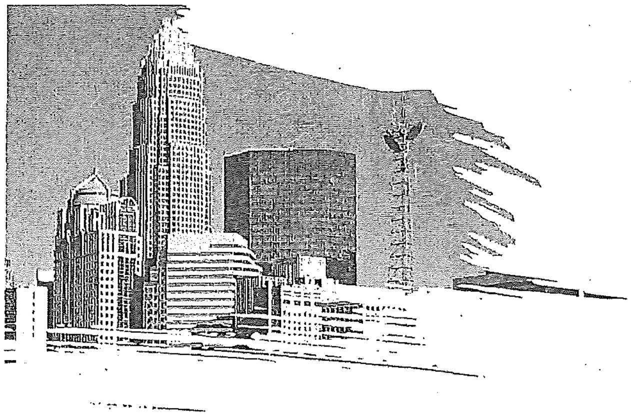


Charlotte

Coworking, construction, and conversion: the three C's shaping 2018

- Coworking continues to grab headlines as more concepts enter the market.
- The construction pipeline reached 3.0 million square feet this quarter, amounting to 6% of the existing office inventory.
- The Lynx Blue Line extension from Uptown to UNC Charlotte opened in March, providing opportunities for developers to breathe life into underutilized facilities.

Strong construction activity will undoubtedly push short-term vacancy rates up, but with a lack of quality large block availabilities across the market, tenant demand will snatch up newly delivered product quickly. Rental rates continued to steadily rise, with Class A spaces increasing to $29.59, a 7.9% jump from Q1 2017. Net absorption tracked positive in Q1, posting 306,811 square feet across the market.

Jeld Wen's new corporate headquarters delivered in the Airport submarket, yielding the largest block of absorption for the market with 120,000 square feet. Noteworthy leasing activity came in Midtown/South End, as the coworking company Spaces leased 27,000 square feet at 307 West Tremont Avenue. Spaces' footprint will total 58,000 square feet in the urban core of Uptown and Midtown/SouthEnd, likely in response to WeWork's continued expansion in the market, as well as increased presence of competition in the marketplace.

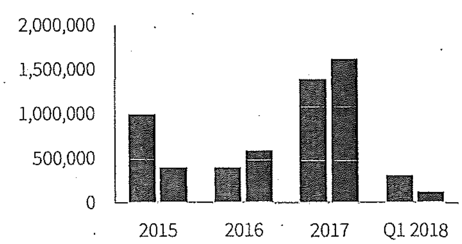
Key sales this quarter came outside the Charlotte city limits. The Daimler-anchored building in Fort Mill, SC traded for $40 million, purchased by Robin Global Property Trust and The Park Huntersville, in the Northeast I-77 submarket, sold for $62.5 million.

Outlook

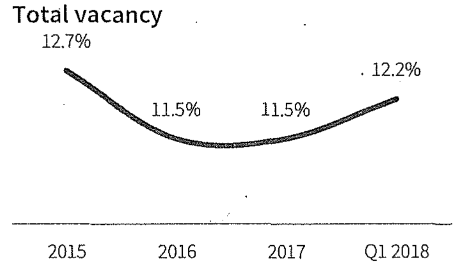
As more cranes continue to dot the Charlotte skyline, creative office conversions are playing a major role in the repurposing of aging assets. Active projects include Tompkins Hall, where Duke Energy will be occupying later this year, Atco's renovations of the former Model T production facilities at Camp North End, and Cambridge Properties, who is converting a former Kohl's department store into office space in the University submarket. Most of these projects are on or close to the Blue Line extension, signs of continued investment along the recently opened light rail.

Fundamentals	Forecast
YTD net absorption	306,811 s.f. ▲
Under construction	3,032,016 s.f. ▲
Total vacancy	12.2% ▲
Average asking rent (gross)	$26.89 p.s.f. ▲
Concessions	Rising ▲

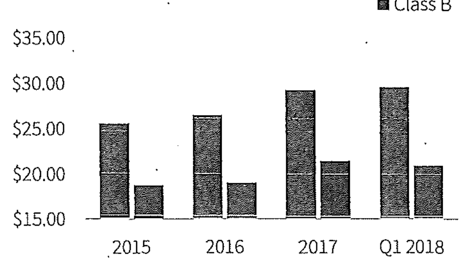
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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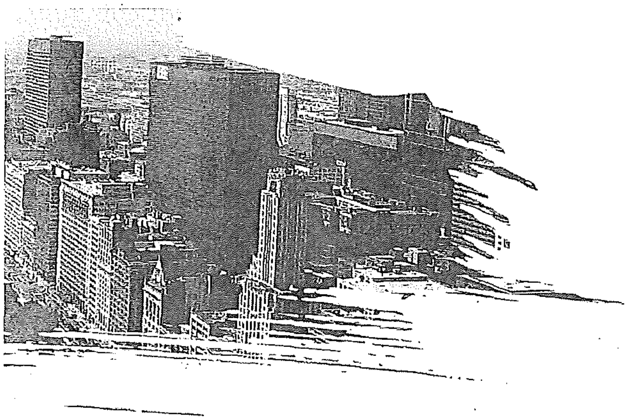
Thomas Passenant | Thomas.Passenant@am.jll.com



Chicago-Downtown

Reassessed and at their best, office players still bumping up pricing while occupancy keeps pace

- GGP moved into 350 N Orleans, making way for Bank of America-anchored 110 N Wacker to begin construction.
- Wilson Sporting Goods moved into Prudential Plaza, whose sale to Sterling Bay and Wanxiang came in at $292 per-square-foot.
- While product under development remains less than 5.0 percent of inventory, 12.9 million-square-feet of large blocks on the market creates ample options for tenants in the market.

Fundamentals	Forecast
YTD net absorption	220,356 s.f. ▼
Under construction	7,342,820 s.f. ▶
Total vacancy	11.4% ▶
Average asking rent (gross)	$41.50 p.s.f. ▲
Concessions	Rising ▶

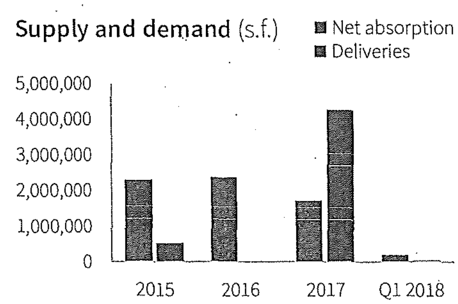
Office market bifurcation is ever more clear as many exciting projects in Fulton Market and the West Loop edge closer to delivery. As landlords reacted to the triennial property tax reassessment, the spread between Class A and Class B asking rent ballooned 35.2 percent quarter-over-quarter. Landlords may be offsetting high face value rents and construction pricing with concession packages. Tenant improvement allowances are up 15.6 percent on average across the downtown market, with allowances for new leases jumping by 27.1 percent over the past three years. In second generation, Class A space, many financial services and law firms rightsized and left high tax and operating expense large blocks on the market. Balancing this loss is absorption from suburban relocations like McGraw-Hill to 120 S Riverside and AdTalem Education to 500 W Monroe. Urban migration and the geographic desirability of West Loop offices next to the Metra and Riverwalk may help constrict increases to vacancy this year.

Meanwhile, demand for creatively branded and amenitized space amped up. Coworking leasing activity shows no sign of slowdown, as The Vault took 1115 W Fulton Market and SPACES by Regus leased all of the to-be-renovated former Sports Authority at 620 N LaSalle. And while overall Central Loop absorption remains negative, quarterly leasing activity for creative Class B 125 S Clark and 1 N Dearborn topped 130,000 s.f. Tech star Snapsheet just moved into 52,000 s.f. at 1 N Dearborn.

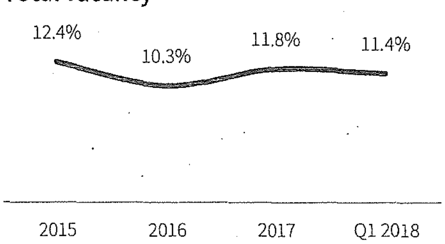
Outlook

As Sterling Bay's banners fenced off Lincoln Yards, we welcome two new, non-CBD submarkets: Goose Island and Clybourn Corridor. These mixed-use development areas could compete with live-work-play Fulton Market, draw tenants out of the traditional CBD or define a new demand segment entirely.

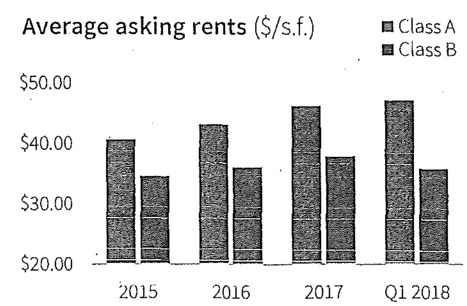
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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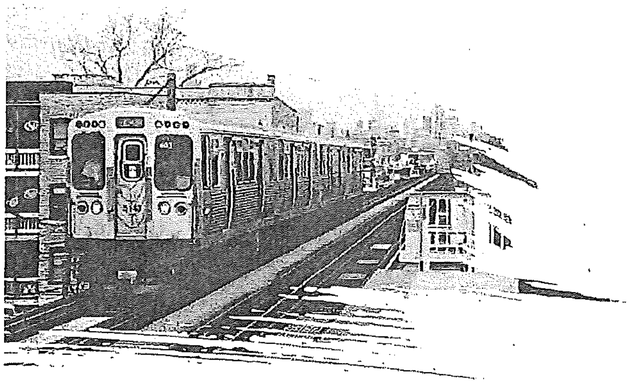


Chicago-Suburbs

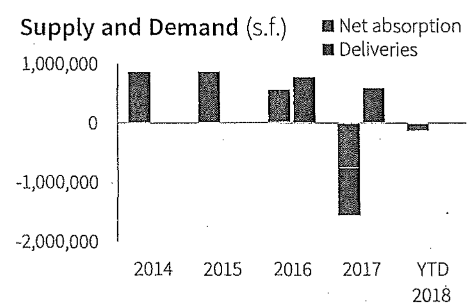
Stable Class A product starts 2018 strong

- Class A rents climbed to $26.20 per square foot
- Depomed, an out-of-market company, signed a lease at Landmark of Lake Forest I, will move into new HQ in third quarter
- Caterpillar's highly anticipated move to Corporate 500 in Deerfield realized this quarter

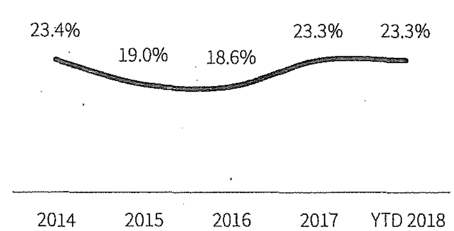
Fundamentals	Forecast	
YTD net absorption	-118,561 s.f.	▶
Under construction	437,905 s.f.	▲
Total vacancy	23.3 %	▶
Average asking rent (gross)	$23.38 p.s.f.	▲
Concessions	Stable	▶

Despite overall negative absorption, Q1 saw the market kick off 2018 to a strong start: Class A product recorded 113,665 square feet. North Lake continues to be the land of pharmaceutical companies, with Depomed signing a lease this quarter to relocate their HQ from California to the Landmark of Lake Forest I. Landmark I saw Abbott Laboratories move in this quarter, cementing North Lake's status as a pharmaceutical hub. In contrast, the Walgreens campus in Northbrook is still on the sublease market. Despite a possible shift in the healthcare mammoth, the Northern submarkets remain favorable for life science companies. The O'Hare submarket continued to perform positively as the American Academy of Dermatology moved into their new 44,000-square-foot space at 9500 W. Bryn Mawr in Rosemont, relocating from 930 Woodfield in Schaumburg. Batory Foods also moved into their new 29,000-square-foot space at O'Hare International Center. Vacancy remained at 23.3% this quarter despite rightsizing, significant move-outs and a migration of tenants closer to downtown, signaling market stability.

Supply and Demand (s.f.)



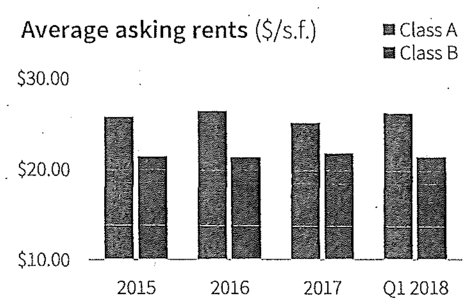
Total vacancy



Outlook

GE Healthcare's 253,000-square-foot move-out in the Northwest could provide another opportunity for developers to reinvest in the market. Zurich's former headquarters, now known as Schaumburg Towers, is a prime example of redeveloping corporate campuses into multi-tenant buildings. Another example of redevelopment opportunities is the repositioning of the Motorola Solutions campus into a community environment. A $30.1 million loan was approved a few weeks ago for the over 200-acre site, which previously announced a TopGolf venue. While the final plan has not yet been finalized, this construction—coupled with reinvestment in town centers across suburbs such as Wheeling—will shift the dynamic in the suburbs.

Average asking rents ($/s.f.)



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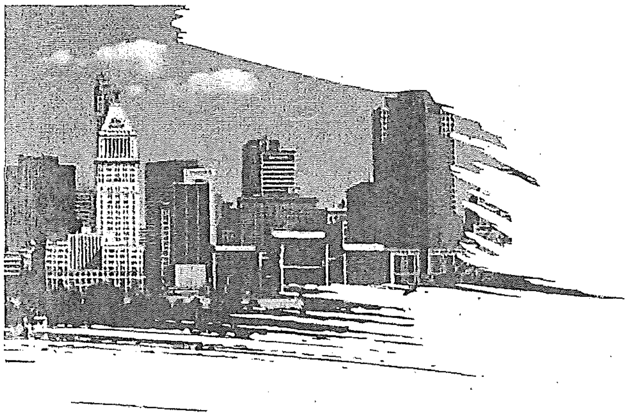

Cincinnati

Urban submarkets driving leasing activity to start 2018

- Redevelopment efforts continue to surge throughout Cincinnati's urban periphery
- Following a quiet year in Cincinnati, leasing activity among the urban submarkets has been healthy to start 2018, with several tenants expanding their current footprint in the market
- Activity from investors has been active throughout suburban Cincinnati with several notable sales occurring in the first quarter

Despite a negative absorption number to start the year, Cincinnati has seen a healthy amount of activity. With several leasing commitments north of the 10,000-square-foot range, the city is once again showing its office market capabilities to not only attract new tenants to market, but also retain its current ones. Although new construction is still lacking, redevelopment continues to surge in the urban peripheral market as TAMI companies (technology, advertising, media and information) continue to migrate to the area. In the first quarter, the largest lease signed in the CBD Peripheral was signed by a design company. Equator Design, a subsidiary of Matthews International, leased the remaining 12,880 square-feet at the newly constructed Empower Media Marketing headquarters.

The Cincinnati office market has also been seeing activity from local and out-of-state investors with the most notable deal of the quarter being the sale of Toyota's Northern Kentucky Headquarters. The vacant building was purchased by Covington-based, Corporex, with the intention to attract a single tenant user to occupy the whole 200,000-square-foot building. This sale is proof of the confidence local investors have in the strength of the Cincinnati office market.

Outlook

As several redevelopment and renovation projects in the CBD and CBD Peripheral submarkets are reaching completion, tenants in the market are looking to these newly constructed spaces for relocation. In just the first few months of 2018, we have begun to see leasing activity concentrate within the urban submarkets. With demand high for rare tenant amenities such as restaurants, hotels, and entertainment, tenant migration will continue to increase into Cincinnati's urban core throughout 2018. This will keep developers scouring the market for unique redevelopment opportunities.

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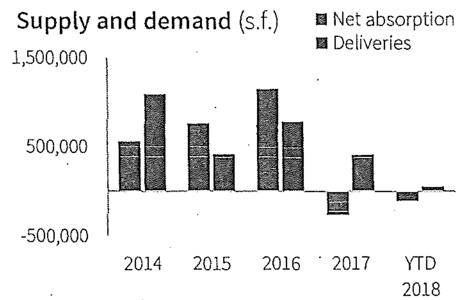
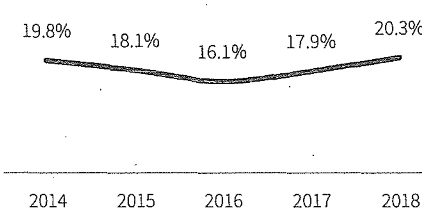
Fundamentals	Forecast
YTD net absorption	-105,906 s.f. ▲
Under construction	88,000 s.f. ▶
Total vacancy	20.3% ▶
Average asking rent (gross)	$19.22 p.s.f. ▶
Concessions	Stable ▶

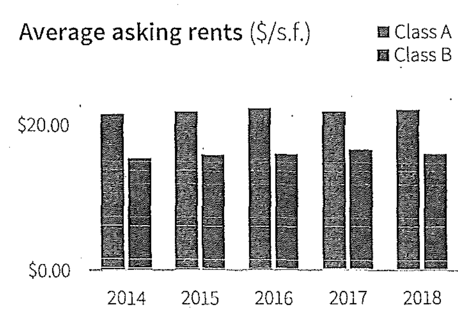
Supply and demand (s.f.)

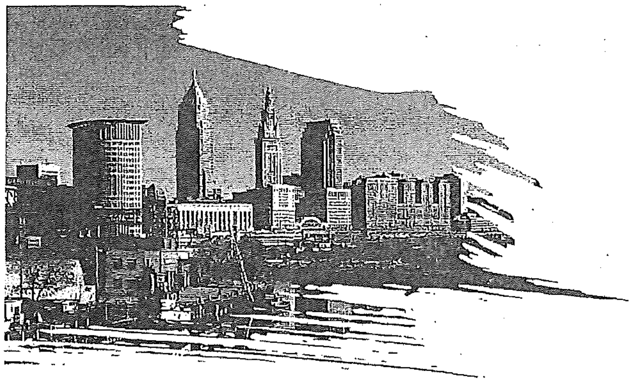


Total vacancy



Average asking rents ($/s.f.)



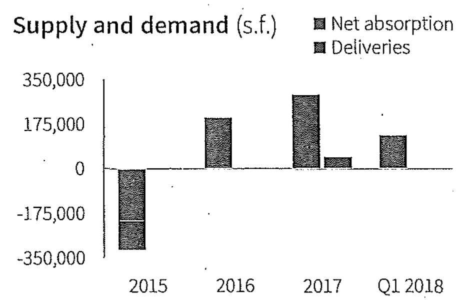


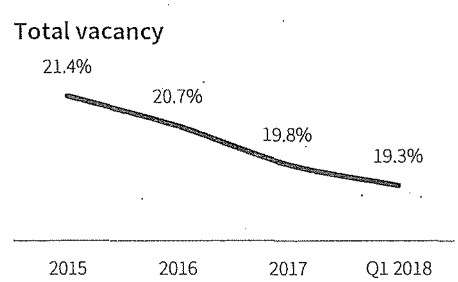
Cleveland

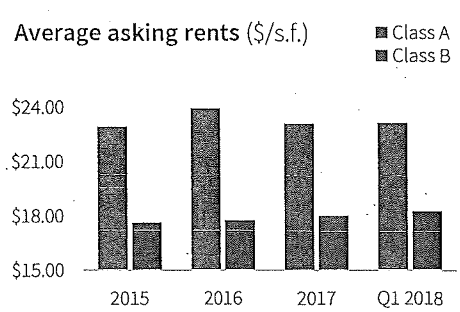
Trends to watch in 2018: Spec construction, investment sales, HQ expansions and downtown's renaissance

- More than 300,000 square feet of speculative office space will hit the market this spring. Preleasing currently stands around 50.0 percent.
- Planned moves by Forest City, NRP, Electronic Merchant Systems and others will tighten vacancy downtown, giving landlords more leverage.
- Supply and demand will be balanced in 2018. Vacancy will end the year around 19.0 percent with rent gains between 1.0 and 3.0 percent.

Fundamentals	Forecast
YTD net absorption	133,236 s.f. ▲
Under construction	306,000 s.f. ▼
Total vacancy	19.3% ▶
Average asking rent (gross)	$19.35 p.s.f. ▲
Concessions	Stable ▼







More than 300,000 square feet of speculative office space is set to deliver in the second quarter of 2018. This is an extraordinary amount of new product for the Cleveland market, which hasn't seen any speculative office development since 2013 when the Ernst & Young Tower opened in the Flats. The new office space is split between four developments, two in Midtown and two in the East submarket. The two buildings in Midtown, Link 59 and the Phoenix building, are being developed by Hemingway. While in the East submarket, the Van Aken and Pinecrest projects are being developed by RMS and Fairmount, respectively. These developments are roughly 50.0 percent preleased and we expect commitment levels to rise in the near future as these developments open for business and tenants are able to tour the buildings.

While tenants are being presented with new options in the suburbs, options downtown are dwindling, and vacancy in the city center is set to get even tighter this spring. Forest City is preparing to relocate its headquarters into 148,000 square feet at Key Tower. The move will represent an upgrade for Forest City and the space it leaves behind will be converted to residential use. In addition, downtown is preparing to welcome two new tenants from the suburbs. NRP leased 41,000 square feet at the Halle building and Electronic Merchant Systems will move into 45,000 square feet at 250 W Huron.

Outlook

Employment growth and office demand will continue in positive territory in 2018. However, with 300,000 square feet of speculative office space set to hit the market, we see vacancy ending the year relatively unchanged around 19.0 percent. Demand will remain weighted towards Class A assets, as tenants are increasingly willing to pay a premium for brand visibility, amenities, and operational efficiencies. Rents will continue to appreciate gradually in the 1.0 to 3.0 percent range as the market tightens and owners reposition assets.

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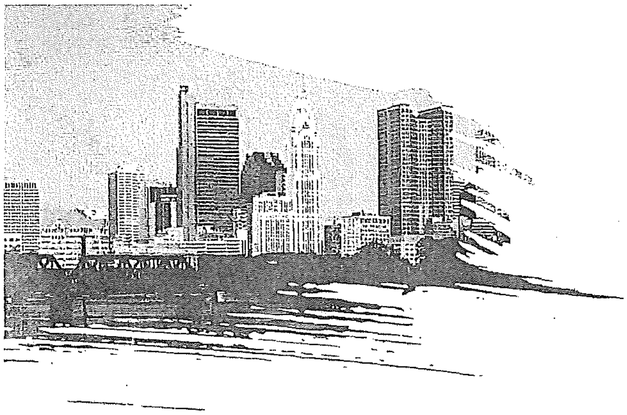

Columbus

Demand for premium space apparent throughout market

- Class A demand continued into the first quarter of 2018 with 140,725 square feet of net absorption
- New product in New Albany and Polaris saw over 90,000 square feet of leasing activity
- An influx of premium space is set to hit the market due to an abundance of future speculative construction

Class A demand continued into the first quarter of 2018 with 140,725 square feet of net absorption. Leasing activity was spread throughout the market, most notably in premium CBD space and suburban submarkets like New Albany and Polaris. Roughly 55,000 square feet was leased at the Huntington Center, including 47,000 square feet on the 13th and 14th floors by CoverMyMeds. Availability in the Arena District also remains tight as vacancy is just 2.4 percent despite negative absorption in the first quarter.

Leasing velocity in speculative product, as well as premium existing product, remains a market driver. Over 190,000 square feet of total leasing activity occurred in New Albany, including the completion of a 56,000-square-foot building on Walton Parkway pre-leased by EASi. In Polaris, Anthem relocated to 35,000 square feet at the recently delivered Pointe at Polaris. The flight to quality has been apparent in recent years; Class A vacancy has dropped 2.0 percent since 2013 despite over 1.0 million square feet of speculative deliveries. In that time span, net absorption in Class A product has accounted for 74.3 percent of total absorption in the market.

Outlook

With the number of planned projects throughout the region growing by the day, JLL is currently tracking up to 3.0 million square feet of Class A speculative product expected to deliver in the next five years. this amount of new inventory will likely lead to a consistent rise in total vacancy as more projects come to fruition. With that said, rental rate appreciation could soften as landlords reposition assets and availability within amenity-rich submarkets rises. Large blocks of space may become available within older product, providing a potential strategy for the high number of scaling companies in the region: plan for future growth by locating in older inventory that ensures space that is both affordable and sizable.

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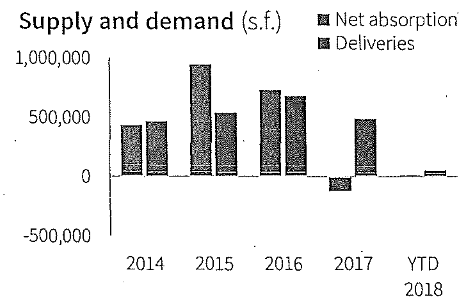
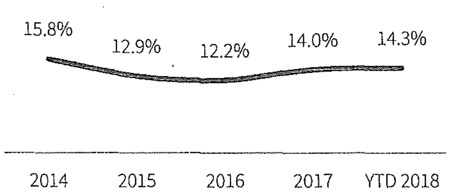
Fundamentals	Forecast
YTD net absorption	10,118 s.f. ▼
Under construction	842,000 s.f. ▲
Total vacancy	14.3% ▲
Average asking rent (gross)	$19.89 p.s.f. ▲
Concessions	Stable ▶

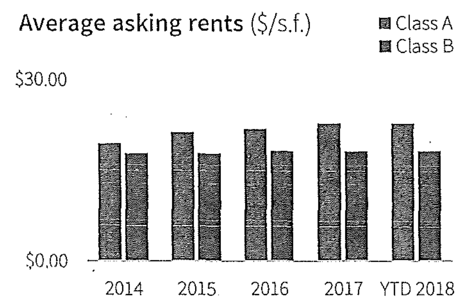
Supply and demand (s.f.)

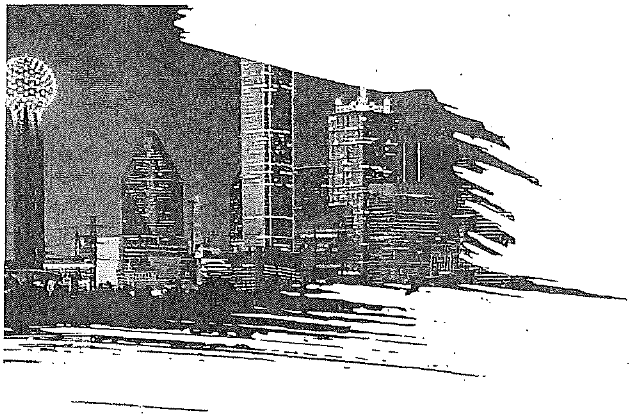


Total vacancy



Average asking rents ($/s.f.)





Dallas-Fort Worth

Big users continue to drive market-wide demand

- Liberty Mutual adds 5,000 jobs and 1.1 million s.f. to Far North Dallas with several more large occupiers following suit
- Rent growth slows as new speculative supply outpaces demand
- As buildings increase in value, rising operating expenses will be a major theme moving forward

As we enter the eighth year of this real estate cycle, Dallas-Fort Worth has shot to the top of the most in-demand office markets in the country. Despite the fact that rental rates are reaching 15% above their prerecession highs and unemployment is closing in on 3%, the cost to do business in DFW still remains at least 20% cheaper than the top coastal cities. The DFW office market has accommodated this demand by delivering over 20 million s.f. in the last three years with another 7.5 million underway. Preleasing activity appears healthy with 69% of the space under construction already spoken for. However, when factoring out single-tenant, build-to-suit projects, this figure drops to 35%. While this is not a new trend in DFW, its effect is felt as rental rate growth begins to wane.

Historically concentrated in Far North Dallas, these large build-to-suit projects are beginning to appear elsewhere in the market: Las Colinas saw Pioneer Natural Resources break ground on its 1.1 million s.f. campus at Hidden Ridge and Signet Jewelers moved into its 225k s.f. building in Cypress Waters. Meanwhile, Mercedes Benz Financial (200k s.f.), American Airlines (1.8m s.f.) and Charles Schwab (500k s.f.) recently broke ground on the Fort Worth side of the market.

Outlook

Expect rising occupancy costs in the coming quarters to be primarily driven by higher operating expenses as appraised property values – and therefore taxes – continue to increase. To accommodate for this, base rental rate growth could further slow, especially in Uptown. While absorption will continue to be driven by large users occupying new campuses, we are currently tracking over 100 requirements in in the 25k – 100k s.f. range, so we are optimistic that the abundant new multi-tenant spec space will get chipped away at throughout the coming quarters, even in the absence of another mega-deal.

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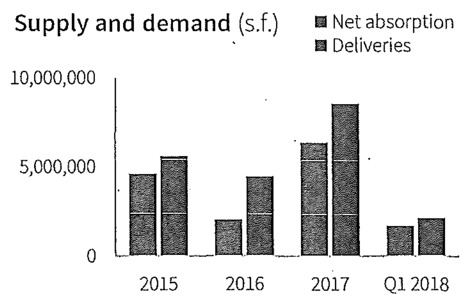
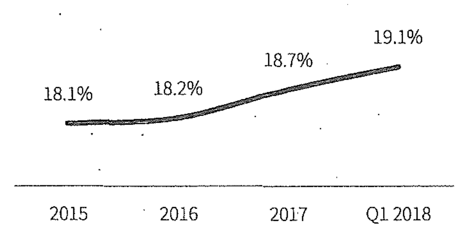
Fundamentals	Forecast
YTD net absorption	1,736,416 s.f. ▲
Under construction	7,513,916 s.f. ▼
Total vacancy	18.7 % ▶
Average asking rent (gross)	$26.64 p.s.f. ▲
Concessions	Stable ▲

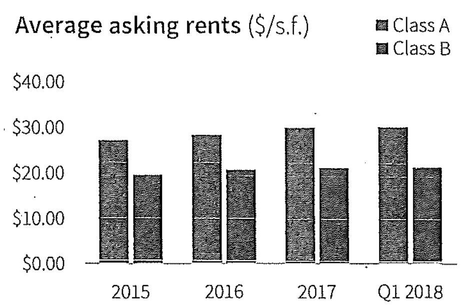
Supply and demand (s.f.)

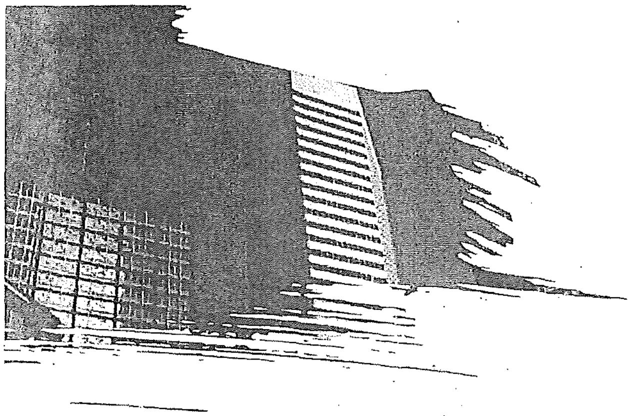


Total vacancy



Average asking rents ($/s.f.)





Denver

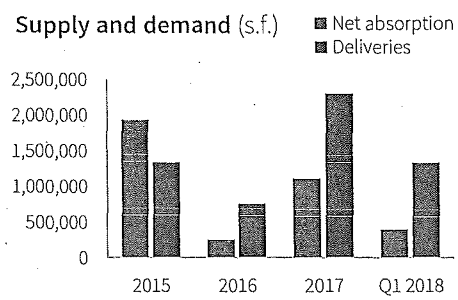
New construction in 2018 is expected to shatter the 15-year record

- New construction, at 49.5 percent preleased, has caused an increase in vacancy. As tenants occupy space later in the year, rates will taper.
- Sublease space continues to lease up, especially in the CBD where over 200,000 square feet of sublease space was absorbed.
- Rental rate growth is being driven by new construction and increased interest in hot neighborhoods like LoDo, RiNo and Platte Valley.

Fundamentals	Forecast
YTD net absorption	408,154 s.f. ▲
Under construction	2,683,147 s.f. ▼
Total vacancy	15.2% ▼
Average asking rent (gross)	$29.50 p.s.f. ▶
Concessions	Rising ▲

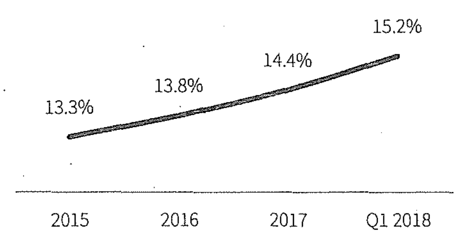
Largely driven by new construction, direct and total vacancy increased 90 basis points and 80 basis points, respectively. This increase also accounted for some tenant contraction, however there are a handful of leases in the queue set to occupy later this year. Seven properties totaling 1,338,124 square feet delivered this quarter: Canyon 28 and 3107 Iris in Boulder, The Yard at Denargo Market and Zeppelin Station in Midtown Suburbs, Atria in Northwest, INOVA Dry Creek 2 in Southeast Suburban and 1144 Fifteenth in West CBD. Together these properties are 44.0 percent preleased.

Supply and demand (s.f.)



Newly delivered product, paired with projects currently under construction asking near-record rental rates, caused a 2.3 percent quarter-over-quarter and 6.0 percent rate growth over the past year, market-wide. Rate growth is cut in half when looking only at commodity buildings constructed between 1970 and 1990. New development is occurring throughout the market, but is largely centered in hot neighborhoods like LoDo, RiNo and Platte Valley, where 65.1 percent of all construction is taking place. With new office product comes more retail and restaurant space, inviting a wide range of tenants to lease space.

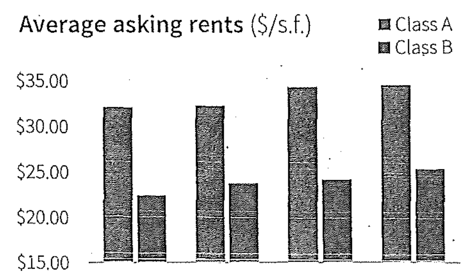
Total vacancy



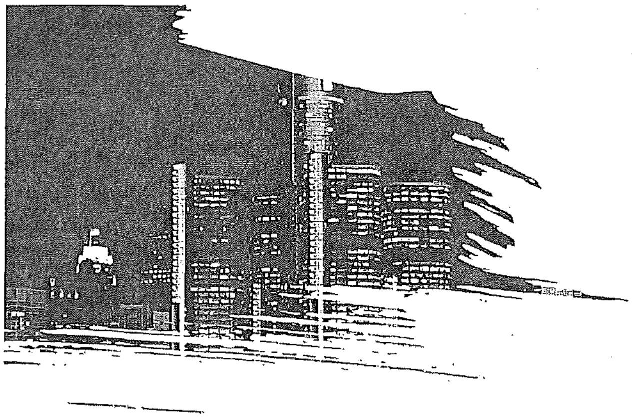
Outlook

Denver continues to land on the short-list for users and investors alike. Unemployment has slowly inched upward to 3.2 percent in January 2018 after hanging out below 3.0 percent for much of 2017. The economy remains strong, but with rising availability in parts of the market, users are gaining a better hand at negotiating deal terms. Many investors are itching to get their foot into the Denver office market, and are willing to pay for it. Last year, a high-water mark was set with the sale of 1401 Lawrence at $724 per square foot. Newer buildings in prime locations could fetch even more this year.

Average asking rents ($/s.f.)



For more information, contact: Mandy Seyfried | mandy.seyfried@am.jll.com



Detroit

Overall vacancy creeps up amid quiet first quarter

- Vacancy sees slight uptick in Q1, as leasing activity is muted and large sublease space became vacant.
- Rent growth has plateaued a bit as the market awaits new supply in both urban and suburban submarkets.
- Southfield sees some notable leasing activity after losing a few notable tenants last year including Microsoft and Barton Malow.

Fundamentals	Forecast
YTD net absorption	-75,203 s.f. ▲
Under construction	950,528 s.f. ▲
Total vacancy	18.9 % ▼
Average asking rent (gross)	$19.16 p.s.f. ▲
Concessions	Falling ▼

Detroit's office market picked up where it left off at the end of 2017, with buzz and optimism continuing downtown. Average asking rents are currently $19.16 per square foot. Total vacancy is currently 18.9 percent, a 1.4 percent drop from this time last year. There were a few notable announcements in the first quarter, such as Ford's plans to relocate their autonomous vehicle strategy team, "Ford Factory," in Corktown. In the suburbs, auto supplier Auria Solutions opened their first North American Headquarters in Southfield, while ConcertoHealth moved their regional office from Detroit to a 15,493-square-foot space in Southfield. Ponyride, one of Detroit's oldest coworking operators, announced their intention to sell their 30,000-square-foot building in Corktown while relocating operations to New Center. Meanwhile, companies like Bernard Financial and Doner are taking small spaces in coworking locations to enhance their downtown presence.

On the investment sales front, two office buildings in Auburn Hills traded for a combined $27.7 million as part of a more extensive, 13-property portfolio. Dan Gilbert's Bedrock Real Estate announced the yet another addition to their downtown portfolio, a $5.0 million purchase of the 63,000-square-foot office building at 201 W Fort Street.

Outlook

2018 is poised to be another great year of growth for Detroit's office market. With transformational developments underway like the Hudson's site downtown, and others in the pipeline like the Monroe Block and the to-be-determined jail site development, the buzz downtown is palpable. It will be interesting to see how the new Class A development impacts rents downtown and whether or not tenants will move outside of the CBD if they begin to be priced out.

