DOWNTOWN PLAN

ANNUAL MONITORING REPORT 2007

This Downtown Plan annual report summarizes business and development trends affecting Downtown San Francisco and covers the 2007 calendar year, as required by Chapter 10E of the San Francisco Administrative Code. The first section of this report, *Commercial Space, Employment and Revenue Trends*, highlights the growth that the Downtown Plan enabled, and discusses the production of new commercial space, employment trends, and recent sales tax revenues on both a citywide and Downtown basis. The second section, *Downtown Support Infrastructure*, reviews housing and transportation trends – two key elements supporting the functioning of the Downtown core.

SAN FRANCISCO PLANNING DEPARTMENT | SEPTEMBER 2008

Map 1. Downtown C-3 Zone

Adopted in 1984, the Downtown Plan contains objectives and policies to guide decisions impacting Downtown San Francisco, defined as the C-3 zoned district (Map 1). The Downtown Plan details development guidelines and public policy actions, and creates requirements for programs to improve services and infrastructure. It also requires monitoring reports that review key indicators affecting Downtown on both an annual and five year basis. The annual report highlights recent trends and developments, whereas the five-year report provides a more thorough analysis of the Downtown Plan's performance.

This report relies on a wide range of data including information found in the Housing Inventory, the Commerce and Industry Inventory, and Pipeline quarterly reports, all published by the Planning Department. It also includes information from the state Employment and Development Department (EDD), Municipal Transportation Agency (MTA), Co-Star Realty information, Dunn and Bradstreet business data, CBRE and NAI-BT Commercial real estate reports, and information gathered from the Department of Building Inspection, and the offices of the Treasurer and Tax Collector, the Controller, and the Assessor/Recorder.

In Spring 2009, the Downtown Plan five year report will be published which represents a more extensive data collection effort and includes an analysis of long-term policy indicators such as the transfer of development rights program (TDR), urban form goals, and impact fee funds. Most importantly, it will provide an analysis of the Downtown Plan's policy objectives.

Cover photo courtesy of Flickr
http://www.flickr.com/photos/pbo31/73630722

COMMERCIAL SPACE, EMPLOYMENT, AND REVENUE TRENDS

The Downtown Plan enabled development to occur in a managed fashion and assumed that most new growth in San Francisco would occur in and around the Downtown C-3 zoned area. This section discusses some recent development trends in this area.

Commercial Space Development Trends

At the end of 2007 there were 1,087 projects in the citywide development pipeline.[1] Only about 10% of these were commercial developments without a residential component, whereas over two-thirds (or about 70%) were exclusively residential and 17% were mixed-use projects with both a residential and commercial component.

If completed, proposed commercial projects (the majority of which are office), could add about 14.5 million square feet of commercial space to the City's approximately 110 million square feet of existing office space; much of this existing space is concentrated Downtown. Of the proposed commercial space, 9.3 million square feet is office and 3.0 million square feet is retail.[2]

The Downtown C-3 share of overall pipeline commercial development is 3.65 million square feet or 25% as shown in Table 1. The greatest amount of commercial space being produced in the city is along the southeast waterfront in the Bayview District, which alone accounts for 56%, followed by Mission Bay which accounts for 9%. The Bayview Waterfront project, consisting of a number of sites along the southeastern waterfront, would account for nearly eight million square feet of commercial space including office, R&D, and retail[3]. The first phase of this project, if carried out, is not expected to be completed and occupied until 2012. Together these areas are responsible for 65% of all commercial space in the pipeline.

Table 1. Commercial Space Pipeline Summary*

Neighborhood	Sq. Feet	% of Citywide Pipeline
Downtown	3,659,000	25%
Bayview (Waterfront Project)	8,087,000	56%
Mission Bay	1,249,000	9%
Rest of City	1,537,000	11%
TOTAL	14,532,000	100%

* As of 4th Quarter 2007

Nearly one in five pipeline projects are in the construction phase, while just over 30% have received building permit approvals or land use entitlements. About half of all projects are still at the early stages of development, with permit applications filed with the Planning Department or the Department of Building Inspection.

