



# MEMO TO THE PLANNING COMMISSION

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**Recommendation:** None- Informational

## Background

This memo and associated presentation provide an update on San Francisco's economic recovery from the COVID-19 pandemic including context and information covering economic sectors, workers and jobs, and retail districts. The memo and presentation include discussion of efforts to support the recovery of the City Core, including Downtown Office and Union Square, and neighborhood retail and services. This update is part of ongoing recovery strategies work by the Planning Department, the Office of Economic and Workforce Development (OEWD), Mayor's Office of Housing and Community Development (MOHCD), and other City agencies to support an equitable recovery.

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## Introduction

Economic recovery is a key part of San Francisco's overall recovery from the COVID-19 pandemic along with our social, psychological, and physical health. The city has made substantial progress recently across many areas affected by the pandemic, including achieving some of the highest vaccination rates in the country. Our public health interventions are evidenced by COVID-19 case and death rates that are substantially lower than the country, and schools, businesses, and offices that have been allowed to reopen. While this recovery is ongoing, the pandemic has been one of the most challenging experiences of our lives resulting in illness and loss of life and livelihoods, causing disruption and anxiety, and exacerbating pre-existing economic, racial, and social inequities. At the same time, the pandemic inspired unprecedented collective action and investment to offset its health and economic impacts, including vaccine development and distribution, funding for families, workers, and businesses, and expanded aid for people experiencing homelessness or at risk of losing their homes.

As the pandemic shifts to a new phase where vaccination is common, businesses are open, and travel and events resume, it is important to assess preexisting inequities, the economic and social impacts of COVID-19, and the emerging economic environment. This memo provides economic context on the state of recovery and highlights some of the key challenges and opportunities related to building a more economically, racially, and socially equitable and resilient city moving forward.

While every City department plays a part in the economic recovery of San Francisco, the Planning Department has been working with the Mayor's Office of Housing and Community Development (MOHCD), and the Office of Economic and Workforce Development (OEWD) to support an equitable recovery through analysis and policy development and implementation that is responsive to both historic and current economic conditions. OEWD, MOHCD, and Planning have organized this work into three efforts: Work Spaces, Housing Recovery, and Neighborhood Life. This memo and presentation are meant to provide context to inform future efforts on Work Spaces throughout the city as well as neighborhood retail and services, which are essential parts of neighborhood life. Prior presentations to the Planning Commission about equitable recovery have included: an informational presentation on October 1, 2020 providing an economic update on the city along with a report from the City's Economic Recovery Task Force (ERTF); a December 3, 2020 informational presentation on the Planning, MOHCD, and OEWD work plan for recovery strategies; and an informational presentation on housing recovery, providing context as well as current and proposed efforts, on January 14, 2021.

In addressing where we are and in looking towards a better future, the economic recovery context included here addresses pandemic impacts and longer-term trends requiring focus as we build a more equitable and diverse economy. The memo provides data and information on recovery as well as a snapshot of recovery efforts organized in the following sections:

- **Economic Context** covering three broad topics:
  - Economic Sectors
  - Workers and Jobs
  - Retail Districts
- Discussion of recovery in the **City Core including Downtown Office and Union Square**
- Discussion of recovery in **Neighborhood Retail** and efforts to support neighborhood vitality

Fostering an equitable recovery means directing our attention to the different ways that the pandemic, and our response and recovery from it, impacts different communities within our city as well as our City Core, public institutions, nonprofits, businesses, and neighborhoods. Given the impact of the pandemic on American Indian, Black, Latino, and other low-income communities of color, the City needs to assess its recovery not only in terms of reducing COVID-19 impacts and reviving the economy, but also in terms of reducing the historic inequities impacting those communities. In addition to managing COVID-19 moving forward and supporting a reopened and revived economy, the City must address ongoing challenges of displacement of low- and middle-income families, particularly people of color, the wealth and income gaps between different racial and ethnic groups, disparities in rates of business ownership and homeownership, and the levels of public and private services provided in different neighborhoods throughout the city.

## Economic Context

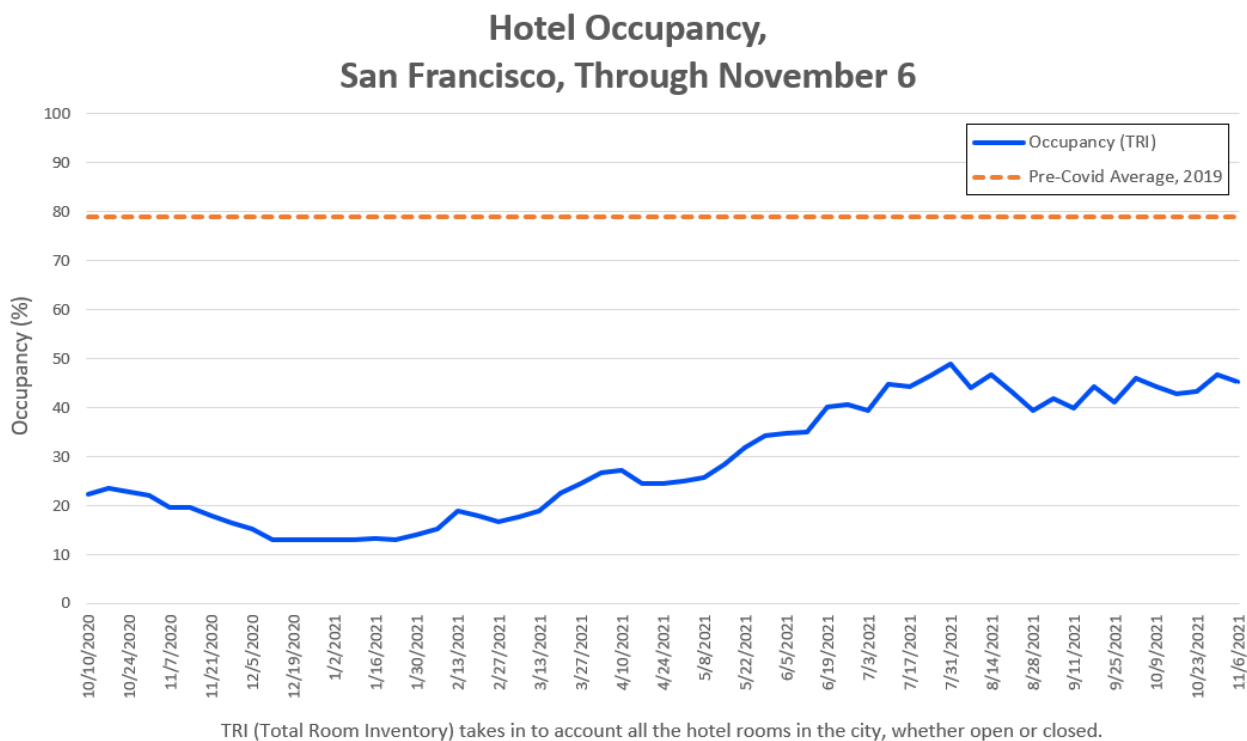
As San Francisco works to overcome the COVID-19 pandemic and resulting economic challenges, it is important to understand not only the economic impacts of the pandemic but also the longer-term trends that preceded it. With this foundation of understanding, the city can strive to build a more equitable and diverse economy for the future. Economic context is presented under three topics: **(1) Economic Sectors**, **(2) Workers and Jobs**, and **(3) Retail Districts** covering a range of economic issues affecting people, businesses, and places around the city.

