



SAN FRANCISCO PLANNING DEPARTMENT

Memo to the Planning Commission

HEARING DATE: APRIL 6, 2017
Continued from the November 3, 2017 Hearing

Date: March 30, 2017
Case No.: 2015-009997CUA
Project Address: 222 Sutter Street
Zoning: C-3-R District (Downtown Retail)
80-130-F Height and Bulk District
Block/Lot: 0287/009
Project Sponsor: Jim Reuben, Reuben Junius & Rose
One Bush Street, Suite 600
San Francisco, CA 94104
Staff Contact: Claudine Asbagh – (415) 575-9165
Claudine.asbagh@sfgov.org
Recommendation: **Disapproval**

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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 future such applications.

On March 16, 2017, OEWD presented their findings to the Commission based on the attached report. The data in the report reveal that retail remains a healthy economic sector citywide, however, pressures created by the demand for office have put the C-3-R at risk. The report also highlighted the need to preserve retail when possible, and to look for compatible uses that would support the retail nature of the District.

CURRENT PROPOSAL

There have been no changes to the original proposal.

REQUIRED COMMISSION ACTION

In order for the Project to proceed, the Commission must grant a Conditional Use Authorization to allow a change of use from retail space to general office use pursuant to Planning Code Section 210.2 and 303.

The Department does not believe the project satisfies the findings in the code, nor does it comply with policies set forth in the Downtown Plan and therefore should be disapproved.

BASIS FOR RECOMMENDATION

- The change of use from retail to office at the 3rd floor is inconsistent with several key Objectives and Policies of the Downtown Plan.
- The office use would not reinforce the retail nature of the Downtown Retail Core, and would run afoul of the intention for the C-3-R District, which the Planning Code describes in relevant part 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... Within the District, continuity of retail and consumer service uses is emphasized”.
- The subject property has demonstrated history of housing viable retail. There is no noticeable trend in vacant retail properties in the C-3-R, thus suggesting continued viability for this space.

RECOMMENDATION: Disapproval

Attachments:

- Motion to Deny Conditional Use Authorization
- Informational Item from CPC March 16, 2017



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Draft Motion

HEARING DATE: APRIL 6, 2017

Date: March 30, 2017
Case No.: **2015-009997CUA**
Project Address: **222 Sutter Street**
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ADOPTING FINDINGS RELATING TO THE DISAPPROVAL OF A CONDITIONAL USE AUTHORIZATION PURSUANT TO SECTIONS 210.2 AND 303 OF THE PLANNING CODE TO CHANGE THE USE OF APPROXIMATELY 12,000 SQUARE FEET OF RETAIL TO GENERAL OFFICE USE AT THE THIRD FLOOR.

PREAMBLE

On August 5, 2015, Anshu Gupta filed an application with the Planning Department (hereinafter "Department") for Conditional Use Authorization under Planning Code Section(s) 210.2 and 303 to allow the change of use of approximately 12,000 square feet at the third floor from retail to general office use.

On November 3, 2016, the San Francisco Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting on Conditional Use Application No. 2015-009997CUA.

On November 3, 2016, the Commission continued the project to a future date.

On April 6, 2017, the Commission conducted a duly noticed public hearing at a regularly scheduled meeting for application No. 2015-009997CUA.

The 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 the applicant, Department staff, and other interested parties.

MOVED, that the Commission hereby does not authorize the Conditional Use requested in Application No. 2015-000865CUA, based on the following findings:

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:

1. The above recitals are accurate and constitute findings of this Commission.
2. **Site Description and Present Use.** The 34,262 square-foot project site is located at the northeast corner of Claude Lane and Sutter Street, between Kearny Street and Grant Avenue; lot 009 of Assessor's Block 0287. The site is developed with a 9-story over basement commercial building with office uses on floors four through 9, and retail uses at the remaining levels (basement through third floor). The building, constructed in 1908 as the W & J Sloan Department Store, is considered an Historic Resource under Article 11 of the San Francisco Planning Code. The most recent tenant of the basement through 3rd levels was "Loehmann's," a clothing retailer that closed for business in 2014.

The site is located on the eastern edge of the C-3-R (Downtown Retail) Zoning District and in the 80-130-F Height and Bulk District. The site is located within the Kearny-Market-Mason-Sutter Conservation District. .