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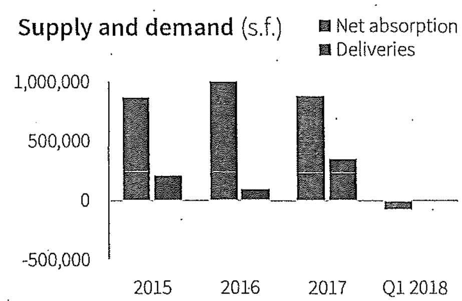
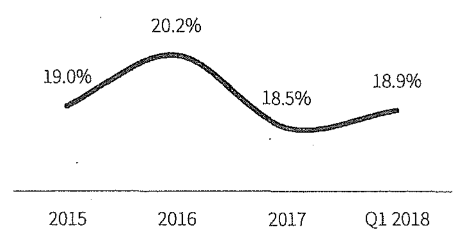
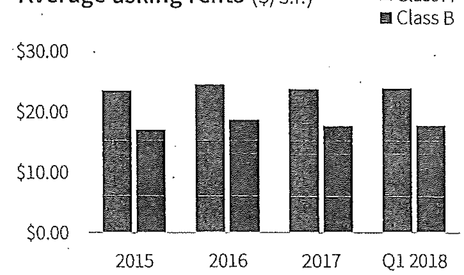
Supply and demand (s.f.)

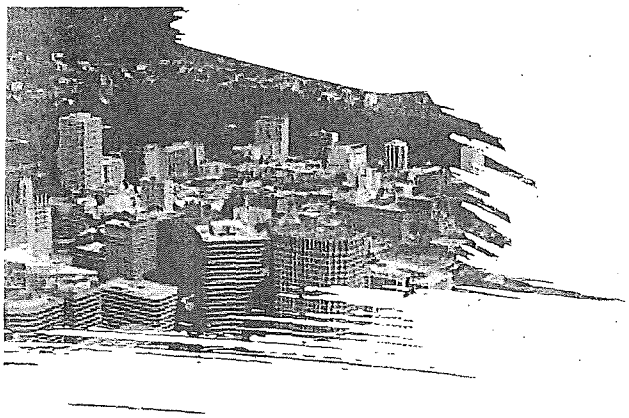


Total vacancy



Average asking rents ($/s.f.)





East Bay I-680 Corridor

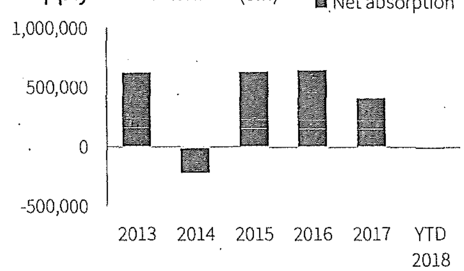
Strong demand along the I-680 Corridor makes for a well-rounded market

- Capital markets activity continues to drive rent momentum in transit-served submarkets.
- Touring activity has been strong for larger users in the South 680 Corridor, but recent large block availabilities in the North 680 Corridor opens up the market.

Fundamentals

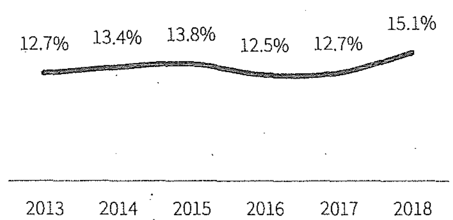
YTD net absorption	-10,698 s.f.
Under construction	0 s.f.
Total vacancy	15.1%
Average asking rent (gross)	$3.11 p.s.f.
Concessions	Falling

Supply and demand (s.f.)



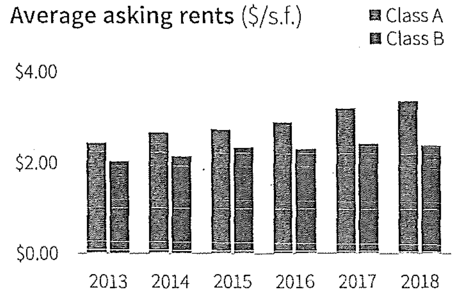
Activity is strong on both ends of the I-680 Corridor. Demand in the north end is being driven particularly by small and midsize FIRE tenants, with some large user activity. Cerus Corporation leased 65,000 square feet at 1220 Concord Ave, and Arch MI renewed 28,000 square feet at 3003 Oak Road. In the Tri-Valley, large users 20,000 square feet and above are active in Class A projects like Park Place, Rosewood Commons, and Bishop Ranch. The market has seen a steady stream of interest from companies out of Oakland and San Francisco, while exhibiting healthy organic activity as well. As Bay Area commutes worsen and housing prices rise, decision makers are intent on seeking locations near BART and their employees, and the East Bay's booming residential scene offers more affordable options relative to major Bay Area markets.

Total vacancy



Investment activity and relatively low Class A vacancy resulted in rent increases, as new owners have plans to make significant improvements to their projects. Growers Square was purchased by Rockwood Capital in March, trading for $95.5 million, or $495 PSF. Select tenants in core submarkets are experiencing "sticker-shock" as renewals are considered, causing a slight shift in demand towards the Shadelands or Concord where pricing is more affordable. On the other hand, some tenants are prioritizing location and access to amenities by downsizing or relocating within Downtown Walnut Creek.

Average asking rents ($/s.f.)



Outlook

The outlook looks promising to both investors and tenants with a steady flow of organic and new demand, coupled with a booming residential market. The East Bay should continue to see growth in the midst of a tightening Bay Area office market.

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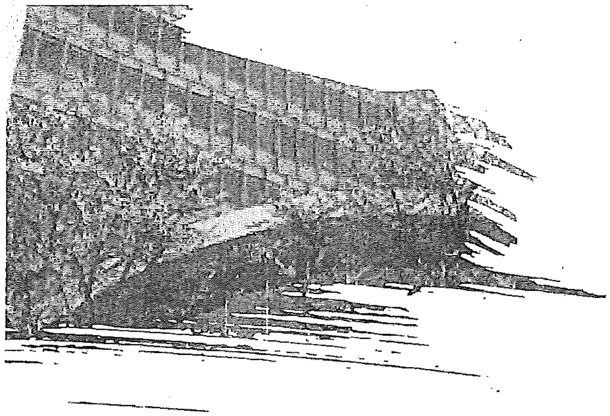
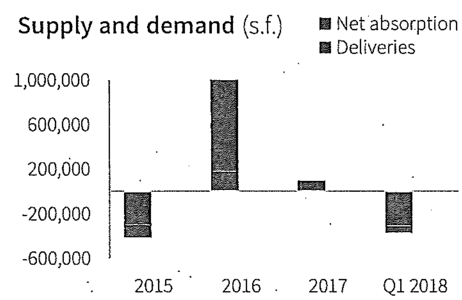


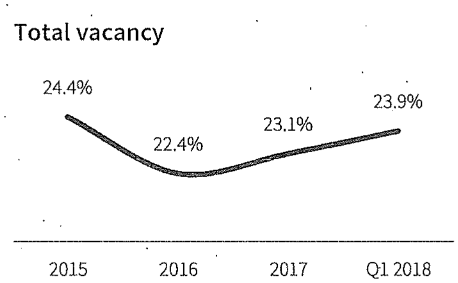
Fairfield

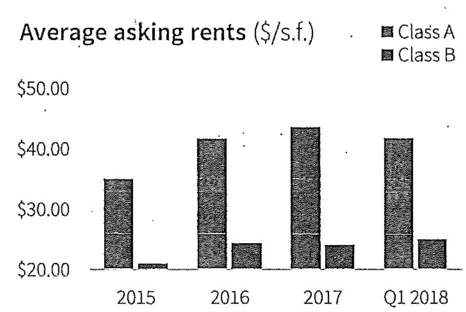
Stable market continues to be shadowed by large blocks of available space

- The vacancy rate of 23.9 percent continued to rise toward a five-year highpoint
- Net absorption numbers are skewed due to the removal of approximately 300,000 square feet of office inventory
- Large blocks of available space continue to headline the market

Fundamentals	Forecast
YTD net absorption	-374,025 s.f. ▲
Under construction	0 s.f. ▶
Total vacancy	23.9% ▲
Average asking rent (gross)	$36.55 p.s.f. ▼
Concessions	Rising ▲







Since year-end 2015, Fairfield County's vacancy rate has fluctuated between 22.0 and 25.0 percent. It currently sits at 23.9 percent, 0.8 percentage points above 2017 year-end. Based on current market trends, expect vacancy rates to hover above 2017's fourth quarter number. While the first quarter's absorption total seems low at first glance, the total was negatively affected by the conversion of office space inventory into medical and educational uses.

Among some of the major deals that took place throughout the quarter were Computer Associates and Webster Bank each taking about 23,000 square feet at 200 Elm Street in Stamford. AQR Capital Management and Wells Fargo leased 41,000 and 10,000 square feet at 1 Greenwich Plaza and 1700 E Putnam Avenue respectively, in Greenwich.

The market continues to be affected by large blocks of available space with more to follow. Charter Communications is expected to vacate 345,000 square feet of office space at 400 Atlantic Street in downtown Stamford in the near future. The cable services provider is will construct a new headquarters in the Harbor Point neighborhood starting late 2019. Although the space is not yet reported as vacant, adding another large chunk of available space could potentially have a notable impact on the Stamford market.

Outlook

Due to the transitional market in terms of leasing activity, landlords are actively competing to attract companies currently looking for space in the market. Concession packages are expected to become more tenant favorable as the year progresses, while rental rates are expected to remain steady over the course of 2018. With that said, leasing activity is still expected to remain slow throughout the year.

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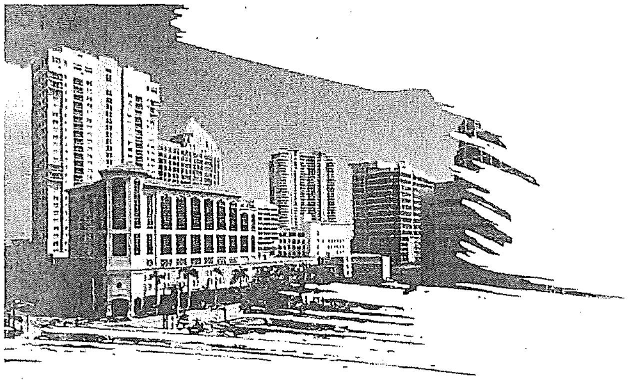

Fort Lauderdale

Developers gearing up for new construction even amidst a slow down in market trends

- Trends are shifting as the rate of growth has begun to slow, although it remains positive.
- Construction costs are rising alongside changing trends in office requirements, which is leading to an uptick in tenant improvement allowances.
- The development pipeline is growing with numerous large projects set to disrupt the market.

Broward County saw its strongest growth in terms of vacancy decline this cycle in 2016 – direct vacancy fell 240 basis points to 13.1 percent. Since then, over the past 15 months, vacancy has declined a total of 140 basis points to 11.7 percent. So, while the market continues to tighten, the pace of growth has clearly slowed.

Alongside this trend, concession packages, specifically tenant improvement expenses, are growing. Construction costs have increased and the changing look of office space is making old space obsolete. Tenants are favoring more open space with glass walls and smaller interior offices. For example, in Downtown Fort Lauderdale, the top floor of 450 East Las Olas has sat vacant for the past year after being vacated by Huizenga Holdings. While the build-out was top-of-the-line at one time, the large offices would not appeal to many tenants touring the market today and the space has since been white boxed.

Outlook

While the market appears to be leveling off there have been some major expansions and wins in the market. KEMET Corporation is growing its footprint in Downtown Fort Lauderdale by more than approximately 45,000 square feet (the company is relocating from Tower 101 to 1 East Broward) and Spaces recently leased 32,000 square feet in Las Olas Square, also Downtown. While these gains have yet to be realized, they should positively impact the market overall. Further, the development pipeline is swirling with activity as numerous developers appear to be making plans to break ground on major projects. This includes, but is not limited to, 201 East Las Olas and the 550 building in Downtown Fort Lauderdale, as well as The Edison in SW Broward. Additionally, Miramar Tech Center, a 56,700-square-foot building in SW Broward is currently under construction and expected to be delivered later this year. These projects are set to disrupt the market, which has only seen 307,000 total square feet delivered since 2008. Further, since much of the growth in the county comes from the organic growth of existing companies, these new buildings may thrive, however, they will likely leave holes in the older product when they leave that could prove difficult to lease up.

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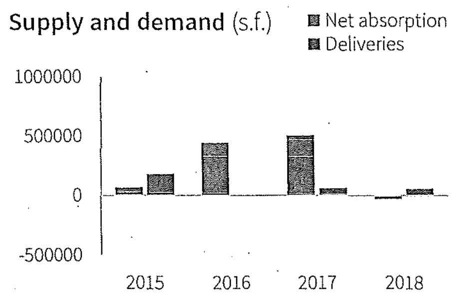
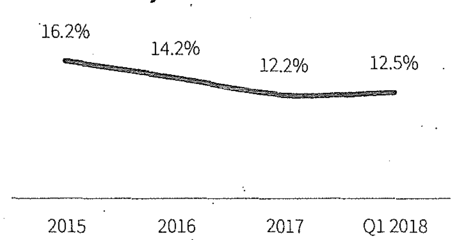
Fundamentals	Forecast
YTD net absorption	-30,100 s.f. ▲
Under construction	84,100 s.f. ▲
Total vacancy	12.5% ▶
Average asking rent (gross)	$31.45 p.s.f. ▲
Concessions	Stable ▶

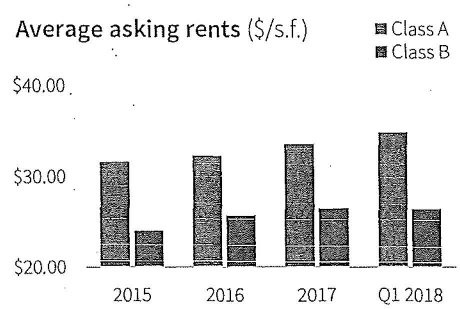
Supply and demand (s.f.)

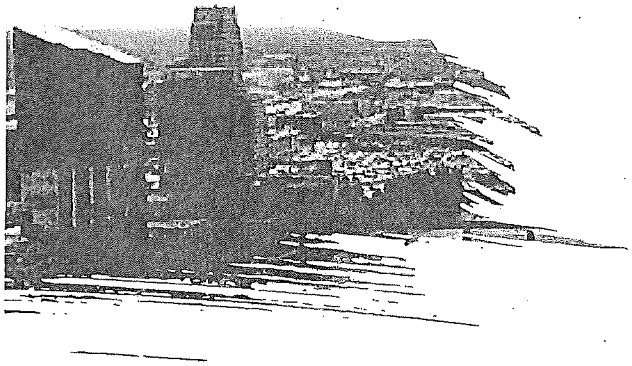


Total vacancy



Average asking rents ($/s.f.)





Grand Rapids

Rent growth plateaus as Grand Rapids office market stabilizes and awaits new supply

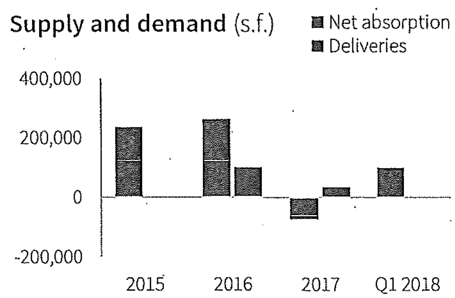
- Rent growth has slowed and low vacancies across the metro continue, as the market awaits new office deliveries.
- The burgeoning West Side of downtown remains a hot spot for tenants and development, offering an attractive alternative to downtown.
- New construction and renovations continue to ramp up, with multiple major developments underway downtown.

Fundamentals	Forecast
YTD net absorption	99,317 s.f. ▲
Under construction	174,000 s.f. ▲
Total vacancy	11.1% ▶
Average asking rent (gross)	$17.76 p.s.f. ▶
Concessions	Stable ▶

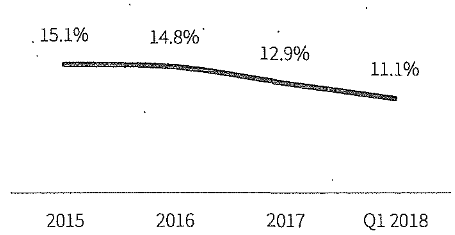
The Grand Rapids office market has continued its positive trend into the first quarter of 2018. Overall market vacancy is at 11.1 percent and the average asking rent is currently $17.76 per square foot, a 7.6 percent increase year-over-year. Leasing activity was a little slower than seen in previous quarters, with no major deals taking place. A few moves of note include Honigman expanding their space at 300 Ottawa by moving to the fourth floor to occupy 10,000 square feet and Bodman moving into 99 Monroe after previously occupying Regus space. There is significant sublease availability in the downtown submarket compared to recent years, driven mostly by the increase in rents seen over the past few years, as well as a lack of parking, sending some tenants packing.

On the construction front, major renovations at the Blodgett Building at 15 Ionia are underway. Consumers Energy is planning to build a new $20 million 40,000-square-foot headquarters set to deliver in 2020 at 501 Alabama Ave NW on the burgeoning west side of downtown. First Companies has picked up more land along the East Paris corridor for a potential medical office development. Site work has begun on the Studio Park development downtown, which is set to include 40,000 square feet of Class A office space, with groundbreaking expected next quarter.

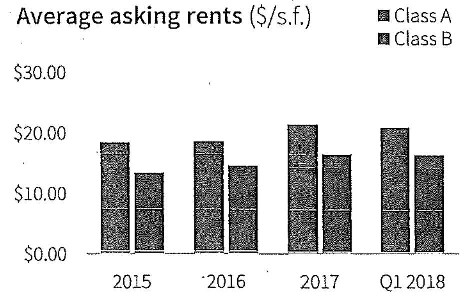
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Outlook

After a few years of steady growth, rents seems to have plateaued, while vacancies have stabilized. Conditions are likely to remain steady until the new Class A supply begins to deliver. With Warner Tower, the Meijer Development and now Studio Park, there is significant office development underway. The west side remains a hot market for both leasing and development activity, and we expect to see some tenants leaving downtown to explore opportunities in cheaper, trendier submarkets.

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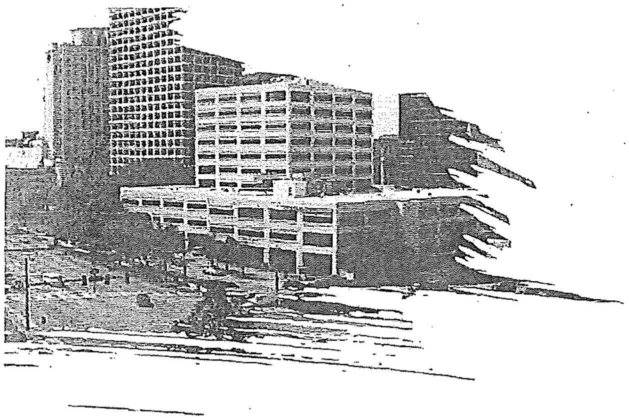

Hampton Roads

Despite a first-quarter pause, demand and activity continue to increase

- Although vacancy rose and absorption declined during the first quarter, a solid economy continues to drive demand.
- Sales pricing is steady for now, but signs of lower cap rates appear as investors look to secondary and tertiary markets for better yields.
- Rising local economic growth rates and higher defense spending should combine to raise demand in the upcoming year.

The rising absorption and declining vacancy rates of 2017 reversed slightly during the first quarter, with overall vacancy up 130 basis points and negative net absorption of almost 97,000 square feet. Both national and local economic indicators remain quite positive, however, suggesting that these results reflect a pause in the leasing market's momentum rather than an overall change in direction. Civilian employment is growing, cargo tonnage at the Port of Virginia sets new records most months, tourism revenues keep rising and local defense spending is projected to reach or exceed its 2011 peak.

In general, non-medical office cap rates have remained steady over the past year, but there was a hint of decline in a couple of smaller building sales in the first quarter. Despite recent increases, interest rates remain low, and yields remain well above what primary office markets offer. As investor attention shifts to secondary and tertiary markets due to primary market price inflation, Hampton Roads should see more interest and higher sale prices.

Outlook

As a recent *Washington Post* article stated, "It's a good time to be a defense contractor." Adoption of a two-year budget agreement with significant increases in discretionary defense spending is good news for the shipyards, subsystems manufacturers and other contractors throughout the region. Statistics do not yet reflect this demand, but brokers report that contractors are touring more and requesting longer lease terms than the year-to-year contracts they required during sequestration. This is especially important for Peninsula submarkets, where relocation of government-leased space back on base coupled with contractor reductions has driven vacancy rates above historic norms.

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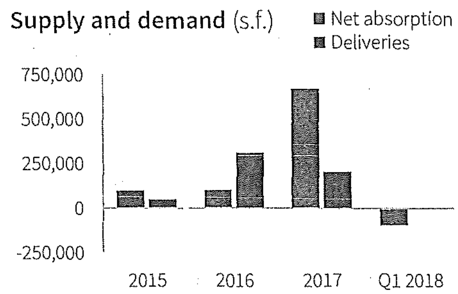
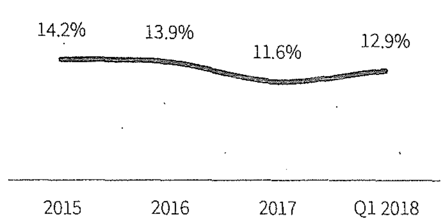
Fundamentals	Forecast
YTD net absorption	-96,703 s.f. ▲
Under construction	379,600 s.f. ▶
Total vacancy	12.9% ▼
Average asking rent (gross)	$19.70 p.s.f. ▲
Concessions	Stable ▶

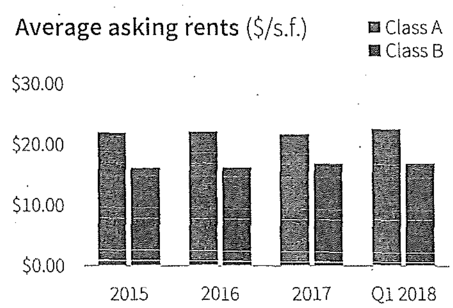
Supply and demand (s.f.)

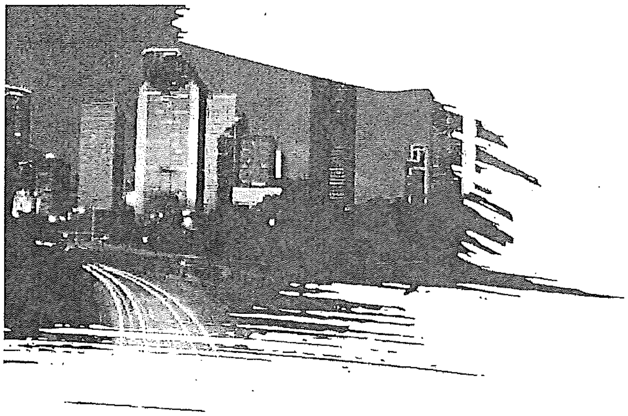


Total vacancy



Average asking rents ($/s.f.)





Houston

Continued oversupply of space looms as tenant concessions reach their peak

- After rising steadily over the past three years, concessions such as free rent and tenant improvement allowances have begun to plateau, yet remain at elevated levels.
- Sluggish tenant demand to start the year pushes vacancy up to 23.8%, which represents the thirteenth consecutive quarter of rising vacancy.
- The Galleria submarket was one of the few bright spots in Q1, where fundamentals showed improvement.

Fundamentals	Forecast
YTD net absorption	-1,288,450 s.f. ▲
Under construction	1,654,682 s.f. ▶
Total vacancy	23.8% ▶
Average asking rent (gross)	$30.80 p.s.f. ▲
Concessions	Stable ▶

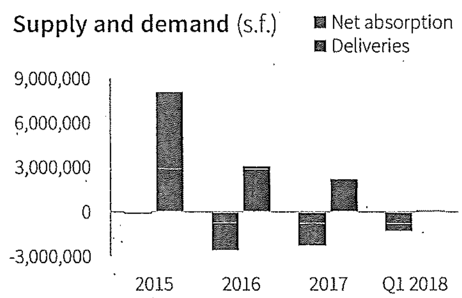
Since the fourth quarter of 2014, the Houston office market has been characterized by rising vacancy rates, flattening asking rents, growing concession packages, and a glut of sublease space. While vacancy rates and asking rents maintained these trajectories through the first quarter of 2018, concessions appear to be leveling off as more tenants engage the market to take advantage of favorable lease terms. Free rent in the neighborhood of 12 to 15 months on a ten-year deal are not uncommon for Class A space as well as tenant improvement allowances north of $50.00 per s.f.. However, such generous concession packages will not remain indefinitely, particularly as the development pipeline tapers off, sublease space is absorbed, and the newest, most efficient space is leased.

Despite the continued uptick in vacancy, lack of growth in asking rents, and oversupply of sublease space across the market, there was one submarket that bucked each of the aforementioned trends. The Galleria was the only submarket in Houston to experience a decrease in vacancy, an increase in asking rents, and a decrease in sublease space. Additionally, leasing activity in the submarket improved by nearly 60.0% quarter-over-quarter, thanks to Apache's 515,000 s.f. renewal at Post Oak Central and several full-floor deals.

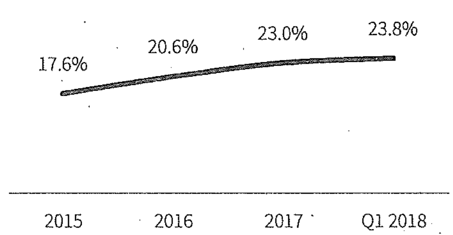
Outlook

Although there are signs of improving market conditions ahead as seen by flattening concession packages and strong performance in some areas in the first quarter, the Houston office market has a long way to go before it returns to a balanced market. As such, we expect market conditions to continue to favor tenants through the remainder of 2018 as leasing activity remains muted and the market absorbs the oversupply of space which has pushed vacancy from 14.9% in YE 2014 to 23.8% in Q1 2018.

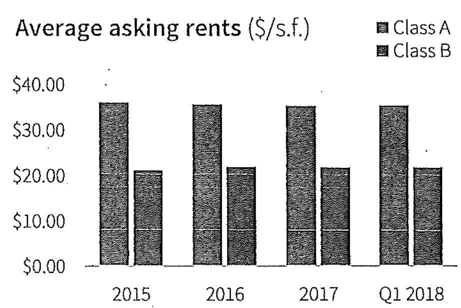
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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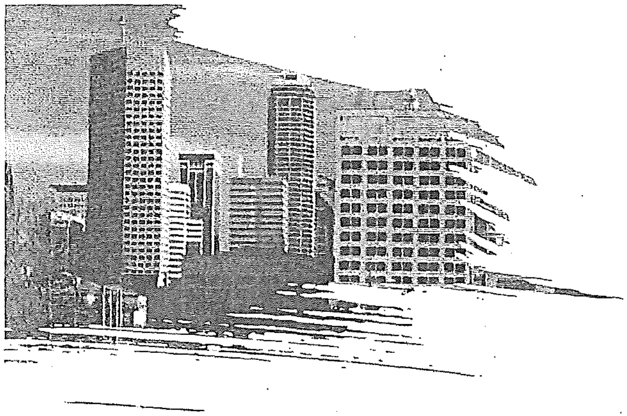


Indianapolis

After a slow end to 2017, Indianapolis starts the new year off strong

- Nearly all Indianapolis submarkets posted occupancy growth to start off 2018. This is the most growth in a single quarter since Q2 2016.
- Five sales occurred, two of which involved investors new to the Indianapolis office market.
- The market is in position to continue growing this year, but upcoming vacancies could limit growth in the long term.

Fundamentals	Forecast
YTD net absorption	168,279 s.f. ▶
Under construction	80,000 ▲
Total vacancy	17.4% ▶
Average asking rent (gross)	$20.33 p.s.f. ▲
Concessions	Stable ▶

The Indianapolis office market started off 2018 with a bang. The metro posted 170,000 square feet of net absorption, the highest amount of growth in a single quarter in almost two years. All of the five major submarkets had positive absorption, with the Northeast leading the way with 88,000 square feet. Thanks to this growth, the vacancy rate dropped by 40 basis points in the last three months.

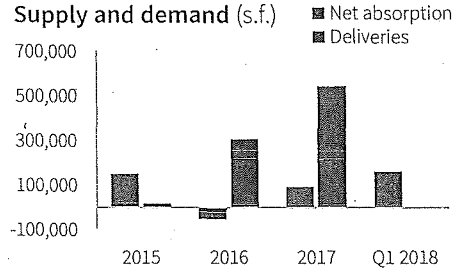
Indianapolis continues to draw investors as five sales occurred this quarter. The top two featured buyers new to the Indianapolis office market. BMO Plaza was sold to Black Salmon Capital and Redico LLC. This is the fifth Skyline property to trade hands in the past two years. Two and Three Meridian Plaza was purchased by DRA Advisors and M & J Wilkow. This continues a streak of office parks hitting the market, with more to follow in the coming weeks.

The upward trend of growing rental rates is continuing this year, rising by 1.4 percent in the past 12 months. New ownership and new construction is still pushing up rates, with some buildings nearing the $30 per square foot mark.

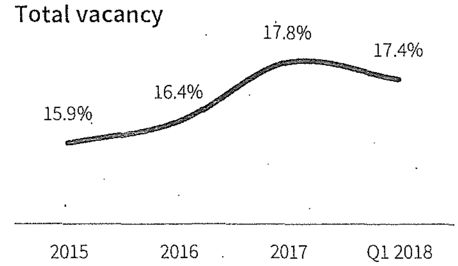
Outlook

Indy is in position to maintain growth this year. The market will get a boost when several new leases occupy next quarter. Additionally, 2.1 million square feet of active requirements are looking for new office space. However, several large tenants are vacating in 2019. Anthem announced it will move out of it's long-term headquarters on Monument Circle. KAR Auction services will be leaving its building in Hamilton Crossing for a new built-to-suit headquarters just a few blocks south along Meridian Street. Still, as we experienced last year, these large blocks present opportunities for tenants to locate in historically-constrained areas like Monument Circle and the Meridian corridor.

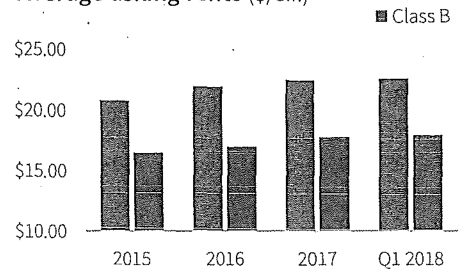
Supply and demand (s.f.)



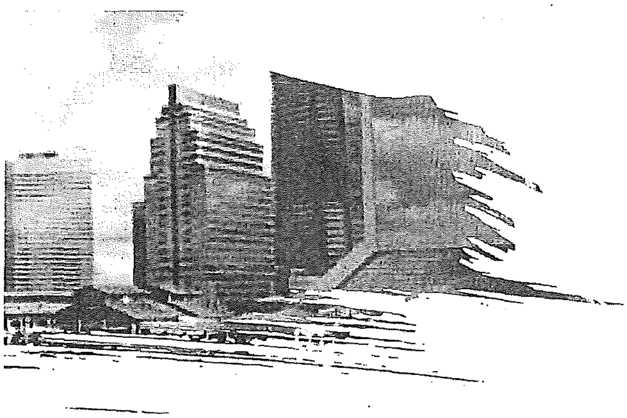
Total vacancy



Average asking rents ($/s.f.)



For more information, contact: Mike Cagna | mike.cagna@am.jll.com
Brianna Marshall | brianna.marshall@am.jll.com



Jacksonville

Multiple shifts across the market, as large users signal interest in new development

- New development becomes a popular option for large users, despite large availabilities.
- Two large deals done downtown, sparking landlord interest.
- Large availabilities open up in the suburbs, as multiple parties look to exit.

Jacksonville is seeing an unusual turn in development activity. VanTrust decided to build a 160,000 square feet speculative office building on Gate Parkway in 2017, despite multiple large availabilities on the market. Availity leased most of the development shortly after breaking ground. Now, McKesson and Web.com have each signed BTS deals for 125,000 square feet and 220,000 square feet, respectively, and are expected to break ground in Q1 and Q2 2018. These three projects are all occurring near the St. John's Town Center at the JTB/295 intersection, a prime office submarket.

Downtown Jacksonville has multiple large blocks of space available, proving tenant leverage in negotiations. Two large tenants downtown just signed deals, Landrum Brown and Smith, Hulsey & Busey. Landrum signed a lease to move into the top floor of the Bank of America Tower, while Smith, Hulsey & Busey is expected to move to Wells Fargo Center in Q2 2018. Law Firms such as Smith, Hulsey & Busey are prominent users on the Jacksonville Northbank, due to the proximity of the Federal and State Courthouses.

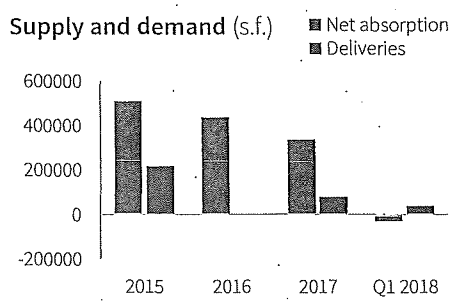
Additionally, several large availabilities have opened up in the suburbs. CSX has moved out of 56,460 square feet in Parkway Place in order to sublet, while Art Institute has closed, leaving 47,454 square feet available within Deerwood Center. Fanatics has also left Southpoint Parkway Center, leaving 49,299 square feet vacant. These shifts have contributed to the substantial negative net absorption reported in the Butler Corridor this quarter.

Outlook

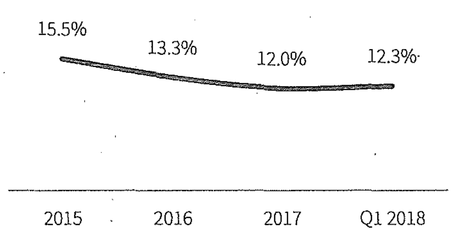
The outlook for Jacksonville is positive. The next three years will each have about 600,000 square feet of lease roll, providing consistent demand into the market. Many of the large negative shifts are from a few players changing business plans, such as CSX.

Fundamentals	Forecast
YTD net absorption	-30,084 s.f. ▼
Under construction	423,700 s.f. ▲
Total vacancy	12.3% ▶
Average asking rent (gross)	$20.00 p.s.f. ▲
Concessions	Stable ▶

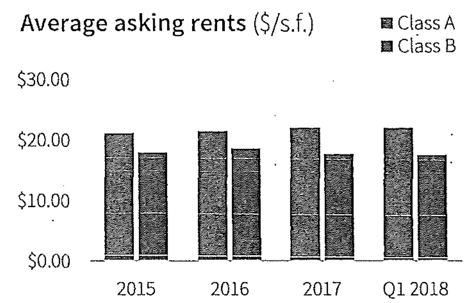
Supply and demand (s.f.)

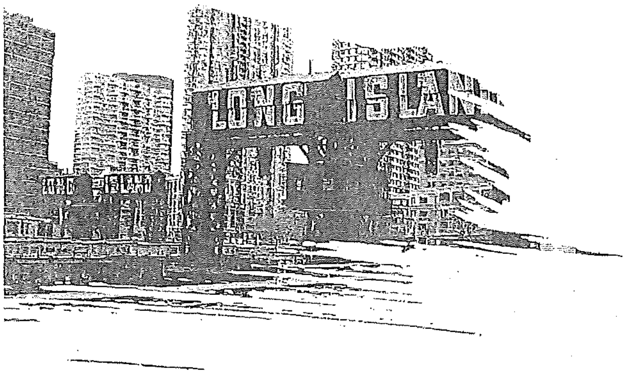


Total vacancy



Average asking rents ($/s.f.)





Long Island

Leasing activity more than doubles since year-end 2017

- Central Nassau attracted the most leasing activity for the third consecutive quarter, capturing nearly half of the top transactions.
- Suffolk County recorded 19,000 square feet of positive net absorption, which was driven by large occupancy gains in Western Suffolk.
- Western Nassau achieved a record low vacancy rate in the first quarter, of 4.4 percent.

The expanding presence of the healthcare sector, driven by aging demographics, continued to shape the Long Island office market. Leasing of large blocks soared in the first quarter after more than 600,000 square feet was absorbed in 2017. This growth was a product of the healthcare sector dominance in Western Nassau, where the historic low Class A vacancy rate of 2.8 percent pushed tenants to seek large block opportunities elsewhere throughout Nassau and Suffolk counties. Leasing activity consisting of deals in excess of 20,000 square feet more than doubled from last quarter, totaling nearly 300,000 square feet. Capturing 46.0 percent of this total was the Central Nassau submarket, where NYU Winthrop Hospital's leasing of 77,000 square feet at 211 Station Road in Mineola marked the largest deal of the quarter.

The trend of medical tenants being the primary driver of demand continued as Catholic Health Services of Long Island took nearly 36,000 square feet at 3 Huntington Quadrangle, and Professional Physical Therapy took 30,000 square feet at 576 Broadhollow Road in Melville. Moreover, Northwell Health is in contract to purchase the former Astoria Bank headquarters at 1 Marcus Ave in Lake Success.

Outlook

Despite heightened demand, vacancy rates and net absorption levels remained stable since year-end 2017 due to limited large block availability. However, large blocks of space entering the Melville market in 2018 are expected to ease supply-side pressures and thus allow for an increase in absorption. As local private sector employment growth increases year-over-year, we will continue to see a trend of financial services tenants looking to expand their back-office operations. Among these this quarter was Sterling National Bank, which expanded 56,128 square feet at 1 Jericho Plaza in Jericho.

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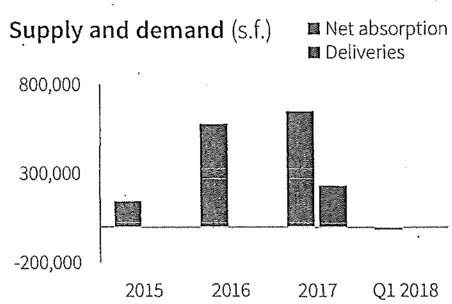
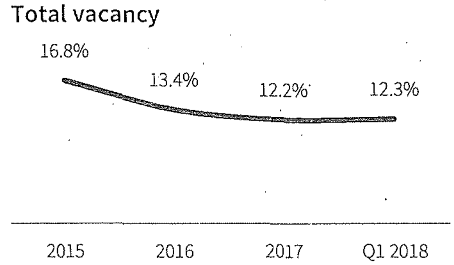
Fundamentals	Forecast
YTD net absorption	-14,862 s.f. ▲
Under construction	0 s.f. ▶
Total vacancy	12.3% ▼
Average asking rent (gross)	$26.02 p.s.f. ▲
Concessions	Falling ▼

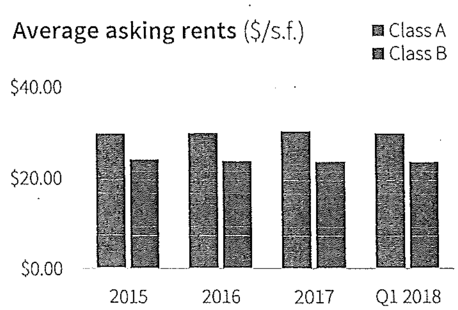
Supply and demand (s.f.)