### Economic Sectors

The impacts of the pandemic have been uneven among different types of economic activity in different parts of the city, with workplaces that involve high levels of in-person contact struggling the most. Tourism, hotels, restaurants, bars and nightlife, arts and entertainment, and retail have particularly suffered, as have neighborhoods where these sectors are concentrated, such as Union Square. Many office-based employers have economically prospered during the pandemic, however, the turn to remote work has significantly impacted the city's Downtown office district and the small businesses that rely on downtown workers, at least in the short-term. The shift to remote work came on the heels of decades of growth in the information technology and professional and business services sectors' share of the city's jobs, allowing many residents to maintain employment without risk to their health through the pandemic. While hybrid work is here to stay, office uses will continue to be a leading component of our local economy. The pandemic has also affected diverse industries ranging from distribution to life sciences to construction and childcare, all in different ways. Changes in where people work, shop, and socialize are affecting the geographic distribution of economic activity and transportation choices, at least for the time being. Revenues and budgets for the City could also be impacted by changes to how people work and shop. This section does not discuss every sector of San Francisco's economy, but rather major trends prior to the pandemic and major impacts caused by the pandemic.

**Tourism and business travel collapsed during the pandemic. While recovery has begun, future conference bookings remain below normal.** The drop in tourism, conferences and business travel has led to a substantial contraction in employment in accommodation (hotels) and food service and entertainment (restaurants, bars, performance venues). As of October 2021, hotel occupancy was up to about 45% from less than 20% early in the

pandemic, far below the 80% average occupancy from before the pandemic.<sup>1</sup> Plane boardings at San Francisco International Airport in August 2021 had risen to over 50% of 2019 levels, up from less than 10% in spring 2020.<sup>2</sup> While hotel and airport activities are rising, conference bookings at Moscone Center and other event spaces remain below normal.<sup>3</sup> The drop in visitors and events in the city has concentrated impacts in areas with more businesses that cater to visitors, including the City Core (Downtown, Union Square, Civic Center and SoMa) and neighborhoods such as Chinatown and Fisherman's Wharf.



Source: STR as presented in "Status of the Re-Opening of the SF Economy: November 2021" by the SF Office of the Controller's Office of Economic Analysis

Remote work has led to office vacancy of over 20%<sup>4</sup> and decreases in office rents, transit use, and business activity, at least temporarily, in the City Core. The current office vacancy rate is the highest in decades, driven up as companies rethink office floorplans that reflect hybrid workplace policies. While freeway traffic has largely returned to normal, BART ridership Downtown has rebounded to around 22% of normal as of October 2021.<sup>5</sup> Fortunately, many of the city's employers were able to adapt to remote work quickly in ways that in person businesses could not, allowing the employer and its employees to maintain financial stability. Forecasters predict demand for office space will recover in the longer-term and that short-term reductions in rent may create opportunities for businesses that have previously been priced out of San Francisco to establish themselves in

<sup>1</sup> Status of the Re-Opening of the San Francisco Economy: November 2021, City and County of San Francisco Office of the Controller Office of Economic Analysis November 23, 2021

<sup>2</sup> *ibid.*

<sup>3</sup> *ibid.*

<sup>4</sup> Status of the Re-Opening of the San Francisco Economy: October 2021, City and County of San Francisco Office of the Controller Office of Economic Analysis October 29, 2021

<sup>5</sup> Status of the Re-Opening of the San Francisco Economy: November 2021

the city. San Francisco's permissive zoning, already in place in most Downtown commercial districts, ensures that land use controls offer sufficient flexibility to accommodate a range of uses. In the meantime, efforts to provide more cultural activities and improve streets and public space could help draw workers, businesses, and visitors back to the area more quickly.

**Before the pandemic, the concentrations of certain sectors such as information technology were increasing in San Francisco relative to the country while other sectors remained stable or declined.** The concentration of information technology jobs is particularly pronounced in San Francisco relative to the rest of the country, and has been increasing over the last 20 years.<sup>6</sup> The concentration of jobs in Professional and Business Services remains about the same as 20 years ago as a percentage of the city's workforce; however, the total number of jobs in this category has still grown substantially, and the sector's share of total jobs in the city is significantly higher than the country as a whole.<sup>7</sup> Office-based companies, particularly those in information technology, have seen success at adapting to remote and hybrid work. As a result, the current density of employees reporting to office jobs daily may be lower than over the previous 10 years, but office tenants are predicted to fill underutilized spaces and add jobs over time. San Francisco has historically had a high concentration of jobs in leisure and hospitality in part due to tourism; however, the relative difference in concentration compared to the country has declined since the year 2000.<sup>8</sup> Moreover, the pandemic-related contraction in local leisure and hospitality jobs in San Francisco has been more severe than the nationwide average, illustrating San Francisco's significant reliance on business and international travel.

**People of color who own businesses have faced disproportionate impacts from the pandemic and some immigrants may not have received aid.** As businesses faced revenue drops and mandatory closures, business owners of color have been less likely to stabilize their business because of racial disparities in wealth, income, and access to external capital and resources. According to the U.S. Census Current Population Survey, between February and April 2020, the number of Black-owned businesses decreased by 41%, Latino-owned by 32% and Asian-owned by 26% compared to a 17% decrease in white-owned businesses. Some immigrant business owners are also particularly vulnerable because of barriers to aid and financial assistance, including language barriers, lack of knowledge regarding types or sources of loans, lack of relationships with formal lending institutions, preconceived notions on the likelihood to receive a loan, and the need for assistance in completing loan application processes. Additionally, some immigrants may not qualify for certain types of aid due to a lack of credit history or a green card. According to the US Census Current Population Surveys between February and April 2020, the number of immigrant-owned businesses decreased by 36% compared to an 18% decrease in businesses owned by U.S.-born individuals. There is an ongoing need for capacity building, targeted outreach, and investment in business owners and workers of color.