3. **Surrounding Properties and Neighborhood.** The project site is located within the Financial District neighborhood one block south of Chinatown. Other zoning districts in the vicinity include: C-3-O (Downtown Office) located immediately east of the site as well as CCB (Chinatown Community Business) and C-3-G (Downtown General Commercial) to the north. The surrounding mixed-use area contains diverse building types and uses. The project site is approximately two blocks northwest of Union Square and in the immediate vicinity of that shopping district.
4. **Project Description.** The project sponsor seeks a Conditional Use Authorization, pursuant to Planning Code Sections 303 and 210.2 to change the use of approximately 12,000 square feet of retail space on the third level of the subject property to general office use. The space in question is accessible via elevators located within the main lobby of the building, similar to many buildings located downtown with retail or personal services at upper levels. The proposal does not involve any exterior alterations to the existing building.
5. **Public Comment.** To date, the Department has not received any public comment on this item.
6. **Planning Code Section 303** establishes criteria for the Planning Commission to consider when reviewing applications for Conditional Use approval. The project requires a Conditional Use Authorization to establish a non-retail use above the ground floor. In the C-3-R District, 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. On balance, **the project does comply with said criteria in that:**

- A. The proposed new use, at the size and intensity contemplated at the proposed location, will not provide a development that is necessary or desirable, and compatible with, the neighborhood or the community.

The proposed conversion of approximately 12,000 square feet of retail into office use does not satisfy this finding. The C-3-R District is a compact District that serves as the City's retail core. The proposed conversion to office space would not reinforce the retail nature of the area and would remove space that could be used by any number of retail-type businesses – including important but less-prominent services such as hairdressers, tailors, and arts-related uses that comprise an important component of the downtown retail sector. While the real shift away from brick-and-mortar retail shops and toward online retailing cannot be discounted, there remains an important sector of smaller, customer-facing retail uses that – while unable to pay the rents of national retailers - nonetheless remain viable.

- B. That the use as proposed will comply with the applicable provisions of the Planning Code and will not adversely affect the General Plan.

The Project complies with all relevant requirements and standards of the Planning Code but is inconsistent with objectives and policies of the General Plan as detailed below.

7. **General Plan Compliance.** The Project is inconsistent with the following Objectives and Policies of the General Plan:

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.

POLICY 3.5

Meet the convenience needs of daytime downtown workers.

The change of use from retail to general office use would not reinforce the retail nature of the C-3-R (Downtown Retail Core) District. The C-3-R is relatively small compared to the other Downtown Districts and should be preserved for retail and retail support services. The office use would convert space that could be utilized by other uses such as hairdressers, travel agents, and arts uses. Once the space is converted to office, it is highly unlikely the space will revert to retail or personal services.

8. **Planning Code Section 101.1(b)** establishes eight priority-planning policies and requires review of permits for consistency with said policies. On balance, the project does comply with said policies in that:

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

The proposed office space would not be considered a neighborhood serving retail use.

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

The project would convert a vacant retail space into office. 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. Within the District, continuity of retail and consumer service uses is emphasized, and the authorization of an office use would not further this priority policy.

- C. That the City's supply of affordable housing be preserved and enhanced.

The project does not involve the removal or addition of housing.

- D. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking.

The site is well served by public transportation.

- E. 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 Project would convert approximately 12,000 square feet of vacant retail space into general office use. The encroachment of office space into spaces that were traditionally reserved for other personal and retail support services would help create an economy that is heavily reliant on office use, rather than maintaining a diverse base with opportunities for local employment and ownership.

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

This proposal will not impact the property's ability to withstand an earthquake.

- G. That landmarks and historic buildings be preserved.

The project would not damage or remove any character-defining features.

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

The project will have no negative impact on existing parks and open spaces. The Project does not have an impact on open spaces.

9. The Project is inconsistent with and would not promote the general and specific purposes of the Code provided under Section 101.1(b) in that, as proposed, the Project would not contribute to the character and stability of the neighborhood and would not constitute a beneficial development.

10. The Commission hereby finds that approval of the Conditional Use authorization would not promote the health, safety and welfare of the City.