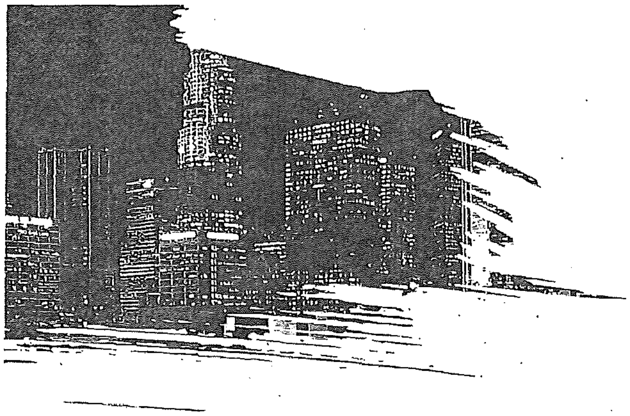


Total vacancy



Average asking rents ($/s.f.)





Los Angeles

Market keeps churning as key industries collide

- Culver City and Playa Vista become the nexus for the connection of tech and media
- The coworking continues to expand rapidly across the region and now encompasses 3.2 million s.f.
- Current M&A activity in entertainment could result in excess office product

Fundamentals	Forecast
YTD net absorption	112,692 s.f. ▲
Under construction	2,159,259 ▲
Total vacancy	14.2% ▶
Average asking rent (gross)	$41.40 p.s.f. ▲
Concessions	Falling ▼

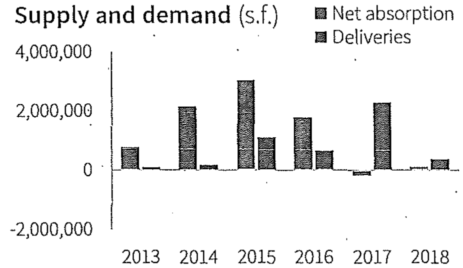
The intermingling of entertainment and technology has produced a handful of new players. Traditional technology companies like Apple, Amazon and Google are expanding their presence regionally as they continue to elevate their standings as content creators. By 2020, these three companies' combined presence will account for over 1 million square feet of office and studio space. Culver City has become the market of choice for this most recent expansion, though Google's future move-in to Playa Vista may bring life back to a market that has recently turned sleepy. The presence of a talented workforce and high-cost of doing business in the Bay Area are often cited as reasons for Silicon Beach's increasing prominence on the tech scene.

The growth of shared workspace continues to impact every submarket in Los Angeles. However, recent new entrants have targeted the entertainment and tech-dense submarkets of Westside and Hollywood. Connecticut-based Working Well Win is anticipated to take the top two floors at the former Barnes & Noble on Third Street in Santa Monica. New York-based Serendipity Labs established its first Los Angeles location, signing for 36,000 square feet in Hollywood. These new names are taking space as WeWork expands its LA footprint, currently with 15 locations throughout the market. These shared workspaces are incubating the next generation of companies, which will eventually grow into established enterprises, spurring future demand for conventional office locally.

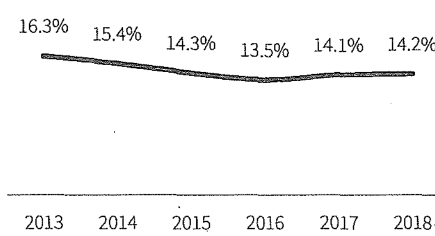
Outlook

With large media and entertainment mergers playing out simultaneously, the entertainment landscape will change. CBS and Viacom are inching closer to a merger. And while not expected to close until later in the year, Disney has announced its plans to acquire 21st Century Fox. All of these companies have a large presence regionally, and the potential for consolidation could create long-term real estate implications for the Westside, Tri-Cities and Hollywood markets.

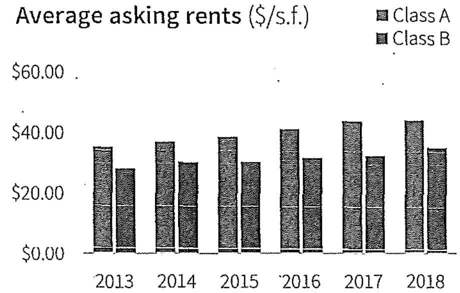
Supply and demand (s.f.)



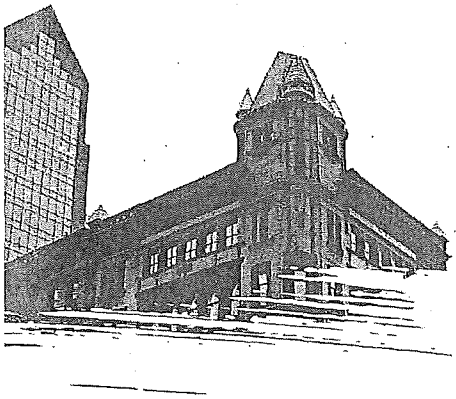
Total vacancy



Average asking rents ($/s.f.)



For more information, contact:
Henry Gjestrum henry.gjestrum@am.com or Devon Parry devon.parry@am.jll.com



Louisville

Office development, leasing remain steady

- 500 W. Jefferson, formerly known as PNC Plaza, has gone into receivership as over 30 percent of the building remains vacant.
- Miami-based SF Partners entered the Louisville market with the purchase of two office buildings totaling 126,000 square feet in Bluegrass Commerce Park.
- Over 600,000 square feet of suburban office space construction has been announced with expected deliveries in the 2019/2020 period.

Leasing within the Central Business District remained steady as overall vacancy hovered at 11.4 percent. Full floors are available in Class A buildings throughout downtown, which provides a unique opportunity for potential users looking to relocate or grow within the downtown core. Leasing in the suburban markets slowed this quarter. The largest lease of the quarter was PharMerica's renewal and expansion into 85,000 square feet at 9901 Campus Place.

The recent announcement that 500 W. Jefferson has gone into receivership adds an element of uncertainty to the downtown market. Approximately 30 percent of the 556,000-square-foot tower remains empty following PNC vacating over 150,000 square feet in 2017. Because of its current financial situation, the building may go to auction. Several large tenants have current leases; however, due to the uncertainty shrouding the building, and the open spaces in other towers, it is expected many of those tenants will be reevaluating their options.

Fenley Real Estate announced plans to develop two 126,000-square-foot buildings in the city's growing Eastern suburban market. Both buildings will be four-stories and have floor plates of 31,500-square-feet. Across the new East End bridge in Southern Indiana it was announced that Hollenbach-Oakley will lead the development for River Ridge Commerce Center. Thus far the Commerce Center has been predominantly industrial space. The level of demand for office space is still unknown.

Outlook

Office leasing was slow in the first quarter of 2018; however, we remain optimistic for both the CBD and suburban markets for the balance of 2018. Development of hotel, residential, and retail within the CBD continued at an unprecedented pace during the first quarter, creating excitement in the marketplace. As the CBD grows, we expect companies will continue to look to the downtown market for space. The suburban market will see over 600,000-square-feet of Class A space come online in 2019 and 2020.

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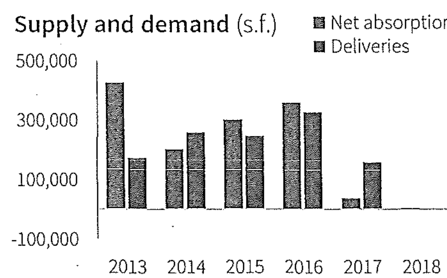
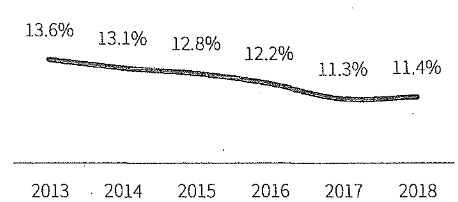
Fundamentals	Forecast
YTD net absorption	4,214s.f. ▲
Under construction	618,810 s.f. ▲
Total vacancy	11.4% ▼
Average asking rent (gross)	$17.63 p.s.f. ▲
Concessions	Rising ▲

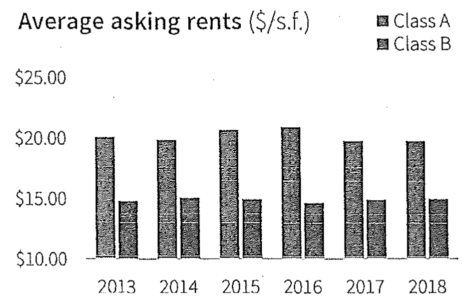
Supply and demand (s.f.)

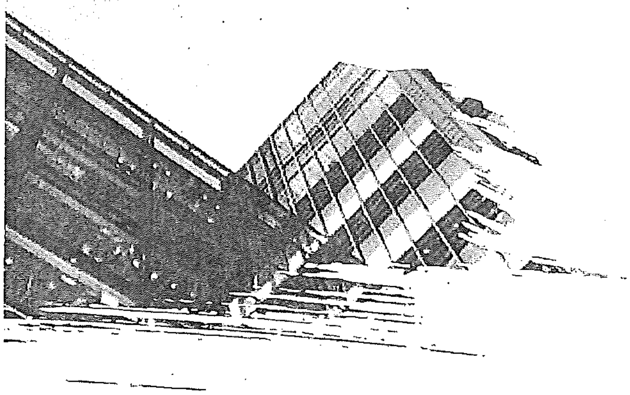


Total vacancy



Average asking rents ($/s.f.)





Marin/Sonoma

Tenants experience "sticker shock" on rents as competition for space increases

- The Marin-Sonoma office market is off to a solid start in 2018. Post-fire recovery efforts continue to gain momentum in recent months, resulting in an inflow of contractors and engineers in as well as an increase in touring activity within the healthcare and wine industries.
- Tenants are being priced out of Southern Marin County as high watermark deals are closing between $4.00 p.s.f. and $5.50 p.s.f. full service.

In Sonoma County, rental rates have increased as a result of increasing demand. Average asking rates are climbing above the market average of $1.83 PSF, where select landlords are commanding around $1.97 p.s.f. in Petaluma and as high as $2.35 p.s.f. in Santa Rosa, fully serviced. Sonoma County total vacancy currently sits at 8.6 percent, but a recent 24,000-square-foot, full floor availability at 1400 N. McDowell Boulevard in Petaluma will provide plug-and-play options for larger users in the market.

Investment activity is on the upswing in Marin County, kicking off the year with a high watermark sale at 899 Northgate Drive for $18.9 million, or $343 PSF, 40.0 percent higher than when it was last sold in 2015. Additionally, 75-78 Rowland Way is on the market for sale, currently at 82.0 percent leased. Robust touring activity in the biotech, healthcare, and tourism sectors have encouraged landlords to raise their rents in select office parks. Vacancy rates in Southern Marin are below the historical average, hovering around 6.0 percent overall. Landlords are capitalizing on value-add opportunities by making significant improvements to their projects. New spec suites and common-area upgrades are among these improvements, creating an inviting advantage for tenants. As a result, average asking rents are on the rise, approaching $4.85 p.s.f. to $5.50 p.s.f. in the market's top tier office buildings. Tenants who are contemplating renewals are experiencing "sticker-shock", due to new landlords pushing rents and chasing yields with a higher project basis. Tenant demand remains strong which is also fueling the rising rates.

Outlook

The Marin/Sonoma office market should continue to see growth with a rise of buyers in the area, and stabilized occupancies in value-add buildings. With no new office construction underway, and top tier properties substantially leased, the market is likely to strengthen further throughout 2018.

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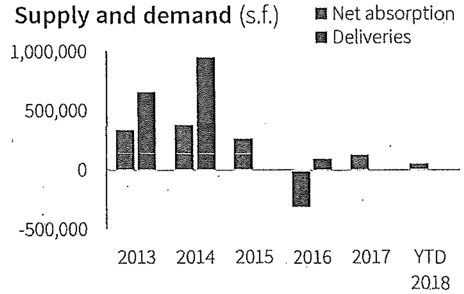
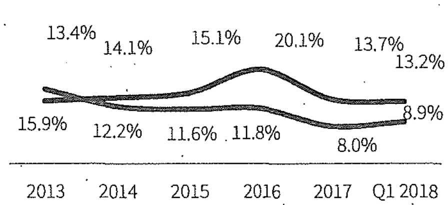
Fundamentals	Forecast
YTD net absorption	56,091 s.f. ▲
Under construction	0 s.f. ▶
Total vacancy	10.7% ▼
Average asking rent (gross)	$2.31 p.s.f. ▲
Concessions	Stable ▶

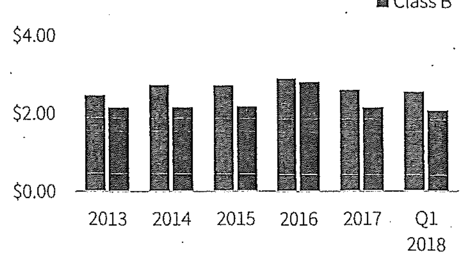
Supply and demand (s.f.)

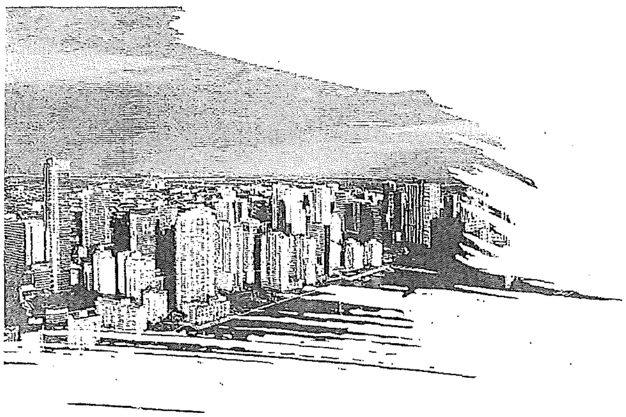


Total vacancy



Average asking rents ($/s.f.)





Miami-Dade

Quiet start to 2018 marked by a move toward quality office space

- Positive net absorption in Class A assets are largely mirrored by negative net absorption in the Class B segment of the market
- For the third quarter in a row more sublets are being vacated than occupied, signaling a growing supply of economical space in the market
- After delivery of MiamiCentral, locus of supply will shift to suburban and emerging markets such as Coral Gables, Coconut Grove and Wynwood

Fundamentals	Forecast
YTD net absorption	40,355 s.f. ▲
Under construction	634,662 s.f. ▶
Total vacancy	13.5% ▼
Average asking rent (gross)	$37.65 p.s.f. ▶
Concessions	Stable ▶

While overall net absorption was modest, the first quarter of 2018 was above all else marked by a shift toward quality office space. Most net absorption gains in Class A assets were largely mirrored by losses in the Class B segment of the market, especially in suburban markets. Coral Gables and Miami Airport saw Class A vacancy decline 100 and 130 basis points respectively, while Class B vacancy increased by 130 points in the Gables and 70 points around the Airport.

Similarly, more sublet space was vacated than occupied throughout the first quarter of 2018—a trend set in motion in early 2017. The only exception to this trend was Brickell, where subleases remained an attractive alternative. This is most likely attributable to tenants' search for cost-effective options in a submarket that continues to demand high premiums for direct, Class A office space. As it is, Class A direct asking rents in Brickell average $52.33 per square foot, compared to $32.15 for Class B sublets—a $20.18 difference.

Outlook

Going forward, tenants may continue to opt for higher quality office space, especially since new Class A office product will continue to hit the market. However, after the delivery of Two MiamiCentral, scheduled for June of 2018, new office supply will shift to suburban and emerging markets. In the first weeks of Q2 2018, Sunset Office Center will deliver over 60,000 SF in Coral Gables (70% pre-leased), followed by Giralda Place in the Gables (Q2), Mary Street in Coconut Grove (Q4) and the CUBE Wynwd in Wynwood (also Q4).

While rents remain stable throughout the market, high vacancy in Downtown continues to put a cap on rent growth north of the Miami river, creating opportunities for high-quality, cost-effective options for tenants looking to stay in—or move to—the CBD.

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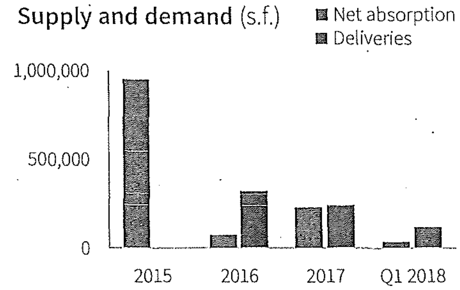
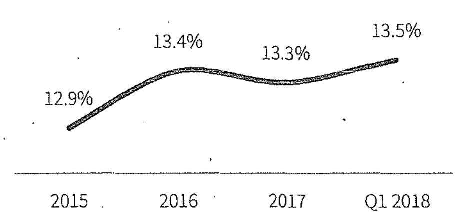
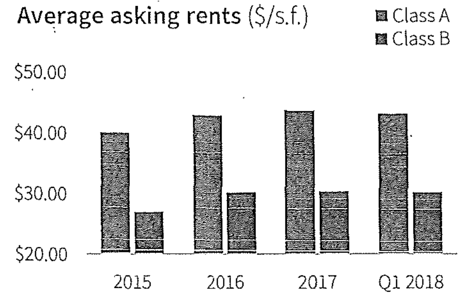
Supply and demand (s.f.)

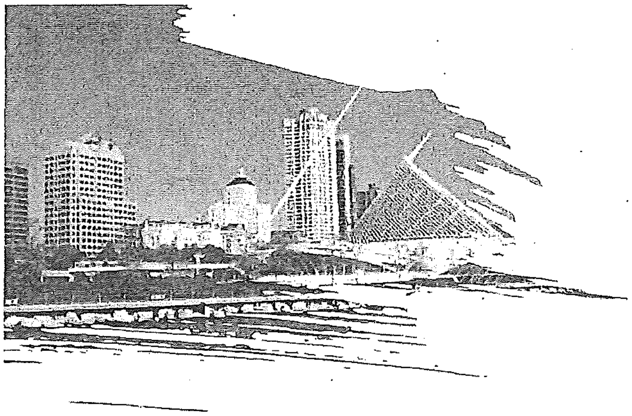


Total vacancy



Average asking rents ($/s.f.)





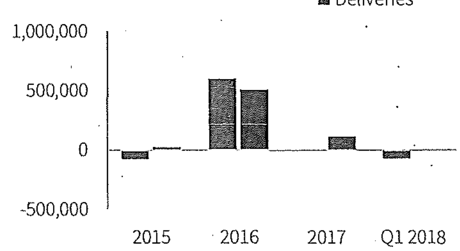
Milwaukee

Construction boom continues as market stabilizes

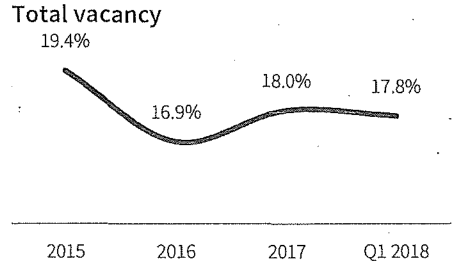
- Negative year-to-date absorption mainly a function of increased mergers in financial and legal services
- High number of renewals and expansions drives leasing activity this quarter
- While asking rates remain somewhat stable, concessions rise as competition increases among landlords due to the addition of new office product

Fundamentals	Forecast
YTD net absorption	-71,792 s.f. ▲
Under construction	633,087 s.f. ▶
Total vacancy	17.8% ▶
Average asking rent (gross)	$19.51 p.s.f. ▶
Concessions	Rising ▲

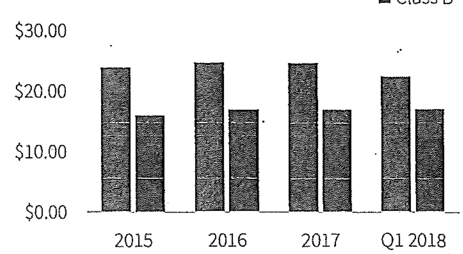
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Financial and legal services firms drive leasing activity as this quarter's largest deals come from tenants in these industries. While the market appears to be on a downward swing due to negative absorption figures and few new to market leases, firms like Associated Bank, von Briesen & Roper, and Davis & Kuelthau have completed opportunistic acquisitions in efforts to enhance their market share. These firms have contributed to the high number of expansions and renewals that dominate leasing activity this quarter. As a large number of tenants decide to renew in lieu of relocation, they benefit from a growing concession package from landlords who are weary of the increased office product downtown and more deliveries on the horizon - TI allowances have fallen due to lessened tenant need and rent abatement offerings have steadily grown.

Outlook

The rest of 2018 looks bright for Milwaukee's office market. The Hammes Headquarters building and The Factory Office Suites are two large development projects that will add roughly 250,000 square feet in Class A office product to the downtown area over the next two quarters. These two deliveries, along with many more large projects past 2018, will have a lasting impact on the Milwaukee market in terms of increased competition among landlords and leverage shifting in favor of tenants. The greatest impact these new developments will have is that they will continue to spur tenant migration from suburban markets to the downtown area. An increasing number of firms are moving to match the growing multifamily product downtown. Milwaukee is experiencing a resurgence in its city center as infrastructure investment and an increasing downtown millennial population have made it a desirable location for firms to move their offices to and reap the benefits of high density economic activity.

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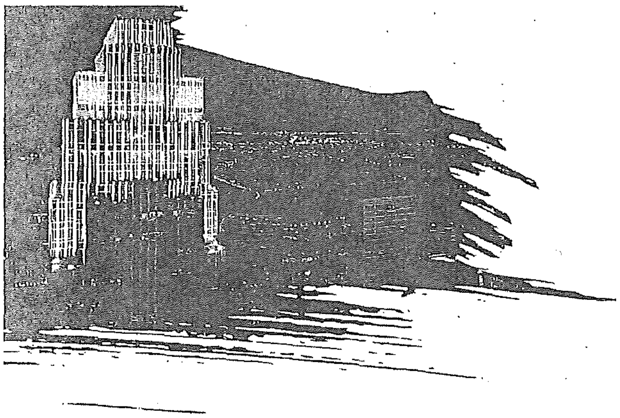


Minneapolis-St. Paul

Between sales, leasing, and construction, 2018 is off to a record-breaking start

- Major investor turnover in CBD: 330 South Second, Marquette Plaza, and Capella Tower change hands.
- United Properties' Gateway Block will be the first new multi-tenant office construction in the CBD Core since 2001.
- Consolidations are driving a substantial share of suburban activity. U.S. Bank moves into one of three Excelsior Crossings buildings this quarter.

The Minneapolis CBD experienced $363.4 million in sales this quarter, the largest quarterly transaction volume in over a decade. Government Properties Income Trust sold 330 South Second for $20 million to Spaulding & Slye. Marquette Plaza sold to KBS Growth & Income REIT for $88.4 million. And in the largest deal year-to-date, Shorenstein purchased Capella Tower for $255 million. After this acquisition, Shorenstein is now the single largest holder of office real estate in Minneapolis-St. Paul, with holdings of approximately 2.6 million square feet.

Leasing activity has also been record-breaking in the first quarter of 2018. The Royal Bank of Canada (RBC) signed a lease for the future Gateway Block for over 300,000 square feet. Although the City of Minneapolis currently owns the site across from the Minneapolis Central Library, United Properties has exclusive purchasing rights that will likely be executed by the end of 2018. UP's plans for the block include a tower consisting of office, hotel, and condos—a mixed-use development that is unusual for this market and attracting a lot of attention.

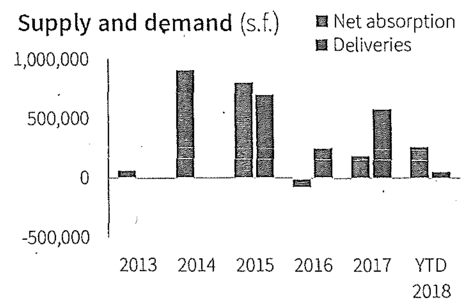
Financial services firms are particularly active right now. Thrivent Financial is also looking to design its own ground-up office development in the parking lot adjacent to its headquarters. Meanwhile, U.S. Bank consolidated its home mortgage division into nearly 260,000 square feet at Excelsior Crossings in Hopkins after taking over Cargill's terminated lease in early March.

Outlook

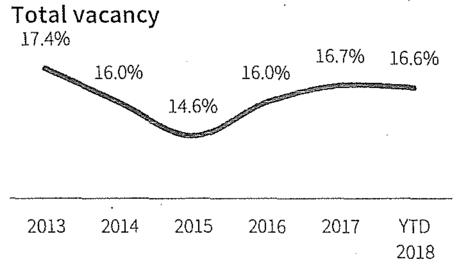
Aggregation of employees and the rightsizing footprints is trending in both in urban and suburban locations. The aforementioned activity follows the heels of Prime Therapeutics' consolidation in Eagan last year and Wells Fargo's 2016 consolidation in its East Town towers. Backfilling RBC Tower and U.S. Bank's vacated 1550 American Boulevard office will present its own challenges, yet with millions of square feet of active users in the market there is sure to be demand.

Fundamentals	Forecast
YTD net absorption	268,191 s.f. ▲
Under development	1,608,973s.f. ▶
Total vacancy	16.6% ▼
Average asking rent (gross)	$26.33 p.s.f. ▲
Concessions	Stable ▶

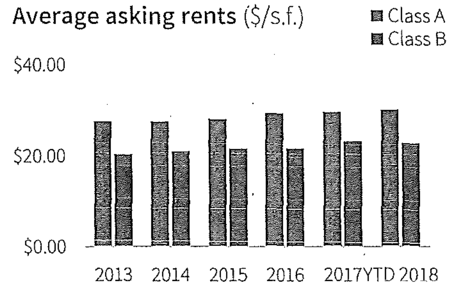
Supply and demand (s.f.)



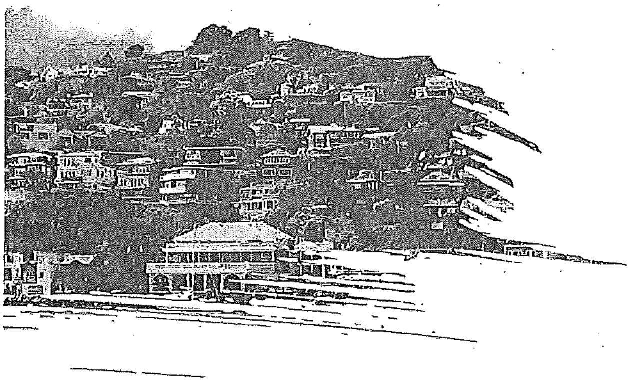
Total vacancy



Average asking rents ($/s.f.)



For more information, contact: Carolyn Bates | carolyn.bates@am.jll.com or Tyler Hegwood | tyler.hegwood@am.jll.com



Napa/Solano

Tightening markets cause a shift in demand, benefiting tertiary submarkets

- Tenants continue to explore additional options in North Napa and Solano County as Downtown Napa vacancy hovers around 3.0 percent.
- New hotel and retail amenities in downtown Napa make the area attractive to office users.

Napa/Solano Counties had a relatively strong start to the new year as vacancy rates dipped slightly and rents increased in select markets. Class A product is limited in Downtown Napa due to repositioning of assets into retail or mixed-use. Downtown Napa is the tightest submarket in the area at just 3.3 percent, and rents ranging from $3.50-$4.00 per square foot in select buildings. In turn demand has shifted to North Napa and other surrounding markets. Quality office space above 5,000 square feet is limited, creating a challenge for larger users touring the market. Notable deals this quarter include Trinitas Cellars at Napa Valley Commons and Morgan Stanley's renewal at 700 Main Street, leasing 6,500 square feet and 8,400 square feet, respectively.

In Solano County, construction is near completion at Partnership Healthplan's 104,000 square-foot Class A office project in Fairfield, set to deliver next quarter. The company is expanding into two floors and will release the remaining full floor to the market, in which medical-related tenants are actively touring. Meanwhile, Kaiser Permanente purchased 520 Chadbourne Road with plans to occupy later this year, sweeping 34,000 square feet off the market. Additionally, The Wiseman Company purchased 5140 Business Center Drive. The 31,819-square-foot medical office project is vacant and is available for multi-tenant use.

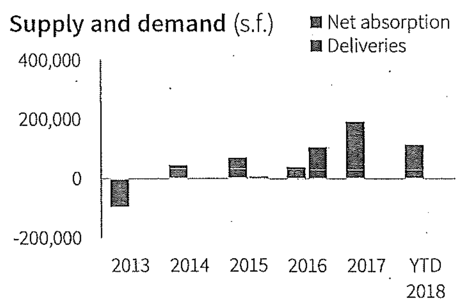
Outlook

The Napa-Solano office market could tighten further in 2018. The ongoing construction of additional local amenities can be expected to add appeal and value to the area, positioning the area as a viable overflow market as surrounding Bay Area markets tighten. The largest of these mixed-use re-development projects is First Street Napa, which includes the new Archer Hotel, a five-story, 183-room project, and anchor a mixed use development of 40 shops and restaurants in Napa Valley.

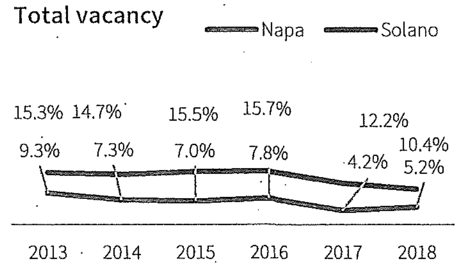
For more information, contact: Katherine Billingsley | k.billingsley@am.jll.com

Fundamentals	Forecast
YTD net absorption	114,413 s.f. ▲
Under construction	104,000 s.f. ▶
Total vacancy	8.8% ▼
Average asking rent (gross)	$2.10 p.s.f. ▲
Concessions	Stable ▶

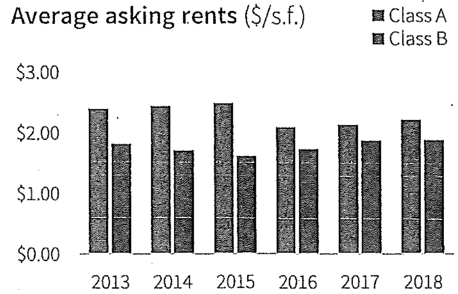
Supply and demand (s.f.)

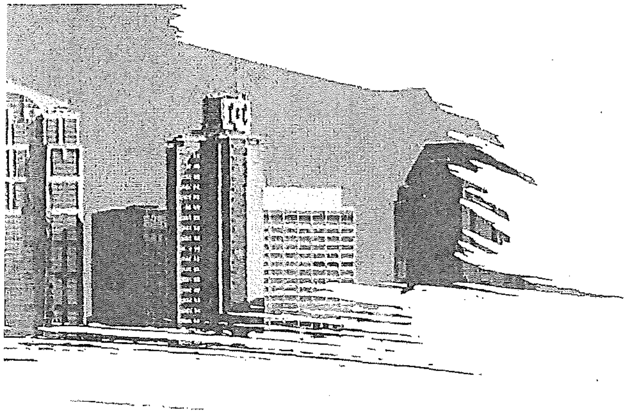


Total vacancy



Average asking rents ($/s.f.)





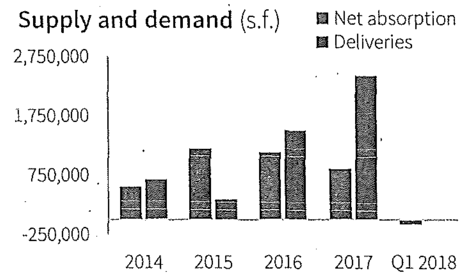
Nashville

Nashville's office tenants continue to leave Class B in droves for Class A

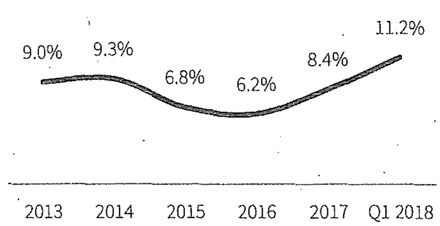
- Large blocks of space are being vacated in Airport North and Brentwood, which is leading to increased vacancy.
- Occupiers continue to strongly prefer Class A product, with 322,065 square feet of positive net absorption in that segment.
- Class B product continues slide, with negative net absorption of 395,371 square feet in Q1 2018.

Fundamentals	Forecast
YTD net absorption	-77,463 s.f. ▲
Under construction (new)	1,954,709 s.f. ▼
Total vacancy	11.2% ▶
Average asking rent (gross)	$27.27 s.f. ▲
Concessions	Rising ▲

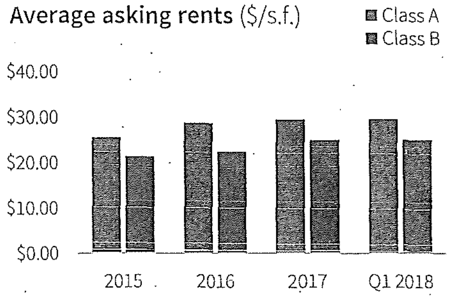
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Occupiers of Nashville's office market are seeking out higher-quality and more efficient office product. A great example of this trend is Hines' 222 2nd Avenue South building downtown. Firms are beginning to seek true trophy buildings in an effort to retain talent. The war for talent is heating up, and investors in Class A assets are reaping the rewards. For the third time in a five-month period, Music City has the lowest reported unemployment rate of any of the nation's large metro areas, closing February at 2.7 percent. Combine that with an estimated 94 people moving to Nashville per day, you've got a robust labor market that is pushing employers to provide high-quality office space and amenities that can help attract and retain talent.

Vacancy sharply increased during the first quarter, driven by large availabilities in the Airport North submarket and a large move out by HCA in Brentwood. Multiple firms bought their office space from their landlord this quarter. Notable transactions included Caterpillar's acquisition of their 312,000-square-foot hub in Midtown, and Jackson National Life Insurance's acquisition of their 164,000-square-foot Cool Springs corporate headquarters.

Outlook

Rental rates remained firm in the first quarter, but occupiers and investors should be on the lookout for the Metro's average asking rates to increase when nearly all of our current under construction inventory delivers in the remainder 2018 and in 2019. The rise in vacancy this quarter should not be a concern for landlords yet, as nearly all the newly available space can be attributed to occupiers moving to their firm's own product or vacating older space for newer product. Wage, population and job growth all remain strong and point to a healthy late-cycle economy in Music City.

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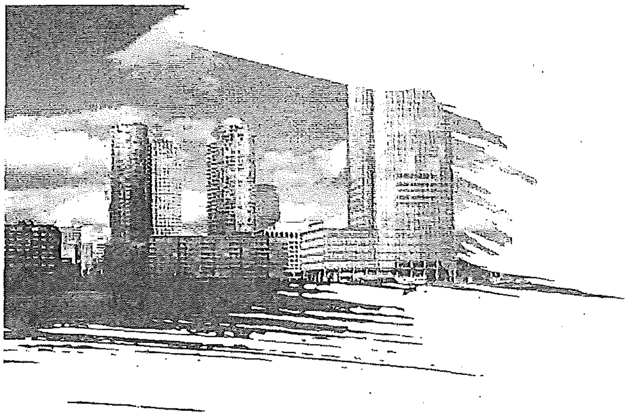

New Jersey

Office conversions reduce inventory and pull vacancy lower in early 2018

- Leasing velocity remained constrained as just over 1.3 million square feet of leases were completed during the first quarter
- Overall vacancy rate slipped below 24.0 percent as 1.7 million square feet of former office buildings removed from the inventory in early 2018
- An uptick in office tenant requirements could translate into accelerating demand in the coming quarters.

The vast shadow cast by diminished leasing volume over the Northern and Central New Jersey office market in 2017 continued into the first quarter of 2018. Slightly more than 1.3 million square feet of leases were completed during the first three months of 2018, which represented a 40.0 percent decline in activity from the same timeframe one year ago. Furthermore, most of the demand witnessed during the past year was generated by smaller-sized leases. This was evident during the first quarter by the lack of completed transactions larger than 100,000 square feet in size.

Against the backdrop of the downshifting demand, the Northern and Central New Jersey overall office vacancy rate slipped 20 basis points from year-end 2017 to 23.9 percent in the first quarter. The overall vacancy rate had not been below 24.0 percent since early 2009. The removal of 1.7 million square feet of office product from the inventory base contributed to this decline. These former office buildings are on the road to being razed or converted to alternative uses. Most this supply was housed in the Parsippany submarket, where the overall vacancy rate retreated from 34.2 percent at the end of 2017 to less than 32.0 percent. Among the largest facilities taken out of the Parsippany inventory were two buildings totaling nearly 290,000 square feet at 1515 Route 10. The buildings are expected to be demolished to make way for a new mixed-use project planned by Stanbery Development.

Outlook

A recent uptick in touring activity combined with additional tenant requirements in the Northern and Central New Jersey office market could signal that demand will shift out of neutral gear in the coming quarters. Nearly 5.0 million square feet of requirements were navigating the office market in early 2018. Furthermore, there were nearly 20 requirements for space in excess of 100,000 square feet compared to 12 requirements one year ago.

