



SAN FRANCISCO PLANNING DEPARTMENT

Memo to the Planning Commission

HEARING DATE: APRIL 28, 2016

Date: April 20, 2016
Hearing Title: **Informational Overview of San Francisco Job and Office Trends 1985-2015 and Update on Office Development Pipeline**
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Recommendation: **None - Informational Only**

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OVERVIEW

It has been thirty years since the Downtown Plan was adopted by the Commission and the Board of Supervisors in 1985 and Proposition M was adopted by the voters in 1986. These policy and regulatory frameworks for directing, shaping and metering growth in San Francisco, particularly job growth, were a response to the context, trends and dynamics occurring at that time in history, and they continue to form the basis by which decision-makers, particularly the Planning Commission, administer the land use aspects of San Francisco's ever-evolving and growing economy. San Francisco's economy and job base has grown very robustly in recent years, as has the Bay Area's generally. In 2012 the City surpassed its previous high number of jobs, and with the present condition of record low commercial vacancy and record high commercial rental rates, millions of square feet of office space are proposed to seek entitlement in the coming years. Additionally, in approximately a year or so, the Planning Commission will be faced, for the first time in at least 15 years, the necessity of selecting, on an annual basis, which office projects will be entitled given the annual limits established by the Office Allocation Program (made permanent through Prop M).

Given these current dynamics, the Planning Department has embarked on a data-gathering and research effort to unearth and examine how the City's economy and job base has evolved over the past thirty years since these landmark policy frameworks, including how the City has evolved relative to the Bay Area regionally, in comparison to peer cities across the country, and the context of the nation as a whole.

The Department intends and hopes that this data proves useful in informing future policy conversations and decision-making at all scales, from citywide policy considerations, to neighborhood plans, to specific developments (such as may be the case in future office allocation decisions).

Staff is proposing a series of informational hearings on the topic of local and regional employment trends, similar to the recent series on housing policies. For the first informational hearing on April 28, staff will provide an initial overview of these job and office space trends, along with a brief snapshot of the current Office Allocation pipeline. Staff will continue this research, including delving into the relationships between job growth and the other two "legs" of the stool framed as part of the Downtown Plan/Prop M

policy framework – ie housing and transportation. We will return to the Commission this summer with a continuation of this informational series in a set of deeper dives on these topics.

RECOMMENDATION: None. Informational Only
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Job and Office Trends/

Update on Office Development Pipeline

**San Francisco
Planning**

Planning Commission Informational | April 28, 2016

Presentation Outline

- A. Overall growth totals and growth rates
- B. Sectoral shifts in the economy and jobs
- C. Sub-regional dynamics
- D. Sub-city office market trends
- E. A closer look at 2010-2015
- F. Thoughts on near-term future/

Office Allocation Update

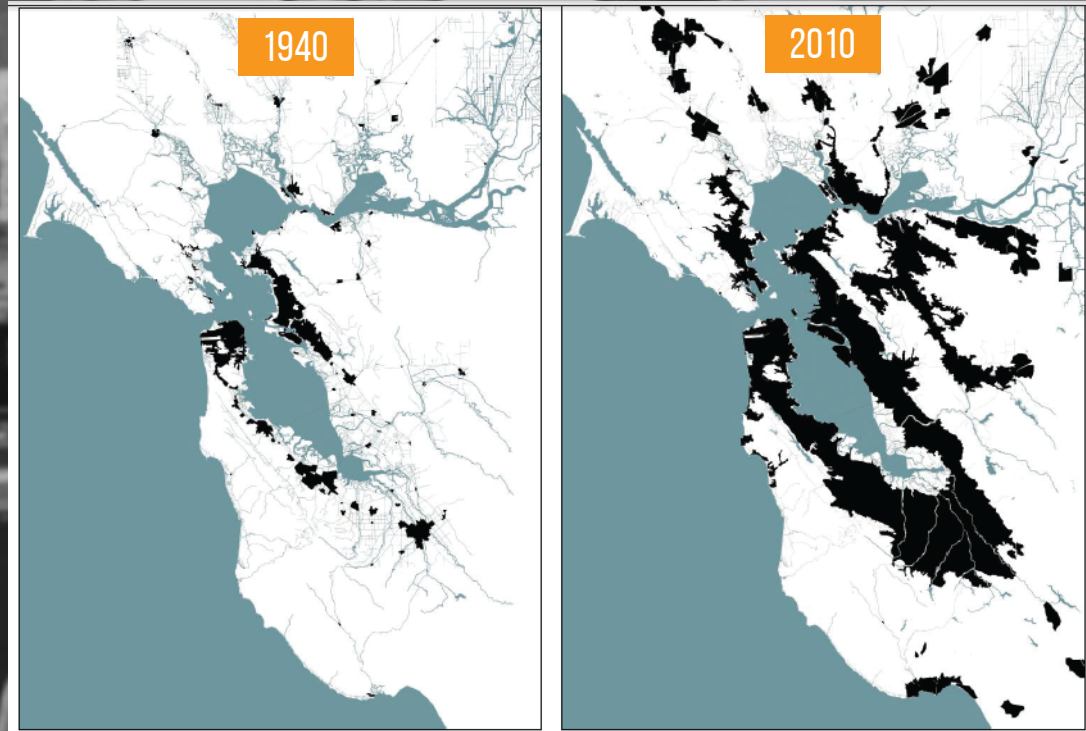
- G. Topics for future briefings:
The other “legs of the stool”

© Jeff Gable Photography 2013

A. Overall Job Growth Rates

Summary:

Bay Area employment has grown steadily, outpacing the nation since the 1960s, though SF itself lagged behind until the mid-2000s when it surged ahead

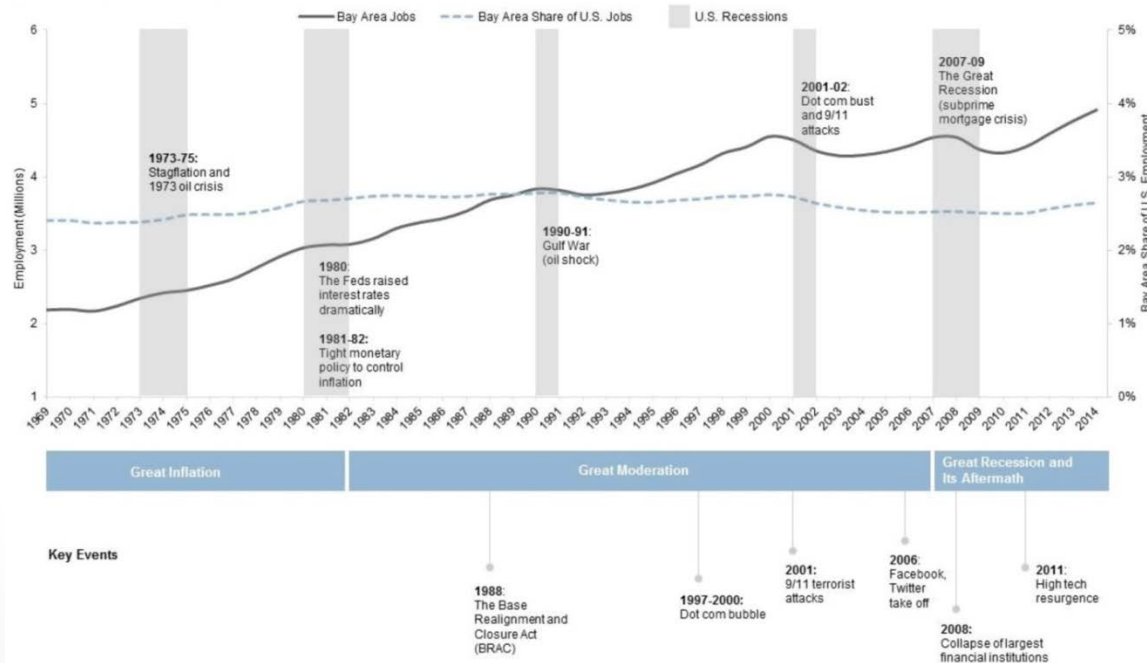


A. Overall Job Growth Rates: Bay Area

The region...