DECISION

That based upon the Record, the submissions by the Applicant, the staff of the Department and other interested parties, the oral testimony presented to this Commission at the public hearings, and all other written materials submitted by all parties, the Commission hereby **DISAPPROVES Conditional Use Application No. 2015-009997CUA.**

APPEAL AND EFFECTIVE DATE OF MOTION: Any aggrieved person may appeal this Conditional Use Authorization to the Board of Supervisors within thirty (30) days after the date of this Motion No. 19545. The effective date of this Motion shall be the date of this Motion if not appealed (After the 30-day period has expired) OR the date of the decision of the Board of Supervisors if appealed to the Board of Supervisors. For further information, please contact the Board of Supervisors at (415) 554-5184, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Protest of Fee or Exaction: You may protest any fee or exaction subject to Government Code Section 66000 that is imposed as a condition of approval by following the procedures set forth in Government Code Section 66020. The protest must satisfy the requirements of Government Code Section 66020(a) and must be filed within 90 days of the date of the first approval or conditional approval of the development referencing the challenged fee or exaction. For purposes of Government Code Section 66020, the date of imposition of the fee shall be the date of the earliest discretionary approval by the City of the subject development.

If the City has not previously given Notice of an earlier discretionary approval of the project, the Planning Commission's adoption of this Motion, Resolution, Discretionary Review Action or the Zoning Administrator's Variance Decision Letter constitutes the approval or conditional approval of the development and the City hereby gives **NOTICE** that the 90-day protest period under Government Code Section 66020 has begun. If the City has already given Notice that the 90-day approval period has begun for the subject development, then this document does not re-commence the 90-day approval period.

I hereby certify that the Planning Commission **ADOPTED** the foregoing Motion on April 6, 2017.

Jonas P. Ionin
Commission Secretary

AYES:

NAYS:

RECUSED:

ADOPTED:



SAN FRANCISCO PLANNING DEPARTMENT

MEMO

Memo to the Planning Commission

HEARING DATE: MARCH 16, 2017

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**

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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

Hearing Date: March 16, 2017

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 Street¹.

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.



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 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 Square¹ 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.

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 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."

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

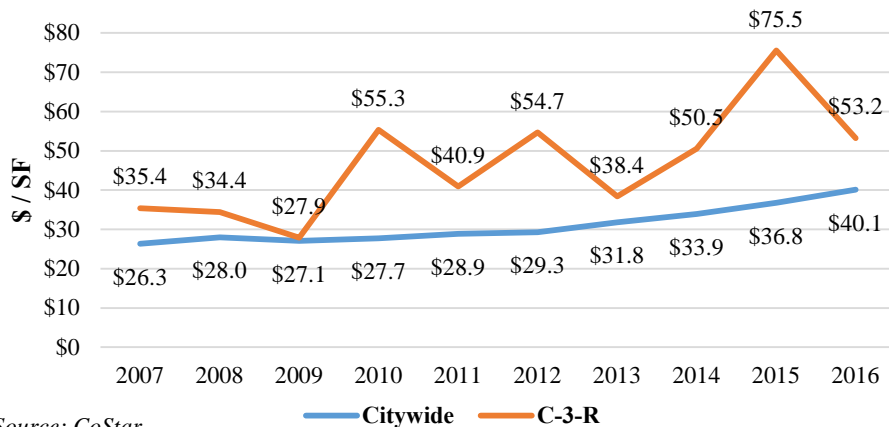
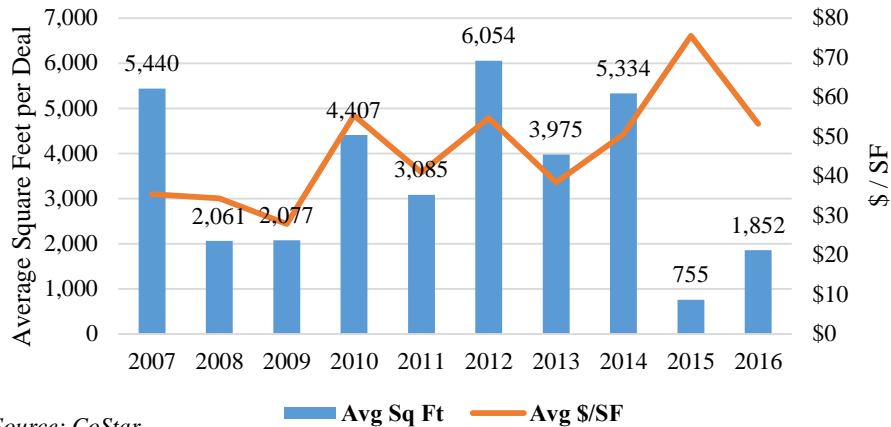


Table 1: 2016 C-3-R Retail Leases Trended Smaller, More Costly

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.