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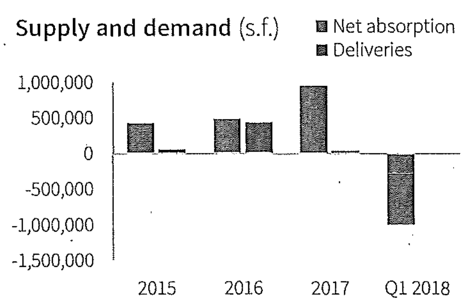
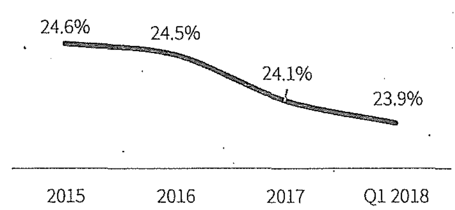
Fundamentals	Forecast
YTD net absorption	-1,001,942 s.f. ▲
Under construction	447,732 s.f. ►
Total vacancy	23.9% ▼
Average asking rent (gross)	$27.31 p.s.f. ▲
Concessions	Stable ►

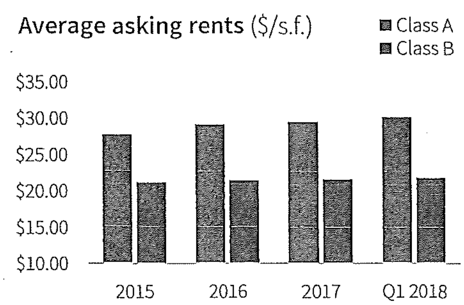
Supply and demand (s.f.)

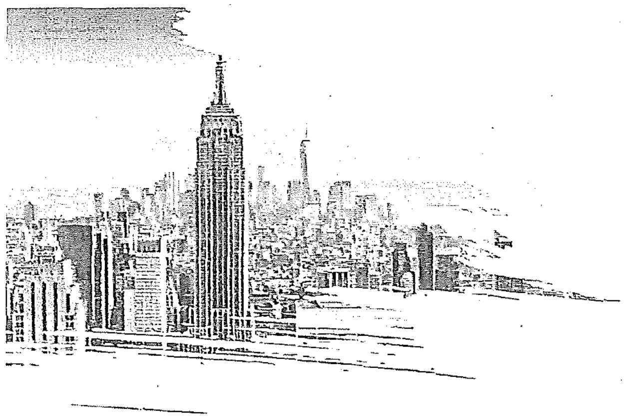


Total vacancy



Average asking rents ($/s.f.)





New York City

2018 is off to an auspicious start following major announcements by JPMorgan Chase and Google

- JPMorgan Chase announced that it will tear down and reconstruct 270 Park Avenue, capitalizing on the Midtown East rezoning that could counterbalance the recent westward and southward migration trends.
- Google closed on its acquisition of Chelsea Market for $2.4 billion, cementing its office park in the Meatpacking District in Midtown South.
- Class A vacancy dipped by 30 basis points quarter-over-quarter to 8.5%, though impending supply additions should apply upward pressure.

Tight labor market conditions have reinforced office occupiers' desire to upgrade their offices, oftentimes consolidating their footprints into more efficient, dynamic workspaces while doing so. JPMorgan Chase will tear down and rebuild its 1958-vintage headquarters at 270 Park Avenue, expanding the building's footprint by approximately 1.0 million square feet after the acquisition of air rights through the recently passed Midtown East rezoning. Some employees will be relocated to a nearby 418,241-square-foot suite at 390 Madison Avenue, bringing the newly redeveloped tower to full occupancy. Google made headlines when it acquired 75 Ninth Avenue (Chelsea Market) for $2.4 billion – the second-most expensive office purchase in the history of New York City. As a result, the tech giant further entrenched its campus environment spread across four adjacent buildings in the trendy Meatpacking District. Elsewhere in the burgeoning west side, Roc Nation signed a lease for the 73,000 square feet of available office space at the newly delivered 540 West 26th Street. Facebook also continued to grow in Midtown South, expanding its presence at its New York City headquarters at 770 Broadway by 78,000 square feet. Also of note, Greenberg Traurig finalized a 140,000-square-foot lease at One Vanderbilt – a high-profile tower under construction adjacent to Grand Central Terminal.

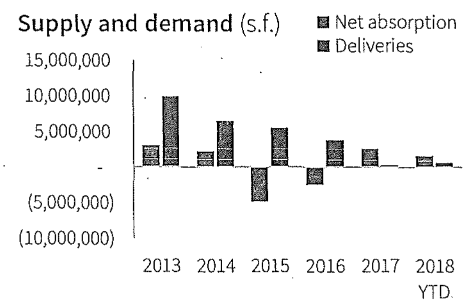
Outlook

Vacancy rates are expected to tick upward in the coming quarters largely as a result of looming large-block availabilities at existing buildings in Midtown, several boutique office developments in Midtown South, and the delivery of 3 World Trade Center in Downtown. However, reasonably priced, efficient product should continue to attract an outsized share of demand, putting pressure on landlords to upgrade commoditized properties to remain competitive – or offer increasingly competitive concessions packages.

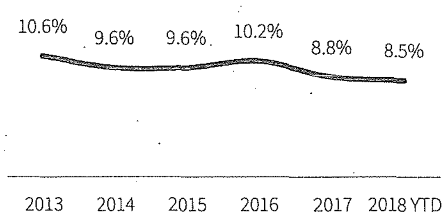
For more information, contact: Craig Leibowitz | Craig.Leibowitz@am.jll.com

Fundamentals	Forecast
YTD net absorption	1,638,265 s.f. ▶
Under construction	15,388,411 s.f. ▲
Total vacancy	8.5% ▲
Average asking rent (gross)	$72.48 p.s.f. ▶
Concessions	Rising ▲

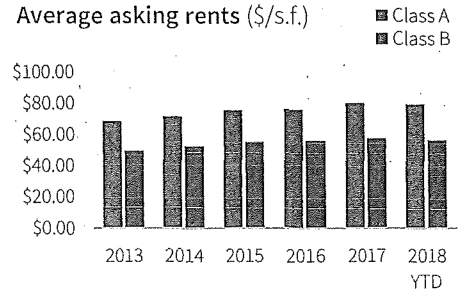
Supply and demand (s.f.)

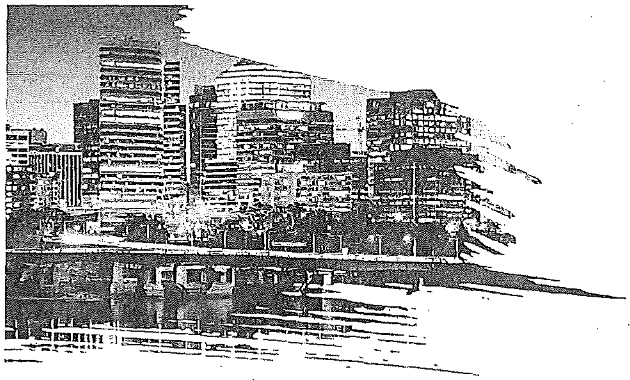


Total vacancy



Average asking rents ($/s.f.)





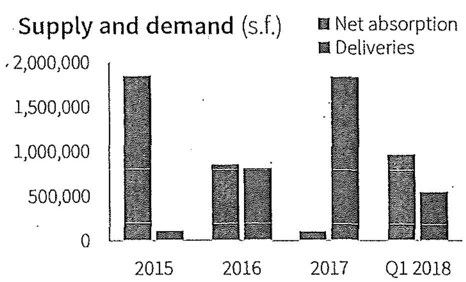
Northern Virginia

Decreasing direct vacancy the last three quarters should accelerate with increased defense budget

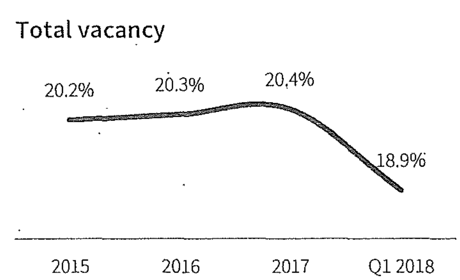
- Record net absorption in Q1 – the largest since 2010 – was led by private-sector tenants, including Nestlé and tech giants; Rosslyn, Tysons, Herndon and Route 28 South were the biggest recipients of that growth
- Two major consolidations will kick off new construction at Reston Town Center: Fannie Mae with 850,000 s.f. and Leidos with 275,809 s.f.
- 1.3 million s.f. of speculative construction will deliver in 2018-19, only 10% of which is preleased. The new budget should jumpstart activity

Fundamentals	Forecast
YTD net absorption	964,818 s.f. ▲
Under construction	2,520,963 s.f. ▼
Total vacancy	19.9% ▼
Average asking rent (gross)	$33.81 p.s.f. ▶
Concessions	Stable ▶

Northern Virginia experienced 964,818 s.f. of positive net absorption in the first quarter, the largest single quarter since 2010. Rosslyn drove nearly half the gains, led by Nestlé moving its HQ into 1812 N Moore. The private sector accounted for nearly every major move-in and signing this quarter, with contractors comprising 53% of leases > 20,000 s.f., including Leidos' 275,809-s.f. HQ BTS in Reston Town Center. In addition to Leidos, Fannie Mae and MicroStrategy signed notable deals, with Fannie taking 850,000 s.f. at the future Reston Gateway, kicking off construction of the mixed-use project adjacent to the future Reston Town Center metro.

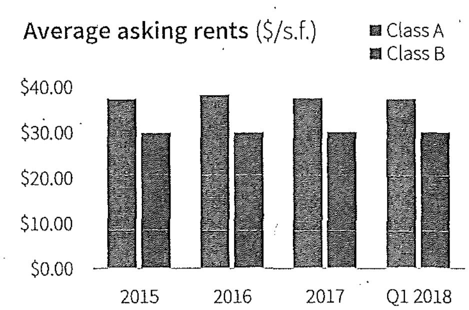


While direct vacancy fell from 19.6% to 18.8% this quarter, sublease vacancy rose by 358,165 s.f. as Gartner (formerly CEB) moved from 1919 N Lynn and 1777 N Kent into 1201 Wilson, which delivered this quarter. Demand remains below historic levels, largely due to a lack of a budget. New construction, which includes 1.3 m.s.f. of speculative product delivering 2018-2019, is achieving record pricing with an average of $53.02 p.s.f., a 47% premium over Class A rents. However, only 10.2% of the speculative pipeline is preleased.



Outlook

After a sustained pattern of continuing resolutions, the March 23 passage of a FY 2018 omnibus budget bill, with a $61 billion increase to the defense budget, will quickly jumpstart the flow of contracts in the region and boost demand. IT contractors, in particular, are well positioned as the government ramps up spending in cybersecurity and cloud computing. Submarkets rich in tech and intelligence contractors, particularly Reston, Herndon and Route 28 South, will be among the biggest winners. From a supply standpoint, speculative construction starts will remain limited until leasing picks up, as the next wave of construction starts consists of five BTS projects on- and off-Metro, in addition to 4040 Wilson, which broke ground this quarter.



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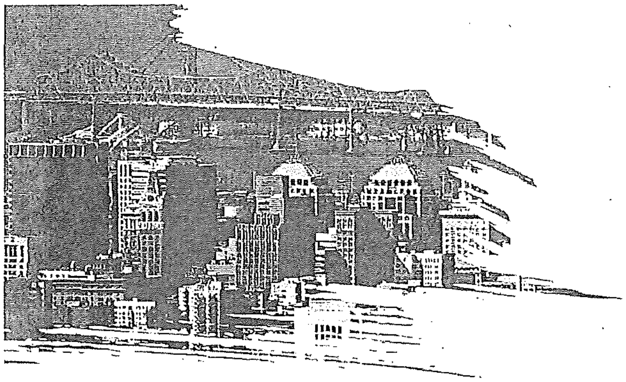

Oakland-CBD

Capital markets driving rent growth in the CBD, Class A and B rent gap comes to a close

- Investment activity drives rent growth, especially in the Class B sector.
- Class B average asking rents climbed 69.3 percent year-over-year, pushing $6.00 per square foot.
- Future move-ins scheduled for later this year will offset the slight uptick in vacancy.

Oakland-CBD is drawing steady interest from San Francisco-based tenants. Sephora is rumored to be leasing 230,000 square feet of redeveloped office at 2150 Webster, and Blue Shield added an additional floor to its future footprint at 601 City Center. Spillover activity could gain momentum once San Francisco's new developments lease up, especially with Prop M limiting future development. Tenants looking for large blocks of space will be forced to look elsewhere. Meanwhile, much-needed space has been released as some price-sensitive companies relocated into tertiary markets, making more space available and boosting overall vacancy rates slightly. Later this year, occupancies by Delta Dental, Clovis Oncology, and Treasury Wine Estates will push absorption back into positive territory.

Oakland's low vacancy and value-add opportunities have attracted investors to the market. Creative Class and Class A buildings are valued in the mid-high $500 PSF range. Investment activity in recent years has driven rent growth, especially in the Class B market. New owners are raising rents to justify investments on renovations to historical buildings, where select landlords are commanding between $5.00 PSF to $6.00 PSF fully serviced. Striking rents for secondary office space ranges between $4.50 to $4.85 industrial gross. As a result, Class B average asking rents have increased 69.3 percent since 2015.

Outlook

Oakland-CBD vacancy will increase during the next 24 months with as much as 1.2 million square feet of new or redeveloped office space set to deliver, not all of which is pre-leased. Buildings currently under redevelopment include 2150 Webster, Uptown Station and Tribune Tower. New construction includes 601 City Center and 1100 Broadway, both of which are partially pre-leased. As long as other Bay Area markets stay tight, tenants searching for more affordable options will be attracted to the East Bay.

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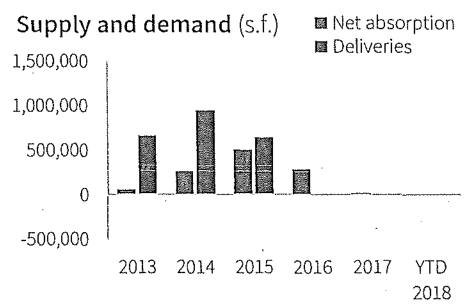
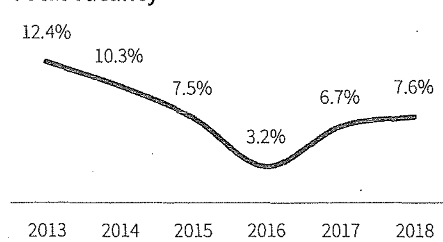
Fundamentals	Forecast
YTD net absorption	-3,730 s.f. ▲
Under construction	1,211,622 s.f. ▲
Total vacancy	7.6% ▲
Average asking rent (gross)	$4.97 p.s.f. ▲
Concessions	Stable ▶

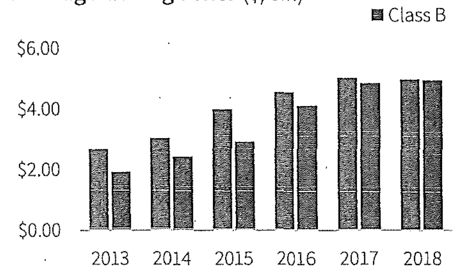
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Orange County

High number of available blocks of space provides options for tenants, opportunities for landlords

- Throughout Orange County there are 60 blocks of available space of at least 50,000 square feet with 35 of them located in the Airport Area.
- Broadcom's move from the Airport Area to South County causes swing in net absorption.
- Over 6 million square feet of traditional Class B office product has been converted in recent years to creative space, placing upward pressure on rents.

With an increasing number of companies adopting space efficiency practices combined with 1.6 million square feet of new deliveries over the last six months, there has been an uptick in the number of available large blocks of space. The 60 blocks of space of at least 50,000 square feet are spread throughout 50 buildings with the highest concentration in the Airport Area. There are an additional nine blocks of space when taking into account buildings currently under construction. A majority of these spaces are in Class A or recently converted creative properties. These conditions provide large tenants with the flexibility to search multiple space options. Although there is competition in the market, landlords who attract tenants to occupy these blocks of space will be doing so at a time when rents are high.

One of the events that contributed to the increase of available large blocks of space was Broadcom moving from the Airport Area to South County. In the first quarter, Broadcom moved out of 685,000 square feet in University Research Park to 600,000 square feet in their build-to-suit project at Five Point Gateway. Broadcom previously moved out of an additional 150,000 square feet but nearly all of that space has been leased. This quarter's move-out was largely responsible for the Airport Area recording -647,149 square feet of negative net absorption, while heavily contributing to South County's positive net absorption of 722,094 square feet.

Outlook

In the past three years, there have been over 100 traditional Class B properties converted to creative buildings, totaling 6.5 million square feet, with a majority of these conversions occurring in the Airport Area. With these renovations bringing higher rents, value-oriented tenants have fewer space options in this submarket. Many of these tenants will be casting a wider net in their searches which could drive up leasing activity in nearby submarkets.

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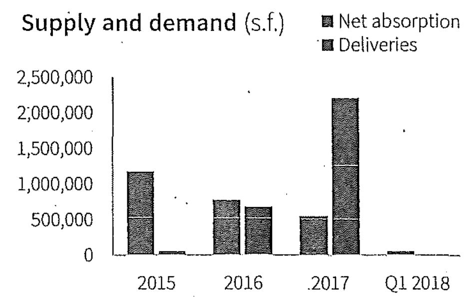
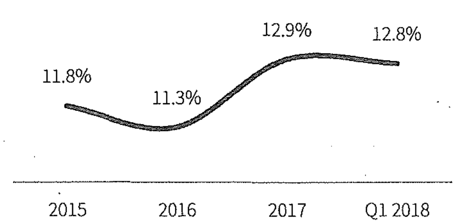
Fundamentals	Forecast
YTD net absorption	65,926 s.f. ▲
Under construction	976,967 s.f. ▶
Total vacancy	12.8% ▶
Average asking rent (gross)	$2.93 p.s.f. ▲
Concessions	Stable ▶

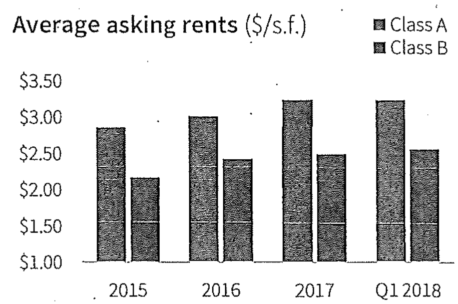
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Orlando

Orlando is feeling the heat, with tightness across the market

- CBD rents are rising, thanks to the Church Street Tower's groundbreaking. Large availabilities ahead.
- Maitland Class A vacancy is at 1.8 percent, due to consistent tenant demand for quality space.
- Disney purchase will squeeze Celebration

Fundamentals	Forecast
YTD net absorption	45,110 s.f. ▼
Under construction	702,800 s.f. ▲
Total vacancy	9.6% ▶
Average asking rent (gross)	$23.45 p.s.f. ▲
Concessions	Stable ▶

Orlando is seeing a shift in the market. Church Street Plaza broke ground in Q4. Delayed slightly by buried cables, the structure is going up. With this new addition, Downtown has the first new Class A building since 2012, asking $35.50 per square foot. This large availability and high asking rate is responsible for the 6.9-percent increase in average asking rates Downtown.

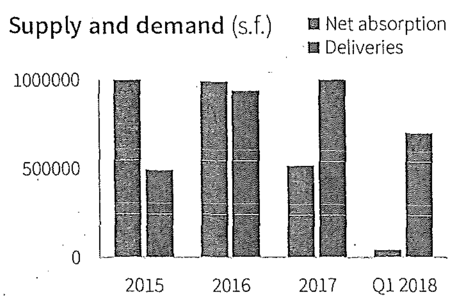
Another area of expected rent growth is Maitland Center. Maitland is the third-largest office submarket in Orlando, with numerous buildings constructed concurrently. While many have depreciated into Class B space, there is sustained demand for quality space. Only one large block of prime space is available at Maitland 100 after CDM Smith relocated to 101 Southhall Lane, explaining the 1.8 percent vacancy among Class A buildings.

Finally, Disney Cruise Lines is expecting to expand in one of their Celebration offices, and has purchased the building (215 Celebration Place) to secure future expansion space. This move will generate new tenant interest in the small submarket, and may result in either new development or tenant moves to the Tourist Corridor.

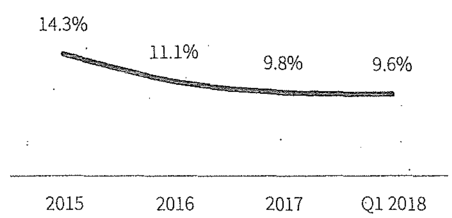
Outlook

Church Street Plaza will deliver high-quality office space and a needed new hotel to the Orlando core. However, the pre-leased tenants will leave several large blocks on the market upon delivery, notably two floors in One Orlando Center and a full floor in CNL I. On top of these looming vacancies in late 2019, BBA Aviation will move to Lake Nona in Q2 2018. leaving 50,000 s.f. in Seaside Plaza. Finally, SunTrust Bank is planning to leave the SunTrust tower in late 2019. These large spaces will mean increased vacancy in Downtown Orlando.

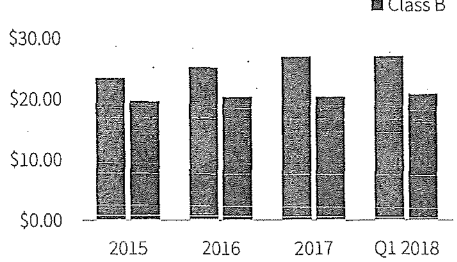
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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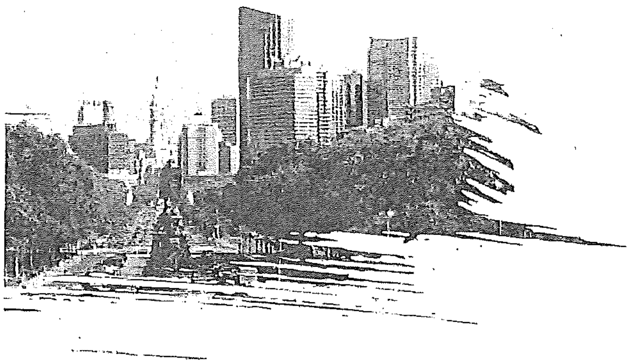

Philadelphia-CBD

As the weather warms, so does the CBD office market: Q1 absorption turns positive, and asking rents up

- Class A asking rates are up 3.2% quarter-over-quarter and 3.4% year-over-year, due in part to newly listed larger block availabilities.
- Overall vacancy rates are up 90 basis points year-over-year, but 2018 will see occupancy growth thanks to Five Below, Comcast, and others.
- University City asking rents are up 10.8% year-over-year, despite the full lease up of FMC Tower, and we anticipate them to continue to grow.

The new year started quietly in Center City, with leasing activity down in Q1 but absorption trending up into positive territory, despite the vacation of a large low-rise block in Three Logan Square with the expiration of Verizon's lease. Several law firms and a Comcast expansion in the building will bring the building's occupancy back up throughout the year. Neumann Financial, a New Jersey-based spin-off from Beneficial Bank, signed a lease at 123 South Broad for roughly 20,000 square feet. Five Below relocated from 1818 Market Street to their new, larger headquarters at 701 Market, helping to drive over 160,000 square feet of 161,191 square feet of absorption in Market East this quarter. Over in University City, Cira Centre solidified the top of its stack with several tenant expansions, including Rubenstein and LLR Partners.

Several sales closed during the quarter. American Real Estate Partners acquired 1600 Market Street for $160 million in partnership with Chile-based Independencia. Thor Equities purchased the office condominium of 901 Market Street for $41.8 million. A local investor purchased 1760 Market Street for $31.5 million. 1650 Arch Street is currently in the market for sale. Closer to the Schuylkill River, PMC Property Group acquired a two-building portfolio at 23rd and Market Streets for $10 million, adjacent to its nearly complete 2400 Market project. These parcels could accommodate a mix of future uses.

Outlook

The delivery of Comcast Technology Center, 2400 Market, 3675 Market, and One Franklin Tower will grow the inventory by 2.5 million square feet before year's end, with around 80% of it set for 2018 occupancy. While no additional construction starts are confirmed for the year, the ongoing shortage of quality blocks of space may yet drive existing and forthcoming requirements to take a serious look at anchoring ground-up developments, including 1301 Market Street and a first phase of Schuylkill Yards.

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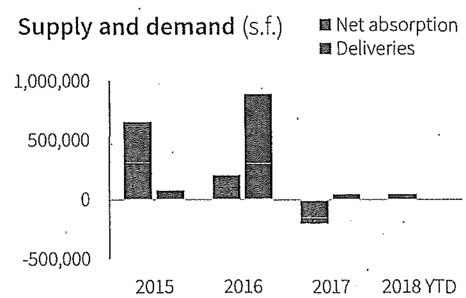
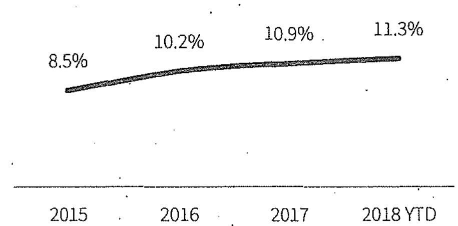
Fundamentals		Forecast
YTD net absorption	46,594 s.f.	▶
Under construction	2,574,894 s.f.	▼
Total vacancy	11.3%	▶
Average asking rent (gross)	$31.39 p.s.f.	▲
Concessions	Rising	▲

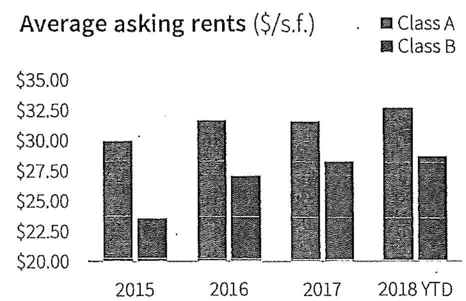
Supply and demand (s.f.)

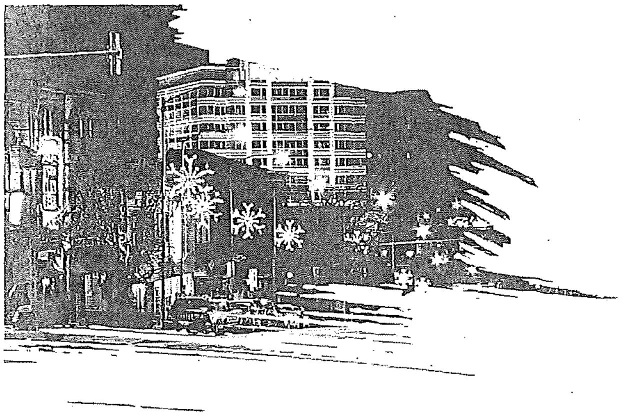


Total vacancy



Average asking rents ($/s.f.)





Philadelphia-Suburbs

2018 in the PA Suburbs starts off sluggishly with slight increases in vacancy and rents quarter-over-quarter

- The suburban office market started the first quarter with a 30 basis point increase in vacancy over Q4. However, on a year-over-year basis, vacancy has declined by 60 basis points.
- Rent growth has been minimal, both on a quarter-over-quarter and on an annual basis, with rents holding steady across most submarkets.
- Major deals include Main Line Health's renewal at 240 N Radnor Chester Road in Wayne and Qliktech's lease of 62,000 s.f. in King of Prussia.

In an otherwise stagnant quarter, the Plymouth Meeting/Blue Bell submarket saw the most notable absorption activity with the move-in of Cotiviti at the recently completed renovation of 785 Arbor Way. The redevelopment of the ArborCrest campus represents a continuing trend of upgrading tired suburban office product into modern Class A. Similar recent renovations in the Plymouth Meeting/Blue Bell submarket have experienced a 23% premium in post-renovation asking rents. Among major leases, Morgan Stanley signed for 100,000 square feet at One Tower Bridge, and Cardone Industries and Crown Holdings both signed large leases to move some or all of their operations outside of the city to Bala Cynwyd and Lower Bucks respectively, citing onerous taxes as one of the driving factors.

In King of Prussia, Liberty Property Trust executed several sales transactions this quarter, including part of the Renaissance Park Corporate Center containing 2100, 2201, 2300, 2500, 2520, and 2560 Renaissance Boulevard along with 2700, 2900, and 3600 Horizon Drive. Liberty also announced plans to move its headquarters from the Great Valley Corporate Center to Wayne, launching the $12 million redevelopment of 650 E Swedesford Road. Somerset Properties sold Hickory Pointe in Plymouth Meeting for $15 million. Speculative construction remains limited, and Seven Tower Bridge, one of the largest proposals, recently announced bankruptcy proceedings.

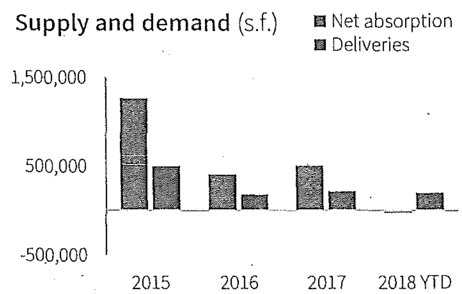
Outlook

The core submarkets (Radnor, Conshohocken, and Bala Cynwyd) will sustain their high pricing and tight occupancy, but they offer fewer growth and redevelopment opportunities compared to submarkets such as King of Prussia/Wayne, Plymouth Meeting/Blue Bell, and Fort Washington. In these areas, aging inventories in large office parks present opportunities for landlords to capture the growing demand for modern office space.

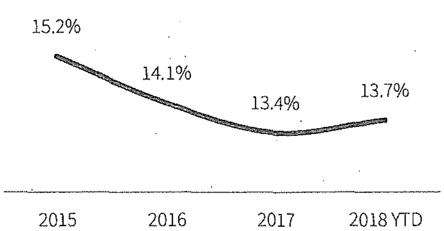
For more information, contact: Allen Odeniyi | allen.odeniyi@am.jll.com

Fundamentals	Forecast	
YTD net absorption	-27,049 s.f.	▼
Under construction	40,000 s.f.	▲
Total vacancy	13.7%	▶
Average asking rent (gross)	$26.26 p.s.f.	▲
Concessions	Stable	▶

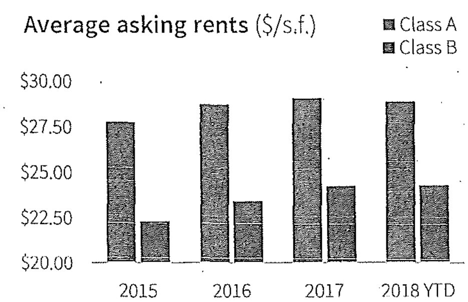
Supply and demand (s.f.)

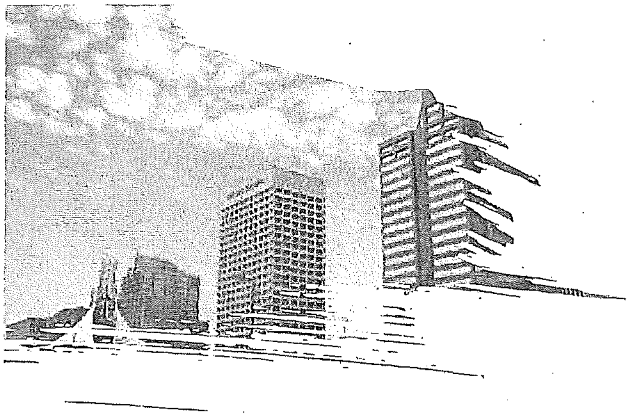


Total vacancy



Average asking rents ($/s.f.)





Phoenix

Phoenix office market reaching 19th straight quarter of positive net absorption

- Construction ramps up again with over 2.4 million square feet currently underway in the Phoenix Metro.
- Vacancy fell to 19.2 percent, reaching the lowest point since 2008.
- Rapid growth is slowing, but the Phoenix market has not yet reached its peak.

The market currently has 2.4 million square feet under construction, with an estimated 1.7 million square feet planning to deliver throughout the next 18 months. Just under of 22 percent of this new development has been pre-leased thus far. While this might seem like a lot of development activity, the lack of speculative properties is forcing tenants to get inventive with spaces.

Sales activity reached a strong $462 million in the quarter. Compressed yields in coastal markets is driving more investor interest in Phoenix, where returns are still relatively attractive. The healthy and growing labor force, affordable cost of living, and temperate climate will continue to attract investors, company headquarters, and tech users, supporting further investment here. Average Class A asking rents rose from $29.81 p.s.f to $30.88 p.s.f., an increase of 107 basis points. Tempe took command as the most expensive submarket in the Valley with a Class A asking rates of $38.73 p.s.f.

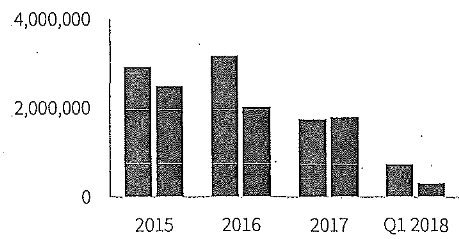
Vacancy continued its downward trend, coming in at 19.2 percent this quarter and approaching lows that haven't been seen since the second half of 2008. Tenant activity is strong with over 31 companies currently seeking 2.2 million square feet. A few large tenant move-outs this quarter stifled absorption gains, leaving notable large blocks of space, but there is plenty of room for growth before the market peaks.

Outlook

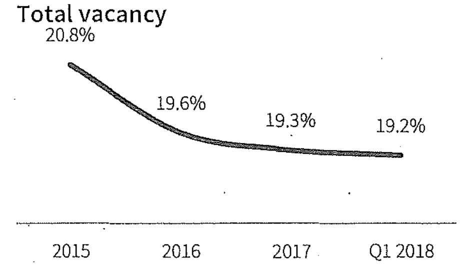
Although the first quarter was slow by recent standards, it is still the 19th straight quarter of positive net absorption for Phoenix. The market is projected to extend this streak in the second and possibly third quarter of 2018. Anticipated large move-ins will drive net absorption up and create a need for continued development and the creative use of space throughout the Metro area.

Fundamentals	Forecast
YTD net absorption	746,564 s.f. ▲
Under construction	2,442,328 s.f. ▲
Total vacancy	19.2% ▶
Average asking rent (gross)	$25.44 p.s.f. ▲
Concessions	Stable ▶

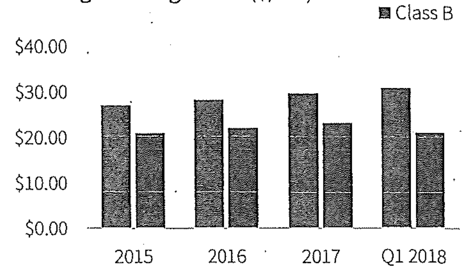
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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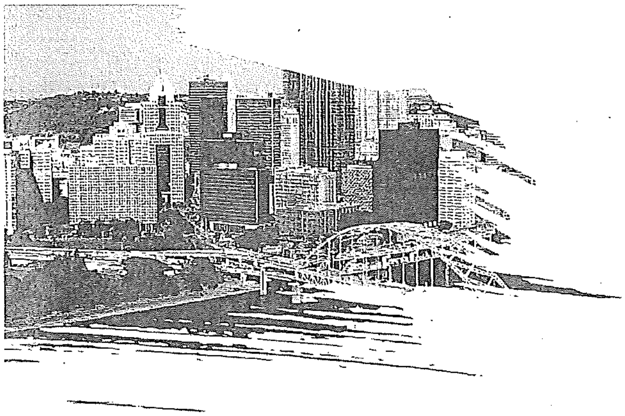
Rudolph Perez | Rudolph. Perez@am.jll.com



Pittsburgh

Over 900,000 square feet of new development is underway as investors bet on Pittsburgh's potential

- The year starts off with two large sublease availabilities hitting the CBD and Fringe submarkets.
- There was leasing activity in the West submarket, with over 118,000 square feet signed in the first quarter.
- New developments multiply in the Fringe and Oakland / East End submarkets.

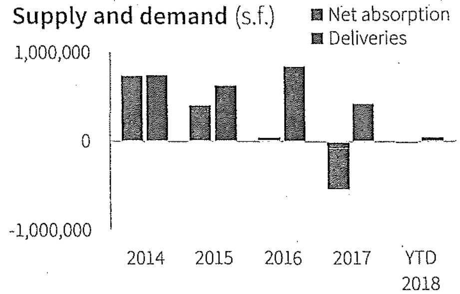
Fundamentals	Forecast
YTD net absorption	-21,941 s.f. ▲
Under construction	917,608 s.f. ▼
Total vacancy	17.6% ▼
Average asking rent (gross)	$24.04 p.s.f. ▲
Concessions	Stable ▶

The negative absorption in 2017 ended a long streak of positive absorption for Pittsburgh, but 2018 absorption started out relatively level. The CBD and Fringe submarkets added new large block availabilities, continuing the corporate right-sizing trend into the new year. In the CBD, BDO began marketing their 63,000 square feet of space for sublease at the Heinz 57 Center, however they have not yet vacated. Bank of America also began marketing 144,000 square feet of vacant sublease space in Nova Place in the Fringe. The arrival of new sublease availabilities, along with the new development, has provided additional options for tenants. Meanwhile, in the West submarket, ADP reached a deal to expand by 60,000 square feet in the former GlaxoSmithKline headquarters. At the same location, Value America signed for 35,000 square feet, proving there is still activity in the suburbs.

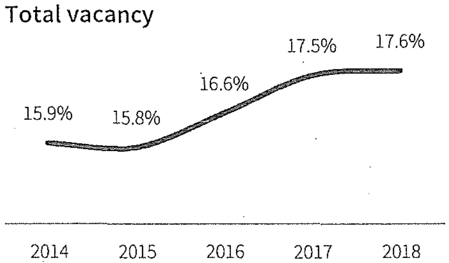
Outlook

Pittsburgh is positioned to trend back to its recent history of positive absorption. Recently, the move towards efficient work space has caused the average lease size to decline. Nearly twenty percent of Pittsburgh's top fifty employers have lowered their footprint in the past three years. Outside investment has helped Pittsburgh move forward in terms of the renovating and new development of office space, but leasing activity has lagged behind the added availabilities. Although negative absorption and increased vacancy continued into the first quarter, the region's economic indicators are all pointing in the right direction. Tremendous capital investment is being added from the medical sector, the growth in employment was recorded at 1.6 percent at the end of last year and 2017's total investment in technology companies reached a ten year high. The increased investment in the medical and technology sectors and leasing activity in the suburban submarkets are both good indicators that positive absorption is near.