Projects under construction should become available for occupancy in the next two years. Projects not yet under construction but approved by the Planning Department could be available for occupancy in two to four years.[4]

Office Space: Close to two-thirds of the City's office space is located in the Downtown C-3 district (Table 2). At the close of 2007, the San Francisco office market stabilized after several years of falling vacancies and increasing rents. As shown in Table 3 below, 2007 ended with citywide vacancy rates at 10.2%, indicating a slight reduction from year-end 2006 (10.6%).

1 For more information, refer to the 4th Quarter Pipeline Report at http://www.sfgov.org/site/planning

2 Unless stated otherwise, all square footage information presented in this memo is gross square feet; net square footage is approximately 15% less.

3 Bayview Waterfront projects include India Basin, Executive Park, and Hunters Point shipyard.

4 For more detailed information regarding pipeline projects, click on the Pipeline Report link at http://www.sfgov.org/site/planning/

Table 2. **Office Space**

	Total Office Square Feet
San Francisco	110,058,000
C-3	69,927,000
% office in C-3	63.5%

Since peaking at its historic high of over 20% in 2002, the overall vacancy rate has now declined progressively to its lowest year-end mark in the past five years and remained unchanged at the end of first quarter 2008, despite the turmoil in the credit and housing markets. It remains to be seen if this stability can be maintained as many banks and financial services firms that occupy large spaces in San Francisco are expected to reconsider their future growth plans, but reported demand from technology companies (increasingly found in Downtown and South of Market) continues to be strong.

At 9.4%, the Downtown C-3 area continues to have an office vacancy rate lower than the citywide average, and among the lowest in the Bay Area, highlighting the City's desirability as the preeminent office location in the region.

Table 3

*Office Vacancy Summary, 4th Quarter 2007	
Downtown C-3	9.4%
Non-Downtown C-3	11.4%
Total Citywide	10.2%
Bay Area	11.2%
California	13.5%
U.S.	12.8%

Retail Space: The Downtown C-3 area contains nearly nine million square feet of retail space, representing the region's preeminent retail hub serving local, regional, and -- significantly for San Francisco – visitor shopping needs (Table 4). The majority of retail space in San Francisco, however, can be found outside the Downtown in regional shopping centers, as well as along the City's many neighborhood commercial streets that are lined with numerous retail establishments.

As shown in Table 4 below, the retail vacancy rate for Downtown is at 4.1% -- markedly higher than the City-wide average of 2.3% but still pointing to a relatively tight market. Moreover, the market for additional retail space is anticipated to grow and some 1.28 million square feet of retail space is in the development pipeline.[5] If this space in the pipeline materializes, it could serve to meet current and future demand and, by increasing vacancy, should help decrease rents in the Downtown area.

Table 4

	Total Retail Square Feet	Vacancy
San Francisco	45,975,000	2.3%
C-3	8,890,000	4.1%
% retail in C-3	19.3%	

Hotel Space: There are approximately 34,450 hotel rooms in San Francisco. Approximately 20,000 or just under 60% of these rooms are located Downtown and within walking distance of the Moscone Convention Center. About 1,100 hotel rooms have been added since 2005 and an additional 1,500 have been proposed.

Hotel vacancy rates continue to improve as average daily rates increase. For 2007, hotel occupancy was 79%, an increase from 76.4% in 2006, and up from 68.1% in 2003. Visitor traffic, both from tourists and those attending conventions, continues to be strong.