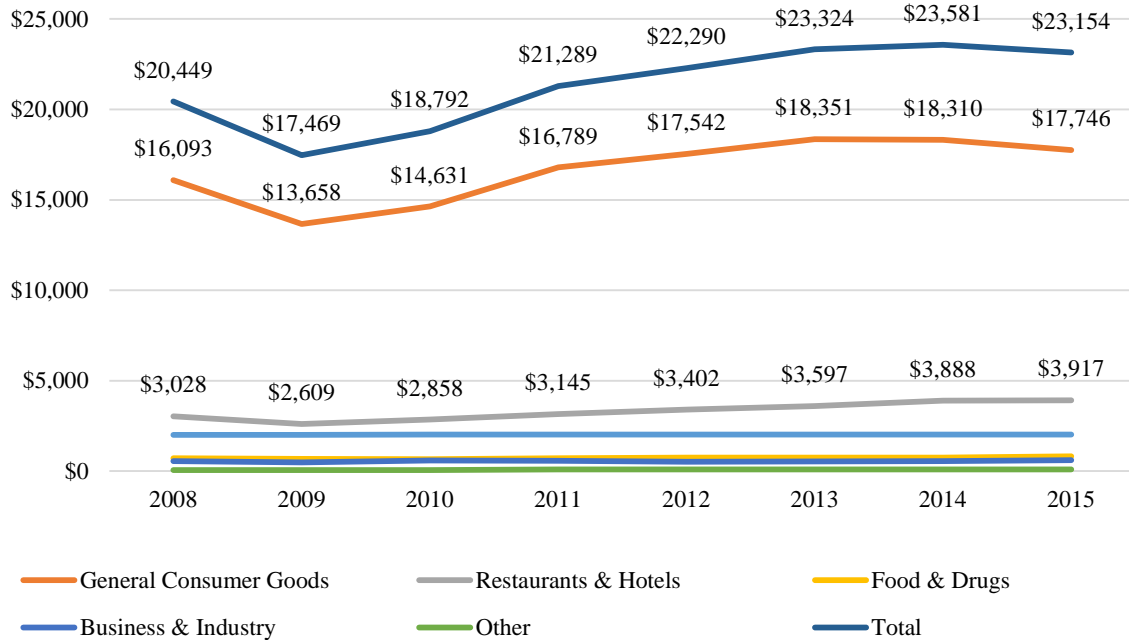
Table 3: Annual Sales Tax Growth Rate

	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%

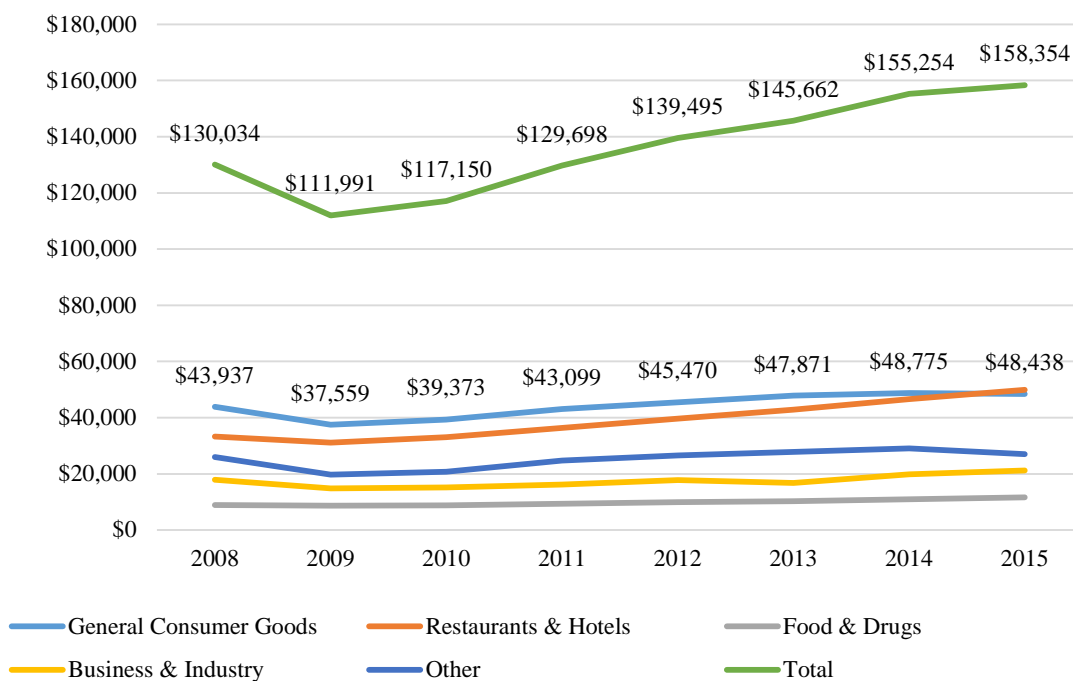
Source: California Board of Equalization