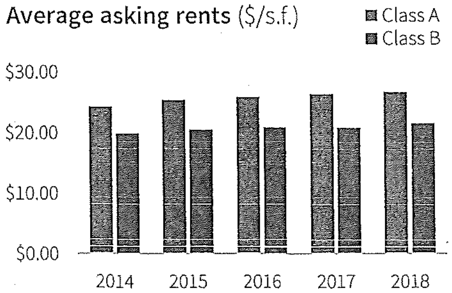
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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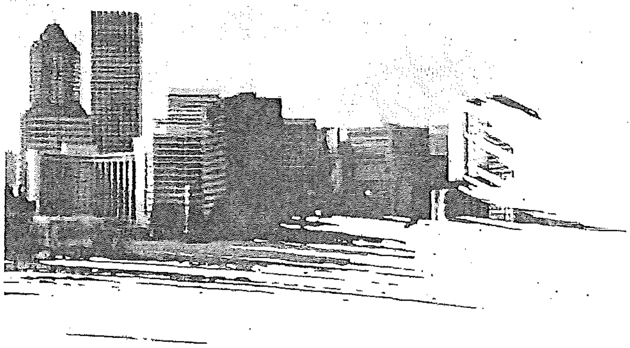

Portland

New construction activity dominates the first quarter

- Demand was lackluster this quarter but solid leasing activity should boost absorption numbers over the next six months.
- Vacancy rose above 10 percent for the first time since 2013 as deliveries continue to outpace demand.
- Portland Metro rent increases took a breather, except in the CBD where Class A rents increased 5.6 percent year-over-year.

2018 started the year in much the same way as 2017 with pent-up demand depressing absorption numbers. A number of large leases signed in the second half of 2017 are yet to commence and this should result in strong absorption in the second and third quarter, especially in new construction which is seeing healthy pre-leasing. Vacasa's announcement that it will nearly double in size when it moves to the soon to be delivered Heartline Building, added to a growing list of tech tenants taking up space in new construction. Jet Reports and Ampere Computing will move into The Leland James and Field Office in the third quarter, affirmation that Portland's newest office micromarket is one of the top choices for tenants looking for creative space.

While new construction is providing tenants with more choice, it comes at a price. A new high watermark office contract rent was recorded in Portland with the signing of a $38.00 per square foot NNN lease. The jump of $4.00 per square foot from the previous year is the largest increase on record and comes at a time when the high cost of office construction is pushing average asking rents up significantly in the urban submarkets, with asking rents for new construction now averaging $34.66 per square foot NNN.

Outlook

While the absorption numbers of this quarter were weak, keep an eye on the Westside suburbs. A number of larger deals are currently being negotiated, with the 217 Corridor/Beaverton attracting particular attention, and we expect vacancy and large blocks in most of these submarkets to decrease. We're also starting to see the slowdown of rent increases to more stable levels, with the exception of CBD Class A. New construction and the large number of capital market acquisitions and repositionings occurring in this submarket continues to push rents to record levels and this should continue throughout 2018.

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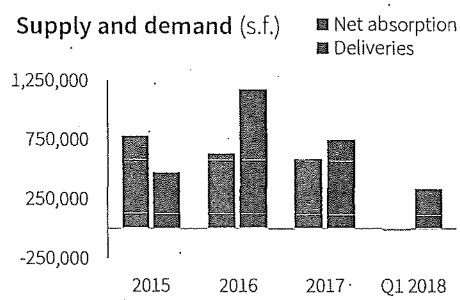
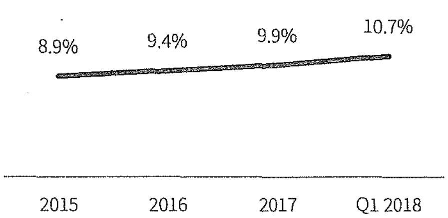
Fundamentals	Forecast
YTD net absorption	-10,030 s.f. ▲
Under construction	1,057,016 s.f. ▶
Total vacancy	10.7% ▲
Average asking rent (gross)	$28.76 p.s.f. ▲
Concessions	Rising ▲

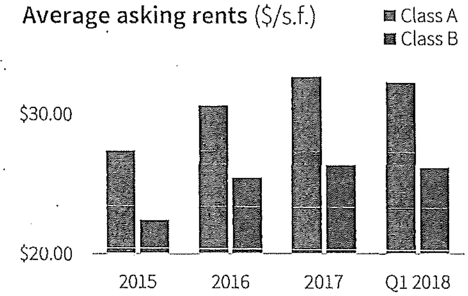
Supply and demand (s.f.)

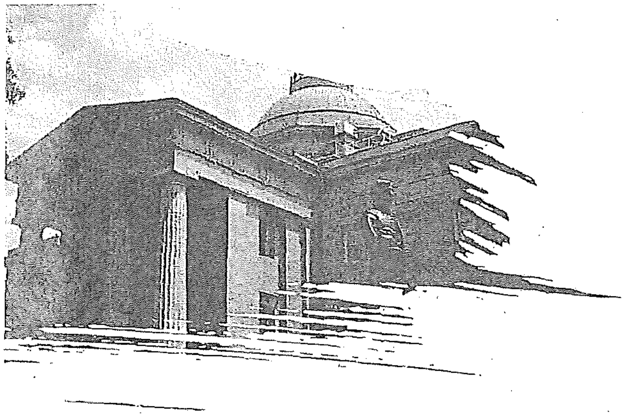


Total vacancy



Average asking rents ($/s.f.)





Raleigh-Durham

Let's work together: Raleigh-Durham makes its mark on coworking

- 2.6 million square feet of office is under construction. When delivered, this new product will account for 5.2% of Raleigh-Durham's inventory.
- While new development is expected to alleviate the tightness in the market, vacancy rates have remained stable.
- Over the last 24 months, coworking tenants have accounted for more than 250,000 square feet of leasing activity.

As one crane comes down, another pops up. After 2017's staggering 1.7 million square feet of deliveries, Raleigh-Durham's development activity isn't slowing down. With 2.6 million square feet now under development, 2018 is ramping up to be one of the market's busiest years yet. Since 2014, an average of 1.0 million square feet has delivered each year. At this rate, Raleigh-Durham's office inventory will exceed 50 million square feet by 2020. Which begs the question: who is driving the demand for product? The answer: technology and coworking tenants. Bandwidth announced it's adding 40,000 square feet to its location on N.C. State's Centennial Campus, joining the list of local technology companies that are growing in the area. Since signing its first lease at One Glenwood just outside Downtown Raleigh, WeWork has announced it will also occupy 58,000 square feet in Downtown Durham.

WeWork isn't the only coworking firm making moves in the area. Over the last few years, numerous flexible office locations have grown in the market. Industrious, which opened its first location in 2015, expanded its operations in Downtown Raleigh in 2017. HQ Raleigh is also in expansion mode, having recently completed renovations at the Capital Club building. Local coworking firm Office Evolution, which opened its first location in 2017, plans to add two additional locations.

Outlook

The rise of coworking and flexible office spaces signals Raleigh-Durham's transition from traditional technology and life sciences hub to booming coworking sector. Raleigh-Durham's thriving startup and technology sectors have increased the market's need for flexible office space. Next quarter, Spaces will likely debut its new location at The Dillon, adding more than 27,000 square feet of coworking space to the market.

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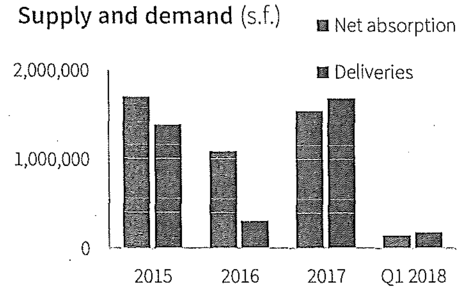
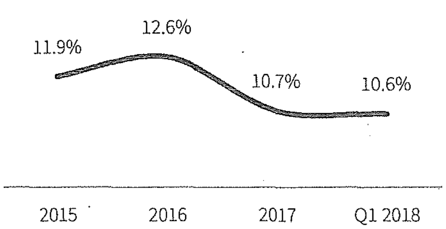
Fundamentals	Forecast
YTD net absorption	153,505 s.f. ▲
Under construction	2,636,251 s.f. ▼
Total vacancy	10.6% ▶
Average asking rent (gross)	$24.61 p.s.f. ▲
Concessions	Stable ▶

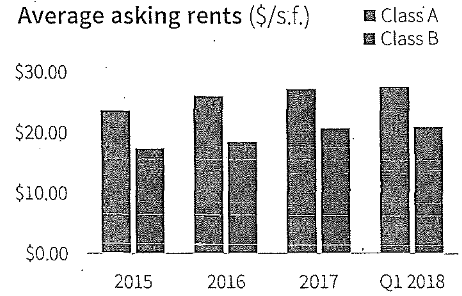
Supply and demand (s.f.)

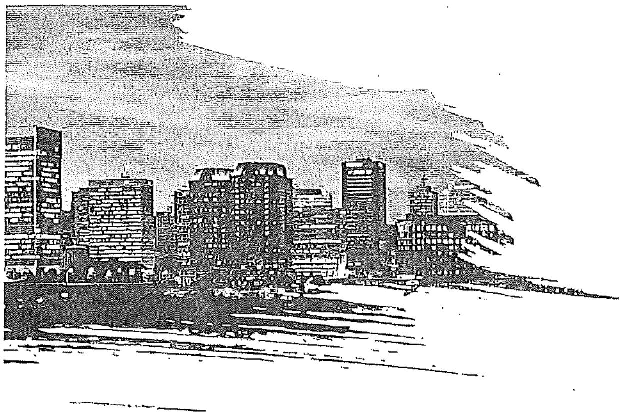


Total vacancy



Average asking rents ($/s.f.)





Richmond

Corporate give-backs create negative net absorption for the start of 2018

- New supply was limited; only 90,040 square feet has been delivered between 2016 and 2018, all of which was nearly fully preleased.
- A focus on talent attraction is leading users away from space efficiency measures to more opulent build-outs with amenities.
- Rising Class A rents created spillover demand in the lower class segments, contracting Class B vacancy to 12.3% from the high of 16.1%.

Occupancy gains achieved late 2017 were partially offset by significant corporate givebacks this year. GE Power, formerly Alstom Power, vacated 99,057 square feet at 2800 Waterford Lake Drive in the Rt 288 Corridor, creating the largest block of vacant Class A space in the suburbs and more than doubled the sublet vacancy in the Richmond metro. This combined Capital One's continued consolidation to their owner-occupied corporate campus at West Creek, and other small-scale downsizes in the suburbs, fueled negative net absorption for the quarter.

This surplus space may not remain on market long, however, as 81.9 percent of the first quarter's leasing volume was dedicated to expansions and relocations. Most notable was Union Bank and Trust's 67,415-square-foot expansion at Innslake Center in the Innsbrook submarket, producing a footprint increase of 92.8 percent by taking over space vacated by Bostwick Laboratories in 2016.

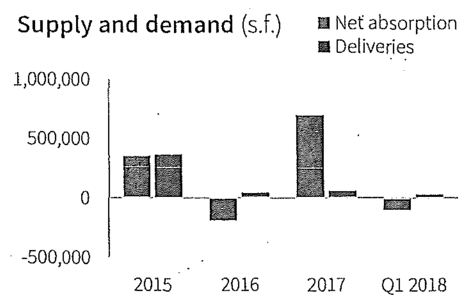
Outlook

Rising construction costs and additional build-out requirements for shell space produced effective starting rents 40.0 percent above existing Class A asking rates for some proposed developments in the suburbs. This made oversupply risk non existent near term despite significant vacancy contraction over the past three years. On the other hand, growing demand for office space in urban centers such as Scotts Addition, Manchester, and Shockoe Bottom may warrant small office infill development as residential and retail construction increases population density and expands the walkable amenity base surrounding the CBD. Overall, the Richmond metro is expected to remain space constrained, but more so in the suburbs and urban fringe submarkets than the CBD, maintaining upward pressure on asking rents and downward pressure on concession packages.

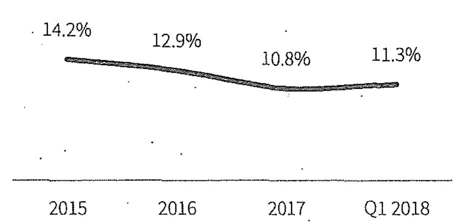
For more information, contact: Geoff Thomas | Geoff.Thomas@am.jll.com

Fundamentals	Forecast
YTD net absorption	-100,222 s.f. ▲
Under construction	0 s.f. ▲
Total vacancy	11.3% ▼
Average asking rent (gross)	$19.72 p.s.f. ▲
Concessions	Falling ▼

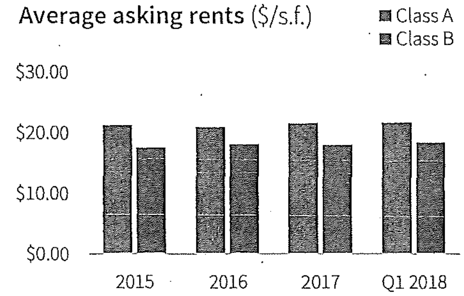
Supply and demand (s.f.)

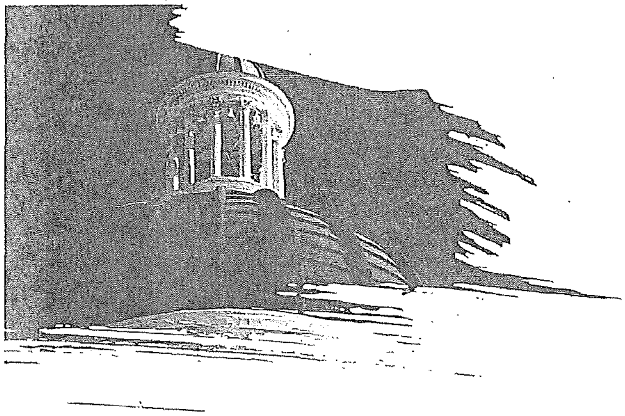


Total vacancy



Average asking rents ($/s.f.)





Sacramento

Market begins the year with solid growth; demand for newer space driving prime submarkets

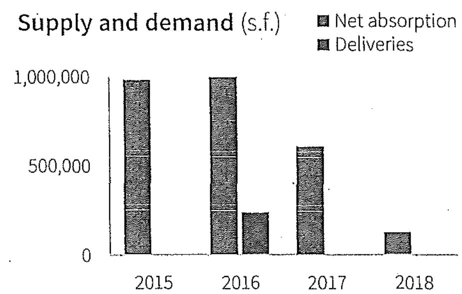
- Class A office outside of Sacramento CBD is being heavily targeted by tenants, nearly tripling the net absorption of Class B office space.
- Overall market rents have seen little movement when compared to last year, but prime submarkets are experiencing upward rent growth.
- The Sacramento office market continues to perform above expectations in regards to building sales, surpassing the previous quarter's investment figures.

Fundamentals		Forecast
YTD net absorption	130,205 s.f.	▼
Under construction	97,000 s.f.	▲
Total vacancy	11.6%	▼
Average asking rent (gross)	$1.97 p.s.f.	▲
Concessions	Stable	▶

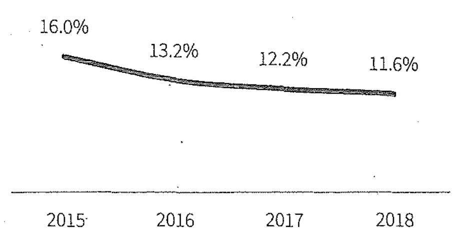
Market conditions in Sacramento have been steady as the region began the year with positive occupancy gains. While the public sector has been at the forefront of leasing activity, healthcare and professional services firms have also been active. Superior Vision occupied 31,000 square feet in a renovated building in the Highway 50 Corridor, while KP Public Affairs occupied their 19,000 square-foot space on Capitol Mall. Sacramento's CBD is attracting additional interest from tenants. The Center to Promote Healthcare relocated from North Natomas to the CBD submarket at 1 Capitol Mall, reflecting the inward migration from the suburbs.

With leasing activity steadily pushing down on vacancy, overall asking rents have risen, but primarily in highly desirable submarkets. CBD rents are up 7.5% from a year ago while Roseville and Folsom rents have grown 3.0% and 4.0% respectively.

Supply and demand (s.f.)



Total vacancy

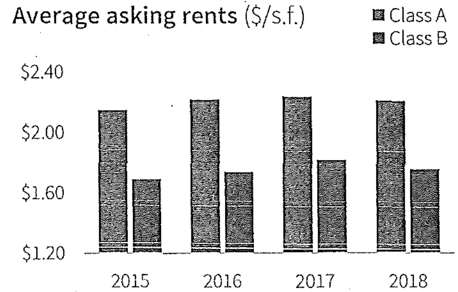


Outlook

As the market continues to experience employment growth and steady leasing, overall conditions are expected to tighten. Prime submarkets that house newer office product will see additional rent growth. However, limited availability in areas such as Rocklin and Folsom is creating tighter conditions. With fewer options and bolstered rents for prime space, some submarkets will see an increase in renewal activity until supply constraints can be eased.

Rents have yet to reach a point that would justify new development, but Sacramento is seeing a significant increase in office acquisitions. Sales volumes are up by 50 percent from last quarter. As the market gains further momentum, Sacramento is expected to see more investors target stabilized assets.

Average asking rents ($/s.f.)



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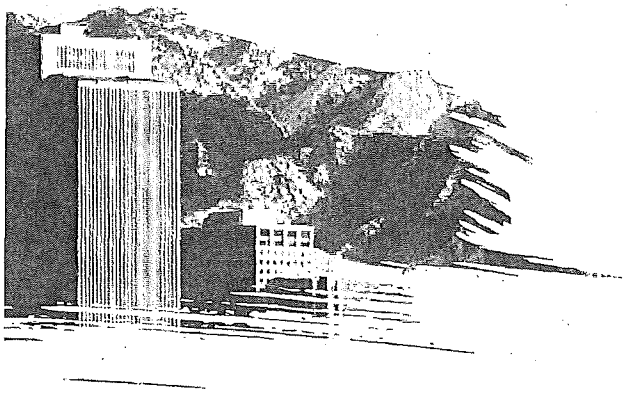


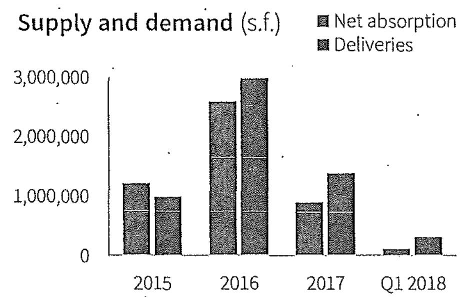
Salt Lake

Tenants focused on "Silicon Slopes" spur prime Class A development

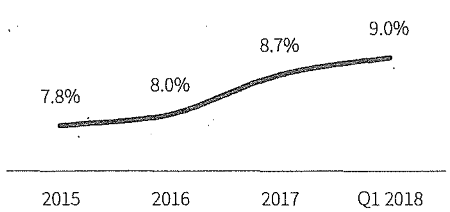
- Robust employment growth justifies new office projects.
- Class A development spearheads rapidly expanding office inventory, mostly focused in "Silicon Slopes" area.
- Tenant demand for higher end space and low vacancy continue to bump up asking rates.

Fundamentals	Forecast
YTD net absorption	120,379 s.f. ▲
Under construction	1,642,580 s.f. ▲
Total vacancy	9.0% ▶
Average asking rent (gross)	$23.24 p.s.f. ▲
Concessions	Stable ▶

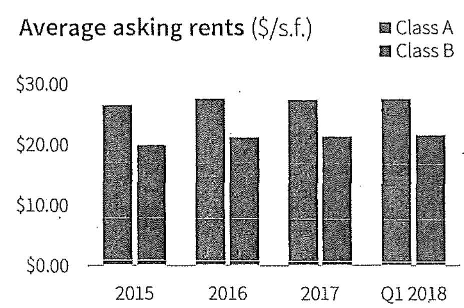
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



As Salt Lake's economy continues to add more jobs with a 2.8 percent 12-month job growth rate, compared to 1.6 percent nationally, companies like Instructure, Centrify, Mountain America Credit Union, SoFi, and Canopy Tax highlight the demand momentum for quality space market-wide. Enabling these expanding companies, developers have added 6.9 million square feet (m.s.f.), 11.0 percent of total office inventory, since 2014 and 4.7 m.s.f. just over the last two years. Currently, there are an additional 1.6 m.s.f. under construction. These companies seek state-of-the-art new Class A space and developers have responded with 87.8 percent of delivered product over the last four years meeting that criteria. Current construction follows the same pattern with Class A product making up 76.3 percent of the total. In fact, Class A inventory has increased by almost a third over the last four years.

Outlook

Growing companies, especially technology, have predominantly focused on the area known as "Silicon Slopes", which consists of the south end of Salt Lake County (Draper and Sandy South Towne) and the north end of Utah County. The primary motivators for companies to house their offices there are that it has close access to I-15, brand new Class A space is both available and in the construction pipeline with access to more developable land, and a desire to locate near other companies in the tech industry. Since 2014, Salt Lake has had 5.2 m.s.f. of Class A absorption with 4.0 m.s.f. (76.4 percent) landing in the "Silicon Slopes".

Salt Lake, market-wide, continues to have vacancy below the equilibrium point and a corresponding increase in lease asking rates. These trends are likely to continue throughout 2018 with hyper-demand in the "Silicon Slopes" leading the inventory, absorption, and rental growth.

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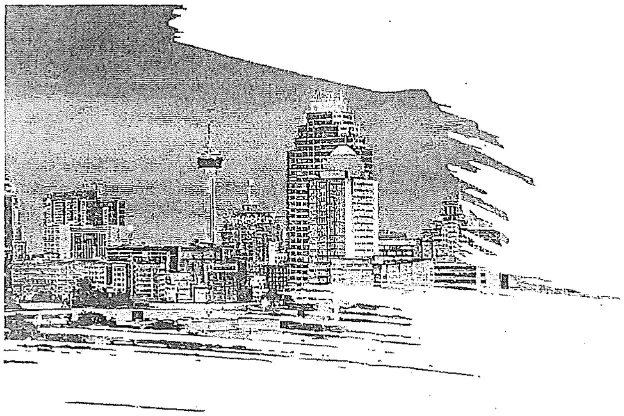


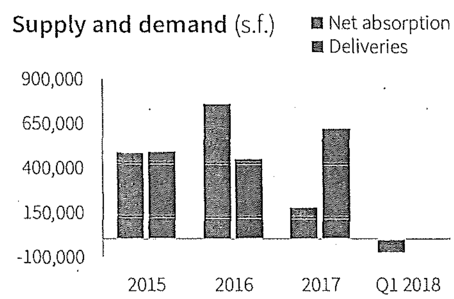
San Antonio

Slow end to 2017 continues into 2018

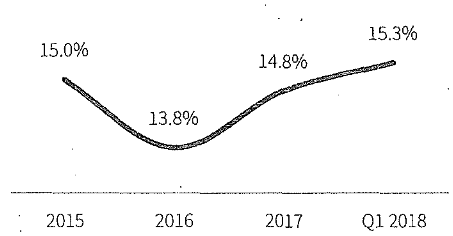
- Slow leasing activity to end 2017 results in negative absorption to start 2018.
- Despite a slow start to 2018, average rental rates continue to climb.
- CBD shines as suburbs slow.

Fundamentals	Forecast
YTD net absorption	-72,323 s.f. ▼
Under construction	1,395,283 s.f. ▲
Total vacancy	15.3% ▶
Average asking rent (gross)	$23.07 p.s.f. ▲
Concessions	Rising ▲

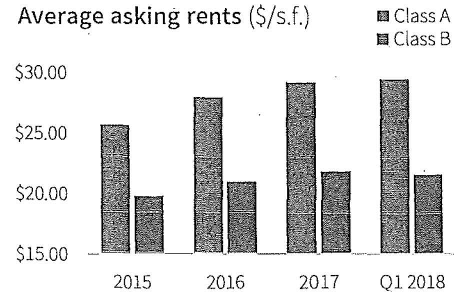
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Following a flat fourth quarter to round out 2017, the first quarter of 2018 arrived with a similar tone. Sluggish leasing activity experienced at the end of 2017 resulted in negative absorption to start the year, with the overall vacancy rate increasing 50 basis points. This lull in activity, in tandem with over 600,000 square feet of new product delivered to the market in 2017 were two of the major factors. Absorption numbers for the first quarter of 2018 saw tenants vacate 72,323 square feet more space than was occupied. While leasing was down, tenant requirements appeared to increase in the first quarter compared to the end of 2017. Signs such as this point towards a positive outlook for the coming quarters.

In spite of the setbacks to San Antonio's vacancy and absorption numbers, there were positives that could be taken from the quarter. The average asking rental rate steadily increased for the 8th consecutive quarter. Expect rental rates to continue their gradual increase with potential to ramp up late in 2018 with the deliveries of new Class A construction. While absorption market wide was negative, the CBD submarket posted nearly 23,000 SF square feet of positive net absorption.

Outlook

As San Antonio's suburban markets struggle to gain traction, the recently found momentum enjoyed in downtown continued at the start of 2018. With skyline altering projects like Frost Tower well underway and proposed projects on Lower Broadway down to HemisFair Park looking more like reality than concept, expect the momentum of downtown to accelerate even further.

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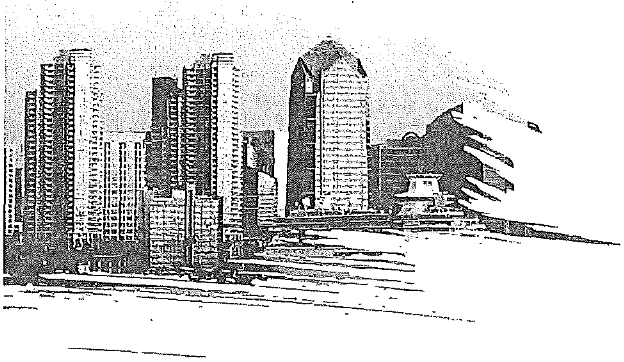

San Diego

Amid two large move outs, Q1 remained resilient with nearly half a million square feet of tenant move-ins

- Education sector restructuring across the county is impacting big-block space.
- UTC and Sorrento Mesa lead the way for demand, mid-size user activity remains robust.
- Pre-leased ground-up construction, low vacancy and future move-ins continue to increase average asking rents.

In Q1 2018 there were two large tenants that vacated a total of 375,000 square feet (s.f.), the City of San Diego relocation in Downtown and Bridgepoint in Rancho Bernardo consolidating into their Kearny Mesa location. Compared to all of 2017 there were only two move-outs over 100,000 s.f. (Novatel Wireless in Sorrento Mesa and Renovate Americas relocation in Rancho Bernardo). There are two large education tenants looking to relocate, Alliant University in Scripps Ranch and Thomas Jefferson School of Law in Downtown. Another education tenant making an impact on large office space this year is the Regents of The University of California that will be occupying 82,000 s.f. in Kearny Mesa and another 58,000 s.f. in Rancho Bernardo.

Leasing activity for San Diego's small to mid-size companies was robust throughout Q1 2018. The market saw nearly twice as many move-ins compared to the number of move-outs among 10,000 s.f. and greater. There was a total of 475,000 s.f. of move-ins all ranging from 10,000 to 70,000 s.f. The two standout submarkets in Q1 for positive absorption were Sorrento Mesa (70,000 s.f.) and UTC (98,000 s.f.). Top move-ins included Omnitracs LLC and Internet Brands in Sorrento Mesa then WeWork and KPMG in UTC.

Outlook

Overall average asking rents increased 2.8 percent in Q1 from Q4 2017 due to stable vacancy, 65 percent pre-leased new construction, and 700,000 s.f. of future tenant move-ins. The largest future occupancies include Nortek Security (88,858 s.f.), TrellisWare Technologies (72,308 s.f.), Abacus Data Systems (63,129 s.f.), and Great Call (56,153 s.f.). Technology and scientific research sectors accounted for 53 percent of leasing activity in the quarter. Although demand was flat for Q1, large tenant requirements for education, technology, and scientific research sectors will continue to bolster leasing throughout the year.

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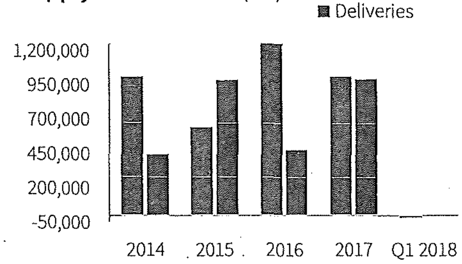
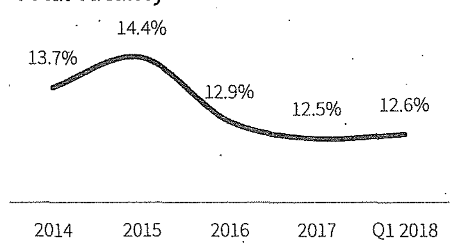
Fundamentals	Forecast
YTD net absorption	-16,817 s.f. ▼
Under construction	1,256,098 s.f. ▲
Total vacancy	12.6% ▶
Average asking rent (gross)	$2.79 p.s.f. ▲
Concessions	Stable ▶

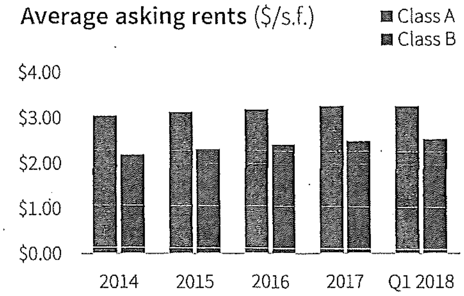
Supply and demand (s.f.)

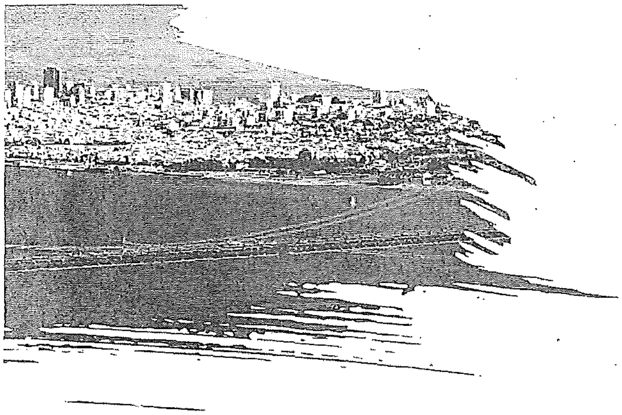


Total vacancy



Average asking rents ($/s.f.)





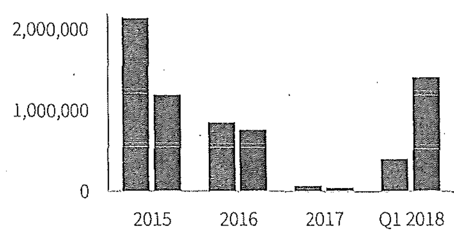
San Francisco

Tech tenants fuel leasing momentum in San Francisco

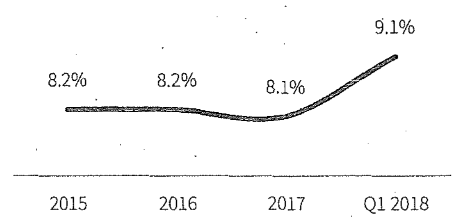
- Leasing activity is strong, with just over 2.1 million square feet of office space leased in Q1 2018.
- Multiple large tenants are moving into preleased space, causing net absorption to rise.
- Despite being 96.4 percent preleased, Salesforce Tower is only partially occupied, causing total vacancy to tick up.

Fundamentals	Forecast
YTD net absorption	408,909 s.f. ▲
Under construction	5,263,942 s.f. ▶
Total vacancy	9.1% ▼
Average asking rent (gross)	$74.64 p.s.f. ▲
Concessions	Rising ▲

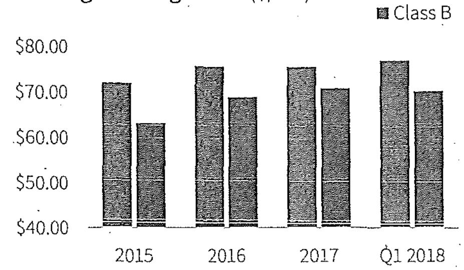
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



Leasing activity is maintaining momentum from last year, with three deals over 100,000 square feet signed in the first quarter. WeWork leased 251,000 square feet at 400 California, expanding their San Francisco presence to just over 1.0 million square feet of office space. Twitter renewed for 221,000 square feet at 1355 Market and StitchFix signed for 133,952 square feet at One Montgomery.

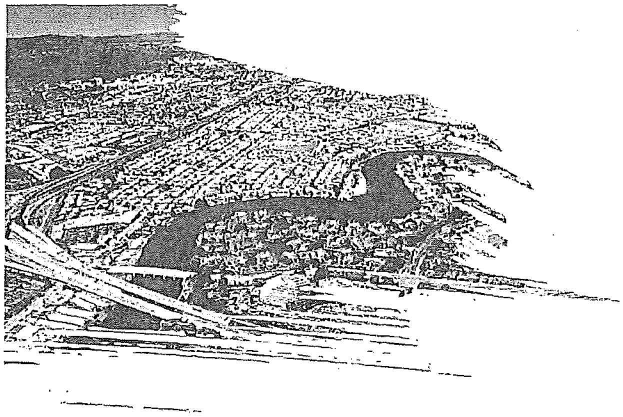
There was significant net absorption in the first quarter of 2018 as multiple large tenants occupied their preleased spaces, with Salesforce Tower being the largest contributor. Despite driving positive absorption, many of Salesforce Tower's tenants have yet to occupy, causing total vacancy to rise. The recently delivered development, which is 96.4-percent preleased, will drive absorption upward and allow vacancy to tighten up as its tenants begin to occupy their spaces throughout 2018 and early 2019.

San Francisco tenants value spaces with creative and flexible build-outs that are move-in ready, causing strong demand for both creative and plug-and-play spaces. Landlords are offering higher tenant improvement allowances for outdated spaces in an attempt to meet the needs of present-day tenants.

Outlook

There is currently 5.3 million square feet under construction in San Francisco. 3.2 million square feet is slated for delivery before year-end 2018, of which 76.5 percent is preleased. Absorption will rise and vacancy will tighten as new developments are occupied throughout 2018 and early 2019. Rents will increase as well as these availabilities possess some of the highest asking rates in San Francisco.

For more information, contact: Alec MacKinnon | alec.mackinnon@am.jll.com



San Francisco Mid-Peninsula

Caltrain corridor remains hot, but consolidation among large financial tenants push vacancy higher

- Deal activity has been steady. With few downtown Redwood City options available, some tenants are looking to suburban campuses along 101
- Consolidation among large financial tenants has added vacancy to the Central County
- Leasing activity in the North County has begun to pick up the pace, fueled by life science and small tech companies in need of administrative office space

Leasing activity has held steady despite vacancy rates slightly rising over the past 12 months. Much of the focus has been along the El Camino/CalTrain corridor, where demand for new development is especially strong. Guidewire Software landed a 189,000 square-foot space at Bay Meadows in San Mateo. The company is relocating from Foster City, illustrating the importance of amenities and CalTrain access. Guidewire will leave behind several floors in Foster City, where Visa recently put 200,000 square feet on the market at its corporate campus, driving vacancy up in that submarket. Meanwhile, the Brisbane office market is slowly picking up steam as more tenants begin to land there. Relatively lower asking rates, proximity to San Francisco, and a red hot biotech sector are attracting more full-floor tenants to the North County.

Outlook

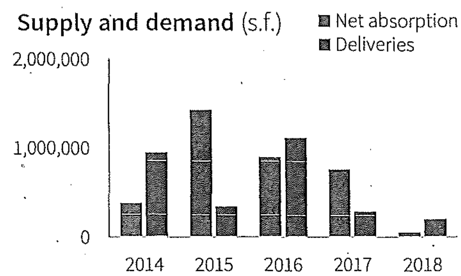
The thriving local tech sector is translating to greater demand for office space as companies expand. Several large corporate tech tenants are aggressively expanding, putting pressure on Menlo Park and Redwood City.

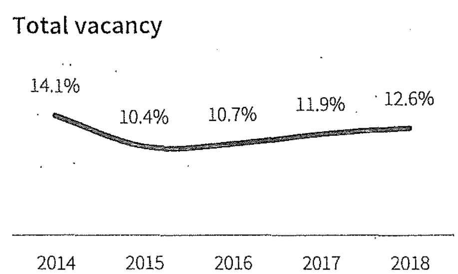
Tenant migration will move through the 92 corridor toward the North County, despite some dampening from the elevated Foster City vacancy. Additional new development would potentially ease supply-constrained submarkets, but many projects are still working through entitlements and may not be available to meet more urgent tenant needs. With several sizeable tenants looking to expand, any newly entitled projects are highly likely to achieve significant pre-leasing.

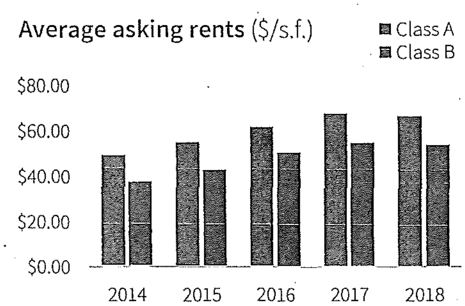
The local tech sector will drive growth in the Mid-Peninsula office market during 2018. Tenants like Guidewire are expected to drive positive net absorption and to keep rents on an upward trajectory during the year.