**Travel patterns and transportation use changed as more people worked from home and stayed in their neighborhoods, encouraging the rethinking of street space, while far fewer work, shopping, entertainment, and social trips were made Downtown.** The pandemic diminished activity in offices, stores, theaters, and other Downtown destinations and forced all residents to spend more time at home and in their neighborhoods. SFMTA bus and train service was restructured to focus on core routes, reducing or eliminating service on certain lines.<sup>9</sup>

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<sup>6</sup> SF Planning Department Analysis of Bureau of Labor Statistics (BLS) data.

<sup>7</sup> *ibid.*

<sup>8</sup> *ibid.*

<sup>9</sup> See SFMTA COVID-19 Developments and Response <https://www.sfmta.com/projects/covid-19-developments-response>

The quality of local streets and pedestrian and bike safety took on new importance as people spent more time in their immediate vicinity. The City implemented the Slow Streets program in part to provide additional recreational space and provide safer ways for bicyclists, walkers, runners, and children to move around neighborhoods. As we look towards recovery, service restoration to downtown will be crucial to ensure that workers are able to return to the office and are able to do so without driving.

Despite the pandemic, demand for certain physical work spaces has continued to grow, including life science offices and laboratories, other laboratories, and logistics facilities. As the home of major research universities and leading companies, the Bay Area and San Francisco had one of the country's largest life science ecosystems before the pandemic when factoring in professionals, real estate, and investment. Demand for life science lab and office space regionally, estimated to be 4.6 million square feet earlier in 2021, has only accelerated.<sup>10</sup> However, the physical needs of the field mean that most existing office space may not be easily converted. In San Francisco, several laboratory projects are in the pipeline or have been proposed in the last two years. But the existing supply of lab space remains low and San Francisco has the lowest vacancy rate in the region by far – less than 1% – prompting many firms to locate elsewhere. In addition to life science, the increase in online shopping has grown the need for local distribution centers – largely in PDR or formerly industrial areas. One indicator of this growth, San Francisco's industrial real estate transactions, grew by 20% in 2020.<sup>11</sup>

Construction employment has remained relatively steady during much of the pandemic<sup>12</sup>, but building permits are lower than before the pandemic<sup>13</sup> and changes in demand for residential and commercial space, supply chain bottlenecks and high costs may be causing a construction slow down. The construction industry was resilient to the COVID-19 economic slowdown, with many construction projects already underway in 2020 having continued. There has also been a significant amount of home improvement and remodeling. Home prices have remained high while rents have dropped<sup>14</sup>, though they remain among the highest in the country. Office rents have also dropped as vacancy increased. Given ongoing high residential demand, residential development may continue, though the type of projects could shift, and high costs remain a barrier. Office construction may continue or slow and commercial investment may shift to projects such as life science. A prolonged drop in construction would not only reduce high paying jobs that do not require a college degree but could also reduce the long-term availability of regional skilled labor as workers relocate, reskill, or retire due to shifting demand.

School and child care closures as well as loss of informal child care affected children and parents, particularly women in households with lower incomes. School closures and remote learning were intensely disruptive for children and parents, with unknown long-term impacts to children's educational, social, and emotional health and to the careers of parents, especially, women. Specifically, mothers with lower incomes, disproportionately women of color, were severely impacted, as they face greater child rearing burdens than men or higher earning families. Schools and child care are open again, bringing some normalcy back to families' lives, but there have been two immediate outcomes: workforce shortages persist at all levels of education including afterschool care, and racial segregation between public and private schools worsened. SFUSD enrollment dropped, with a

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<sup>10</sup> "Bay Area Life Science Market Trends, Q3 2021." Kidder Matthews, 2021

<sup>11</sup> "Commercial Real Estate Trends Report 2021." Integra Realty Resources, 2021.

<sup>12</sup> SF Planning Department Analysis of BLS data.

<sup>13</sup> Status of the Re-Opening of the San Francisco Economy: November 2021.

<sup>14</sup> *ibid.*



disproportionate number of white families leaving the public schools.<sup>15</sup> SFUSD is facing a substantial budget deficit in the coming year. Child care is open at pre-pandemic capacity, but the gap between need and open spots, particularly for infants, remains significant.<sup>16</sup>

Digital infrastructure also became key for San Francisco residents including those working from home, children learning from home, and people trying to connect to goods and services and family and friends. As learning, work, access to goods and services, and even socializing shifted online for many during the pandemic, access to high-speed internet became crucial. Thousands of San Franciscans did not have an internet connection before the pandemic and the City worked with private entities to increase public wifi access. San Francisco Unified School District also provided Chrome Books and wifi hot spots to students.

Federal funds mitigated budget challenges for the City, but changes in commuting patterns, a slow revival of tourism, and changes in local spending could impact local revenues and budgets in coming years. San Francisco's business tax system was changed to a gross receipts tax in 2012. This new system, as well as other taxes such as the gross receipts tax for homelessness services, was designed to be highly progressive. While this has supported smaller businesses starting and growing in San Francisco, it has also resulted in a greater reliance on large businesses for the City's economic health. Federal funding has helped provide aid to many in need and helped cities including San Francisco avoid budget cuts. In coming years, however, local revenues may be lower than pre-pandemic due to the current drop in hotel taxes and sales taxes from visitors while shifts to the number of employees physically reporting to work could impact the City's business taxes. As the city copes with these changes, it will need to prioritize spending with an equity lens.

## Workers and Jobs

The pandemic disrupted work and business operations with new safety practices, increased risks for essential workers, broadly instituted remote work for jobs that could be done online and resulted in large numbers of business closures and layoffs in industries that were not deemed essential but had high levels of human contact. In some cases, the pandemic accelerated trends that were already unfolding and often exacerbated preexisting inequities. At the same time, robust federal, state and local relief programs and investments have helped many businesses, workers, and families, showing that significant action to address health, social, and economic challenges is possible.