5 Refer to the annual Commerce and Industry Inventory for the annual net change in retail space.

Employment

Although Downtown San Francisco continues to be the densest employment center in the region, its share of city-wide employment has declined slightly from 40% in 2000 to just above 38% at the end of 2006 (Table 5). San Francisco employment numbers for 2007 were not yet available from the state Employment and Development Department (EDD) at time of this report's writing. However, it is estimated that in 2007, San Francisco gained an additional 10,000 jobs. The majority of these new jobs are assumed to be located in the South of Market and Mission Bay given the new space constructed as well as falling vacancy rates in these areas. The majority of office and hotel jobs continue to be located in Downtown but recent development trends indicate substantial employment growth outside of the traditional Downtown area, particularly in the eastern portion of the city.

Table 5. ***San Francisco Employment 2006**

Land Use	San Francisco	Downtown C-3	Downtown C-3 Share
Office	206,271	124,600	60.4%
Retail	98,294	26,400	26.9%
Industrial	81,699	17,900	21.9%
Hotel	19,087	12,800	67.1%
CIE	130,645	21,700	16.6%
Total Employment	535,996	203,400	38.1%

Source: EDD
* Variations from published 2006 employment numbers are due to rounding and EDD confidentiality requirements.

Office Employment: The Downtown financial district remains the center of office employment in San Francisco. At the end of 2006, there were some 206,270 office jobs in San Francisco. Of these jobs, about 124,600 are located in the C-3 zoned district of downtown, or 60.4% of total office employment citywide (Table 5).

San Francisco's Downtown maintains the greatest concentration of office jobs in the region including financial, legal, and other specialized business services. Many of these jobs continue to be in the financial, insurance, and real estate sectors.

Retail Employment: Within San Francisco, retail continues to be concentrated downtown as well as in neighborhood commercial areas. Outside the City, retail growth continues but this growth serves shoppers at the local and sub-regional level. San Francisco's downtown remains the primary retail destination in the region, offering not just goods and services, but a unique urban experience. Visitor traffic in particular represents a large share of Downtown San Francisco sales receipts.

At the end of 2006, there were 98,294 retail jobs in San Francisco. About 26,400 of these jobs could be found in the Downtown C-3 zone, or almost 27% of total retail jobs citywide.[6]

Hotel Employment: The majority of hotel jobs and rooms continue to be located Downtown. At the end of 2006, of the almost 19,100 hotel jobs found in the City; 12,800 were in the C-3 or about 67.1%.

6 For more information on regional trends, business formation and relocation see the Commerce and Industry Report 2007.

Sales and Hotel Tax Revenues

Sales Tax: At the end of 2007, retail sales continued to grow with year-over-year sales taxes increasing 3.6% between year-end 2006 and year-end 2007. San Francisco continued to experience large gains in the restaurant and apparel store categories.

Sales in the "general retail" category increased 3.3% between year-end 2006 and year-end 2007. By the end of 2007, restaurant revenues posted an all time high increase of more than 6% from the previous year.

Overall, the City of San Francisco collected $124.5 million in sales tax for fiscal year 2007.[7] About $23.2 million, or 19% was collected in the Downtown C-3 zoned area. Moreover, the C-3 district accounted for a greater share of general retail store sales tax and business to business sales tax, or 26% and 24% respectively.

San Francisco's positive gains are running counter to many other large Bay Area cities' experience, which recorded flat or negative year-over-year growth. San Francisco's status as a destination city and tourism center contributed to this retail attraction.

Hotel Tax: In line with the increasing number of visitors, the hotel sector has continued its recovery, with both occupancy and average daily rates increasing in the past few years. About $463 million in hotel taxes were collected in 2006.[8]

Hotels citywide reported an average daily rate of $182.28 in the fourth quarter of 2007, a 7.1% increase from the prior year.[9] Occupancy rates also increased 2.6% over the same period. The strength of the hotel industry will likely continue in 2008 due to a record number of advanced hotel room-nights booked through the Convention and Visitor's Bureau for several large conventions, as well as continued demand from tourists, particularly foreign visitors taking advantage of the relatively weak dollar.