...grew faster than the US during 1970s and 1980s, and again since 2010 (annual 3.4% vs 1.8%)

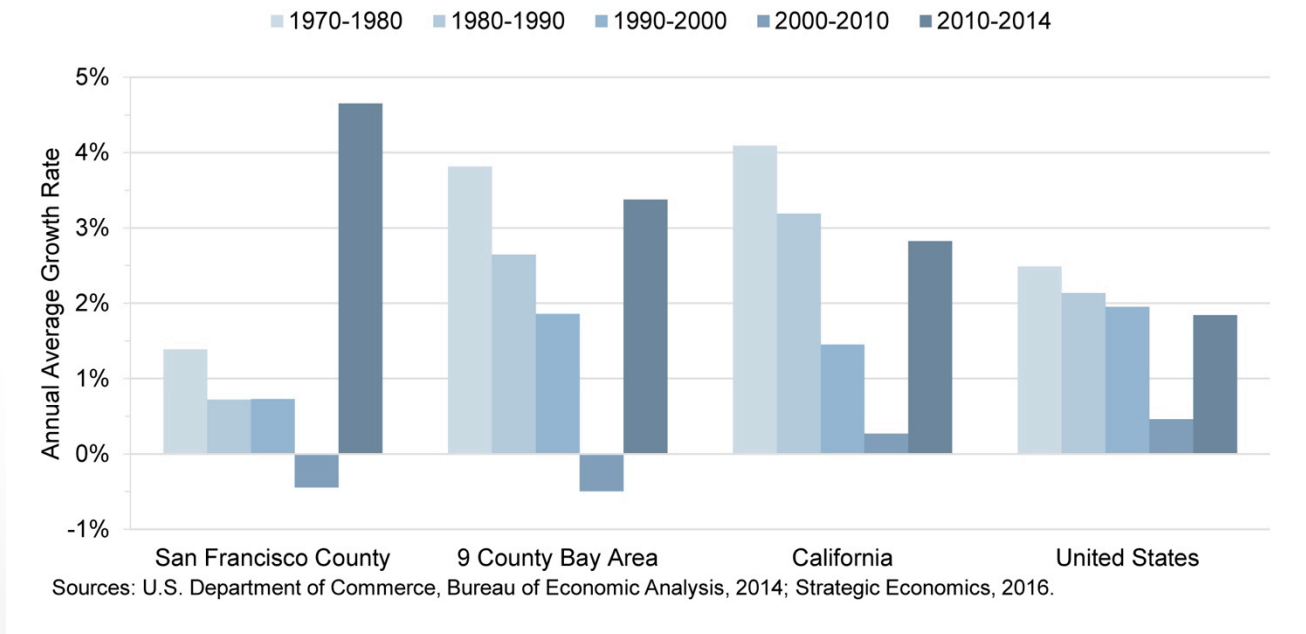
...surpassed in 2012 previous high water mark (in 2001) for total jobs



Sources: U.S. Department of Commerce, Bureau of Economic Analysis, 2014; Strategic Economics, 2016.

A. Overall Job Growth Rates: San Francisco

- From 1970s-2000s, SF grew more slowly than rest of region and lost share of regional jobs
- Since mid-2000s, SF has been gaining share
- SF 2010-14 growth rate surpassed region, state and nation



A. Overall Job Growth Rates: San Francisco

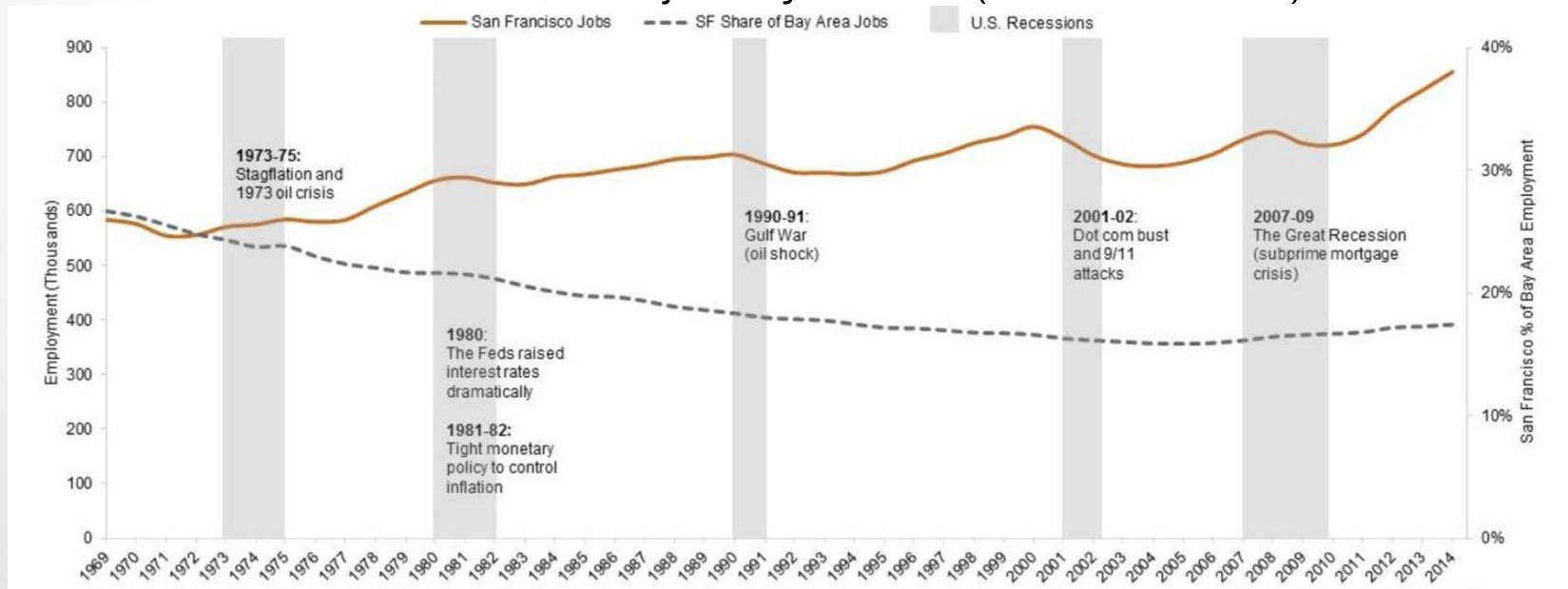
1975-2014: + 6,500 jobs/year (4 recessions)

1985-2014: + 4,000 jobs/year (2 recessions)

1995-2014: + 7,500 jobs/year (2 recessions)

2005-2014: + 13,000 jobs/year (1 recession)

2010-2014: + 30,000 jobs/year (0 recessions)



A. Overall Job Growth Rates: Plan Bay Area/Projections

- Plan Bay Area (adopted 2013) projections for 2010-2040

Region: + 1.1m jobs

SF: + 191,000 jobs (17% of region)

- Actual growth 2010-2014

Region: + 585,000 jobs

SF: + 120,000 jobs (20% of region)

- Plan Bay Area (2017) forecast 2010-2040

Region: + 1.3m jobs

SF: ??? (draft scenarios coming May 2016!)