Unemployment among SF residents is down to 3.9%. However, there are still approximately 60,000 fewer jobs than before the pandemic in the San Francisco area<sup>17</sup> (which includes San Mateo County). Unemployment among San Francisco residents has dropped from a high of over 12% in spring of 2020, when the shelter in place order was in effect and business closures were at their peak. Employment data shows that as of October 2021, most industries in San Francisco had recovered 80-100% of their pre-pandemic job numbers with a few notable exceptions in the Accommodation industry as well as Personal and Laundry Services and Arts, Entertainment and Recreation. The drop in unemployment reflects businesses reopening, though it is also impacted by a

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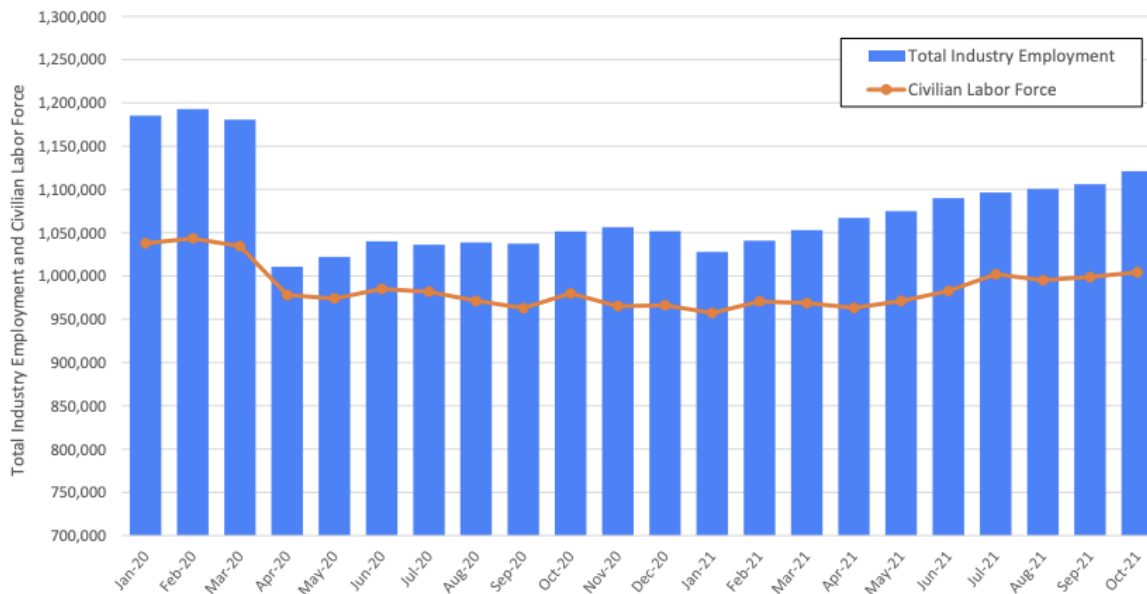
<sup>15</sup> Fall 2021 Enrollment Data Update: [https://go.boarddocs.com/ca/sfusd/Board.nsf/files/C7LVAW7FDC8D/\\$file/21%20-%2010.12%20FY%202021-22%20SFUSD%20Enrollment%20Data\\_PRESENTATION.pdf](https://go.boarddocs.com/ca/sfusd/Board.nsf/files/C7LVAW7FDC8D/$file/21%20-%2010.12%20FY%202021-22%20SFUSD%20Enrollment%20Data_PRESENTATION.pdf)

<sup>16</sup> The Office of Early Care and Education tracks and reports on early care education and needs. <https://sfoece.org/2018/08/07/2017-san-francisco-early-care-and-education-needs-assessment/>

<sup>17</sup> Status of the Re-Opening of the San Francisco Economy: November 2021

reduction in the labor force – permanently or for the time being. Local labor force trends mirror trends nationwide where labor force participation has declined as members of the workforce retire or choose not to

### Total Industry Employment and Civilian Labor Force, San Francisco Metro Division, Through October



The San Francisco Metro Division includes San Francisco and San Mateo counties.

return to work. The drop in total jobs in San Francisco and San Mateo (and more broadly throughout the region) are distributed across most industries with outliers evident in certain industries, discussed more below.

Source: California Employment Development Department as presented in “Status of the Re-Opening of the SF Economy: November 2021.”

Federal unemployment insurance and stimulus payments as well as social assistance provided lower wage workers more time to choose jobs and/or pursue more training and education.<sup>18</sup> While lower wage workers have struggled to make ends meet for decades, especially in the face of rising income inequality and cost of living, assistance during the pandemic temporarily bridged the financial insecurity from widespread layoffs and helped to partially maintain the consumer spending necessary to support local economies. Likewise, stimulus payments and ongoing assistance have served to create a financial cushion that affords workers with more vocational options, at least temporarily. Lower wage workers may now have a window where they can be more selective about work schedules, conditions, and pay because of savings generated through the pandemic. Some may take the opportunity to pursue new training or pivot to different industries. Others may have voluntarily or involuntarily taken early retirement or continue to have hesitation about returning to the workforce due to health concerns, the presence of vulnerable people in their household, and grief and unresolved mental health issues, among a myriad of other factors.

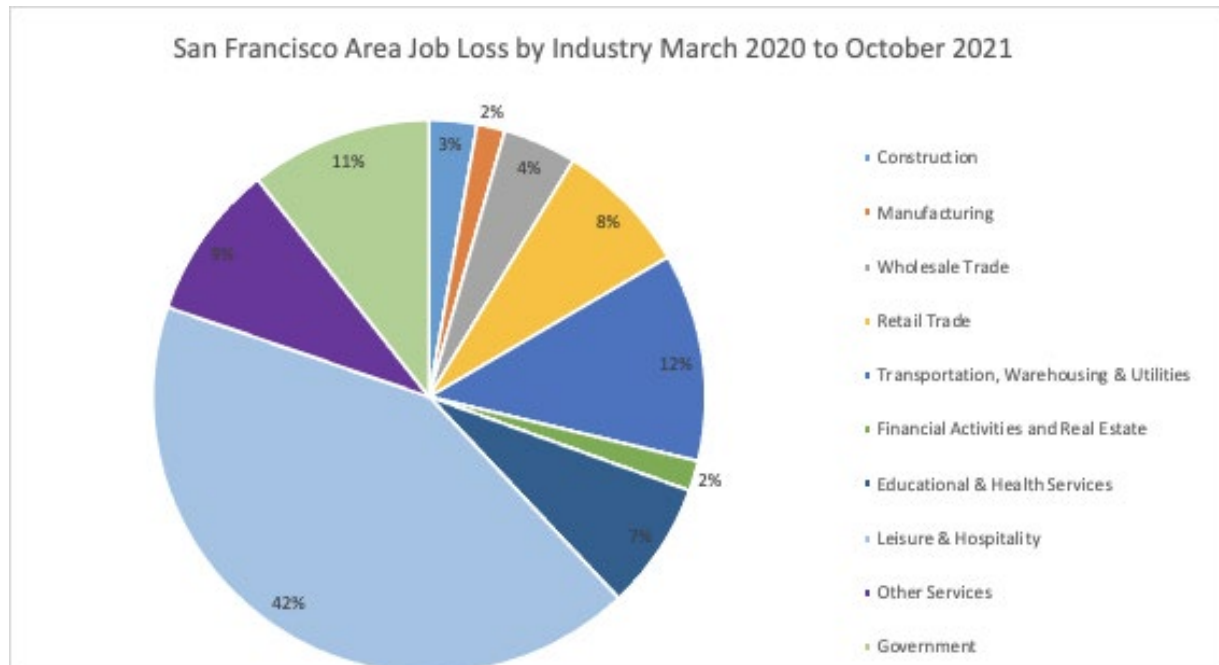
COVID-19 rent relief is available to help those affected by COVID-related loss of income and the State and City are currently distributing that assistance. As of late November 2021, over 15,500 renter households in San Francisco