7 July 1, 2006 to June 30, 2007.

8 As of the writing of this report, total hotel taxes collected in 2007 were not available. Because of increased occupancy and room rates, 2007 hotel taxes should be greater than 2006.

9 PKF Consulting, Mayors Office of Economic Analysis.

DOWNTOWN SUPPORT INFRASTRUCTURE

The Downtown Plan was developed under the assumption that significant employment and office development growth would occur and that this growth must be managed in order to remain sustainable. Absent new policies and programs, automobile traffic would continue to grow and important historic buildings located north of Market Street could be lost. The Plan established a special use district around the Transbay Terminal to shift office construction to that area as a means of reducing further disruption of the financial center north of Market. As an incentive to save historic buildings and to shift construction to the South of Market (SoMa), the Plan enabled owners of buildings designated for preservation to sell development rights to office builders in the special use district. New commercial development would provide new revenue sources to cover a portion of the costs of necessary urban service improvements. Specific programs were created to satisfy needs for additional housing, transit, child care and open space, as were specific targets for new housing production and transportation management. Although this section only discusses the Downtown Plan's housing and transportation targets, the five-year Downtown Plan Monitoring Report to be published in Spring 2009 will discuss specific programs and policies in greater detail.

Housing

Residential units completed: A total of almost 2,570 net units were completed in the City in 2007, mostly in the South of Market area (Table 6). This significantly surpasses the Downtown Plan's goal of adding between 1,000 and 1,500 units to the City's housing stock per year to offset Downtown employment growth. In the C-3 district, a total of just under 210 net units were completed.

Table 6. Net New Housing Completed 2007

Area	Net Units	Percent
Downtown/C-3[1]	208	8%
SoMa	1,363	53%
Rest of City	996	39%
TOTAL	2,567	100%

Source: Housing Inventory 2007

As shown in Table 7, almost 2,200 new units were completed citywide in 2007, up from some 1,680 in 2006. An additional 450 units were added due to conversions from commercial uses and/or additions to existing structures and over 80 units were demolished for a net addition of almost 2,570 units for the year.

Table 7. San Francisco Housing Trends 2002-2007

Year	Units Authorized for Construction	Units Completed from New Construction	Units Demolished	Units Gained from Alterations	Net Change In Number of Units
2002	1,478	2,260	73	221	**2,408**
2003	1,845	2,730	286	52	**2,496**
2004	2,318	1,780	355	62	**1,487**
2005	5,571	1,872	174	157	**1,855**
2006	2,332	1,675	41	280	**1,914**
2007	3,281	2,197	81	451	2,567
TOTAL	**16,825**	**12,514**	**1,010**	**1,223**	**12,727**

Source: Housing Inventory 2007
Note: Net Change equals Units Completed less Units Demolished plus Units Gained or Lost from Alterations.

Residential Pipeline: Although the Downtown C-3 currently has 4,820 units, or 12% of the citywide total, in the development pipeline, a significant share of new housing is being produced in Bayview and Mission Bay, outside the Downtown core (Table 8).

At the end of the fourth quarter of 2007, about 14,500 new units are proposed to be built in the Bayview area and 1,080 in Mission Bay, for a total of 15,410 units or 38% of the citywide pipeline. Although historically only 85% of the pipeline is constructed within five to seven years, if the total pipeline at the end of fourth quarter 2007 is completed, it could add nearly 40,400 net new housing units to the City's housing stock. (Table 8).

Table 8. **Residential Pipeline - 4th Quarter 2007**

Neighborhood	Units	% of Citywide Pipeline
Downtown	4,820	12%
Bayview (Waterfront Project)	14,330	35%
Mission Bay	1,080	3%
Rest of City	20,140	50%
TOTAL	40,370	100%

Jobs Housing Linkage Program: Prompted by the Downtown Plan in 1985, the City determined that large developments attract additional employees, thereby creating a direct correlation between new development and an increased demand for housing. In response, the Office Affordable Housing Production Program (OAHPPP)was established to require large office developments to contribute to a fund to increase the amount of affordable housing. In 2001, the OAHPP was re-named the Jobs-Housing Linkage program and amended to require all commercial projects with a net addition of 25,000 gross square feet contribute to the fund.