A. Overall Job Growth Rates: Peer Cities



- Agglomeration economies with strengths in innovation and technology
- North American gateway cities

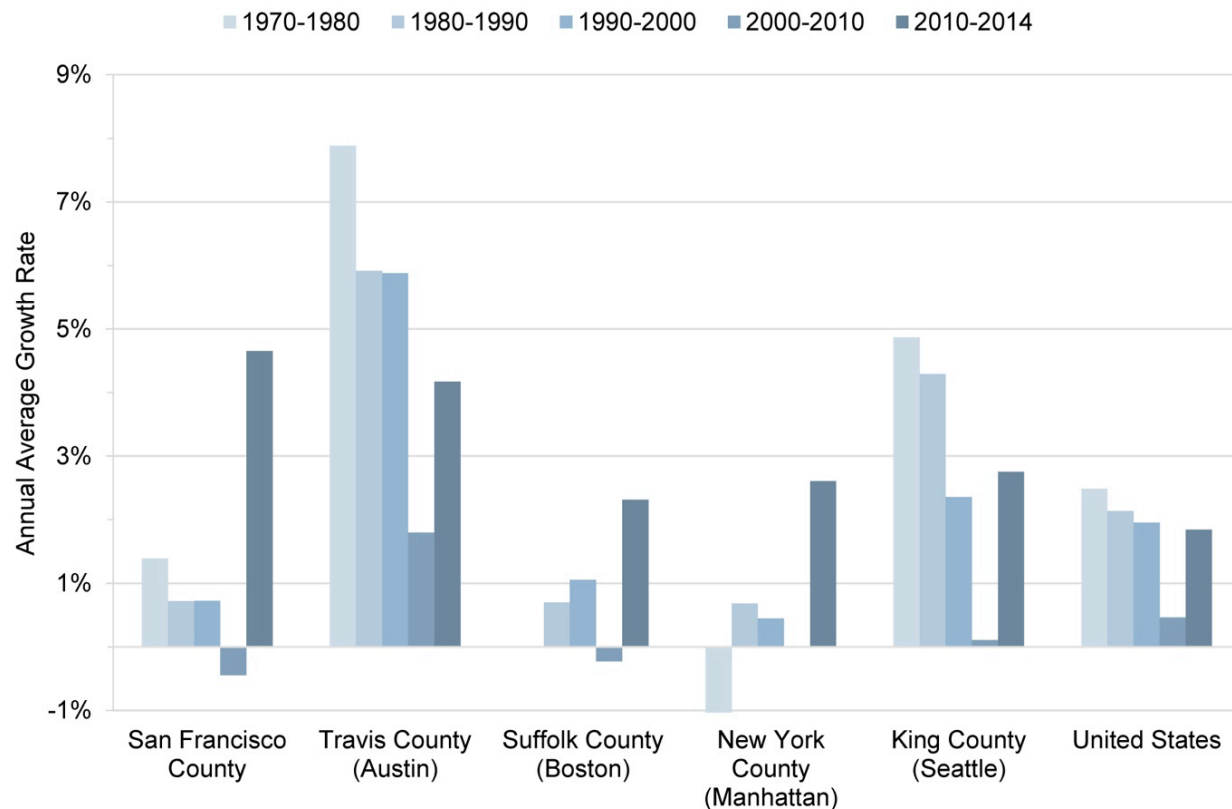


- Size and role/position relative to regional economy
- Port and industrial heritage



A. Overall Job Growth Rates: Peer Cities

- Of peer cities reviewed (and US), SF grew same or slower from 1970-2010, but has outpaced all since 2010 and all peer cities have outperformed US since 2010

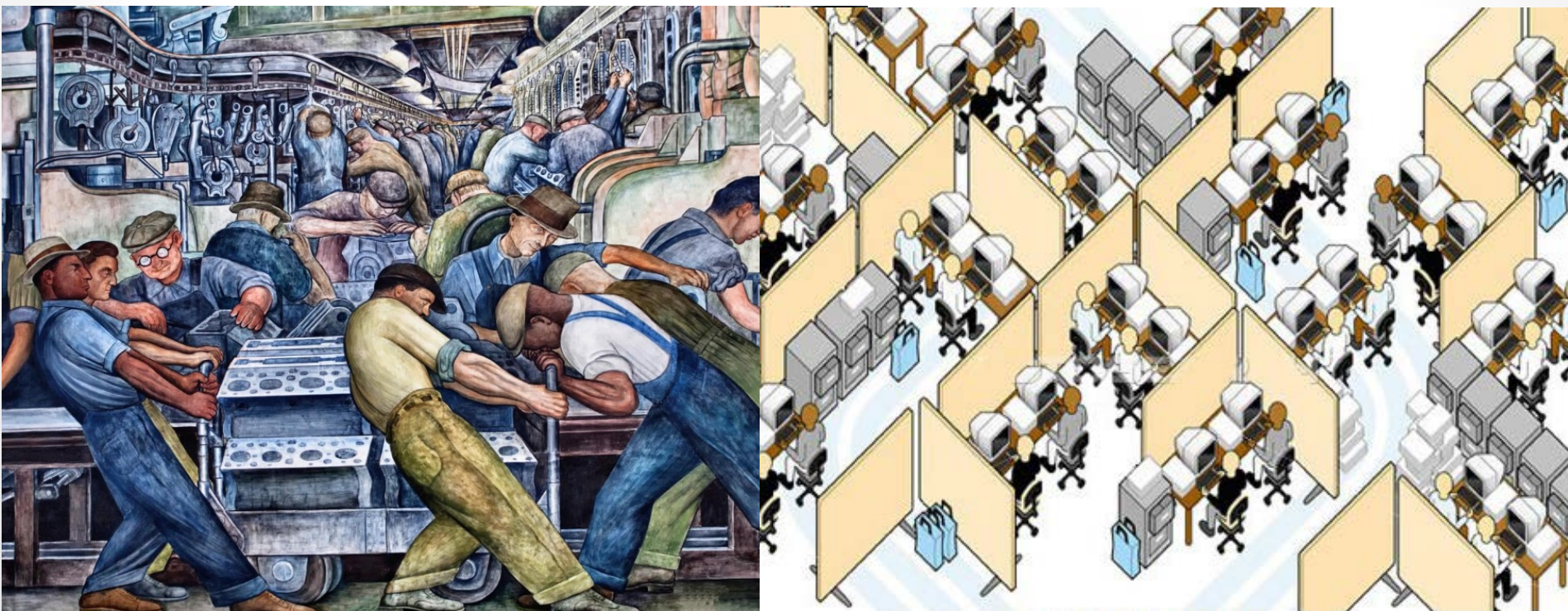


Sources: U.S. Department of Commerce, Bureau of Economic Analysis, 2001-2014; Strategic Economics, 2016.

B. Sectoral Shifts

Summary:

National, regional and local trends are the same -- transformation from an industrial to information/services economy.