<sup>18</sup> Ben Casselman, “The Economic Rebound is Still Waiting for Workers,” The New York Times, October 19, 2021  
<https://www.nytimes.com/2021/10/19/business/economy/us-economy.html>



have applied for over \$218 million in rent and utility relief through the State program.<sup>19</sup> So far, \$122 million in rent relief funds have been obligated and over \$46.6 million paid.<sup>20</sup> In addition, while Federal and State eviction moratoriums have expired, according to state law evictions cannot be processed in the courts unless the landlord has declared that they have attempted to avail themselves of rental assistance or that the tenant has been unresponsive to the tenant portion of the rental assistance application. Accessing local tenant counseling and legal services, along with accessing rent assistance, can therefore be crucial to avoiding eviction. In addition to rent relief resources available through the state, San Francisco's local rent relief program covers additional months of assistance. The local program has received requests of \$25 million from 3,400 households and paid \$18.5M to 2,500 households with \$6.5M more obligated for the remaining 900 households.<sup>21</sup>

**Job losses and business contraction are heavily concentrated in lower wage service industries such as accommodation, food service, arts and entertainment, and retail.**<sup>22</sup> More than 50% of all jobs lost during the pandemic have been in industries with high human contact that were not deemed essential, such as leisure and hospitality including hotels, restaurants, bars, and event spaces, as well as retail and personal services. The closure of offices resulted in fewer janitorial, cleaning, and other staff to maintain the spaces as well as closures of businesses serving office workers and layoffs of their employees. Job losses at airlines and other transportation companies have resulted in losses in the transportation, warehousing, and utilities sector. Personal services such as hair and nail salons and educational and health services (outside of schools and hospitals) were also heavily impacted. By the third quarter of 2021, retail showed a 90% jobs recovery and both restaurants and bars were close to 80%. Event spaces and accommodations as well as personal and laundry services continue to lag in recovery.



<sup>19</sup> "California Covid-19 Rent Relief Program Dashboard," Housing is Key webpage of the California Business, Consumer Services, and Housing Agency, Accessed November 22, 2021. [https://housing.ca.gov/covid\\_rr/dashboard.html](https://housing.ca.gov/covid_rr/dashboard.html)

<sup>20</sup> *ibid.*

<sup>21</sup> San Francisco Mayor's Office of Housing and Community Development (MOHCD).

<sup>22</sup> SF Planning Department Analysis of BLS data.

Source: SF Planning and OEWD Analysis of EDD data. SF Area includes San Mateo County.

Prior to the pandemic, a disproportionate share of lower wage workers in San Francisco were people of color. The majority of lower wage workers in the city also lived in the city, though over 100,000 commuted in, a number that had been increasing prior to the pandemic.<sup>23</sup> Before the pandemic, despite making up 59% of the San Francisco population, people of color made up more than 70% of all lower wage workers earning up to \$50,000. Many of these lower wage jobs were in industries heavily impacted by the pandemic such as accommodation and food service, arts and entertainment, and personal services. While these industries have begun to grow jobs again, until we see a stronger recovery in the downtown job center where the majority of jobs in San Francisco are centered, employment will continue to lag.

People of color, particularly Black, American Indian, and Latino San Franciscans, had lower wealth and incomes before the pandemic, and recent economic challenges and layoffs may have exacerbated those inequalities.<sup>24</sup> People of color had substantially lower incomes than white San Franciscans according to census data from before the pandemic and higher concentrations of work in sectors that were vulnerable to layoffs during the pandemic as well as essential work such as health care and food service. Black, American Indian, and Latino residents also had lower home ownership and other forms of material wealth, leaving them with fewer reserves to help withstand economic shocks. As discussed above, enhanced and expanded unemployment benefits, stimulus payments, and other increases in social assistance may have helped to maintain, and in some cases, even increased financial security; but those who may not have had access to those benefits and others who may face extended absences from the workforce face significant economic vulnerability.

In the decades prior to the pandemic, San Francisco's economy has become increasingly polarized with most job growth in higher wage "knowledge" industries and lower wage service fields. Job growth in San Francisco had been substantial over the decade leading up to the pandemic. The city had about 150,000 more jobs in 2019 than near the peak of the Dot Com boom in 2000, the previous employment high point.<sup>25</sup> Although San Franciscan workers across industries show higher earnings after the cost of housing is accounted for than their counterparts in other cities, there is a vast difference between incomes in different occupations. Higher wage job growth over the last 20 years has been most pronounced in the Professional and Business Services and Information sectors including technology and other fields that typically require substantial formal education and training. Average wage growth for these jobs, as well as the financial services sector, has been far above average for all jobs in the city. Over the same time period, the city also added thousands of jobs in the broad education and health services sector and leisure and hospitality sector where wage growth has been below the average for the city. Uneven wage growth by industry has continued over the pandemic.

## Retail Districts

The pandemic brought new challenges to retail shopping districts in San Francisco including those in the City Core and tourism-oriented areas as well as in neighborhood commercial corridors. The pandemic intensified a shift to online shopping that has affected retail stores along with pandemic-related closures and changes to store operations. As discussed above, the pandemic particularly affected leisure and hospitality businesses like

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<sup>23</sup> SF Planning Department Analysis of 2014-2018 IPUMS-USA data.

<sup>24</sup> See "Summary of the Draft Needs Assessment of the Housing Element Update" prepared by SF Planning.  
<https://www.sfhousingelement.org/summary-draft-needs-assessment-housing-element-2022-update>

<sup>25</sup> SF Planning Department Analysis of BLS data.

restaurants and bars as well as personal services like gyms, salons, and health services. Prior to the pandemic, hospitality and personal services had been the city's main drivers of small business growth. Many neighborhood commercial corridors have fared better than Downtown or tourist areas due to residents spending more time in neighborhoods. Federal and local aid have helped sustain small businesses, as have more flexible local processes and use of streets and other public space.

**Retail challenges during COVID-19 have been most pronounced in the City Core due to lack of visitors and workers in the area.** Shopping in the City Core of San Francisco has long attracted tourists and visitors from around the city and region. With the pandemic, many shoppers have not made shopping trips to Union Square and other City Core shopping destinations, exacerbating preexisting challenges of online shopping. Downtown employees are now spending their wages close to home, rather than near their office.