About $11.9 million in jobs-housing linkage fees was collected in 2007. The program has collected almost $34.7 million in the last six years (Table 9). Since the program was established in 1985, the fund has subsidized the construction of more than 1,000 units of affordable housing.

Table 9. **Jobs Housing Linkage Fees 2002-2007**

Year	Amount Collected
2002	662,250
2003	20,380
2004	4,808,601
2005	7,213,768
2006	10,087,487
2007	11,880,503
TOTAL	$34,672,990

Transportation

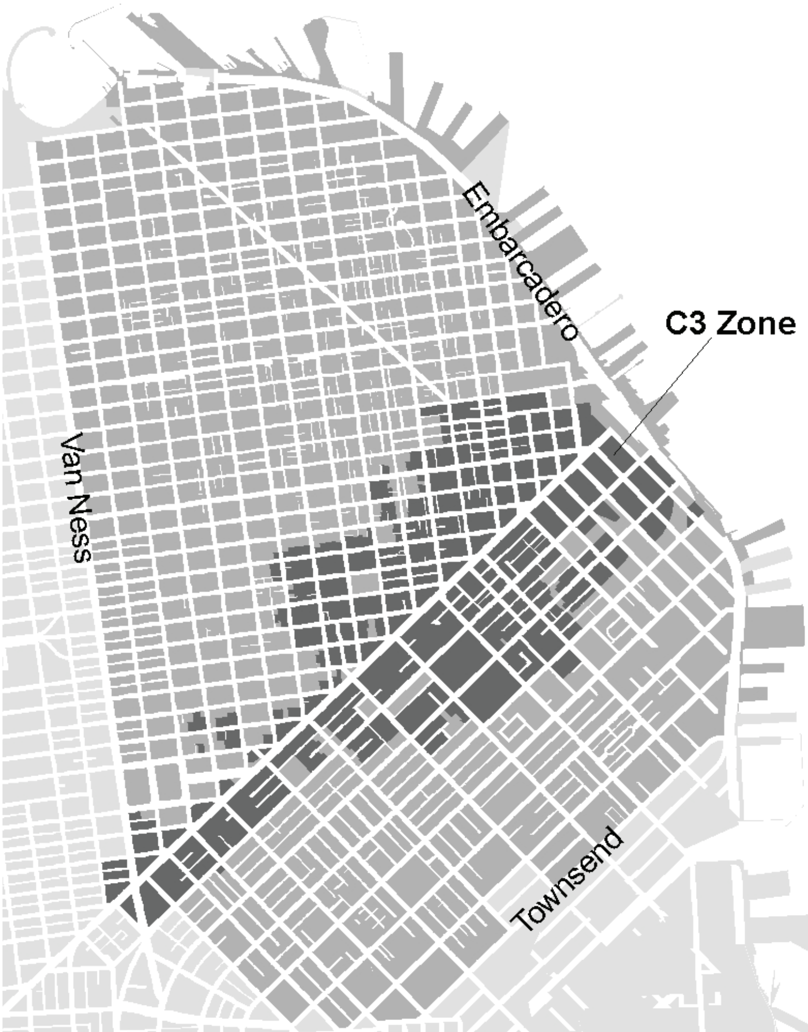
This section reports on Downtown Plan transportation targets including an inventory of parking, vehicle occupancy rates, peak period transit ridership, commute mode split, and fees collected by the Transit Impact Development Fee (TIDF).