B. Sectoral Shifts: United States

Federal Reserve dubbed “Great Modernization” (1982-2007):

- Overall economic expansion and growth
- Major decline of US industrial sector
- Rise of the professional service economy

		1970		2014	
		Employment (millions)	%age of Total	Employment (millions)	%age of Total
PDR		33.1	37.9%	35.8	19.5%
	Manufacturing	19.7	22.5%	13.0	7.1%
	Wholesale	4.2	4.8%	6.4	3.5%
	Warehousing/Transportation/Utilities	4.9	5.6%	6.8	3.7%
	Construction	4.4	5.0%	9.6	5.2%
Services		23.1	26.5%	101.8	55.6%
	Finance, insurance and real estate	6.1	7.0%	18.0	9.8%
	Health Care and Social Services	n/a	n/a	20.8	11.4%
	Accommodation and Arts	n/a	n/a	17.6	9.6%
	Management	n/a	n/a	14.0	7.7%
	Prof. Services	n/a	n/a	12.8	7.0%
	Other Services	n/a	n/a	10.9	5.9%
	Educational services	n/a	n/a	4.4	2.4%
	Information	n/a	n/a	3.3	1.8%
Government		16.0	18.4%	24.0	13.1%
Retail		13.7	15.7%	18.7	10.2%

Source: US Dept of Commerce, Bureau of Economic Analysis, 2014; Strategic Economics, 2016

B. Sectoral Shifts: San Francisco

SF has mirrored national trends:

- Decline of manufacturing/warehousing
- While many sectors (eg FIRE, government, retail) remain generally stable, their share of local jobs has declined
- Growth sectors have been information/technology/services and health care/biotech

		1970		2014	
		Employment (thousands)	%age of Total	Employment (thousands)	%age of Total
PDR		178.0	30.9%	73.7	8.6%
	Manufacturing	55.4	9.6%	12.9	1.5%
	Wholesale	41.2	7.2%	17.9	2.1%
	Warehousing/Transportation/Utilities	59.8	10.4%	18.1	2.1%
	Construction	21.6	3.7%	24.8	2.9%
Services		220.3	38.3%	620.9	72.6%
	Finance, insurance and real estate	79.8	13.9%	99.9	11.7%
	Health Care and Social Services	n/a	n/a	78.0	9.1%
	Accommodation and Arts	n/a	n/a	110.0	12.9%
	Management	n/a	n/a	74.5	8.7%
	Prof. Services	n/a	n/a	153.9	18.0%
	Other Services	n/a	n/a	45.5	5.3%
	Educational services	n/a	n/a	26.5	3.1%
	Information	n/a	n/a	32.6	3.8%
Government		107.1	18.6%	103.3	12.1%
Retail		67.3	11.7%	54.8	6.4%

Source: US Dept of Commerce, Bureau of Economic Analysis, 2014; Strategic Economics, 2016

B. Sectoral Shifts: San Francisco

- About 60% of current jobs in SF occupy office space
- Plan Bay Area 2013 projected that 57% of SF job growth 2010-2040 would be office jobs
- 72% of current (Q2 2016) non-residential development entitled and under construction is office

		1970		2014	
		Employment (thousands)	%age of Total	Employment (thousands)	%age of Total
PDR		178.0	30.9%	73.7	8.6%
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Source: US Dept of Commerce, Bureau of Economic Analysis, 2014; Strategic Economics, 2016

B. Sectoral Shifts: Peer Cities

Similar trends of growth and increasing share of professional services, information, FIRE, and health care.

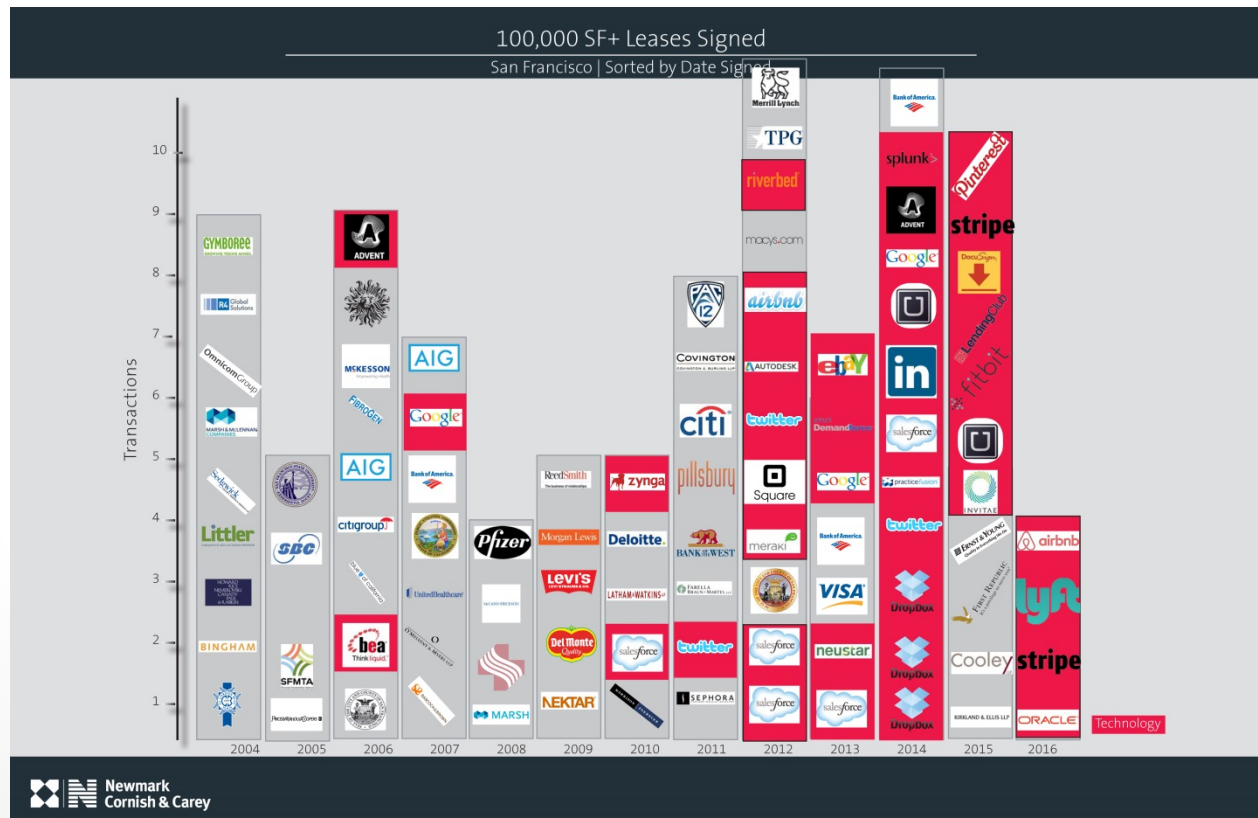
Higher wages than national average since 1970, but all experienced substantial jumps between 1990-2000 and continued growing wage disparities from rest of US.

	1970	1980	1990	2000	2010	2014
Average Wage (in 2014 dollars)						
San Francisco County, CA	\$55,434	\$53,167	\$59,794	\$80,459	\$80,945	\$88,023
Travis County (Austin)	\$36,447	\$37,118	\$41,531	\$56,388	\$50,398	\$51,944
Suffolk County (Boston)	\$51,198	\$49,702	\$62,992	\$82,611	\$87,572	\$89,581
New York County (Manhattan)	\$60,920	\$60,520	\$79,518	\$105,885	\$110,935	\$111,024
King County (Seattle)	\$49,379	\$50,234	\$49,635	\$66,877	\$65,739	\$69,082
United States	\$41,202	\$40,768	\$43,572	\$48,652	\$49,858	\$49,697
Average Wage as % of U.S Wage						
San Francisco County, CA	135%	130%	137%	165%	162%	177%
Travis County (Austin)	88%	91%	95%	116%	101%	105%
Suffolk County (Boston)	124%	122%	145%	170%	176%	180%
New York County (Manhattan)	148%	148%	182%	218%	223%	223%
King County (Seattle)	120%	123%	114%	137%	132%	139%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, 2001-2014; Strategic Economics, 2016.