**Many small businesses in San Francisco struggled due to pandemic-related closures and drop in business as residents, workers, and visitors stayed home, however, there has also been unprecedented federal and local aid.** Small businesses that primarily serve office workers and visitors have particularly struggled and may remain closed or at reduced capacity until the number of office workers and visitors substantially increases. Neighborhood businesses have also been impacted from restaurants to stores to personal services like hair and nail salons and dental and medical clinics. While business has increased with growing vaccination rates and more demand for goods and services, some businesses report struggling to find workers as they reopen or ramp up operations again. Despite the substantial return of economic activity in some parts of the city, many businesses may still be struggling with debt and lower revenue making access to local, state, and federal aid programs all the more important. The unprecedented federal Payroll Protection Program (PPP) forgivable loans provided a crucial cash infusion for many businesses early in the pandemic in exchange for keeping payroll going. The City of San Francisco has also offered aid to business as well as deferring fees and streamlining permitting.

**The severity of COVID-19 impacts on neighborhood commercial corridors has depended on pre-existing conditions such as vacancy rates and patron base.** San Francisco has three types of retail centers based on their customer mix: high profile districts, community and regional serving districts, and community serving. Each of these three felt the pandemic's economic impacts differently based upon their patron base: neighborhood commercial areas that cater to local residents have fared better than major shopping areas that depend on national and regional visitors, such as Union Square. In addition, neighborhoods with pre-pandemic vacancies rates of approximately 10% were most vulnerable to increased vacancies during COVID-19; those with very high or very low pre-pandemic vacancies stayed the same.<sup>26</sup> Consumer spending in San Francisco has recovered from the low point of the pandemic<sup>27</sup>.

**The pandemic accelerated shifts to online shopping for goods and to in-person spending on experiences.** In the period between the Great Recession and the COVID-19 pandemic, restaurants and personal services were the only two sectors to see growth in San Francisco's retail spaces. Businesses like restaurants and personal services offer products and services primarily enjoyed in-person, so they face less online competition. These same qualities that allowed restaurants and personal services businesses to thrive despite online competition made

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<sup>26</sup> Based on OEWD analysis of Neighborhood Commercial vacancy rates.

<sup>27</sup> Status of the Re-Opening of the San Francisco Economy: July 2021

them particularly vulnerable to the impacts of the COVID-19 pandemic, as consumers temporarily shifted most of their shopping and recreation away from in-person, indoor settings. As the pandemic subsides, dining and drinking are rebounding successfully, and personal services to a lesser degree.

**Restaurant growth has been relatively even across neighborhoods.** The growth in this particular subsector of retail has not been disproportionately concentrated in certain neighborhood commercial areas. All neighborhoods have their own growth curve, and no neighborhood saw a boom of restaurants out of scale with other neighborhoods, although the mix and types of restaurants may be changing.<sup>28</sup>

## Recovery in the City Core: Downtown Office and Union Square

### Downtown Office

With a \$200 billion annual GDP, San Francisco accounts for more than one quarter of the nine-county Bay Area economy. San Francisco's downtown contributes approximately three quarters of the City's total output. San Francisco's downtown businesses span every major industry cluster in the region, including technology, finance, life science, real estate, and professional services. As the "Gateway to the West" San Francisco's downtown serves as a global anchor for national and international companies. It is supported by a robust regional network of educational institutions that prepare the talent pool upon which downtown businesses depend, and a comprehensive regional transportation network ensures that the entirety of the Bay Area's labor force can access the downtown job center.

San Francisco's downtown supports a complete ecosystem of finance, professional services, technology businesses as well as restaurants, bars, services, and complementary businesses that cater to the businesses, employees, and visitors downtown; collectively employing more than 350,000 people, almost half of whom commuted into the City Core from the rest of the region. Prior to COVID-19, BART carried more than 400,000 daily trips, over 70% of those as work trips, approximately 75% of which were passengers that identified as non-white. With San Francisco's constrained roadway capacity and limited parking, a concentrated office core fully connected to local and regional transportation hubs is vital to San Francisco's position as an internationally significant center of innovation and economic growth and is of critical importance for the environment, climate change and equitable access to opportunity into the future.

To the extent that there is office job growth anywhere in the region, and there will be continued growth in the region in the long term, it needs to go to the places that we have invested tens of billions of dollars in transit infrastructure, and downtown San Francisco is far and away the most significant. Concentrating job centers near regional mass transit is the most impactful land use and transportation strategy for meeting environmental mobility goals.

Nationally, while many downtown office businesses continue to thrive, many are permanently adopting hybrid work schedules for their employees. With 15-20% of San Francisco's Downtown office space up for lease or sublease, this trend has been particularly felt within the City Core due in large part to its share of information

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<sup>28</sup> Based on Planning Department analysis of North American Industry Classification System (NAICS) data

sector and knowledge industry businesses reducing the size of their footprints as they require fewer employees to report to work on any given day. Despite this adjustment, demand for San Francisco office space remains high, as evidenced by the City closing the three biggest acquisition deals in its history within the last 6 months.

While some companies find themselves in a new economic context in which employees have the increased ability to choose whether and the amount to which they report to an office location, we have yet to see how this will impact downtown. In early 2022, we expect to reach a milestone in the broad return of office workers to places of work, which will lend a much more tangible understanding to policy makers and businesses alike about how downtown San Francisco will operate and what space requirements will emerge in the near term. As the market begins to settle, there is the opportunity for businesses and uses to capitalize on renewed access to downtown.

Over the last three decades, San Francisco's downtown has been moving to a more mixed-use 24-hour environment. Its flexible zoning can effectively accommodate new space requirements for existing and future office tenants as well as a variety of ground floor uses to bring refreshed activity and experiences that will engage and draw employees and other visitors to the City Core. Together, these opportunities support its continued vibrancy, enhancing Downtown's role as the economic cornerstone for the city and the broader region.

## **Union Square**

Union Square 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 have historically generated 15% of San Francisco's sales tax dollars (37% of the total sales tax in the general consumer goods category). As we emerge from this pandemic, foot traffic is starting to rebound, currently at 40% of pre-pandemic conditions, and a number of new stores are opening. However, the district has 137 vacant ground level retail storefronts, a level that is much higher than pre-pandemic and which may prolong the recovery of the district.

Much of Union Square's historic makeup has been centered on multi-story retailers, which face longstanding challenges from ongoing changes to the retail landscape including:

- A shift to online shopping
- A shift away from the comprehensive department store model
- Success of specialized single-merchant sites targeted towards lifestyle-specific consumers

Over the past two years the shift to online shopping has increased from 14% of nationwide transactions in 2019 to 20% in 2020, and, despite easing COVID-19 restrictions, 2021 has seen 19% of transactions remain online. The challenge is further magnified in California, where 56.5% of residents shop online more than they do in-person. Online shopping does have limitations, as evidenced by many online retail brands, such as Warby Parker, Allbirds and Amazon, opening brick-and-mortar storefronts to create a physical presence.