Parking inventory: The Downtown Plan sought to limit the number of long-term parking spaces to the number that existed in 1984. However since that time, the supply of parking has continued to grow. Between 2002 and 2007, a total of 2,311 off-street parking spaces were approved in the C-3. Of these, 1,745 were approved in 2002 for 1160 Mission and 1169 Market.[10]

Vehicle occupancy rate: A goal of the Downtown Plan is to increase ridesharing into Downtown from 1.48 to 1.66 persons per vehicle. Although ridesharing data for the Downtown C-3 is not available, historic trends for the larger area suggest that this target has not been met and that vehicle occupancy actually declined.

In the U.S. Census Superdistrict 1 – an area encompassing the Downtown, South of Market and North Beach (Map 2) – the average vehicle occupancy for workers commuting to the area has been declining. In 1980, or five years before the Downtown Plan's adoption, vehicle occupancy was 1.28 passengers per car. However, in 1990 it dropped to 1.22 and by the 2000 Census, vehicle occupancy had declined further to 1.21.

10 For the purposes of this report, only approved projects in the C-3 area were included.



Map 2. Census Super District 1

Average vehicle occupancy for Downtown workers remains higher than other areas. According to the 2000 Census, Superdistrict 1 had an average vehicle occupancy rate of 1.21 for those working in that area and an occupancy rate of 1.13 for those who live in the area (Table 10).[11] These figures compare with a vehicle occupancy rate of 1.18 for all individuals working in San Francisco and an occupancy rate of 1.13 for all San Francisco residents. The entire Bay Area region has an even lower rate (1.10).[12]

Table 10.
Average Vehicle Occupancy Rates for Workers, Residents

	Super-district 1	San Francisco	Bay Area
Work-Based[1]	1.21	1.18	1.10
Residence-Based[2]	1.13	1.13	1.10

[1] Average for all workers employed at employment sites in the geographic area designated
[2] Average for all residents living in the geographic area designated

Source: U.S. Bureau of the Census, 2005.

11 The vehicle occupancy rate is the average number of individuals riding a vehicle. The lowest possible rate is 1, where all vehicles are single occupant; however, the greater the number of rideshare passengers, the greater the rate.

12 These occupancy rates for Superdistrict 1 were directly taken from Tables 17, 18 and 19 of the 2000 Census Data Summary #5 (Journey-to-Work in the San Francisco Bay Area), released in June 2005. These rates are for commute trips to work and do not necessarily reflect peak period patterns.

Peak period transit ridership: According to recent Automatic Passenger Count (APC) data collected by the Municipal Transportation Agency (MTA), the downtown area continues to maintain the highest number of peak period transit trips in the city with nearly one-third having Downtown as their origin or destination. Of the more than 650,000 total weekday boardings in 2006, more than 280,000 (43.3%) occurred during the peak period, and almost 88,000 (or 13.4% of all weekday boardings) were peak period trips either going to the downtown area in the morning, or coming from the downtown area in the afternoon (Table 11).

Table 11. Peak Period Transit Ridership to/ from Downtown

Fiscal Year	Total Peak Citywide	Total Peak Downtown	Downtown Share of Total Peak Trips
2006	282,520	87,738	31%

Source: Municipal Transportation Agency (MTA), 2006.

Downtown commute mode split: The Downtown Plan assumed that transit share of all peak period trips into the Downtown C-3 would increase from 64% when the Plan was adopted in 1984, to 70% by 2000. Although commute mode split data for the Downtown C-3 district is not available, data from the 2007 Transportation Management Associations' Commuter Behavior Survey estimated transit ridership at approximately 68% for select buildings surveyed in the Downtown Financial District core. This however represents only a portion of the overall C-3 zoned area and may not represent transit ridership for the entire C-3 zoned area.

Census 2000 data compiled by the Metropolitan Transportation Commission (MTC) for Superdistrict 1 that includes the entire C-3 zone as well as adjacent areas, indicates that 49% of all commuters arriving to work in this area took transit. Although this represents an increase from 45.6% in 1990, it is slightly less than the 51.4% that took transit in this same area in 1980, just a few years before the Downtown Plan was adopted. Census 2000 also reveals that drive alone, rideshare and other means represented 28.7%, 12.4% and 9.9%, respectively.