C. Sub-Regional Dynamics

Summary: Notable shift in increasing preference for transit-served, walkable central city location, especially for information/technology firms which previously tended toward suburban environments



C. Sub-Regional Dynamics

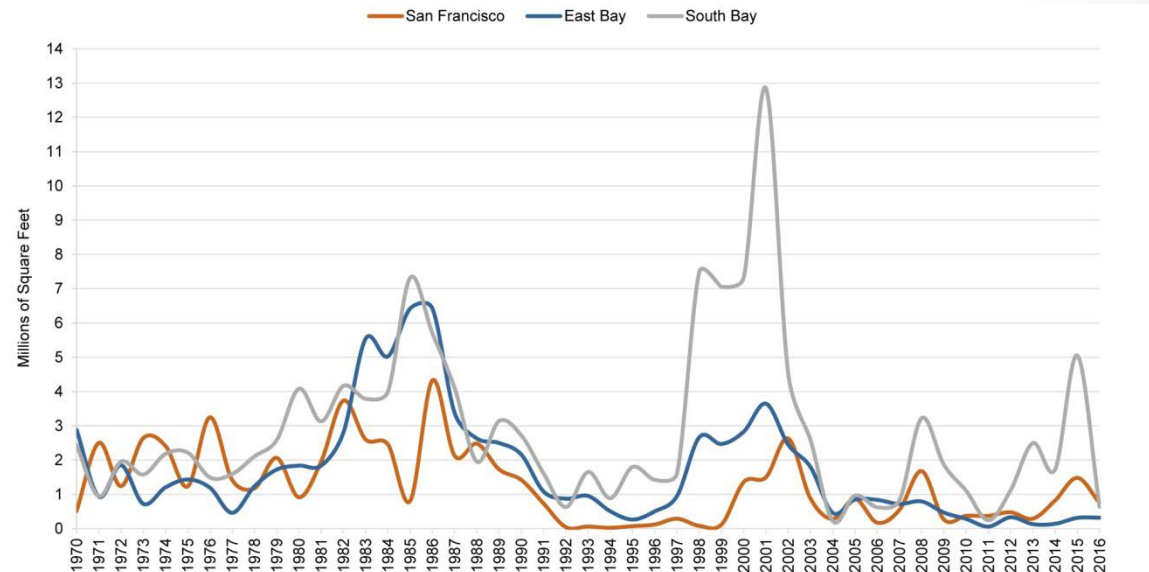
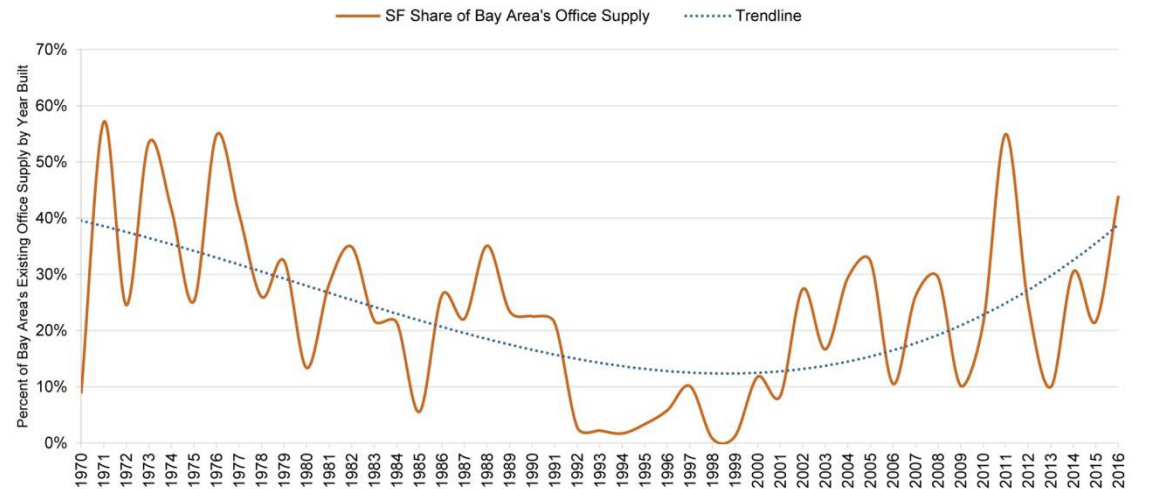
Urbanization of the Tech industry:

- Workforce is increasingly interested in living/working in mixed-use, urban environment
- Transit accessibility



C. Sub-Regional Dynamics

As demand in SF has increased post-dot-com bust, so has office production relative to rest of region.

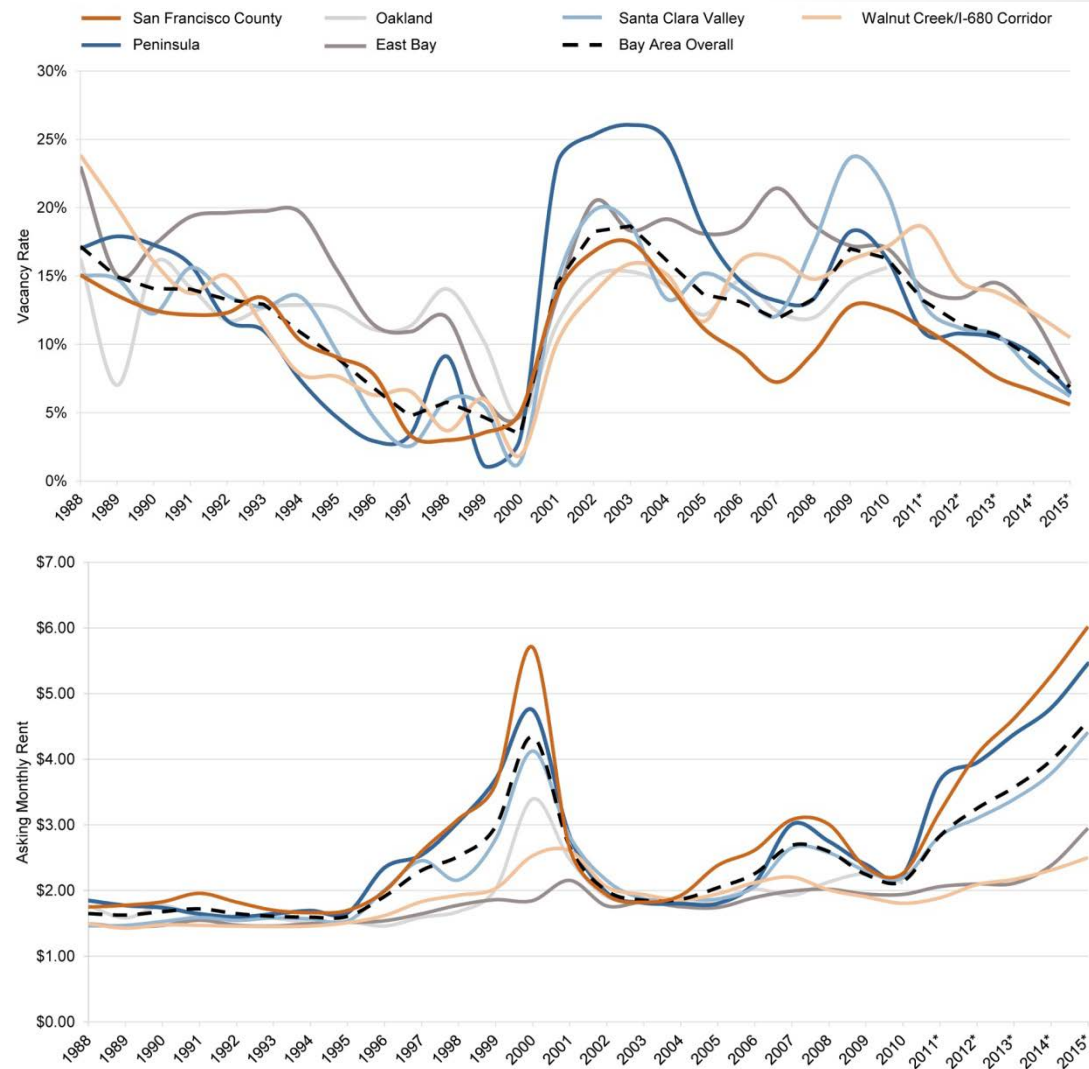


Notes: East Bay includes Alameda and Contra Costa Counties. South Bay includes San Mateo and Santa Clara Counties. This chart displays the office buildings by year built in San Francisco, East Bay, and South Bay, according to CoStar.
Sources: CoStar, 2016; Toro Wheaton (obtained from City of San Francisco), 2015; CBRE Research, 2016; Strategic Economics.