Recognizing the impacts of the pandemic on Union Square, the Union Square Alliance (formerly the Union Square Business Improvement District) united to form an Economic Recovery Task Force. Their report identified the following priorities for the district:

- Activate Union Square Park with regular events
- Activate streets alleys and key gateways

- Install murals, art and signage throughout the district
- Celebrate the holidays; enhance holiday lighting
- Support restaurants, bars and entertainment through marketing and events
- Bolster communications, branding and messaging

The City's efforts in many of these areas are well underway including:

- A \$1,175,000 investment into Hallidie Plaza, a key gateway into Union Square, ensuring that as people exit BART/MUNI they enter a welcoming and safe space that complements Union Square.
- SF Wednesdays programmed 10 performances from July through October in Union Square as well as at other plazas in the City Core - and SF Live looks to expand on that programming.
- Mayor Breed attended the Holiday Tree lighting last month welcoming shoppers, ice skaters and diners back to Union Square and has launched Shop and Dine in the 49 which acknowledges the vital role the holiday season plays in the success of our retailers and encourages residents to shop locally to support our businesses and their employees and drive economic recovery.
- The recently approved Small Business Recovery Act has ensured that principally permitted businesses in Union Square have access to 30-day permit timelines from the City, allowing businesses to activate vacancies more quickly while also enhancing the ability of businesses to become more experiential adding entertainment and other uses to draw in consumers.

There have also been key investments in safety and security such as:

- SF Welcome Ambassadors, a \$12.5 million investment over 2 years, deploying ambassadors throughout downtown and key tourist areas to provide a friendly welcome to visitors commuters and employees, offer directions and wayfinding and answer general questions about key attractions
- The SFPD Community Ambassador program employing retired police officers to provide enhanced safety for visitors and merchants in the area.

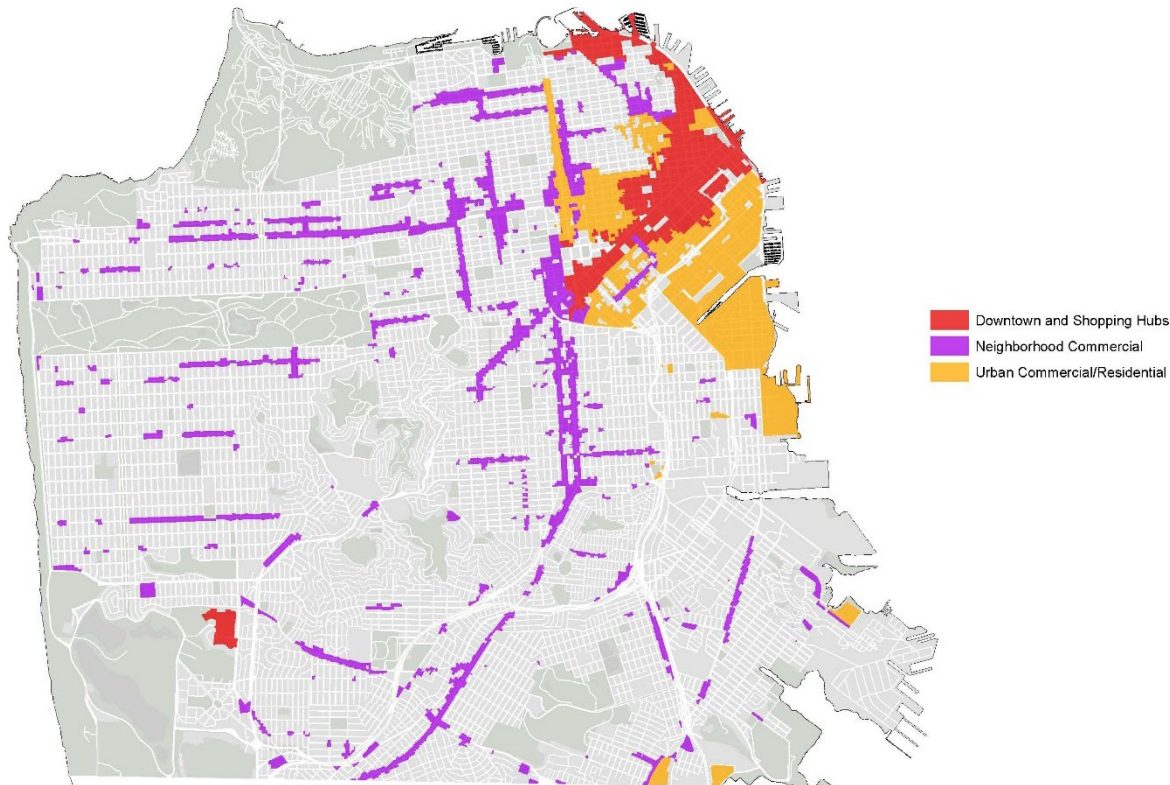
Looking forward, there is optimism for a strong holiday season. This optimism is further bolstered by the 2022 opening of the Central Subway which will extend the Muni Metro T Third line through SoMa, Union Square and Chinatown. This will increase the district's connectivity to the Moscone and Yerba Buena area, Caltrain, and southeast San Francisco, further improving direct transit access for shoppers in San Francisco and beyond.

However, we know that long-term retail trends, which were only exacerbated by COVID-19, will continue to present the area with challenges. As such, we must evaluate our policies to ensure they are responsive to the evolving needs of retailers to sustain a vibrant retail presence in this important district.

Our efforts should encourage forward-looking mixed-use spaces with retail, entertainment, modern manufacturing, prototyping, office, and distribution located together. We should work to attract the unique retailers that can serve as upper story anchor tenants, like Ikea, to retain the multi-story retail spaces that give Union Square its unique concentrated draw for locals, regional shoppers, and visitors alike. We should also evaluate complementary upper story uses that could lead to further vibrancy of the entire Union Square area and support its core retailers.