Transit Impact Development Fee (TIDF): In 1981, as a precursor to the Downtown Plan and responding to significantly increased downtown office development at that time, the City and County of San Francisco enacted a fee aimed at recovering the transit operating subsidy and capital expansion costs incurred by this growth. Initially, all new office developments were required to pay $5 per square foot of office space to cover the added transit service to downtown office buildings. In 2004, the Municipal Transportation Agency (MTA) modified this fee to include all proposed non-residential developments in San Francisco. An analysis of this and other fees will be presented in the forthcoming five-year Downtown Plan Monitoring Report.

Table 12 (below) lists the annual cash balances of the Municipal Railway for all TIDF revenues collected between Fiscal Year 2002 and Fiscal Year 2007. This includes revenue data as well as other polled investments.

Table 12. TIDF Cash Balance by Year: 2002-2008

Fiscal Year	Begin. Cash Balance	Total Collections	Total Expenses[1]
2002	57,462,934.94	7,879,766.63	(18,113,104.45)
2003	49,726,761.19	4,023,551.73	(10,567,689.75)
2004	44,341,764.38	1,344,207.40	(10,020,677.30)
2005	36,533,422.90	928,449.44	(6,168,613.08)
2006	32,014,264.52	11,161,808.80	(11,072,282.56)
2007	23,149,117.30	1,980.198.30	(11,158,130.77)

[1] Total Expenses = Matching Capital/Operating Support + TIDF Direct Capital Projects and Administration

Source: Municipal Transportation Agency (MTA), 2008.

CONCLUSION

The Downtown Plan directed that dense employment growth be concentrated in the C-3 district and immediately adjacent areas. In order to accommodate this growth, the Plan contains a series of goals, policies and targets that were designed to ensure that new development would represent a net benefit to the City.

By most measures, the San Francisco Downtown Plan has been a great success. It has created one of the most successful core areas of any American city. The vitality, job and housing density, retail activity and overall character of the downtown have improved dramatically in the past 20 years. But the trends must continue to be monitored to enable this continued success and to ensure that unintended consequences do not occur.

The housing and transportation goals are among the most significant in the Downtown Plan. The Plan states that without sufficient and appropriate housing to serve new commercial development, increasing competition would affect local housing costs compromising the vitality of Downtown. The Plan also states that if employment growth results in many more cars downtown, traffic conditions would deteriorate, significantly affecting the areas sustainability. As a result, the Plan contains various targets relating to each.

Housing targets have been met as the City has produced more housing than the Plan called for. The cost of housing has increased substantially since the adoption of the Plan, yet this is largely the result of regional economic forces and job growth that has increased the attractiveness of San Francisco and the Bay Area. In the Downtown area itself, this housing is increasingly taking the form of office conversions. This trend, as well as the potential addition of thousands of new units of pipeline housing in and around the area, promises to significantly increase the residential population of Downtown. The Planning Department should closely monitor this situation to determine if this housing growth could decrease the long term capacity of the area to absorb employment growth or reduce the supply of Class B office space.

Since the Plan was adopted the growth in Downtown office space has served to enhance the vitality of the area. However, more analysis is needed in the Five Year report to determine whether the transportation targets have been met. Some data suggest that transit use and auto occupancy may have declined. However, this may be offset by the numbers of bicycle commuters and the numbers of workers who now walk to work from the immediate area. In addition, regional decentralization and suburbanization of growth since the Plan was adopted may have contributed to these trends as well.

Sustaining the growth that the Plan enabled could be compromised if the data indeed show a decline in transit use overall. Adopted in 1984, the Downtown Plan could not have anticipated local, and especially regional, growth patterns that decentralized employment and housing over the past several decades. These trends will be further evaluated in the upcoming five-year Downtown Plan report that will consider updates to the Plan, while exploring the larger question of the City's growth in relation to the region.