C. Sub-Regional Dynamics

Starting in 2000, SF office market has outperformed rest of region and shown more resilience.

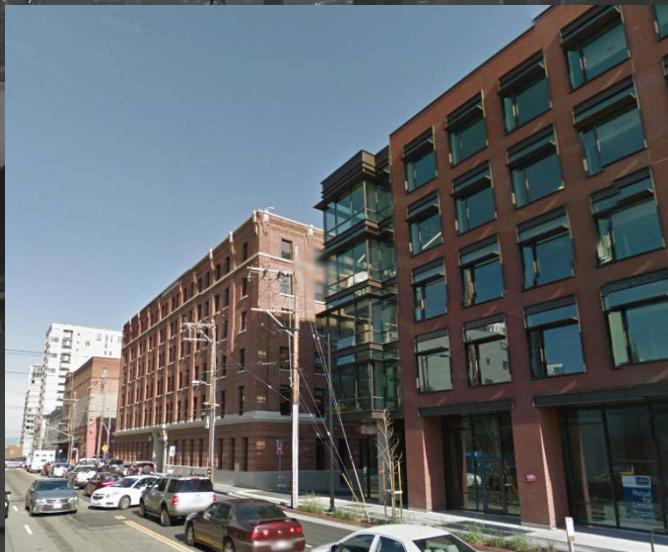
Trends of SF and Silicon Valley markets no longer in lock-step.



*Statistics for 1988-2010 were provided by Toro Wheaton, 2011-2015 data were provided by CBRE Research.
Sources: Toro Wheaton (obtained from City of San Francisco), 2015; CBRE Research, 2016; Strategic Economics, 2016.

D. SF Office Trends

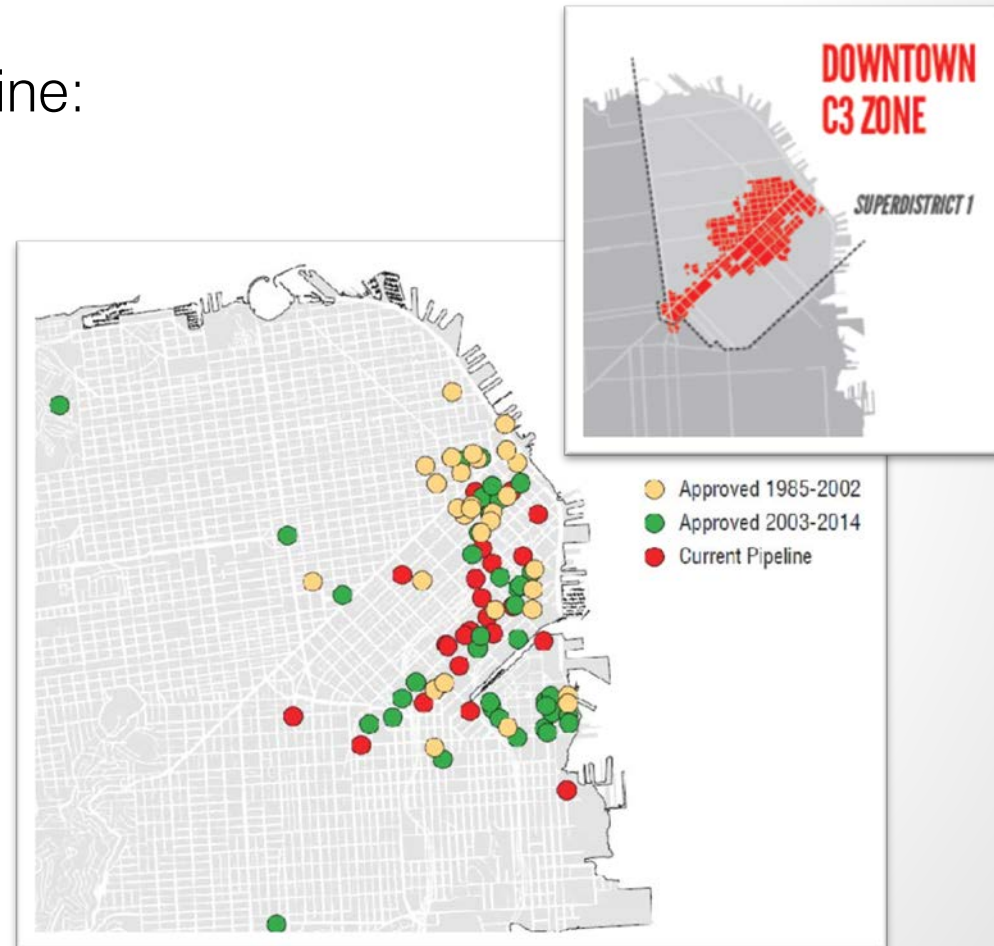
Summary: As the historic downtown (C-3) fills up and interest increases in broader range of office types, office growth outside FiDi accelerates. All corners of the SF office market are red hot with limited supply relative to demand and nowhere for price-sensitive office users to turn, leading to displacement.