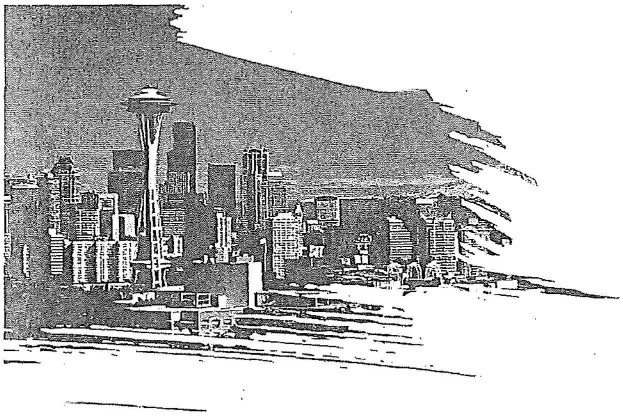
For more information, contact: Christan Basconcillo | christan.basconcillo@am.jll.com

Fundamentals	Forecast
YTD net absorption	59,883s.f. ▲
Under construction	1,801,535 s.f. ▲
Total vacancy	12.6% ▼
Average asking rent (gross)	$64.44 p.s.f. ▲
Concessions	Stable ▶









Seattle-Bellevue

Pent up absorption is felt in the Seattle-Bellevue Office market

- Increases in vacancy to 10.0% can largely be attributed to a couple of large move-outs and sublease spaces becoming vacant, but market fundamentals remain strong as evidenced by future absorption.
- Seattle CBD adds significant supply of coworking space to the office market.
- Technology, coworking and life science sectors remain very active in the market and account for 70 percent of total requirements.

The Seattle office market experienced positive net absorption, but the growth was limited by a handful of big move-outs. Notably, Boeing vacated nearly 190,000 square feet from the I-90 Corridor and plans to vacate an additional 138,000 square feet from Renton. However, we anticipate a significant volume of occupancy gains in the coming quarters as there are nearly 3.0 million square feet of signed leases that are currently vacant but will be occupied by multiple tenants including Amazon and WeWork throughout the year.

After closing out an impressive year in 2017, the amount of leasing activity declined in Q1, but included several notable transactions. WeWork recently signed leases totaling 250,000 square feet in the Seattle CBD, with a target occupancy in Q3 2018. Aggressive expansion is expected throughout the year, driven by changing nature of work and its accessibility with affordable costs.

Sales activity had a slow start to they year, but expectations are that activity will pick up slowly throughout the year. Several high-profile properties will be on the market and demand and pricing for these assets will be important indicators of the state of the Seattle/Puget Sound capital markets.

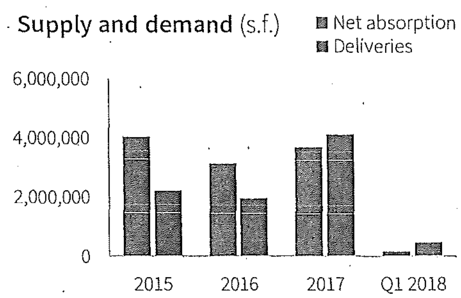
Outlook

Despite a slowdown in leasing transactions during the first quarter, we expect this to be a temporary setback. Demand in the market remains strong and we anticipate leasing velocity to rebound in the coming quarters. Several potential leases are in the pipeline, while others are currently being finalized. Additionally, the development pipeline remains strong and several office projects are planned that could break ground if they are able to secure large tenant commitments. With continued strong demand and more than 5.0 million square feet potentially coming to the market over the next two years, Seattle should still poised for continued growth.

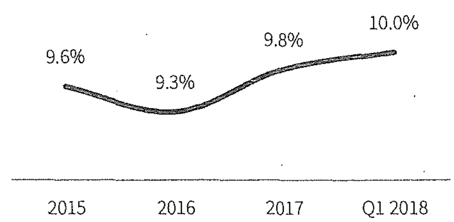
For more information, contact: Yeon Soo Lee | yeonsoo.lee@am.jll.com

Fundamentals	Forecast	
YTD net absorption	192,856 s.f.	▲
Under construction	4,821,203 s.f.	▲
Total vacancy	10.0%	▼
Average asking rent (gross)	$38.26 p.s.f.	▲
Concessions	Falling	▼

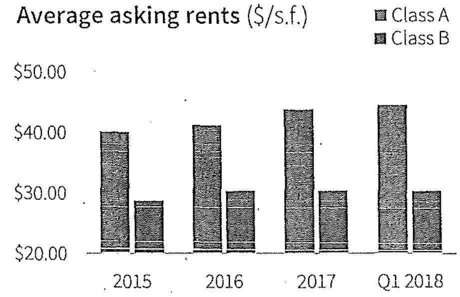
Supply and demand (s.f.)

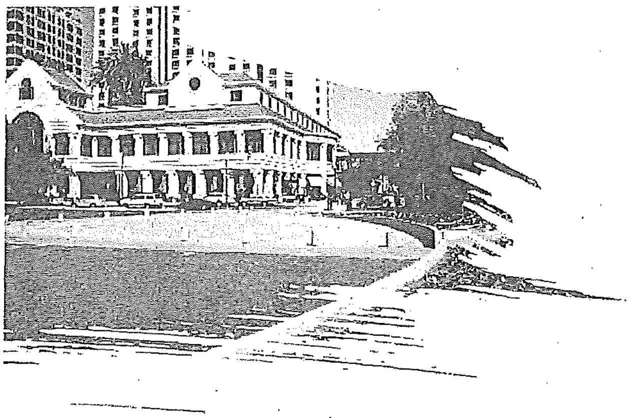


Total vacancy



Average asking rents ($/s.f.)





Silicon Valley

Occupancy levels head south, but so are tenants looking for Class A office expansion

- M&A and consolidation activity in the hardware sector led tenants to vacate space, resulting in significant occupancy losses during the first quarter.
- Rents in prime submarkets are at cyclical peaks, but older, less desirable space is weighing down overall market rents.
- Demand for high-quality, Class A space is holding firm, with tenants landing deals in newer office construction.

Silicon Valley vacancy pushed higher in the first quarter. This rise was expected, as fallout from merger, layoff, and consolidation plans announced last year by several large networking and telecom companies finally hit the market. The bulk of space to hit the market is concentrated in North San Jose and Milpitas. Because of their significant inventory of older property, leasing activity in these areas has been moderate compared to other parts of the Valley. Tenant demand for Class A space is concentrating on submarkets that have a larger supply of newer, more desirable space. The Valley has become a polarized market, where heated submarkets are tight, while softer conditions prevail in regions such San Jose and Milpitas.

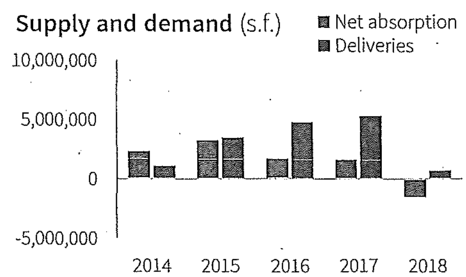
Outlook

2018 has started on a similar trajectory to 2017, with significant negative net absorption early on driven by the local semiconductor industry. Last year, the situation turned around during the fourth quarter with large corporate tech tenants occupying new development. More than 1.0 million square feet of pre-leased Class A space will be occupied later this year by tenants such as Veritas, Analog Devices, 8x8 and Google. Santa Clara will capture much of this absorption. The submarket has experienced a rise in Class A vacancy and has good supply of options for expanding tenants.

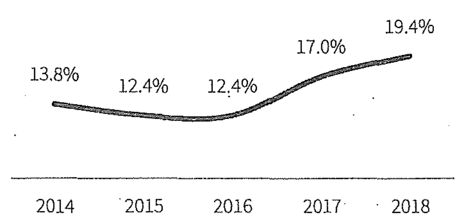
Despite some consolidation, the Valley's local technology sector is not slowing. Several large tenants are rumored to be circling, while mid-sized, full-floor tenants are trading up for nicer space. Average asking rents will stay stable for the first half of 2018, but the resurgence of large leasing activity could push rents past 2017 levels before year end.

Fundamentals	Forecast	
YTD net absorption	-1,522,070 s.f.	▼
Under construction	2,964,101 s.f.	▲
Total vacancy	19.4%	▶
Average asking rent (gross)	$49.92 p.s.f.	▲
Concessions	Stable	▶

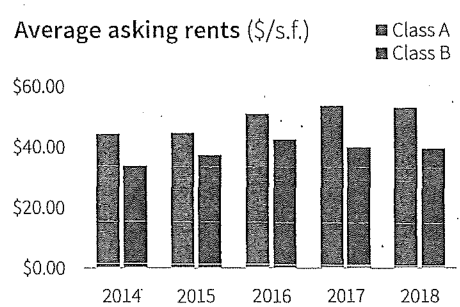
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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St. Louis

Asking rents move up as quality space remains limited

- The second phase of Ballpark Village broke ground this quarter, giving Downtown St. Louis its first new construction office building since the 1980's.
- Landlords of Class B buildings are taking advantage of tight Class A conditions and raising asking rates. Rates were up 3.3 percent from last quarter.
- Local investors remain active in acquiring suburban office properties.

Fundamentals	Forecast
YTD net absorption	-61,414 s.f. ▲
Under construction	825,735 s.f. ▶
Total vacancy	12.3% ▶
Average asking rent (gross)	$20.11 p.s.f. ▲
Concessions	Stable ▶

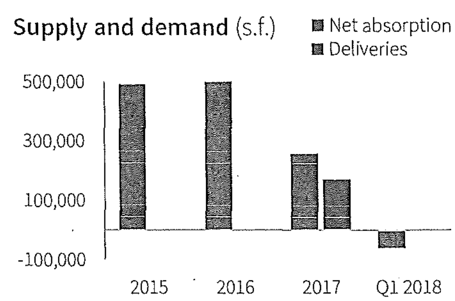
A quiet first quarter brought negative absorption to the region for the first time since 2014. However, overall fundamentals remain strong, unemployment is below 4.0 percent and office occupying job growth continues to outpace the rest of the region. Both Kellwood and The Art Institute downsized this quarter, both vacancies are over 30,000 square feet. Leasing activity was led by American Family Insurance's 80,000 square foot transaction at The Crossings at Northwest. The insurance company will join Charter and St. Louis County at the converted mall when it moves from Riverport (Northwest County) early next year. Local owners continue to be active as Scott Properties and Bamboo Equity Partners made acquisitions this quarter. The second phase of Ballpark Village broke ground in January. The building will give Downtown St. Louis its first new office building since the 1980's. Accounting firm PwC is already signed on as an anchor in the 120,000 square foot building.

Class B landlords took advantage of tight conditions in the Class A market. Several buildings upped asking rates this quarter giving the region a 3.3 percent bump from the end of 2017. The move upped overall asking rates 3.0 percent from last quarter.

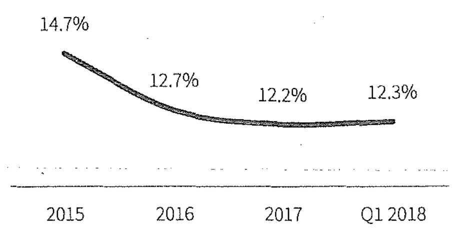
Outlook

With less than 10 Class A suburban vacancies over 20,000 square feet, the market remains tight. However, there is some vacancy on the horizon as TD Ameritrade recently announced further layoffs after acquisition of Scottrade. Two of its four buildings remain on the market for sale. Local pharmacy giant, Express Scripts just reached an agreement to be acquired by Cigna. Express Scripts occupies a significant amount of office space at its campus in Northwest County and the fate of its space is still unknown.

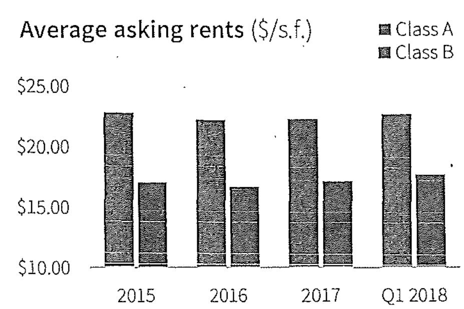
Supply and demand (s.f.)



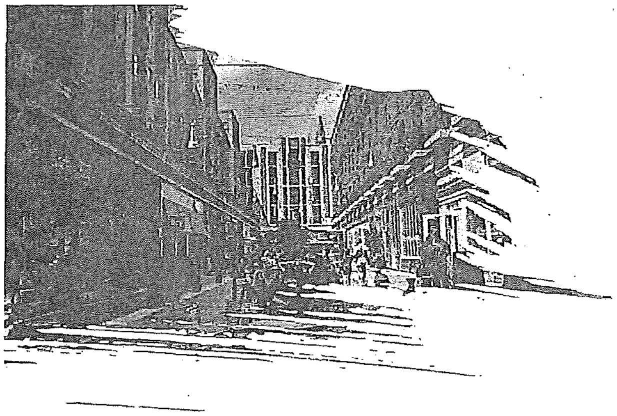
Total vacancy



Average asking rents ($/s.f.)



For more information, contact: Blaise Tomazic | blaise.tomazic@am.jll.com



Suburban Maryland

Development and leasing activity rise, but lower-tier product drags down quarterly market fundamentals

- Move-outs and consolidations in Class B and Class C product resulted in negative absorption for the quarter.
- Trophy development in Bethesda-CBD has helped raise the overall average direct asking rate by 5.7% over the past year.
- Aided by a pair of life science deals, leasing activity increased 9.7% year-over-year with three leases signed for larger than 100,000 s.f.

While a handful of move-outs and contractions softened Suburban Maryland's quarterly absorption, the development pipeline has risen to a five-year high, and leasing activity ticked up 9.7% compared to Q1 2017. The largest consolidation came from Greenhorne and O'Mara, an engineering firm in Laurel, giving back half of their space at 6110 Frost Place. The contractions were limited to the lower tiers of the market: Class A product posted 74,819 s.f. of net absorption for the quarter.

Driven by Trophy projects in the Bethesda-CBD, new development has achieved $60+ p.s.f. rents, a first for the market. The increase in construction comes after three years of no new product in Bethesda-CBD, and direct Class A vacancy declining to 8.4%. Demand to-date has come primarily from within Montgomery County, drawing tenants from off-Metro Class A space.

Leasing activity during the quarter was aided by an uptick in life science demand. The largest deal landed at 1201 Clopper Road, where Lentigen signed a 147,051-s.f. relocation as the life science company expands within Montgomery County. In addition to Lentigen's lease, two other leases signed for over 100,000 s.f., including Supernus Pharmaceutical's expansion to 118,834 s.f. at 700 Quince Orchard Road.

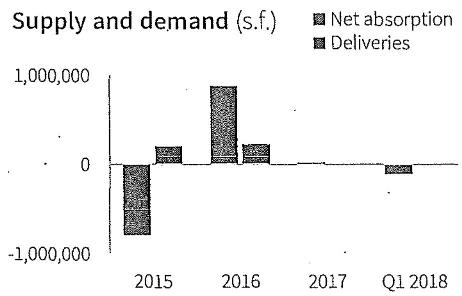
Outlook

As Trophy development garners preleasing in Bethesda-CBD, there could be an opportunity for tenants to move up into second-generation commodity Class A space. While market fundamentals for Class A space will most likely stabilize over the next 12 months, it is unclear what will happen to the Class B and Class C market dynamics as tenants upgrade into higher quality buildings. The trend will likely leave Class B owners to either update their building, or change the use of the building in order to make their space competitive in the market.

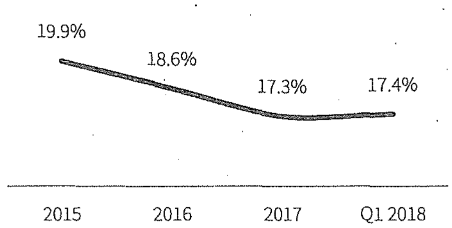
For more information, contact: Sara Hines | sara.hines@am.jll.com

Fundamentals	Forecast
YTD net absorption	-104,998 s.f. ▲
Under construction	1,463,700 s.f. ▲
Total vacancy	17.4% ▼
Average asking rent (gross)	$28.84 p.s.f. ▲
Concessions	Rising ▲

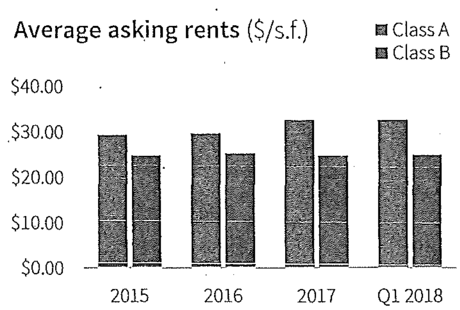
Supply and demand (s.f.)

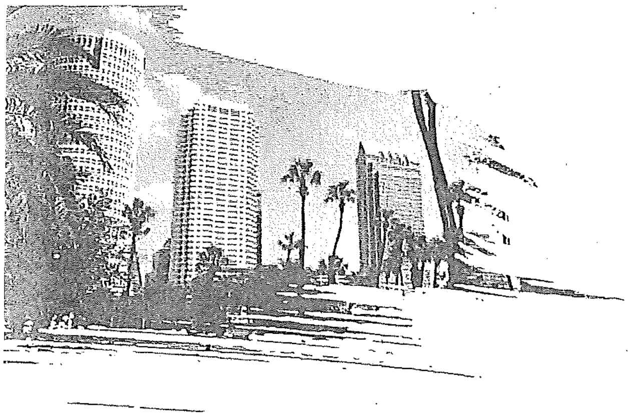


Total vacancy



Average asking rents ($/s.f.)





Tampa Bay

2018 is poised to be the year Tampa Bay's pipeline flows rather than trickles

- The market continues to tighten as vacancy rates remain on the decline – at a faster pace in Class B product, but with Class A vacancy currently nearly half that of Class B – at 8.3%.
- The groundbreaking of Westshore's newest office building has broken the $40.00 gross asking rate ceiling for the region.
- As developers continue to advance their proposals for downtown and the suburbs, 2018 could see the start of multiple new office projects.

As a new year begins, it appears Tampa Bay is positioned to see a shift in how it is defined as an office market. The disparity between high-end office demand and the availability of space has had historical implications on both the ability for rental rates to grow and the options firms have when looking to relocate or expand. Now, some of that can be alleviated as MetWest Three breaks ground in Westshore, bringing 90,000 square feet of available space to market, and both Strategic Property Partners and Feldman Equities make progress on their ambitious developments in downtown Tampa.

The recipe is there, as existing building owners are already seeing historically high rents of $33.00-$34.00 gross Downtown and $36.00-$37.00 gross in Westshore, with the latest building fetching a 10 percent premium and breaking $40.00 in asking rent. On top of that, the first quarter of 2018 saw the highest net absorption in the last seven quarters, with large users such as EmCare, Surgery Partners, HDR Engineering, ER Squibb & Sons, and Windhaven Managers moving into their new spaces in Gateway and Westshore, and contributing to the nearly 250,000 s.f. of absorption the region saw to start the year.

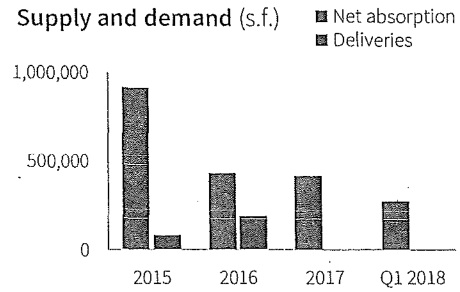
Outlook

As the culmination of population, job, and office demand growth comes to a head in Tampa, 2018 could be the year where we see dirt moving on office projects, especially in Downtown Tampa and Westshore. Increasing asking rates and strong absorption are validating the proposals currently in the pipeline, at a time where Tampa continues to shine as a great place to do business in the southeast. Regardless of whether or not development springs forward this year, we will continue to see increasing asking rates across the region, especially in Class A product, and falling concessions as leverage remains in the hands of Landlords.

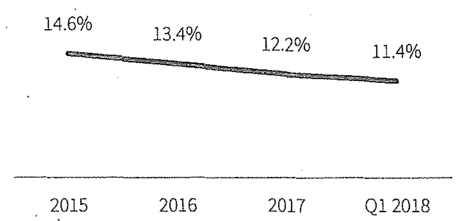
For more information, contact: Kyle Koller | kyle.koller@am.jll.com

Fundamentals		Forecast
YTD net absorption	246,735 s.f.	▲
Under construction	416,554 s.f.	▲
Total vacancy	11.4%	▼
Average asking rent (gross)	$25.28 p.s.f.	▲
Concessions	Falling	▼

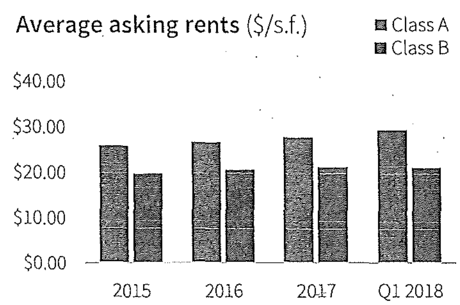
Supply and demand (s.f.)

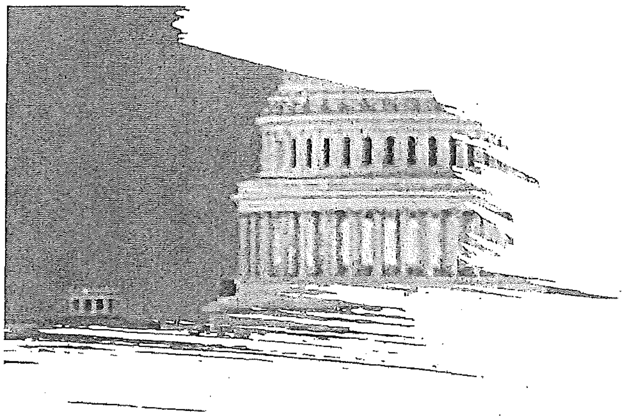


Total vacancy



Average asking rents ($/s.f.)





Washington, DC

Supply will outpace demand as 4 million s.f. delivers in 2018 and growth remains confined to tech/coworking

- Growing tech companies such as Yelp, Facebook and Mapbox remain the main driver of occupancy growth, along with WeWork, working to offset consolidation among federal agencies and law firm rightsizing.
- Large-block options >20,000 s.f. have increased by 40% over the past two years; 12 buildings, all with large block availabilities, will deliver in 2018.
- Class A rents will decline by 3% over 2018 as concessions rise due to excess supply, while Class B rents will grow by 4% as options dwindle.

Tech companies and coworking providers generated more than 200,000 s.f. of occupancy gains in the first quarter as Facebook and Yelp took occupancy at Terrell Place and MakeOffices opened at The Wharf and in Georgetown (Glover Park). These sectors will remain the main driver of growth in Washington, DC. During Q1, WeWork announced the opening of its ninth location at 777 6th and is now the largest private sector tenant in the city with a footprint of 500,000 s.f.

While tech and coworking providers are growing rapidly, the traditional segments of the tenant base – namely law firms – continue to rightsize, primarily by relocating from former Trophy product to new developments. WilmerHale, Baker Botts and Pepper Hamilton all recently signed leases at new product and reduced their footprints by 25% to 50%. Only eight large law firms have not rightsized in the current cycle, all of which have lease expirations in the 2022-2024 time frame.

Outlook

With 7.6 million s.f. under construction and only 52% preleasing commitments, leverage within the Trophy and Class A segments of the market will remain strongly in tenants' favor as options remain plentiful. Over the past two years, core large-block options have increased by 40% with the largest jump in the $50-$59 p.s.f. FS tranche as former federally occupied buildings are renovated into the mid/high-$50s p.s.f. FS and commodity Class A buildings that have faced prolonged vacancy have started to drop rents from the $60s p.s.f. FS into the high-$50s p.s.f. FS. As Trophy/Class A vacancy rises from 16% towards 20% over the next 24 months, rents will continue to decline. In contrast, leverage within the Class B market is shifting in landlords' favor as vacancy has dropped below 8% and rents have grown by 7.3% over the past 24 months. The tightening of the Class B market has been a boon for the non-core submarkets, which continue to see inbound private sector demand.

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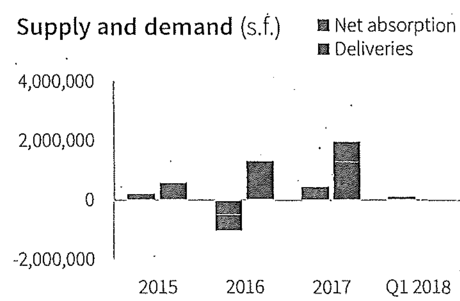
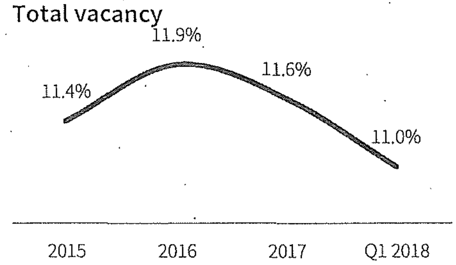
Fundamentals	Forecast
YTD net absorption	111,760 s.f. ▲
Under construction	7,636,919 s.f. ▼
Total vacancy	11.0% ▲
Average asking rent (gross)	$59.99 p.s.f. ▼
Concessions	Rising ▲

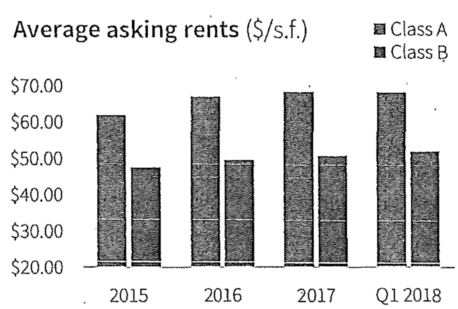
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



West Palm Beach

Growth is trending in the suburbs with numerous large blocks leasing up

- Palm Beach County has seen slow but steady growth this cycle – while early in the cycle it was focused downtown, more recently it has been focused in the suburbs
- Boca Raton North has seen considerable growth due to the lease up of the Boca Raton Innovation Campus

Fundamentals	Forecast
YTD net absorption	-5,100 s.f. ▲
Under construction	0 s.f. ▲
Total vacancy	14.7% ▶
Average asking rent (gross)	$31.57 p.s.f. ▲
Concessions	Stable ▶

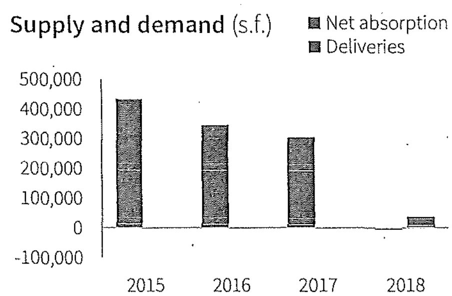
Palm Beach County vacancy has declined 280 basis points since the start of 2016 to 14.7 percent and rents have risen 15.7 percent to $31.57 (full service) over the same period. Downtown saw its strongest growth earlier in the cycle with the lease up of much of the Trophy buildings – those assets are now 95.1 percent occupied. However, more recently the tightening of the market fundamentals has been strongest in the suburban markets.

Boca Raton North has seen considerable growth over the previous few years – namely through the lease up of the Boca Raton Innovation Campus (BRIC). In Boca Raton North, vacancy has declined 500 basis points to 18.9 percent since the start of 2016 – there was a 170 basis point decline quarter-over-quarter. Large relocation and expansion deals signed last year led to this trend. In early 2018, Shoes for Crews occupied 34,800 square feet in BRIC, relocating from Suburban West Palm Beach (One Clearlake Center) and IDA moved into 22,600 square feet on the campus. In addition, while not part of BRIC, the Geo Group expanded, leasing and occupying 24,900 square feet for their legal group in 4855 Technology Way – another property in the submarket.

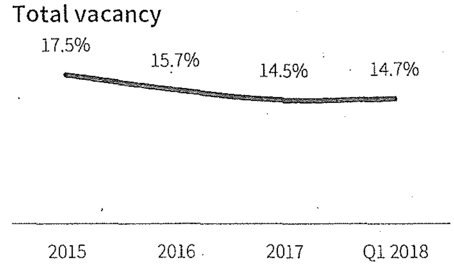
Outlook

Growth will likely continue to be focused in the suburban markets, where the majority of large blocks are located. Currently, there are 30 large blocks in the suburbs, compared with just six in Downtown. And, for tenants touring the market for 20,000 square feet or more, many of those blocks Downtown are not ideal. All but two are on multiple floors. Growth is expected to remain positive as no major new construction or move outs are in the pipeline to disrupt current trends.

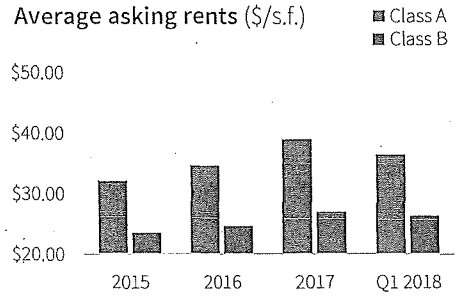
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



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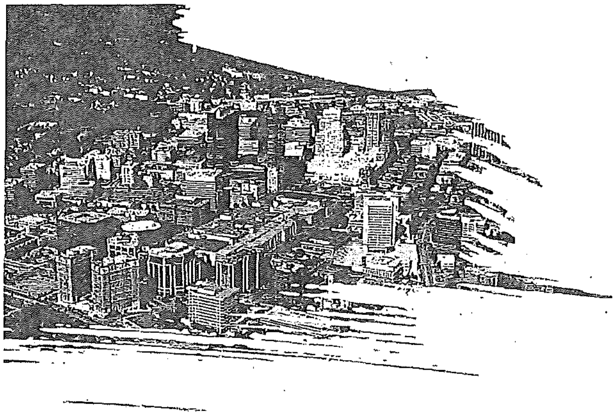


Westchester

Building conversions continue as White Plains goes through cultural change

- Westchester County continues to see office buildings demolished or converted into alternate uses
- Negative absorption figures have overshadowed over the market for five straight years.
- The adaptation of the "live, work, play" continues to be the driving force of the market

Fundamentals	Forecast
YTD net absorption	-198,112 s.f. ▼
Under construction	0 s.f. ▶
Total vacancy	22.5% ▲
Average asking rent (gross)	$26.35 p.s.f. ▶
Concessions	Stable ▶

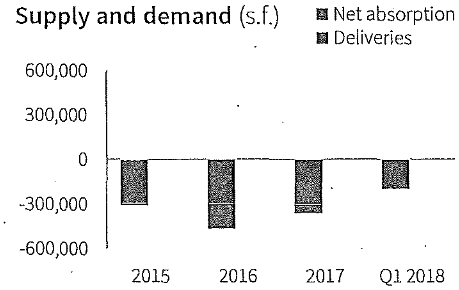
More than 667,601 square feet of office buildings in Westchester County have either been demolished, expected to be demolished, or are being converted into other uses. Headlining the conversions is 3 Westchester Park Drive in White Plains. The plan is to turn the office space into 440 apartment units. This follows the major trend of "live, work, play" that is currently underway in downtown White Plains. Approximately15,000 additional residential units are currently being built or approved. Expect restaurants and other retail development to arise along with the multi-family construction.

While White Plains remains to be a relatively healthy submarket, Westchester County as a whole has seen negative absorption for five consecutive years. Companies including Pepsi and IBM have vacated their campuses leaving massive amounts of vacant space on the market. The trend will likely continue through 2018 and beyond. 102 and 104 Corporate Park Drive in White Plains are expected to have over 200,000 square feet of available space as early as next quarter. Histogenics bought the buildings in 2015, but never moved in. They will now attempt to lease the space out.

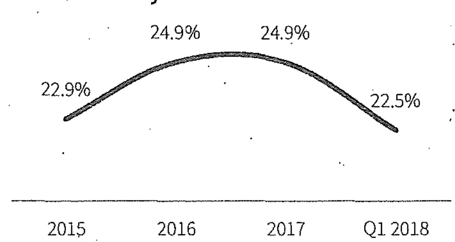
Outlook

The additional space being vacated at 102 and 104 Corporate Park Drive will increase the already high vacancy rate for Westchester County. However, White Plains should be able to fill the available space relatively quickly. A Wegman's Super Store is being developed along with the new residential construction. That combined with the existing Life Time Fitness facility will make this newly available space attractive to tenants in the market. Expect the adaptive change of use phenomenon to continue throughout Westchester County while the demand for new office space remains limited.

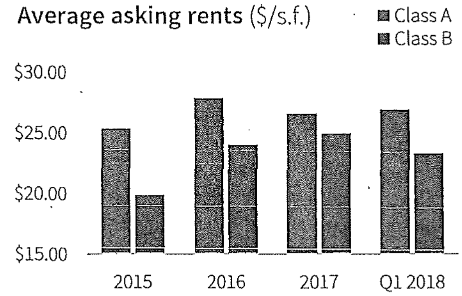
Supply and demand (s.f.)



Total vacancy



Average asking rents ($/s.f.)