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%
	Open Pre-2007	Open 2007-2016	Closed 2007-2016	Now Open	Share of firms	Percent of Firms Closed 2007-2016
Industry Codes						
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

<i>Commercial Use Characteristics</i>			<i>Industrial Use Category</i>		
Land Use	As Defined...	Permitted?	Industrial Uses	§ 102	NP
Drive-up Facility	§ 102	NP	Manufacturing, Light	§ 102	P
Formula Retail	§§ 102 , 303.1	P	<i>Institutional Use Category</i>		
Open Air Sales	§ 102	P	Institutional Uses	§§ 102 , 202.2(e)	P
Outdoor Activity Area	§ 102	P	Child Care Facility	§ 102	P
Walk-up Facility	§ 102	P	Hospital	§ 102	C
Waterborne Commerce	§ 102	NP	Residential Care Facility	§ 102	P
<i>Agricultural Use Category</i>			Trade School	§ 102	NP
Agricultural Uses	§§ 102 , 202.2(c)	P	<i>Sales and Service Category</i>		
Greenhouse	§§ 102 , 202.2(c)	NP	Retail Sales and Service Uses	§§ 102 , 202.2(a)	P
<i>Automotive Use Category</i>			Animal Hospital	§ 102	NP
Automotive Repair	§ 102	NP	Hotel	§ 102	C
Automotive Sale/Rental	§ 102	P ¹	Kennel	§ 102	NP
Automotive Service Station	§§ 102 , 202.2(b) , 202.5	NP	Massage Establishment	§ 102	C
Automotive Wash	§§ 102 , 202.2(b)	NP	Mortuary	§ 102	NP
Gas Station	§§ 102 , 187.1 , 202.2(b)	NP	Motel	§§ 102 , 202.2(a)	NP
Parking Garage, Private	§ 102	C	Storage, Self	§ 102	C
Parking Garage, Public	§ 102	C	Tobacco Paraphernalia Store	§ 102	C
Parking Lot, Private	§ 102 , 142 , 156	NP	Non-Retail Sales and Service	§ 102	P ²
Parking Lot, Public	§ 102 , 142 , 156	NP	Catering	§ 102	P
Service, Motor Vehicle Tow	§ 102	NP	Design Professional	§ 102	P ²
Service, Parcel Delivery	§ 102	C	Laboratory	§ 102	P
Services, Ambulance	§ 102	NP	Life Science	§ 102	P
Vehicle Storage Garage	§ 102	NP	Storage, Commercial	§ 102	NP
Vehicle Storage Lot	§ 102 , 142	NP	Storage, Wholesale	§ 102	NP
<i>Entertainment, Arts and Recreation Use Category</i>			Wholesale Sales	§ 102	P
Entertainment, Arts and Recreation Uses	§ 102	P	<i>Utility and Infrastructure Use Category</i>		
Entertainment, Outdoor	§ 102	NP	Utility and Infrastructure	§ 102	NP
Livery Stable	§ 102	NP	Internet Service Exchange	§ 102	C
Open Recreation Area	§ 102	NP	Public Transportation Facility	§ 102	C
Sports Stadium	§ 102	NP	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 Definition²

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 Definitions³

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](#),