D. SF Office Trends: Geography of New Space

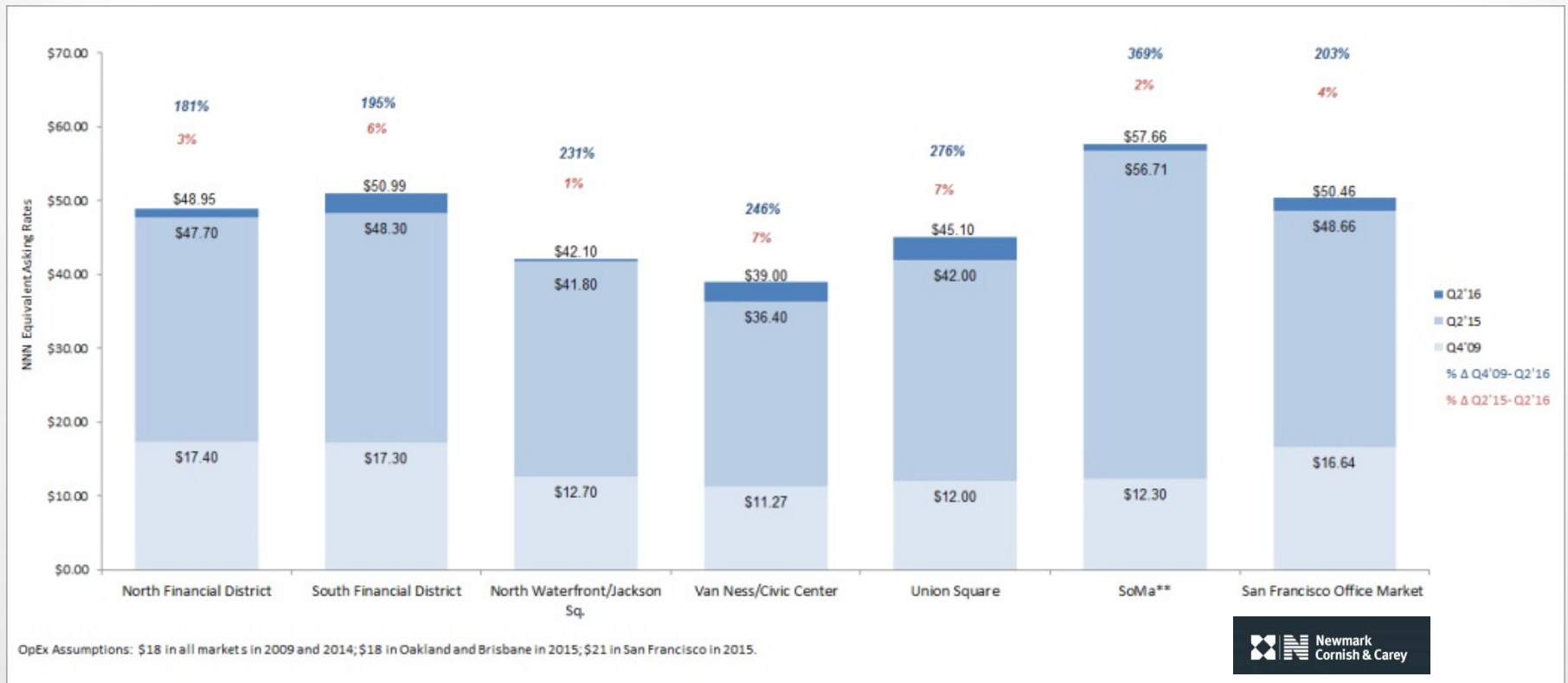
- From 1985-2002 75% of office allocation was in C-3
- From 2002-2015 40% of office allocation was in C-3
- Current proposed office pipeline:
 - 10% (1.0m gsf) in C-3
 - 50% (5.2m gsf) in Central SoMa
 - 40% (4.1m gsf) in other areas

Capacity for further major office development and job growth related to new development in C-3 is *very low* beyond existing pipeline



D. SF Office Trends: Market Trends

Interest in SF and lack of sufficient space leading to major office rent increases of *formerly cheaper neighborhoods*



D. SF Office Trends: Market Trends

Interest in SF and lack of sufficient space leading to major office rent increases of formerly cheaper neighborhoods and *sub-Class A space*

San Francisco Rents and Vacancies by Class, 2012-2016					
	2012*	2013*	Q4 2014**	Q1 2016**	% Change, 2012-2016
Class A					
Vacancy Rate	10.2%	8.9%	7.6%	6.2%	-39%
Rent/sq. ft.	\$49.26	\$54.23	\$63.30	\$70.33	43%
Class B					
Vacancy Rate	13.6%	12.0%	8.2%	4.6%	-66%
Rent/sq. ft.	\$40.07	\$45.93	\$55.45	\$62.48	56%
Class C					
Vacancy Rate	8.4%	8.3%	4.0%	3.8%	-55%
Rent/sq. ft.	\$31.40	\$42.94	\$43.92	\$58.88	88%
Note: 2015 not available.					
*Source: Cushman + Wakefield, as sourced by City of San Francisco, Working Group on Nonprofit Displacement Report, May 13, 2014.					
**Source: Cushman + Wakefield.					

D. SF Office Trends: Market Trends

Interest in SF and lack of sufficient space leading to major office rent increases of formerly cheaper neighborhoods and sub-Class A space, *leading to rent pressures/displacement of price-sensitive office users (eg non-profits, small professional service firms)*

Year	Number of Nonprofits in San Francisco	Number of Nonprofits in California	Percent of CA Nonprofits in SF
2011	7,865	161,832	4.86%
2012	7,612	161,139	4.72%
2013	6,005	146,383	4.10%
2016	6,484	163,191	3.97%
Source: US IRS Exempt Organizations Business Master File			

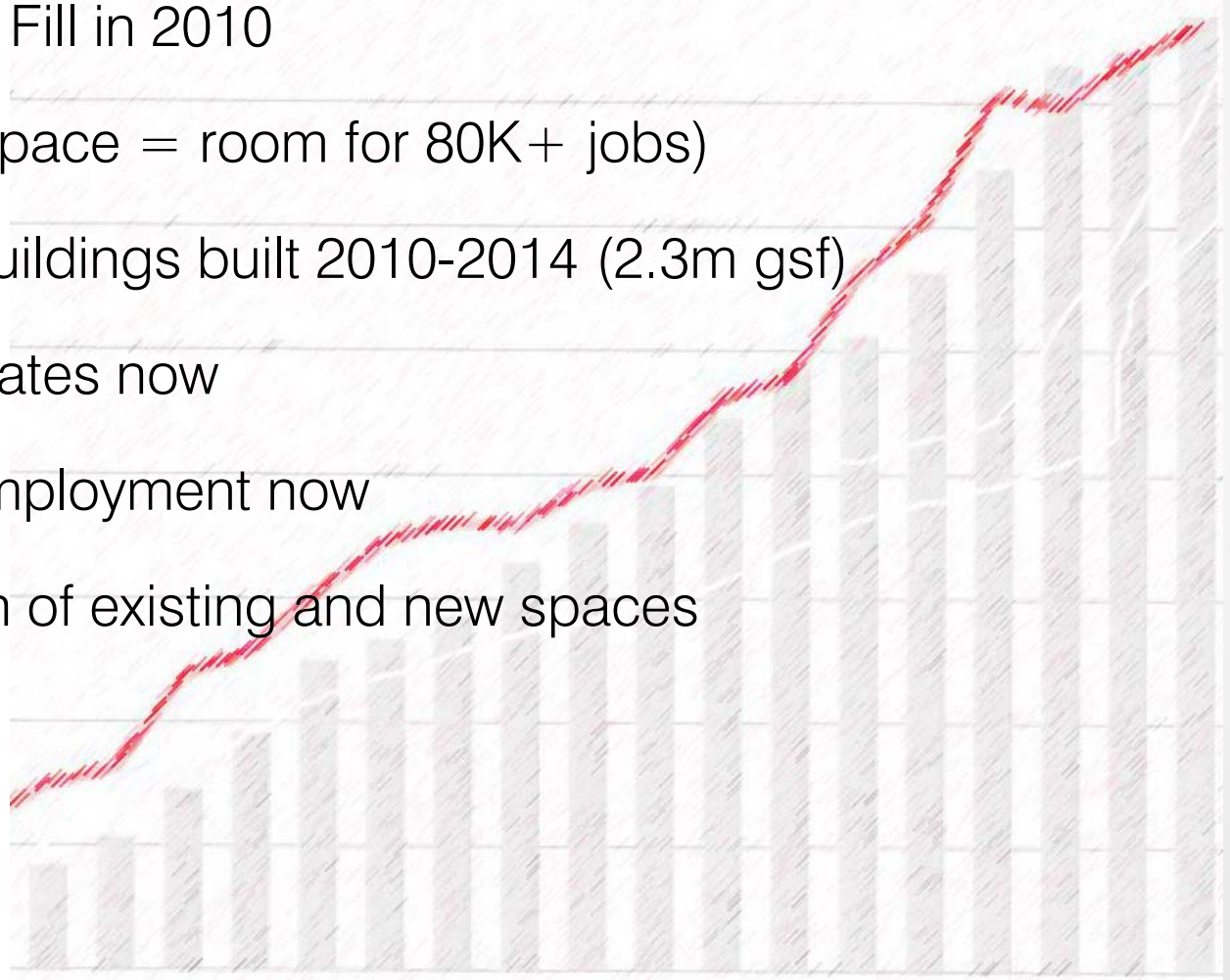


Sierra Club moving headquarters from SF to Oakland due to rising rents

By Laura Dudnick on October 1, 2015 2:25 pm

E. How Did SF Accommodate Such Rapid Growth 2010-2015?

- Lots of Vacancy to Fill in 2010
(>20m gsf vacant space = room for 80K+ jobs)
- A few new office buildings built 2010-2014 (2.3m gsf)
- Very low vacancy rates now
- Historical low unemployment now
- Some densification of existing and new spaces