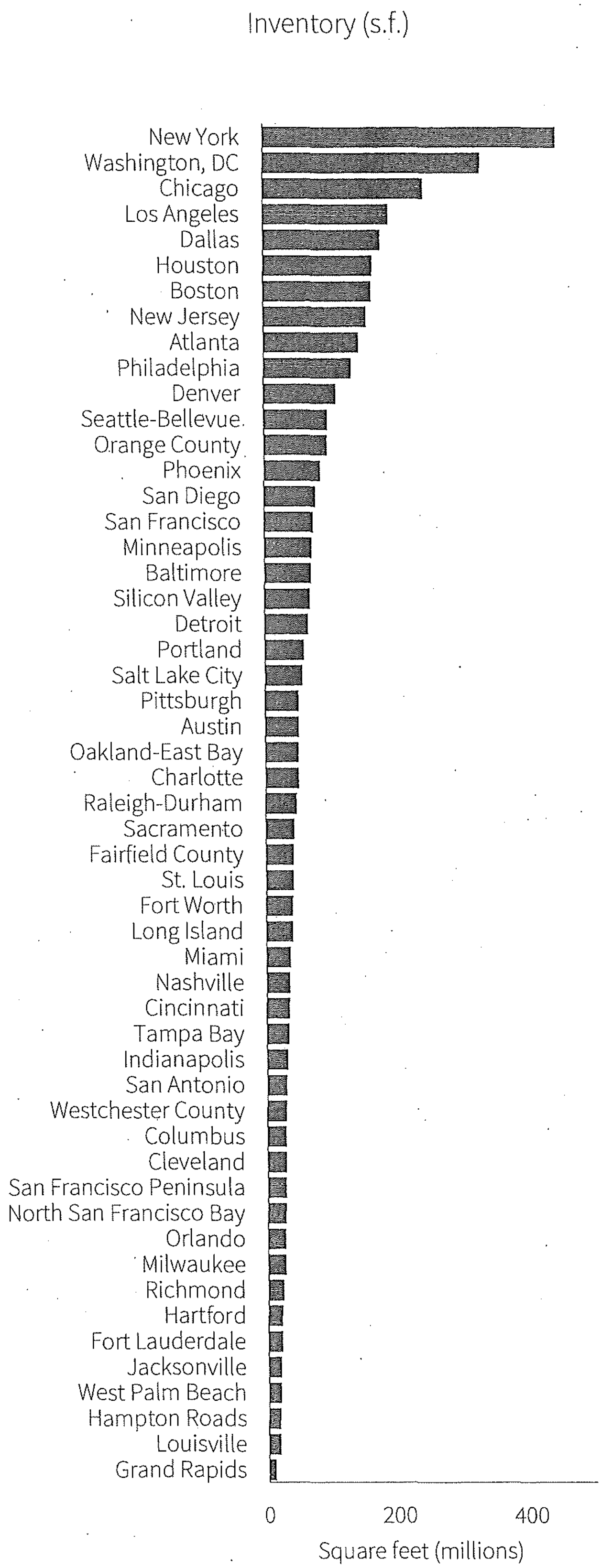
For more information, contact Justin Vitti | justin.vitti@am.jll.com

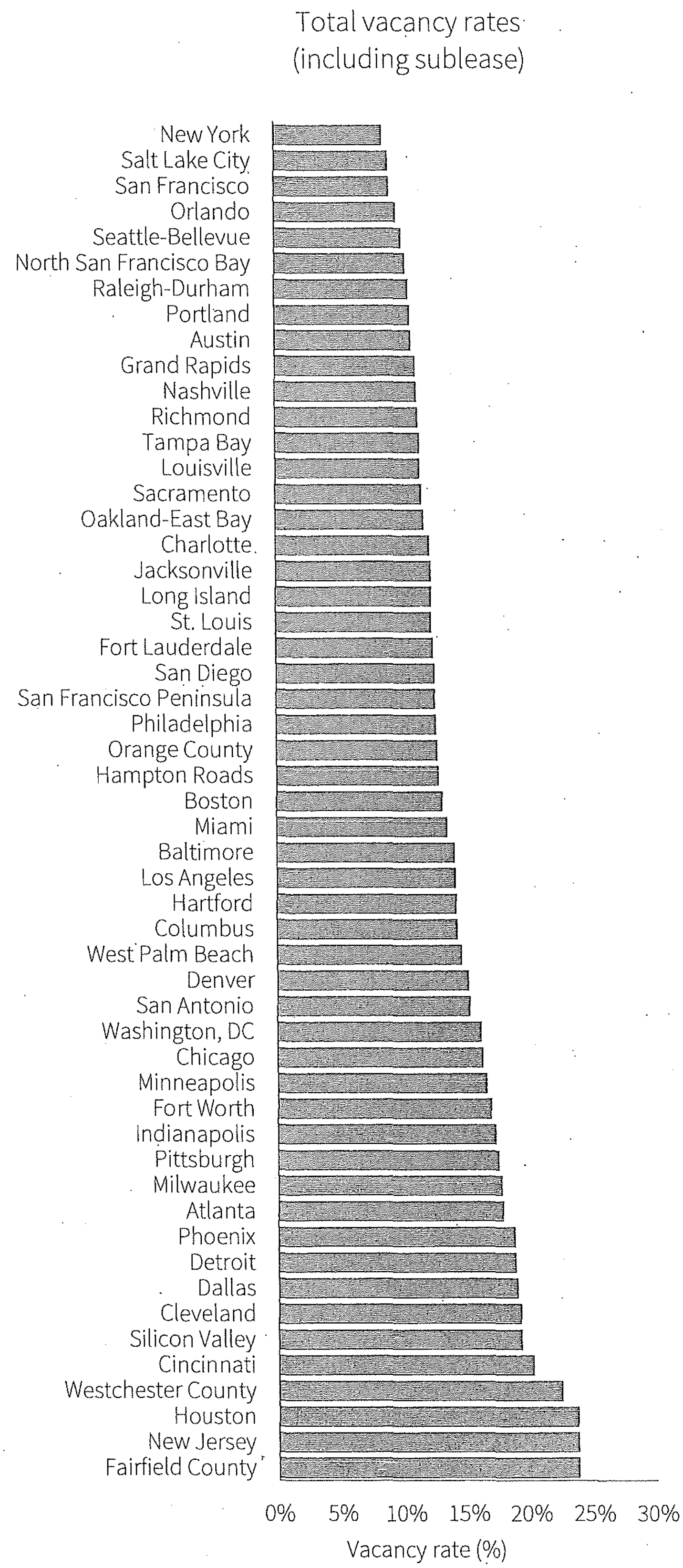
United States employment

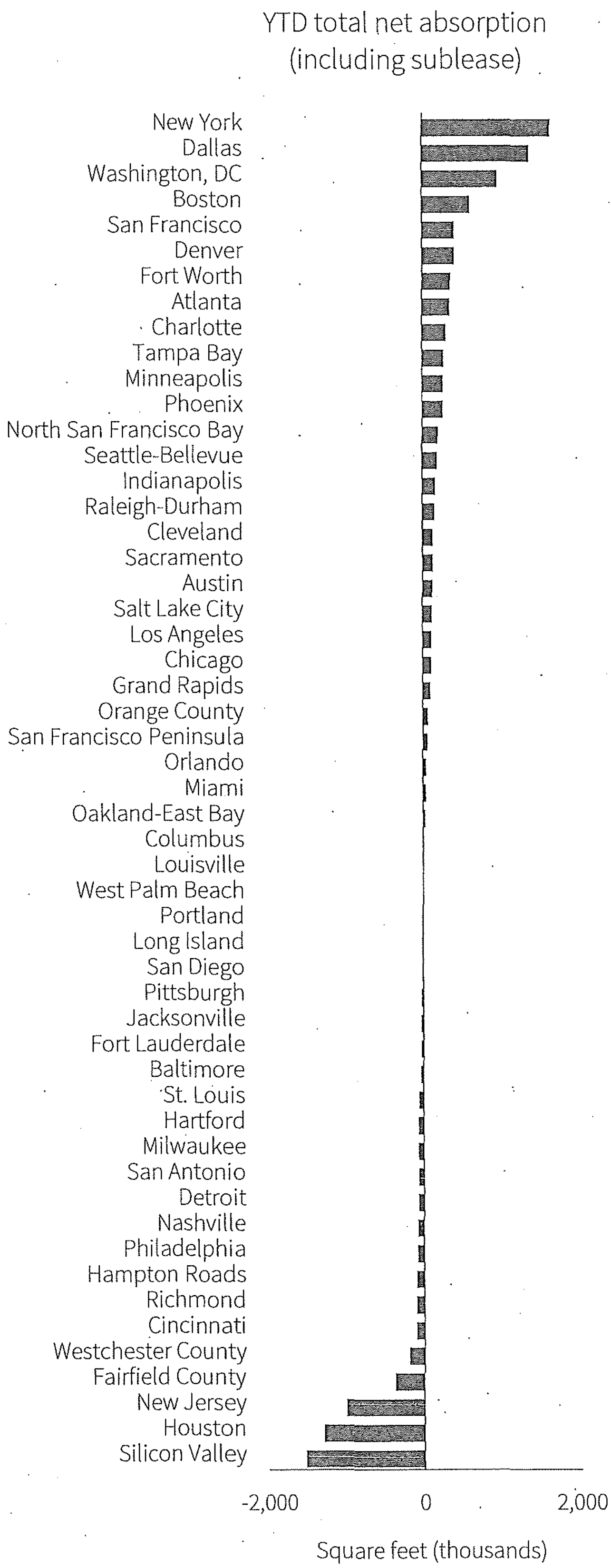
Market	Total nonfarm jobs 12-month net change (000s)	Total nonfarm jobs 12-month percent change	Office jobs* 12-month net change (000s)	Office jobs* 12-month percent change	Unemployment (2018)	Unemployment (2017)	12-month unemployment change (bp)
Atlanta	52.6	2.0%	-2.1	-0.3%	4.3%	5.0%	-70
Austin	37.3	3.7%	16.5	6.4%	3.0%	3.5%	-50
Baltimore	17.2	1.3%	4.8	1.5%	4.6%	4.6%	0
Boston	24.5	0.9%	12.6	1.7%	3.5%	3.8%	-30
Charlotte	31.0	2.7%	6.8	2.2%	4.3%	4.7%	-40
Chicago	32.0	0.7%	6.5	0.6%	5.2%	5.4%	-20
Cincinnati	4.9	0.5%	-2.9	-1.2%	4.0%	4.8%	-80
Cleveland	3.0	0.3%	-0.2	-0.1%	5.7%	7.1%	-140
Columbus	10.6	1.0%	1.6	0.6%	3.8%	4.6%	-80
Dallas	70.4	2.8%	15.4	2.0%	3.7%	4.1%	-40
Denver	36.9	2.6%	11.8	2.9%	3.1%	2.9%	20
Detroit	17.8	0.9%	3.0	0.6%	4.6%	5.2%	-60
Fairfield County	-1.6	-0.4%	-1.4	-1.2%	5.0%	5.4%	-40
Fort Lauderdale	9.8	1.2%	3.8	1.7%	3.5%	4.2%	-70
Fort Worth	25.6	2.5%	7.6	4.3%	3.6%	4.2%	-60
Grand Rapids	11.2	2.1%	2.4	2.2%	4.0%	3.8%	20
Hampton Roads	1.6	0.2%	0.4	0.2%	3.7%	4.7%	-100
Hartford	5.3	0.9%	1.2	0.9%	5.1%	5.3%	-20
Houston	67.1	2.2%	30.3	4.6%	4.7%	5.6%	-90
Indianapolis	18.8	1.8%	11.3	4.7%	3.4%	3.9%	-50
Jacksonville	18.6	2.7%	4.5	2.5%	3.5%	4.3%	-80
Long Island	15.6	1.2%	4.0	1.6%	5.1%	4.8%	30
Los Angeles	61.5	1.4%	-0.6	-0.1%	4.5%	5.0%	-50
Louisville	7.3	1.1%	1.5	1.1%	3.9%	4.8%	-90
Miami	17.5	1.5%	4.5	1.7%	4.7%	4.8%	-10
Milwaukee	6.5	0.8%	0.0	0.0%	3.2%	4.1%	-90
Minneapolis	14.9	0.8%	-4.8	-1.0%	3.3%	3.9%	-60
Nashville	21.7	2.3%	15.1	3.8%	2.7%	3.4%	-70
New Jersey	8.4	0.7%	1.5	0.5%	4.8%	4.9%	-10
New York	85.7	1.9%	24.4	1.8%	4.6%	4.2%	40
North Bay	2.1	1.8%	-1.0	-4.0%	2.5%	3.2%	-70
Oakland-East Bay	25.3	2.2%	3.9	1.5%	3.3%	4.1%	-80
Orange County	31.9	2.0%	9.8	2.2%	3.1%	3.8%	-70
Orlando	43.8	3.5%	11.7	3.7%	3.4%	4.1%	-70
Philadelphia	25.8	0.9%	3.7	0.5%	4.9%	5.1%	-20
Phoenix	60.0	3.0%	13.1	2.3%	4.4%	4.4%	0
Pittsburgh	14.4	1.3%	0.8	0.3%	5.3%	6.0%	-70
Portland	20.5	1.8%	-0.4	-0.2%	4.0%	4.1%	-10
Raleigh-Durham	16.2	2.7%	8.5	5.2%	3.9%	4.3%	-40
Richmond	4.8	0.7%	1.0	0.6%	3.5%	4.3%	-80
Sacramento	24.7	2.6%	-0.6	-0.3%	4.2%	5.3%	-110
Salt Lake City	17.7	2.5%	1.9	1.0%	3.2%	3.4%	-20
San Antonio	24.6	2.4%	2.7	1.1%	3.4%	3.9%	-50
San Diego	27.9	1.9%	9.9	3.0%	3.5%	4.4%	-90
San Francisco	18.2	1.6%	19.1	4.5%	2.5%	3.1%	-60
Seattle-Bellevue	60.9	3.1%	19.7	4.1%	4.3%	4.2%	10
Silicon Valley	31.2	2.9%	17.2	5.1%	3.0%	3.7%	-70
St. Louis	5.9	0.4%	5.8	1.8%	3.8%	4.4%	-60
Tampa	30.6	2.3%	12.2	3.3%	3.6%	4.3%	-70
Washington, DC	44.8	1.4%	20.1	2.1%	3.6%	4.0%	-40
West Palm Beach	3.3	0.5%	1.4	0.9%	3.7%	4.3%	-60
Westchester County	2.7	0.4%	2.1	1.5%	4.8%	5.2%	-40
United States	2,261.0	1.5%	589.0	1.9%	4.1%	4.5%	-40

United States office statistics

Market totals (CBD and Suburban)	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of inventory)	Total vacancy (s.f.)	Total vacancy (%)	Average direct asking rent ($ p.s.f.)	Quarterly percent change rent	YTD completions (s.f.)	Under construction/ renovation (s.f.)
Atlanta	146,936,743	357,357	357,357	0.2%	26,336,150	17.9%	$26.28	2.0%	947,893	1,883,441
Austin	51,868,418	127,890	127,890	0.2%	5,576,674	10.8%	$38.65	3.1%	156,049	3,330,927
Baltimore	72,065,787	-34,330	-34,330	0.0%	10,170,807	14.1%	$24.89	-0.8%	0	1,089,045
Boston	166,649,555	609,847	609,847	0.4%	21,920,336	13.2%	$36.81	-0.4%	0	3,468,000
Charlotte	51,150,485	306,811	306,811	0.6%	6,240,799	12.2%	$26.89	2.2%	120,000	2,290,016
Chicago	245,753,058	109,115	109,115	0.0%	40,140,282	16.3%	$33.94	0.3%	45,000	7,845,725
Cincinnati	35,794,287	-105,906	-105,906	-0.3%	7,257,966	20.3%	$19.22	-0.2%	55,000	88,000
Cleveland	29,491,084	133,236	133,236	0.5%	5,698,910	19.3%	$19.35	0.3%	0	306,000
Columbus	29,673,730	10,118	10,118	0.0%	4,249,934	14.3%	$19.89	0.8%	56,000	842,000
Dallas	180,158,413	1,371,447	1,371,447	0.8%	34,337,645	19.1%	$27.62	1.5%	2,109,599	4,493,077
Denver	112,230,856	408,154	408,154	0.4%	17,053,389	15.2%	$29.50	4.3%	1,338,124	2,683,147
Detroit	67,520,823	-75,203	-75,203	-0.1%	12,769,511	18.9%	$19.16	0.8%	0	950,528
Fairfield County	43,252,855	-374,025	-374,025	-0.9%	10,331,391	23.9%	$36.55	-3.6%	0	0
Fort Lauderdale	22,365,177	-30,836	-30,836	-0.1%	2,785,354	12.5%	$31.45	2.8%	27,744	84,098
Fort Worth	41,977,926	364,969	364,969	0.9%	7,120,869	17.0%	$22.85	-0.4%	55,000	3,020,839
Grand Rapids	10,948,833	99,317	99,317	0.9%	1,213,593	11.1%	$17.76	2.0%	0	174,000
Hampton Roads	19,005,482	-96,703	-96,703	-0.5%	2,444,339	12.9%	$19.70	2.3%	0	379,600
Houston	167,690,845	-1,288,450	-1,288,450	-0.8%	39,951,649	23.8%	$30.80	0.8%	104,579	1,654,682
Indianapolis	32,835,696	168,279	168,279	0.5%	5,698,701	17.4%	$20.33	2.0%	0	80,000
Jacksonville	20,183,667	-30,084	-30,084	-0.1%	2,480,198	12.3%	$20.00	1.4%	0	423,700
Long Island	41,918,300	-14,862	-14,862	0.0%	5,165,482	12.3%	$26.02	-0.1%	0	0
Los Angeles	192,843,492	112,696	112,696	0.1%	27,331,040	14.2%	$41.40	3.9%	375,568	2,159,259
Louisville	18,519,765	4,214	4,214	0.0%	2,116,011	11.4%	$17.63	-0.6%	32,500	618,810
Miami	37,640,777	40,355	40,355	0.1%	5,097,629	13.5%	$37.77	1.1%	123,452	690,362
Milwaukee	27,665,196	-71,792	-71,792	-0.3%	4,921,065	17.8%	$19.51	-2.3%	0	633,087
Minneapolis	72,530,943	269,499	269,499	0.4%	12,040,937	16.6%	$26.33	-0.7%	56,000	1,608,973
Nashville	36,281,816	-77,463	-77,463	-0.2%	4,067,593	11.2%	$27.27	5.8%	0	1,954,709
New Jersey	158,518,048	-1,001,942	-1,001,942	-0.6%	37,857,948	23.9%	$27.67	3.5%	0	447,732
New York	446,109,541	1,638,265	1,638,265	0.4%	38,075,668	8.5%	$74.99	1.1%	683,398	15,388,667
North San Francisco Bay	28,499,844	201,761	201,761	0.7%	2,943,332	10.3%	$27.24	-0.9%	0	104,000
Oakland–East Bay	51,303,020	28,155	28,155	0.1%	6,033,161	11.8%	$44.76	5.4%	0	1,905,258
Orange County	97,702,972	65,926	65,926	0.1%	12,469,764	12.8%	$35.16	2.9%	0	976,967
Orlando	27,820,671	45,110	45,110	0.2%	2,672,453	9.6%	$23.45	2.9%	0	547,800
Philadelphia	135,475,202	-81,166	-81,166	-0.1%	17,188,352	12.7%	$26.43	0.6%	330,732	3,412,270
Phoenix	86,912,175	265,974	265,974	0.3%	16,366,192	18.8%	$25.44	0.6%	86,174	2,193,398
Pittsburgh	52,115,780	-21,941	-21,941	0.0%	9,156,137	17.6%	$24.04	2.5%	0	812,053
Portland	60,491,298	-10,030	-10,030	0.0%	6,466,443	10.7%	$28.76	1.9%	338,247	1,057,016
Raleigh-Durham	48,150,905	153,505	153,505	0.3%	5,085,275	10.6%	$24.61	4.1%	183,835	2,636,251
Richmond	24,233,284	-100,222	-100,222	-0.4%	2,737,535	11.3%	$19.72	0.6%	32,040	0
Sacramento	44,555,761	130,205	130,205	0.3%	5,172,264	11.6%	$23.66	0.1%	0	97,000
Salt Lake City	57,606,204	120,379	120,379	0.2%	5,173,693	9.0%	$23.24	2.7%	318,000	1,642,580
San Antonio	31,084,022	-72,323	-72,323	-0.2%	4,758,011	15.3%	$23.07	0.7%	0	1,395,283
San Diego	79,925,630	-16,817	-16,817	0.0%	10,039,403	12.6%	$33.48	3.7%	0	1,289,402
San Francisco	75,996,610	408,909	408,909	0.5%	6,924,914	9.1%	$74.64	0.6%	1,420,081	5,263,942
San Francisco Peninsula	28,657,329	59,883	59,883	0.2%	3,608,420	12.6%	$64.44	0.3%	205,222	1,801,535
Seattle-Bellevue	98,939,337	192,856	192,856	0.2%	9,915,801	10.0%	$38.26	5.5%	490,645	4,821,203
Silicon Valley	70,622,781	-1,522,070	-1,522,070	-2.2%	13,670,463	19.4%	$49.92	0.6%	708,606	2,964,101
St. Louis	42,745,445	-61,414	-61,414	-0.1%	5,270,405	12.3%	$20.11	3.8%	0	825,735
Tampa Bay	34,893,619	276,834	276,834	0.8%	3,981,373	11.4%	$25.28	2.3%	0	416,554
Washington, DC	332,015,221	965,350	965,350	0.3%	53,861,515	16.2%	$41.34	0.0%	552,781	12,221,582
West Palm Beach	19,971,415	-5,169	-5,169	0.0%	2,929,174	14.7%	$31.57	0.2%	37,550	0
Westchester County	30,250,681	-198,112	-198,112	-0.7%	6,817,387	22.5%	$26.35	-1.8%	0	0
United States totals	**4,162,240,194**	**3,689,620**	**3,689,620**	**0.1%**	**616,924,741**	**14.8%**	**$33.78**	**1.6%**	**10,989,819**	**105,175,638**


Inventory (s.f.)
New York
Washington, DC
Chicago
Los Angeles
Dallas
Houston
Boston
New Jersey
Atlanta
Philadelphia
Denver
Seattle-Bellevue
Orange County
Phoenix
San Diego
San Francisco
Minneapolis
Baltimore
Silicon Valley
Detroit
Portland
Salt Lake City
Pittsburgh
Austin
Oakland-East Bay
Charlotte
Raleigh-Durham
Sacramento
Fairfield County
St. Louis
Fort Worth
Long Island
Miami
Nashville
Cincinnati
Tampa Bay
Indianapolis
San Antonio
Westchester County
Columbus
Cleveland
San Francisco Peninsula
North San Francisco Bay
Orlando
Milwaukee
Richmond
Hartford
Fort Lauderdale
Jacksonville
West Palm Beach
Hampton Roads
Louisville
Grand Rapids
0
200
400
Square feet (millions)


Total vacancy rates (including sublease)
New York
Salt Lake City
San Francisco
Orlando
Seattle-Bellevue
North San Francisco Bay
Raleigh-Durham
Portland
Austin
Grand Rapids
Nashville
Richmond
Tampa Bay
Louisville
Sacramento
Oakland-East Bay
Charlotte
Jacksonville
Long Island
St. Louis
Fort Lauderdale
San Diego
San Francisco Peninsula
Philadelphia
Orange County
Hampton Roads
Boston
Miami
Baltimore
Los Angeles
Hartford
Columbus
West Palm Beach
Denver
San Antonio
Washington, DC
Chicago
Minneapolis
Fort Worth
Indianapolis
Pittsburgh
Milwaukee
Atlanta
Phoenix
Detroit
Dallas
Cleveland
Silicon Valley
Cincinnati
Westchester County
Houston
New Jersey
Fairfield County
0%
5%
10%
15%
20%
25%
30%
Vacancy rate (%)


YTD total net absorption (including sublease)
New York
Dallas
Washington, DC
Boston
San Francisco
Denver
Fort Worth
Atlanta
Charlotte
Tampa Bay
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Oakland-East Bay
Columbus
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West Palm Beach
Portland
Long Island
San Diego
Pittsburgh
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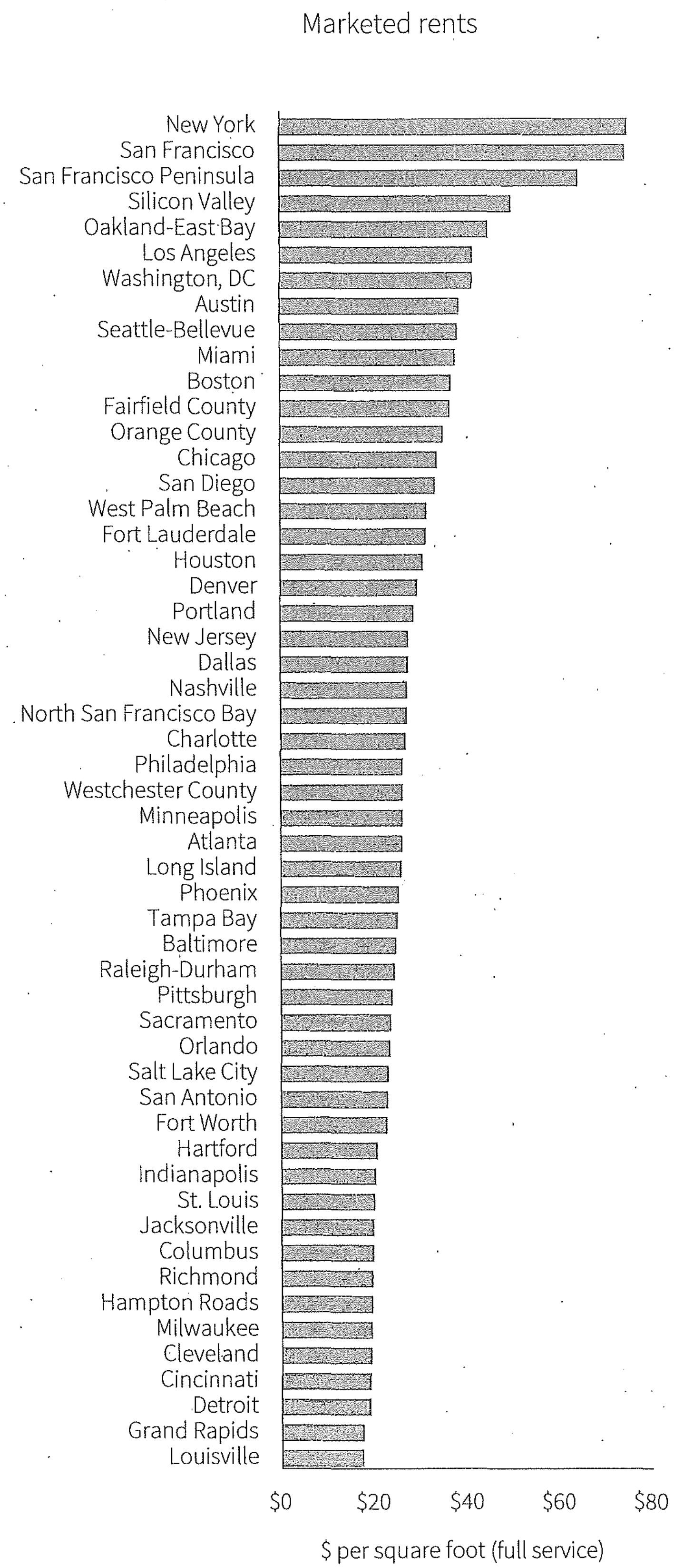
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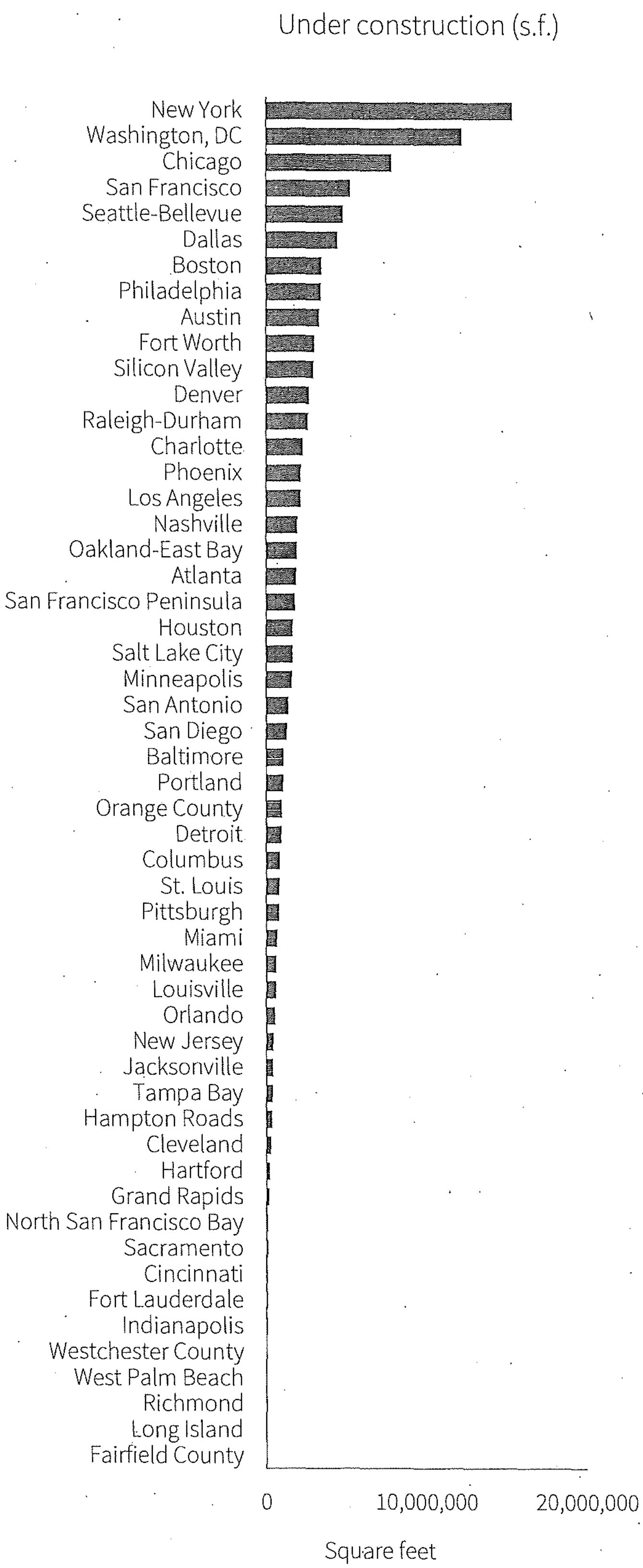
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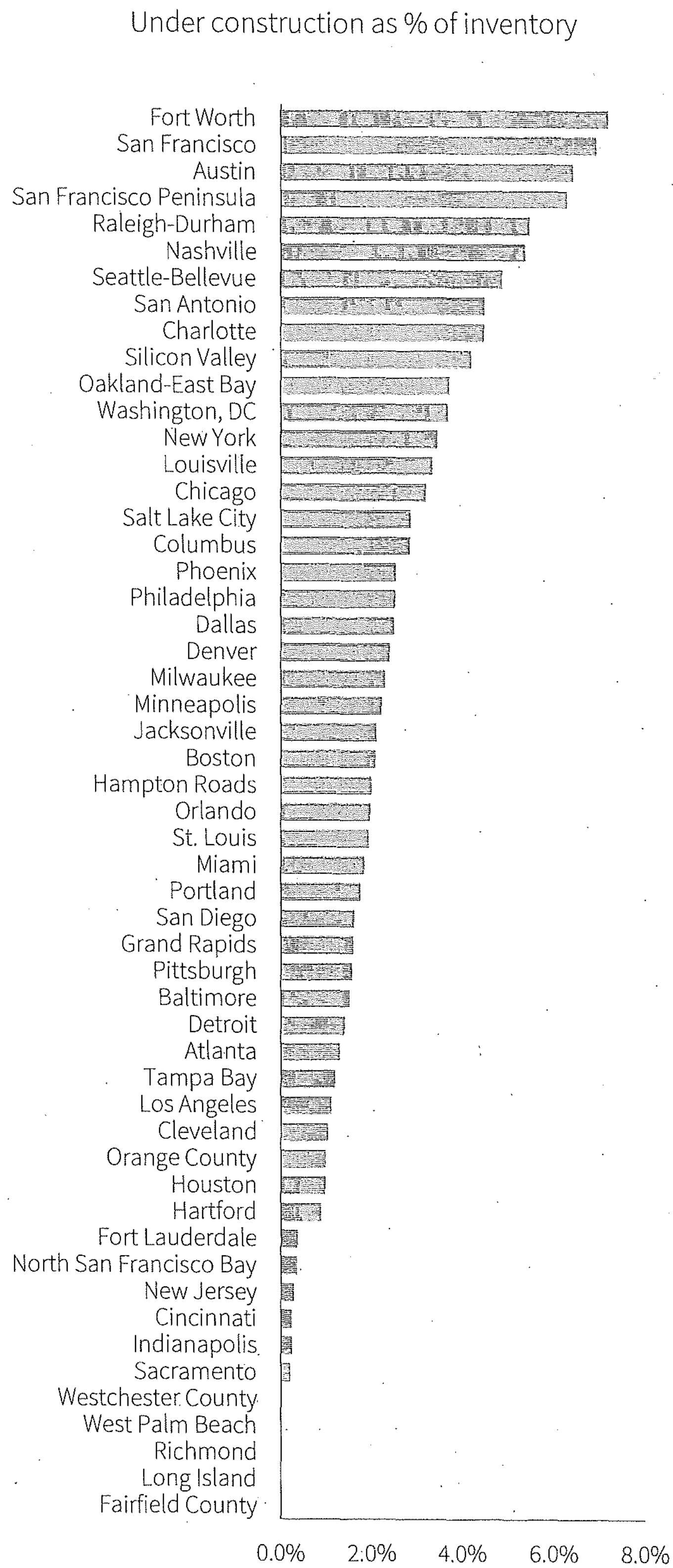
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DOWNTOWN SAN FRANCISCO PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE NEXUS STUDY

FINAL REPORT

A Report to

PLANNING DEPARTMENT
CITY AND COUNTY OF SAN FRANCISCO

Prepared by

HAUSRATH ECONOMICS GROUP

April 13, 2012

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SUMMARY AND MITIGATION FEE ACT FINDINGS

Overview and Summary

People living in new housing and working in new buildings in Downtown San Francisco will add to demand for park, recreation, and open space facilities. In addition, visitors to Downtown San Francisco—shoppers, tourists, conventioneers, people coming to dine out or enjoy entertainment downtown, people coming for business meetings and any number of other reasons—are another important component of demand for Downtown park and open space facilities. New facilities and improvements to existing facilities are required to accommodate the additional demand for park, recreation, and open space facilities from the increase in park users accommodated by the housing, office, retail, hotel, and institutional development expected to occur in Downtown San Francisco. Without an increase to the facility inventory, facility standards and levels of service for all park users will deteriorate.

The impact fee documented in this study is proposed to be applied in Downtown San Francisco to fund the park, recreation, and open space facility needs attributable to the additional resident population and employment accommodated by new residential and non-residential development in the Downtown Area. See **Map 1** at the end of this report. Although Downtown visitors—those who do not work or live in the area—are a particularly important component of the usage of Downtown parks and open spaces, there is no data or information measuring non-resident, non-worker visitor use of parks and open space in San Francisco. Without a reliable basis for allocating the costs of needed park facilities to visitors, this study adjusts (reduces) the total facility cost by 10 percent as a reasonable approximation of the share of total costs attributable to visitor use. The adjusted cost is the cost basis for the maximum justifiable impact fee.

The fee would be imposed on both residential and non-residential development not yet under construction, permitted, or approved for development in Downtown San Francisco. San Francisco's park, recreation, and open space facilities serve residents of the City as well as people who work in the City. The analysis calculates fee amounts per square foot of new development that are proportional to the relative demand associated with residents and workers and to household sizes and the density of employment (and therefore of park and recreation facility use) for different types of non-residential development.

The development fee would not be imposed in Zone 1 of the Transbay Redevelopment Project Area. Instead, the Redevelopment Agency would contribute an equivalent amount of funding and/or park, recreation, and open space improvements in the Transit Center District Plan Area.

Table S.1 summarizes the maximum justifiable impact fee schedule documented in this study.

TABLE S.1
PROPOSED DOWNTOWN PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE (maximum justified amount)

Land Use	Maximum Justified Fee Amount
Residential	$4,046 per unit
	$2.70 per gross sq. ft. [a]
Cultural, Institutional, Educational	$10.01 per gross sq. ft.
Hotel	$4.29 per gross sq. ft.
Industrial/PDR	$5.25 per gross sq. ft.
Medical	$13.90 per gross sq. ft.
Office	$12.95 per gross sq. ft.
Retail	$10.21 per gross sq. ft.

[a] Residential fee per gross square foot assuming 1,500 square feet per unit.

The proposed Downtown Park, Recreation, and Open Space Fee would supersede the existing Downtown Park Fee (Planning Code Section 412.5, formerly Section 139(a)). That fee was created in 1985 as part of the *Downtown Plan* in order to provide "financial resources to acquire and develop public park and recreation facilities which will be necessary to service the burgeoning daytime population in these districts".[1] The fee of $2.00 per square foot is imposed on new office development in downtown districts; the fee amount has remained the same since it was first established. Since 1985, a total of $11.3 million in fee revenue has been collected for the Downtown Park Special and $8.4 million has been spent on park improvements.[2]

The proposed fee relies on existing citywide standards documented in other impact fee studies conducted for the City and County of San Francisco. The facility cost analysis is updated to be more appropriate to Downtown San Francisco. The fee schedule documented in this study represents the maximum fee that the nexus analysis supports as justified to be applied to new development in Downtown San Francisco.

This report provides the documentation required under the California Mitigation Fee Act—AB 1600, enacted in California Government Code Sections 66000 – 66025—to identify the purpose of the proposed fee, describe the facilities and improvements that the fee would support, and demonstrate a reasonable relationship between: planned new development and the use of the fee, the type of new development planned and the need for facilities to accommodate growth, and the amount of the fee and the cost of facilities and improvements.

1 San Francisco Planning Code, Section 412.5, Downtown Special Park Fund.

2 City and County of San Francisco, Controller's Office, *FY 2009-10 Development Impact Fee Report*, January 24, 2011.

Findings

Purpose of the fee

The purpose of the Downtown Park, Recreation, and Open Space development impact fee would be to provide funding from new development to increase the supply of park, recreation, and open space facilities to serve the needs attributable to growth in Downtown San Francisco. Standards developed by the Recreation and Park Department indicate the amount of facilities required to meet the needs of population and employment growth in the City. The increased supply of park, recreation, and open space facilities would maintain these existing facility standards. The increase in the facility inventory funded by the development fee would be directly related to the needs associated with Downtown growth. Fee revenue would not be used to correct existing deficiencies.

Use of fee revenue

The impact fee would provide funding for new and improved facilities to meet the needs attributable to the increase in park users in Downtown expected through the year 2030. The fee revenue would be used to acquire land, develop park and recreation facilities, and improve existing park facilities in lieu of acquisition. Costs funded by the fees may also include project administration, management, design, and engineering.

Relationship between the use of the fee and the type of new development

There is a demonstrated benefit to new development of the park, recreation, and open space facilities funded by the fee. Park, recreation, and open space facilities are critical components of any community's quality of life. They sustain the social, physical, and mental health of residents and workers and provide economic benefits, as well. These qualities are established in the *Recreation and Open Space Element of the San Francisco General Plan* and in the *Downtown Plan.*[3]

The Parks, Recreation, and Open Space impact fee is calculated on the basis of the service population of park users that benefit from the facility inventory and facility improvements that would be funded by the fee revenue. The impact fee revenue would be used to pay for facilities required to meet the needs generated by new residential development and population growth and new non-residential development and employment growth in Downtown San Francisco thereby providing a benefit to the development types on which the fee is imposed.

Relationship between the need for park, recreation and open space facilities and the type of new development

New residential and non-residential development in Downtown San Francisco accommodates increases in the number of residents and workers located downtown. Those people will use park, recreation, and open space facilities for relaxing, exercising, socializing, eating, soaking up the sun, walking the dog, playing with children, appreciating nature, participating in sports, and enjoying entertainment, among other pastimes. In addition, adequate open space provides essential relief from the density and congestion associated with downtown high-rise

[3] San Francisco Planning Department, *Recreation and Open Space Element*, An Element of the General Plan of the City and County of San Francisco, Revised Draft June 2011 and *Downtown Plan*, An Area Plan of the General Plan.

development. If the facility inventory were not expanded or improved to accommodate increased demand, then the level of service for all park users would deteriorate as the increased activity associated with growth and new development would occur within the confines of constrained existing facilities. Furthermore, as new development occurs, additional park and open space facilities are needed Downtown to maintain the quality of urban experience that makes Downtown San Francisco an attractive place to do business, live, and visit.

Relationship between the amount of fee payments and the cost of park, recreation, and open space facilities

The need for park, recreation, and open space facilities attributable to Downtown growth has been estimated using existing citywide per capita facility standards that are a reasonable and established means of estimating level of service. Costs are based on factors that reflect the unique characteristics of the downtown development pattern, including the cost of land and the cost of improvements typical of downtown parks and open space. The estimate of the park user service population that is the basis for the fee calculation accounts for the fact that both residents and workers have the opportunity to use and benefit from park, recreation, and open space facilities. In fact, since much of the Downtown is primarily commercial use, the majority of users of many major downtown open spaces consists of workers, by contrast to most other parts of the City, where residents predominate. The fee amounts are also adjusted to account for the fact that visitors to the Downtown are another important source of demand for and use of Downtown parks and open space. Since no data are currently available measuring this use and allowing allocation of some of the cost to development that attracts visitors, facility costs are reduced by a factor chosen to reasonably account for visitor use. Using the appropriate service population to calculate per capita costs assures that the associated fees will be levied on types of development that create a demand for and benefit from these facilities and that the fee will be proportional to that demand. Furthermore, employment density factors that vary by land use and household size and housing unit size factors used in the fee calculations mean that fee amounts are sensitive to land use and to the square footage of new development. The fees are assessed per square foot of new development so impact fee payments are related directly to the size of proposed projects, and therefore to the relative impact and demand for open space attributable to that development.

Downtown Growth Scenario

Downtown San Francisco, including the Transit Center District Plan Area, is expected to accommodate a substantial amount of the population and employment growth projected for San Francisco. **Map 1** at the end of this report shows the boundaries of the Downtown area defined for this analysis.[4] The growth scenario reflects state, regional, and local policy priorities directing new development to dense urban centers served by transit, as well as the other market factors favoring San Francisco: important business location, central location well-connected to other parts of the region, diverse and walkable neighborhoods, cultural and entertainment attractions, range of housing options, reputation for tolerance and acceptance, and opportunities for immigrants and other newcomers.