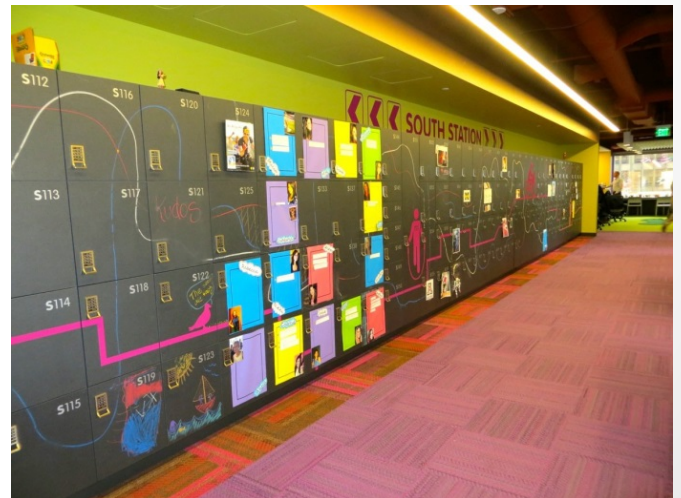
Office Trends: Decreasing Space Per Office Worker

- National trend
- Characteristic of information sector, but not unique to it
- Great Recession provided nudge, and so does tight office market
- City analytical standard: 275 sf/employee
- Evidence shows that individual firms trending sub-200 sf/employee for space planning, but data shows citywide average still closer to 275.



Office Trends: Decreasing Space Per Office Worker

- How many office jobs can we accommodate without adding space?
 - Potentially up to 50-60,000 citywide over time (25+ years?), if we reach 250 sf average
- Factors:
 - Price of office space
 - Industry composition/economics
 - Turnover rate
 - Technology/societal workplace trends



F. Thoughts on the Near Term Future

Slower job growth in SF in near future even if local, regional and national economic drivers are robust?

- Office allocation limits beginning to meter new space despite deep pipeline
- Lag in bringing new space to market
- Vacancy/unemployment can't get too much lower
- Densification is a slow process



F. Thoughts on the Near Future

- 4.5m gsf office space under construction
- 2.5m gsf office space entitled and not yet broken ground
- Current tenant demand for 6.5m gsf (per Newmark Q1 2016)
- About 20-25,000 jobs can be accommodated in this new space over next 3+ years (7,500 office jobs/year)
- Net new office in 2016 is 85% pre-leased, 2017 is 40% pre-leased
- Rent pressures/displacement of price-sensitive office users to continue or even intensify?



Current Office Allocation Program Status

- Small Cap

Available Square Footage: **1,081,316 gsf**

Pending: **224,343 gsf**

Pre-Application: **176,974 gsf**

Pipeline Availability: **679,999 gsf***

- Large Cap

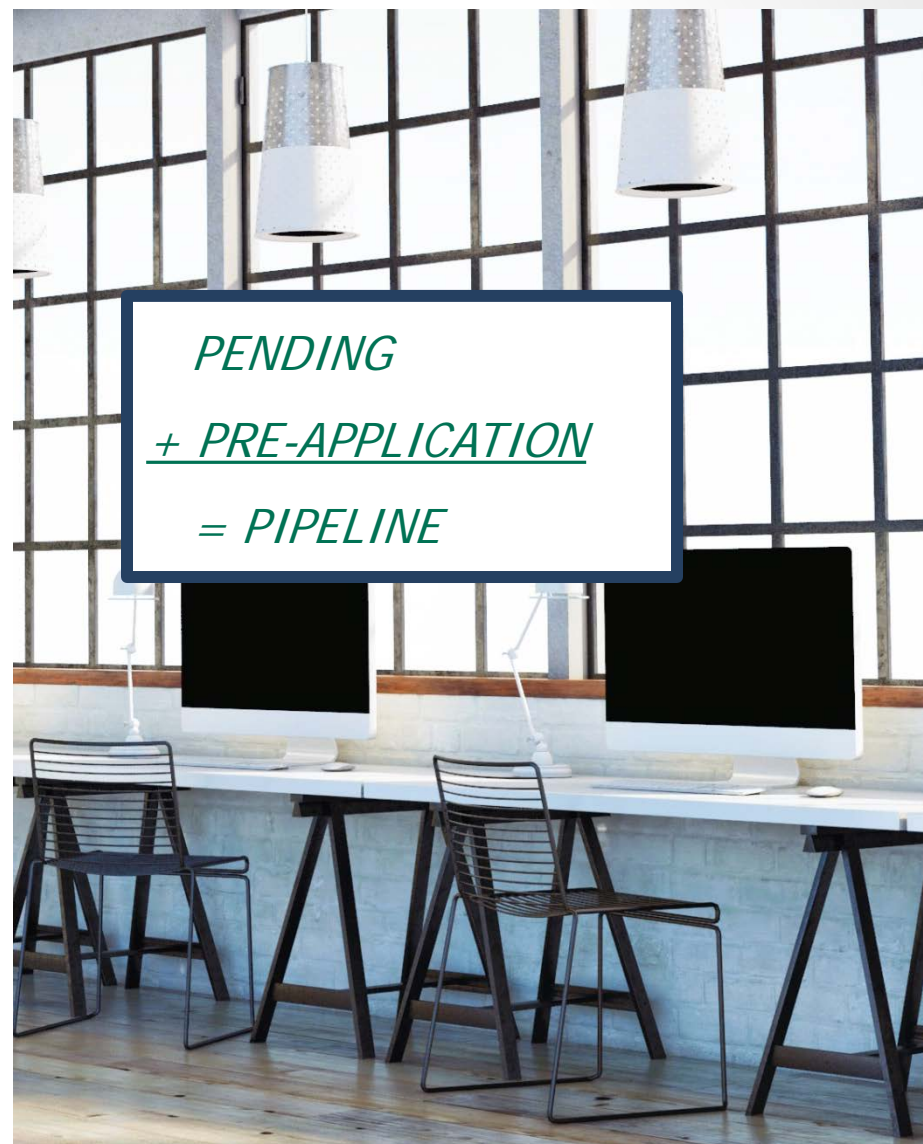
Available Square Footage: **1,572,299 gsf**

Pending: **2,291,722 gsf**

Pre-Application: **7,325,775 gsf**

Pipeline Availability: **-8,045,198 gsf***

**Does not include future annual allotments*



TOPICS FOR FUTURE BRIEFINGS

- 1** Deeper dive into today's topics:
 - Closer looks at non-office sectors of the economy
 - Greater depth into peer cities comparisons
- 2** Housing/Population Trends
 - Population and housing stock changes
 - Jobs/Household relationships
 - Income, affordability and other characteristics
- 3** Transportation
 - Milestones of projects, policies and funding since 1985
 - Commute/travel behavior trends



THANK YOU

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