[4] The Downtown area is defined by Traffic Analysis Zone (TAZ) boundaries because the land use allocation that is the basis for growth scenarios for subareas of the City used for area planning, transportation analysis and other purposes is based on the TAZ unit.

Building on market trends and planning efforts, an additional 16,000 households and 32,000 residents are expected in the Downtown area between 2005 and 2030 (see **Table 1**).[5] This is a substantial percentage increase—40 percent for households and 50 percent for population. The increase in housing and population downtown is 25 – 30 percent of the total growth projected for the City, as the share of the City's population living downtown is expected to continue to increase over time.

An additional 69,000 jobs are projected for the Downtown area during this planning horizon, bringing total downtown employment to 329,000 in 2030. Downtown employment growth represents about 30 percent of total employment growth projected for San Francisco (see **Table 1**). With the exception of the Transit Center District Plan Area, most of the Downtown business district is built out, so the share of total San Francisco employment located Downtown is projected to decline somewhat over time. Office employment in management, information, and professional services accounts for 75 percent of total employment growth Downtown from 2005 through 2030. Medical and health services and visitor lodging are projected to show the strongest pace of growth in the downtown area over this period while retail and entertainment, and cultural, institutional, and educational sectors grow at an average pace in the Downtown area.

SERVICE POPULATION / PARK USERS

San Francisco's park, recreation, and open space resources are used by and benefit both City residents and people who work in the City. This is particularly the case in Downtown San Francisco, where workers are by far the largest component of the daytime population. Therefore, the service population for this development impact fee analysis combines residents and workers into one estimate of "park users." As noted above, visitors are also an important element of the park user service population, particularly in Downtown San Francisco. There are currently no data sources that measure non-resident, non-worker visitor use in San Francisco parks. In the absence of such data, this study focuses on residents and workers and adjusts facility costs by a percentage to account for visitor use before the calculation of the maximum justifiable impact fee amount.

[5] The growth scenario used in this analysis is consistent with the growth scenario used in the *Transit Center District Plan Environmental Impact Report*. It is based on the regional scenario for growth published by the Association of Bay Area Governments (ABAG) in *Projections 2007*. In August 2009, ABAG published *Building Momentum: Projections and Priorities for 2009*, an updated set of population, household, and job forecasts for the Bay Area. The economic fundamentals behind longer-term regional growth and change remain the same in the updated forecasts. The 2009 series shows lower population and job totals in the short- to mid-term, representing the depth of the current recession, but economic recovery brings a stronger pace of growth in the longer term such that totals in 2030 and 2035 are on track with the regional totals in *Projections 2007*.

TABLE 1
GROWTH SCENARIO FOR DOWNTOWN SAN FRANCISCO
2005 – 2030

	2005	2030	Change	2006-2030 Percent Change	Percent of Total
Downtown					
Households	36,792	53,136	16,344	44%	
Household Population	60,671	93,115	32,444	53%	
Employment by Business Activity					
Management/Information/Professional Services	184,620	235,456	50,836	28%	74%
Retail/Entertainment	29,772	37,245	7,473	25%	11%
Visitor Lodging	11,910	16,495	4,585	38%	7%
Medical and Health Services	3,476	5,312	1,836	53%	3%
Cultural/Institutional/Educational	16,676	20,469	3,793	23%	5%
Production/Distribution/Repair	13,242	13,742	500	4%	1%
Total	**259,696**	**328,719**	**69,023**	**27%**	**100%**
San Francisco Total					
Households	**341,248**	**392,699**	**51,451**	15%	
Household Population	**779,549**	**912,039**	**132,490**	17%	
Employment	**552,000**	**793,300**	**241,300**	44%	
Downtown Percent of City Total					
Households	11%	14%	32%		
Household Population	8%	10%	24%		
Employment	47%	41%	29%		

NOTE: The Downtown area is defined to include the C-3 District covered by the *Downtown Plan* and adjacent areas relevant to the analysis of the Transit Center District Plan: Transbay, Rincon Hill, and Yerba Buena planning areas; other parts of the "Downtown" planning district (Civic Center, Union Square, Chinatown, Tenderloin); and most of East and West SoMa and the Central Corridor.

SOURCE: San Francisco Planning Department, Land Use Allocation 2007 (revised January 2010) and ABAG, *Projections 2007*, December 2006.

The estimate of the park user service population derives weighting factors to represent relative demand or benefit across four categories of people who use or benefit from park, recreation, and open space facilities. The relative weight of the four different categories is determined by hours-per-week as an indicator of the opportunity to use park, recreation, and open space facilities. For park, recreation, and open space facilities, the appropriate parameters are a 7-day week and 16-hour days, because the facilities are typically used on weekdays as well as weekends and not used at night.

The use of hours per week as a proxy measure for public service demand is common practice in facility impact fee analysis. The concept has been referred to as "functional population" in *Impact Fees: Principles and Practice of Proportionate Share Development Fees* (Nelson, Nicholas, and Juergensmeyer, 2009). This measure is used when there is no reliable information on facility users from surveys, calls for service, or public program registrations, for example. By using this measure, it is possible to establish reasonable relationships of *relative demand* differentiating residents, non-residents, and workers. As applied in this case, it is not intended to represent the actual hours of use or the times during which park facilities are open to the public, but rather to establish relative demand so that costs can be allocated equitably and proportional to relative demand across land uses.

Table 2 presents the park user demand analysis. Of the four park user categories, residents who do not work and residents who work in the City have the same opportunity to use park, recreation, and open space facilities: 112 hours per week (7 days × 16 hours per day). The other two park user categories—residents who work outside San Francisco and San Francisco workers who live outside the City have less opportunity to use City park, recreation, and open space facilities. Their per capita demand is therefore less than that of residents who do not work and residents who work in the City: 64 percent in the case of residents who work outside the City and 36 percent in the case of San Francisco workers who live outside the City. Note that there is no double-counting in this analysis; people who both live and work in San Francisco are counted once as workers.

TABLE 2
DOWNTOWN PARK, RECREATION, AND OPEN SPACE
SERVICE POPULATION WEIGHTING FACTORS

Park User Group [a]	Basis for demand factors: day-time hours per 7-day week for each user group	Hours per Week	Relative Demand, based on hours per week [b]
SF residents who do not work	7 days at 16 hours per day	112	**1.00**
SF residents who work outside SF	5 days at 8 hours per day plus 2 days at 16 hours per day	72	**0.64**
SF workers who live in SF	7 days at 16 hours per day	112	**1.00**
SF workers who live outside SF	5 days at 8 hours per day	40	**0.36**

[a] There is no double-counting. San Francisco workers who also live in San Francisco are counted once as workers.
[b] Relative to base demand defined by residents who do not work and San Francisco residents who work in San Francisco, each representing demand over 7 days at 16 hours per day.

Table 3 presents the estimate of the expected increase in Downtown area park user service population that is used in this development impact fee analysis. From the increase in Downtown residents and Downtown employment (Table 1), the four categories of park user are defined by population characteristics derived from the U.S. Census American Community Survey: percentage of San Francisco residents that do not work, percentage of residents that work outside San Francisco, percentage of San Francisco workers that live in San Francisco, and percentage of workers that live outside San Francisco. After application of the relevant weighting factors, the increase of 32,000 residents translates to an expected increase of just over 17,000 park users, and the increase of 69,000 employees translates to an expected increase of about 50,000 park users, for a total of 67,000 additional park users in the Downtown area associated with population and employment growth through 2030.

TABLE 3
DOWNTOWN SAN FRANCISCO – 2005 - 2030
EXPECTED INCREASE IN PARK, RECREATION, AND OPEN SPACE USERS

Park User Category	Total Residents or Employees	ACS 5-year estimates 2005-2009 [a]	Residents / Employees by Category	Park, Recreation, and Open Space Usage Factor	Park, Recreation, and Open Space Users
	A	B	C = A × B	D	C × D
Residents [b]	32,444				
Non-workers		44.4%	14,408	1.00	14,408
Work outside SF		13.2%	4,293	0.64	2,760
Employment	69,023				
Live in SF		56.9%	39,301	1.00	39,301
Live outside SF		43.1%	29,722	0.36	10,615
Total					**67,083**

[a] Percentage of total San Francisco resident population or San Francisco workers by place of work from American Community Survey, 2005 - 2009 5-year estimates.
[b] There is no double-counting. San Francisco residents who work in San Francisco are counted as workers.

PROPOSED PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE

Approach/Methodology

The proposed Downtown Park, Recreation, and Open Space Fee would provide funding from new development in Downtown San Francisco to maintain existing citywide standards for park, recreation, and open space facilities. The proposed impact fee would satisfy the needs for these types of facilities and improvements attributable to the increase in park users accommodated by the new development in the Downtown area. The impact fee is calculated to allocate the costs of the needed facilities equitably to new residential and non-residential development commensurate with each uses's proportion of net impact and demand.

The development impact fee methodology has five steps:

- Identify existing facility standards
- Identify appropriate unit costs for facilities
- Estimate facility need and cost attributable to growth using per capita standards and unit costs

- Allocate total costs equitably to new development by calculating the cost per park user
- Determine the fee per square foot or per unit for each land use category by multiplying the cost per park user by the number of park users per square foot or per unit of new development by land use category

Facility needs and costs

Because the City's 10-year Capital Plan for recreation and parks is oriented almost entirely to funding existing needs for facility renewal, modernization, and renovation (funded primarily by local bond proceeds and state grants) and not to meeting the needs of new demand attributable to growth (particularly in the Downtown), the facility needs and costs attributable to growth are derived by applying relevant facility standards to growth projections. The analysis for the proposed Downtown Park, Recreation, and Open Space fee is based on the framework documented in the draft analysis for a recreation and parks development impact fee as part of the *Citywide Development Impact Fee Study.*[6] For that effort, the Recreation and Park Department defined existing citywide facility standards in terms of acres of land and equivalent improvements to existing facilities, consistent with national guidelines for park and recreation facilities as adapted to best fit local conditions.

The existing standard for Recreation and Parks Department-owned park and open space land is **4.32 acres per 1,000 residents.** However, as determined in the citywide *Recreation and Parks Development Impact Fee Justification Study*, it is not reasonable to assume that new development could provide funding adequate to increase the inventory of park land sufficient to maintain that standard over time, given the limited sites for land acquisition within the geographic constraints of San Francisco's city limits, the density of existing development, and high land values and costs. Therefore, existing park, recreation, and open space facility standards are expressed in terms of both land acquisition and improvements to existing facilities in lieu of land acquisition.

Note that although these park facility standards are expressed per 1,000 *residents* (because that is the denominator most readily available and traditionally used to evaluate park facilities), they represent a measurement of existing conditions across all land uses and are thus a reasonable proxy for the standard across that broader service population. In other words, when expressed solely "per local resident," an existing standard that measures local park facilities designed to serve more than the local resident population—regional residents, workers, and other visitors, for example,—is likely to be higher (more acres per 1,000 residents) than a facility standard where the facilities and the resident service population were more closely aligned.

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[6] David Taussig & Associates, *Recreation and Parks Development Impact Fee Justification Study*, September 18, 2007 (updated January 7, 2008), part of the *Citywide Development Impact Fee Study, Consolidated Report*, March 2008. The *Citywide Development Impact Fee Study* conducted for the Office of the Controller (March 2008) included documentation of the basis for a recreation and park facility development fee to meet the needs of the additional residents and workers to be accommodated by new development in the City. Policy 6.1 of the *Draft Recreation and Open Space Element* lists the possibility of adopting this fee on a citywide basis as the first option among several innovative long-term funding mechanisms to ensure adequate resources to attain the policies and program of the open space element.

The standard for land acquisition is stated as **0.11 acres per 1,000 residents**, reflecting the Recreation and Parks Department's assessment of the amount of land that could reasonably be expected to be acquired and financed by new development over a 20-year planning horizon (about six acres).

In lieu of substantial acquisition to expand the inventory of park land, the Department developed the park improvement standard, at the existing ratio of Department-owned park land to population (4.32 acres per 1,000 residents). This standard is used to estimate the cost of improvements on land already owned by the City to meet the increased demand expected due to growth.

Table 4 presents the park, recreation, and open space facility needs associated with Downtown growth based on these existing facility standards.

TABLE 4
DOWNTOWN PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE
PARK, RECREATION, AND OPEN SPACE FACILITIES NEEDS

Facility Type	Facility Standard [a]	Facility Need based on Citywide Standard [b]
Park land [c]	.11 acres / 1,000 residents	3.57 acres
Park improvements [d]	4.32 acres / 1,000 residents	140.16 acres

[a] From the *Citywide Development Impact Fee Study: Recreation and Parks Development Impact Fee Justification Study*, David Taussig & Associates, Inc., September 2007 (updated January 2008).
[b] Standard per 1,000 residents multiplied by 2005 - 2030 increase in Downtown residents (32,444) divided by 1,000.
[c] Standard of .11 acres per 1,000 residents based on Recreation and Parks Department determination that 5.9 acres of park land could reasonably be assumed to be acquired to meet the needs associated with growth. New and expanded facilities in existing parks are proposed in-lieu of land acquisition. See the Park Improvement line item. See page VII-8 and VII-9 in the *Recreation and Parks Development Impact Fee Justification Study* (Taussig, September 2007/January 2008).
[d] Standard of 4.32 acres per 1,000 residents based on the existing ratio of Recreation and Parks Department owned land per 1,000 residents, as calculated in *Recreation and Parks Development Impact Fee Justification Study* (Taussig, September 2007/January 2008).

The total cost to provide these facilities to meet the needs attributable to Downtown growth between 2005 and 2030 is about $350 million. **Table 5** details the cost factors. There are three components to the total cost: cost to acquire park land; cost to provide park improvements on that land; and costs to provide improvements to existing parks and open space (in lieu of more costly land acquisition).

Land costs and some of the improvement costs are specific to Downtown San Francisco. These cost factors are based on a number of considerations unique to downtown park and open space facility planning. Suitable open land is particularly scarce in the downtown area, and land values are highest in this part of the City. Moreover, in lieu of land acquisition, some additional area of downtown open space is likely to be provided as space constructed above existing ground-level uses, necessitating higher than average development costs. In terms of improvements, the density of existing development, the intensity of mixed land uses and of downtown park use, as well as urban design factors specific to downtown require a range of types of hardscape and landscape improvements that are generally more costly than the improvements associated with less

TABLE 5
DOWNTOWN PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE
PARK, RECREATION, AND OPEN SPACE FACILITIES COSTS (2010 DOLLARS)

Facility Type	Facility Need	Cost per Square Foot (2010 dollars)	Facility Cost
Park land [a]	3.57 acres	$1,200	$186,550,000
Park improvements—new Downtown parks [b,c]	3.57 acres	$210	$32,646,000
Park improvements in lieu of acquisition [b]			
Downtown Park and Open Space [d]	29.40 acres	$85	$108,570,000
Other Park and Open Space [e]	110.76 acres	$5	$22,420,000
Total	140.16 acres		
Total Cost			**$350,186,000**

[a] Land cost estimate provided by the Planning Department based on comparable land sales of Downtown San Francisco (C-3 District) land between 2001 and 2011 (see Appendix Table A.2 for data). Represents land acquisition or alternative of constructed above-ground park and open space facilities.

[b] Because of different types of improvements and associated cost factors, park improvement costs are estimated separately for newly created downtown parks (3.57 acres), improvements to existing public parks located in the Downtown area, and improvements to parks elsewhere in the City. There are 29.4 acres of existing public park land in the Downtown area that would benefit from the improvements funded by this impact fee. The balance of the park improvement need would be satisfied on park and open space facilities elsewhere in the City.

[c] Costs for improvements to develop new Downtown parks and open space are based on the average cost per square foot for new park and open space facilities, as estimated in the *Transit Center District Plan*.

[d] Costs for improvements to existing Downtown parks and open space are based on costs for improvements to Portsmouth and St. Mary's Squares and the acres of land in those facilities, as estimated in the *Transit Center District Plan*.

[e] Costs for improvements to other existing park and open space facilities elsewhere in the City are estimated using the cost per acre for improvements in the *Citywide Development Impact Fee Study*, inflated to 2010 dollars using the San Francisco - Oakland - San Jose Metropolitan Area Consumer Price Index (all urban consumers).

intensively used neighborhood parks. Downtown parks are more heavily used than parks elsewhere in the City and must sustain a wide range of types of park users and urban activities. These unique conditions require more expensive improvements than the large expanses of grass, natural areas, or sports fields typical of larger neighborhood parks. Hardscaped plazas and intensively landscaped planters, often constructed on basement structures or garages, require expensive engineering solutions. Development costs per square foot for these types of downtown park and open space facilities are, therefore, substantially higher than those associated with the open grassy areas and sports fields associated with neighborhood park facilities.

There are three elements to the facility improvement cost. The first is the cost to develop the 3.57 acres needed of newly acquired Downtown facilities. The cost factor is the average cost per square foot to develop the new facilities identified in the Transit Center District Plan: City Park, 2nd and Howard Park, Transbay Park, Mission Square, and recreation facilities under the groundplane of bus ramps. The second set of improvements are to existing Downtown facilities that currently total about 29 acres. The cost factor is based on the estimate in the *Transit Center District Plan* for improvements to Portsmouth and St. Mary's Squares. Since the balance of the improvements would be to other Department-owned parks elsewhere in the City, a lower average cost factor is used, consistent with the park and recreation facility cost estimates prepared for the *Citywide Development Impact Fee Study*.

Cost allocation and fee schedule

There are no other identified sources of funding for expanding the supply of park, recreation, and open space facilities to meet the needs attributable to growth. All local funding is dedicated to meeting the needs of existing park users through modernization, renovation, and repair projects.[7]

The cost allocation process ensures that development fees equitably assign costs in proportion to demand and benefit. The increased supply of park, recreation, and open space facilities has been estimated to meet the demand (based on the existing citywide standard) attributable to service population growth accommodated by new development in Downtown San Francisco. That total cost for new facilities and improvements to existing facilities is allocated on a per capita basis across the projected increase in Downtown park users. The resultant average cost per park user is converted to a fee per square foot of new development using park use factors per square foot that reflect average household sizes and employment densities for different categories of non-residential development. (See **Table A.1** in the appendix for detail on these factors.)

Table 6 shows the calculation of the average facility cost per park user. Total costs are first reduced by 10 percent to account for that component of facility demand attributable to non-resident, non-worker visitors. Dividing the adjusted total facility cost by the expected growth in Downtown park users results in an average cost per user of about $4,700. Adding a percentage to account for necessary administrative and management costs for the fee and improvement program results in a total cost per park user of about $4,900.[8]

Table 7 presents the maximum justifiable park, recreation, and open space development fee schedule based on the forgoing analysis. The proposed maximum justifiable fees range from $2.70 per gross square foot for residential use to just under $13—$14 per gross square foot for office and medical uses.

Fee rates should be adjusted for inflation on an annual basis to ensure that fee revenue keeps up with increases in the cost of providing public facilities.

The proposed fee would apply to new residential and non-residential development in the Downtown Study Area (**Map 1**) not already subject to area plan fees for park, recreation and open space improvements or included in approved Redevelopment Project Areas.

---

[7] City and County of San Francisco, *Proposed Capital Plan 2012- 2021*, March 14, 2011.

[8] Agency costs to manage, monitor, and update the impact fee program are allowed to be recovered in the fee amount charged if those costs are estimated in the impact fee documentation. Impact fee documentation studies typically use a percentage factor to estimate this cost, generally ranging from two percent to five percent of the facility cost. In San Francisco, methodologies vary. A five percent factor was used in the Eastern Neighborhoods nexus study and in the Citywide Child Care nexus study. In the Citywide Recreation and Park impact fee justification study the alternative of estimating the cost of one FTE required to administer and monitor the program for a 20-year implementation period was used. The *FY 2009-2010 Development Impact Fee Report* prepared by the City and County of San Francisco Controller's Office documents when administration, monitoring and other program implementation costs are allowed uses of funds under the various development impact fee programs in place in San Francisco.

TABLE 6
DOWNTOWN PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE
FACILITY COST PER PARK USER (2010 DOLLARS)

Total Facility Cost	**$350,186,000**
Visitor adjustment (10 percent)[a]	($35,018,600)
Adjusted Facility Cost	**$315,167,400**
Park Users	
Residents	17,167
Workers	49,916
	67,083
Facility Cost per User	$4,698
5% for administration	$235
Total Cost per Park User	**$4,933**

[a] The visitor adjustment reduces total facility costs by a percentage judged reasonable as an estimate of the park and open space demand attributable to Downtown visitors. This adjustment is required because no data are available measuring visitor use of San Francisco park facilities.

TABLE 7
PROPOSED DOWNTOWN PARK, RECREATION, AND OPEN SPACE DEVELOPMENT IMPACT FEE
(maximum justified amount)

Land Use	Cost per Park User	Parks Use Factors[a]	Maximum Justified Fee Amount
Residential	$4,933	0.82 per unit	$4,046 per unit
			$2.70 per gross sq. ft.[b]
Cultural, Institutional, Educational	$4,933	2.03 per 1,000 sq. ft.	$10.01 per gross sq. ft.
Hotel	$4,933	0.87 per 1,000 sq. ft.	$4.29 per gross sq. ft.
Industrial/PDR	$4,933	1.06 per 1,000 sq. ft.	$5.25 per gross sq. ft.
Medical	$4,933	2.82 per 1,000 sq. ft.	$13.90 per gross sq. ft.
Office	$4,933	2.62 per 1,000 sq. ft.	$12.95 per gross sq. ft.
Retail	$4,933	2.07 per 1,000 sq. ft.	$10.21 per gross sq. ft.

[a] See Appendix Table A.1 for detail on park use factors by land use.
[a] Residential fee per gross square foot assuming 1,500 square feet per unit.

APPENDIX A.1

PARK USE FACTORS BY LAND USE CATEGORY

Park use factors by land use are used to convert the facility cost per user to the impact fee per unit of development. **Table A.1** shows how the park use factors by land use are derived. The analysis is similar to the analysis in **Table 3**, although the estimating factors from the American Community Survey and the park, recreation, and open space weighting factors are applied to residents per unit and to employees per square foot instead of to total residents and employment. For each step, formulas indicate the relationship between the input factors and the results by land use. The results by land use translate per-user costs to fees per unit of new development in **Table 6**.

TABLE A.1
PARK, RECREATION, AND OPEN SPACE USE FACTORS, BY LAND USE

			Residential	
Persons per household [a]			1.55	A
SF residents who don't work [b]	44.4%	B	0.69	$D = A \times B$
Park use factor [c]	1.00	C	0.69	$E = C \times D$
SF residents who work outside SF [b]	13.2%	F	0.21	$H = A \times F$
Park use factor [c]	0.64	G	0.13	$I = G \times H$
Park users per unit			0.82	$E + I$

			Office		Retail		Hotel		Institutional		Medical		PDR	
Workers per 1,000 sq. ft. [d]			3.62	N_1	2.86	N_2	1.20	N_3	2.80	N_4	3.89	N_5	1.47	N_6
SF workers who live in SF [e]	56.9%	J	2.06	$O_1 = J \times N_1$	1.63	$O_2 = J \times N_2$	0.68	$O_3 = J \times N_3$	1.59	$O_4 = J \times N_4$	2.22	$O_5 = J \times N_5$	0.84	$O_6 = J \times N_6$
Park use factor [c]	1.00	K	2.06	$P_1 = K \times O_1$	1.63	$P_2 = K \times O_2$	0.68	$P_3 = K \times O_3$	1.59	$P_4 = K \times O_4$	2.22	$P_5 = K \times O_5$	0.84	$P_6 = K \times O_6$
SF workers who live outside SF [e]	43.1%	L	1.56	$Q_1 = L \times N_1$	1.23	$Q_2 = L \times N_2$	0.52	$Q_3 = L \times N_3$	1.21	$Q_4 = L \times N_4$	1.68	$Q_5 = L \times N_5$	0.63	$Q_6 = L \times N_6$
Park use factor [c]	0.36	M	0.56	$R_1 = M \times Q_1$	0.44	$R_2 = M \times Q_2$	0.19	$R_3 = M \times Q_3$	0.43	$R_4 = M \times Q_4$	0.60	$R_5 = M \times Q_5$	0.23	$R_6 = M \times Q_6$
Park users per 1,000 sq. ft.			**2.62**	$P_1 + R_1$	**2.07**	$P_2 + R_2$	**0.87**	$P_3 + R_3$	**2.03**	$P_4 + R_4$	**2.82**	$P_5 + R_5$	**1.06**	$P_6 + R_6$

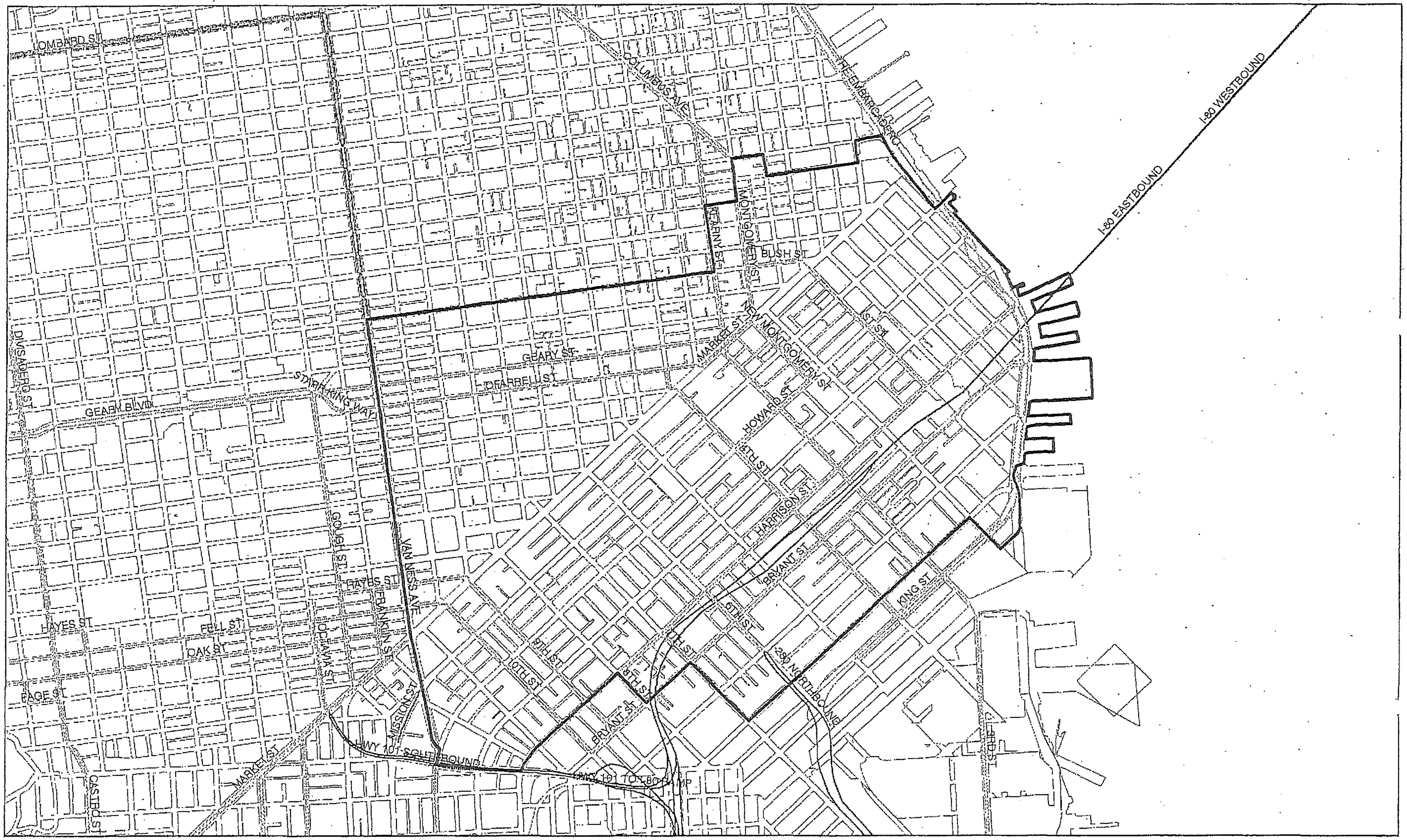
[a] Determined by San Francisco Planning Department to best represent average household size for the Plan Area and Greater Downtown San Francisco, from the *Rincon Hill Plan EIR*.
[b] Percentage of total San Francisco resident population from American Community Survey, 2005 - 2009 5-year estimates.
[c] Park use factor derived from park user analysis, see Table 2.
[d] Determined by San Francisco Planning Department to best represent density factors appropriate to the Plan Area and Greater Downtown San Francisco, from the *Downtown San Francisco Market Demand, Growth Projections, and Capacity Analysis* (May 2008) and Land Use Allocation, 2007.
[e] Percentage of total people working in San Francisco by place of work from American Community Survey, 2005 - 2009 5-year estimates.

APPENDIX A.2

RECENT LAND SALES OF DEVELOPABLE PARCELS IN THE C-3 DISTRICTS

Address	Sale Year	Sales Price	Existing Building Square Footage	Lot Size (SF)	Price/Land SF
50 1st	2006	$ 26,000,000	144,000	18,288	$ 1,422
350 Mission	2006	$ 25,500,000	94,697	18,910	$ 1,348
516-526 Mission	2005	$ 15,000,000	-	4,776	$ 1,062
579-581 Market	2007	$ 11,150,000	28,042	7,750	$ 1,439
62 1st	2003	$ 9,700,000	70,680	11,506	$ 843
217 2nd	2007	$ 7,000,000	22,687	4,896	$ 1,430
972 Market	2005	$ 5,900,000	11,530	4,210	$ 1,401
943 Market	2006	$ 5,750,000	10,988	7,426	$ 774
				Average Price/SF	$ 1,215

Source: San Francisco Assessor's Office



Map 1 Downtown San Francisco Study Area

0 1,900 3,800 Feet

Author:
Date Saved: 4/13/2012 12:41:54 PM
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BOARD of SUPERVISORS

City Hall
Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

October 24, 2018

File No. 180916-2

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On October 16, 2018, Supervisor Peskin submitted the proposed substitute legislation:

File No. 180916-2

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1, and findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

This substitute legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

BOARD of SUPERVISORS

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TDD/TTY No. 554-5227

October 24, 2018

Planning Commission
Attn: Jonas Ionin
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Commissioners:

On October 16, 2018, Supervisor Peskin introduced the following substitute legislation:

File No. 180916-2

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1, and findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

The proposed substitute ordinance is being transmitted pursuant to Planning Code, Section 302(b), for public hearing and recommendation. The ordinance is pending before the Land Use and Transportation Committee and will be scheduled for hearing upon receipt of your response.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

c: John Rahaim, Director
Scott Sanchez, Zoning Administrator
Lisa Gibson, Environmental Review Officer
Devyani Jain, Deputy Environmental Review Officer
AnMarie Rodgers, Director of Citywide Planning
Dan Sider, Director of Executive Programs
Aaron Starr, Manager of Legislative Affairs
Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

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San Francisco 94102-4689
Tel. No. 554-5184
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TDD/TTY No. 554-5227

September 26, 2018

File No. 180916

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On September 18, 2018, Supervisor Peskin submitted the proposed legislation:

File No. 180916

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

BOARD of SUPERVISORS

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September 26, 2018

Planning Commission
Attn: Jonas Ionin
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Commissioners:

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File No. 180916

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

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Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

c: John Rahaim, Director of Planning
Aaron Starr, Acting Manager of Legislative Affairs
Scott Sanchez, Zoning Administrator
Lisa Gibson, Environmental Review Officer
AnMarie Rodgers, Director of Citywide Planning
Laura Lynch, Environmental Planning
Joy Navarrete, Environmental Planning

SAN FRANCISCO EXAMINER

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835 MARKET ST, SAN FRANCISCO, CA 94103
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ERICA MAJOR
CCSF BD OF SUPERVISORS (OFFICIAL NOTICES)
1 DR CARLTON B GOODLETT PL #244
SAN FRANCISCO, CA - 94102

EXM#: 3185601

PROOF OF PUBLICATION

(2015.5 C.C.P.)

State of California)
County of SAN FRANCISCO) ss

Notice Type: GPN - GOVT PUBLIC NOTICE

Ad Description:

EDM 10.29.18 Land Use - 180916 Fee Ad

I am a citizen of the United States and a resident of the State of California; I am over the age of eighteen years, and not a party to or interested in the above entitled matter. I am the principal clerk of the printer and publisher of the SAN FRANCISCO EXAMINER, a newspaper published in the English language in the city of SAN FRANCISCO, county of SAN FRANCISCO, and adjudged a newspaper of general circulation as defined by the laws of the State of California by the Superior Court of the County of SAN FRANCISCO, State of California, under date 10/18/1951, Case No. 410667. That the notice, of which the annexed is a printed copy, has been published in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates, to-wit:

10/19/2018, 10/25/2018

Executed on: 10/25/2018
At Los Angeles, California

I certify (or declare) under penalty of perjury that the foregoing is true and correct.

Signature

Email *A000004904000*

NOTICE OF PUBLIC HEARING BOARD OF SUPERVISORS OF THE CITY AND COUNTY OF SAN FRANCISCO LAND USE AND TRANSPORTATION COMMITTEE MONDAY, OCTOBER 29 - 1:30 PM CITY HALL, LEGISLATIVE CHAMBER, ROOM 250 1 DR. CARLTON B. GOODLETT PLACE, SAN FRANCISCO, CA

NOTICE IS HEREBY GIVEN THAT the Land Use and Transportation Committee will hold a public hearing to consider the following proposal and said public hearing will be held as follows, at which time all interested parties may attend and be heard: File No. 180916. Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302. In accordance with Administrative Code, Section 67.7-1, persons who are unable to attend the hearing on this matter may submit written comments to the City prior to the time the hearing begins. These comments will be made part of the official public record in this matter, and shall be brought to the attention of the members of the Committee. Written comments should be addressed to Angela Calvillo, Clerk of the Board, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102. Information relating to this matter is available in the Office of the Clerk of the Board. Agenda information relating to this matter will be available for public review on Friday, October 26, 2018. Angela Calvillo, Clerk of the Board

BOARD of SUPERVISORS

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
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Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

NOTICE OF PUBLIC HEARING

BOARD OF SUPERVISORS OF THE CITY AND COUNTY OF SAN FRANCISCO

LAND USE AND TRANSPORTATION COMMITTEE

NOTICE IS HEREBY GIVEN THAT the Land Use and Transportation Committee will hold a public hearing to consider the following proposal and said public hearing will be held as follows, at which time all interested parties may attend and be heard:

Date: **Monday, October 29, 2018**

Time: **1:30 p.m.**

Location: **Legislative Chamber, Room 250, located at City Hall**
1 Dr. Carlton B. Goodlett Place, San Francisco, CA

Subject: **File No. 180916**. Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R (Downtown Retail) Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

If this legislation passes, the legislation would create the Union Square, Park, Recreation, and Open Space Fund fund and fee applicable to the office development in the C-3-R Downtown Retail Zoning District. The fee would apply to any project that proposes to add or create new office space. The funds would be administered by the Controller or his or her designee to pay for new and improved facilities to meet the needs attributable to new recreation, park, and open spaces uses in the C-3-R Downtown Retail Zoning District. Applicants shall pay a fee of $4 per square foot and shall be subject to the provisions of the legislation, including, but not limited to Planning Code, Sections 401 through 410.

In accordance with Administrative Code, Section 67.7-1, persons who are unable to attend the hearing on this matter may submit written comments to the City prior to the time the hearing begins. These comments will be made as part of the official public record in this matter, and shall be brought to the attention of the members of the Committee. Written comments should be addressed to Angela Calvillo, Clerk of the Board, City Hall, 1 Dr. Carlton Goodlett Place, Room 244, San Francisco, CA 94102. Information relating to this matter is available in the Office of the Clerk of the Board. Agenda information relating to this matter will be available for public review on Friday, October 26, 2018.

Angela Calvillo
Clerk of the Board

DATED/POSTED/PUBLISHED: October 19 and 25, 2018

Print Form

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Introduction Form

By a Member of the Board of Supervisors or Mayor

I hereby submit the following item for introduction (select only one):

- [ ] 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- [ ] 2. Request for next printed agenda Without Reference to Committee.
- [ ] 3. Request for hearing on a subject matter at Committee.
- [ ] 4. Request for letter beginning :"Supervisor ____ inquiries"
- [ ] 5. City Attorney Request.
- [ ] 6. Call File No. ____ from Committee.
- [ ] 7. Budget Analyst request (attached written motion).
- [x] 8. Substitute Legislation File No. 180916
- [ ] 9. Reactivate File No. ____
- [ ] 10. Topic submitted for Mayoral Appearance before the BOS on ____

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- [ ] Small Business Commission
- [ ] Youth Commission
- [ ] Ethics Commission
- [x] Planning Commission
- [ ] Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.

Sponsor(s):

Peskin

Subject:

Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R District

The text is listed:

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R Downtown Retail Zoning District; amending the Planning and Administrative Codes to create the Union Square park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

Signature of Sponsoring Supervisor: Aaron Peskin

For Clerk's Use Only

Print Form

Introduction Form

By a Member of the Board of Supervisors or Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- [x] 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
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- [ ] 3. Request for hearing on a subject matter at Committee.
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- [ ] 5. City Attorney Request.
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- [ ] 9. Reactivate File No. ______
- [ ] 10. Topic submitted for Mayoral Appearance before the BOS on ______

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Sponsor(s):

Peskin

Subject:

[Planning, Administrative Codes - Zoning Controls and Fees in the C-3-R District]

The text is listed:

Ordinance amending the Planning Code to change zoning controls for Non-Retail Sales and Service Uses in the C-3-R Downtown Retail Zoning District; amending the Planning and Administrative Codes to create the Union Square Park, Recreation, and Open Space Fund and Fee; affirming Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

Signature of Sponsoring Supervisor:

For Clerk's Use Only