## San Francisco Retail Commercial Districts Map



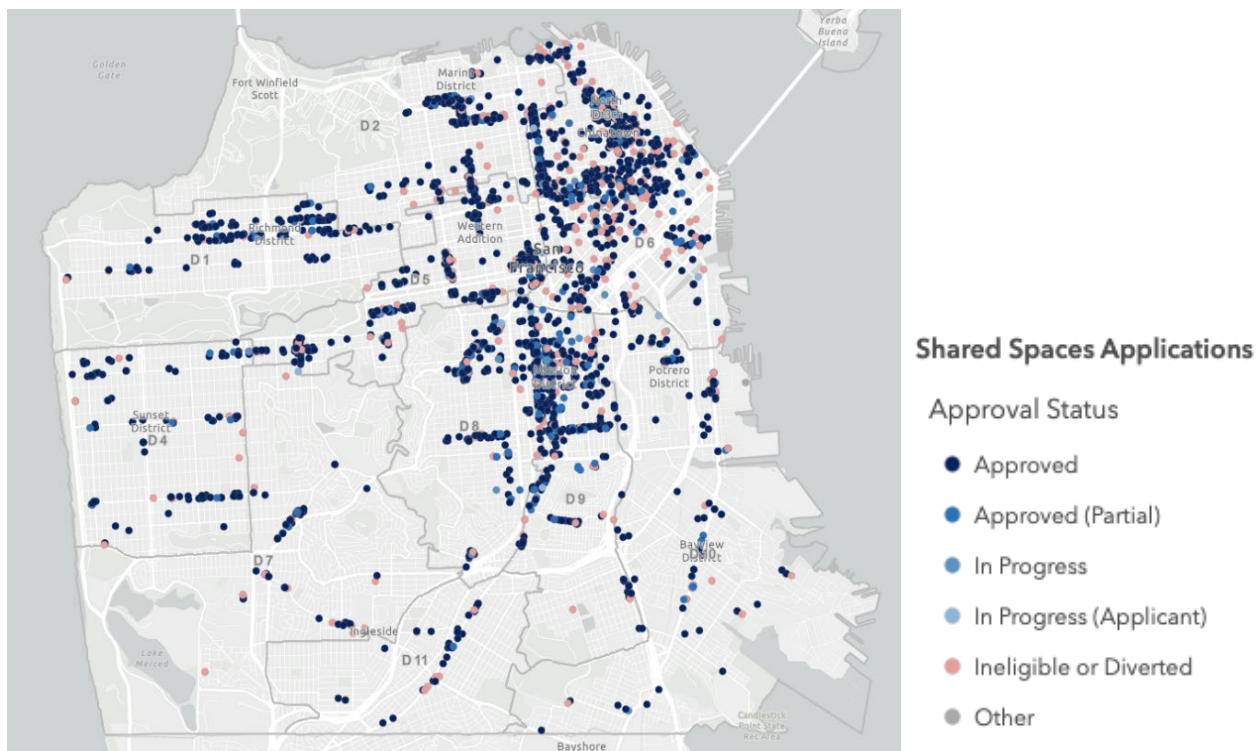
## Recovery in Neighborhood Retail and Services

As a city of neighborhoods, the heart of many residents' experiences in San Francisco are near where they live, a condition felt even more strongly as they relied on nearby businesses, restaurants, and services during the pandemic. Many of these businesses suffered, whether suddenly investing in operational changes to meet requirements and serve their customers, laying off workers who were left without income risking their stability, and, in many cases, closing either temporarily or permanently. There was an urgent need for relief, programs, and regulatory changes to support businesses trying to navigate through and out of the pandemic. COVID-19 accelerated factors that existed before the pandemic, such as a shift to e-commerce, and added new challenges, including limits on the use of indoor space. With a more stable outlook, the city can shift towards the recovery of businesses and services, as they are critical for the social and cultural health of the people who live nearby, especially in Cultural Districts where they represent multi-generations of community and identity.

The City has taken creative steps to support neighborhood retail and services and make it easier for these and other small businesses to open, grow, and succeed. Prop H, approved by voters in November 2020, the Small Business Recovery Act, and First Year Free significantly sped the permitting process for small businesses. Most Principally Permitted ground floor commercial businesses are now eligible for 30-day permit approvals and are exempt from neighborhood notification. This change supports existing businesses with greater flexibility to adapt operations in response to the COVID-19 pandemic and shifting retail landscape as well as easing the opening of new businesses. To date, more than 150 businesses have taken advantage of a new online portal

since the proposition took effect in December 2020. All of those who applied through the portal were approved within an average of 14 days (prior to Prop H, it could take 6-9 months for permit approvals). Based on self-reporting from applicants, 76% are people of color, 26% immigrants, and 47% women.

The City moved quickly to expand outdoor dining and seating through the Shared Spaces program in response to the Pandemic. Over 2,000 shared spaces applications<sup>29</sup> have been approved throughout the city, with concentrations in the north and east of the city. Rapid implementation of the Shared Spaces program was made possible by greater levels of coordination among various city agencies and was made permanent as of July 2021. The Equity Grants component of the program provides resources to help community organizations and businesses build and manage Shared Spaces. Awards are prioritized in neighborhoods with a higher density of people of color, seniors, youth, people with disabilities, linguistically isolated households, and people living in poverty or unemployed; nearly \$600,000 has been distributed to date, with additional awards forthcoming.



The City is committed to better understand the existing conditions and trends to support the revitalization of the core of these neighborhoods: their retail, service, and institutional centers. The purpose of these recovery efforts is to develop policies that recognize the strength of our communities and address past inequities to support vibrant neighborhoods in San Francisco: where local businesses can grow, people have diverse employment opportunities, neighbors can meet their daily needs, and visitors can find unique San Francisco experiences. Since the pandemic, this work has been prioritized in two phases. The first phase implemented Planning Code changes to reduce permitting processes for businesses. Proposition H and the Small Business Recovery Act have helped existing businesses pivot and new businesses to open. The forthcoming second phase will analyze long

<sup>29</sup> See City's Shared Spaces Tracker at <https://www.arcgis.com/apps/dashboards/616c77b6dcaf4ce092cef1accbd548e2>.

term trends and provide a comprehensive planning and programmatic framework on retail, based on a foundation of data collection, policy analysis, and extensive community engagement.

The Planning Department's work supporting retail and services in neighborhoods is examining the existing business owners, the workforce, residents and patrons, and property owners of buildings occupied by these uses, as each was impacted by the pandemic in different ways. The work will also examine regional retail centers and storefront activities in the unique core neighborhoods of the city, including Union Square and Downtown. The Department will study two sources of input: outreach with these constituents and data analysis. Outreach will include focus groups in Chinese, Spanish, and English with business owners and with property owners and realtors; tabling at community events; a survey of residents, business owners, and property owners and realtors; presentations to merchant associations and neighborhood groups; and presentation to commissions. Data analysis includes initial analysis of retail trends over the past decade and piloted parcel-level data collection to create an updated inventory of uses and businesses in several commercial corridors. Additional data analysis will include more parcel-level data collection, which will help us understand fine grain details about how neighborhoods have evolved in terms of use mix and property types. Data analysis will also include vacancy rates, leasing data, and closures and openings by neighborhood.

After this analysis is complete, the Department, in collaboration with OEWD, will provide recommendations for efforts to address any structural, land use, or regulatory challenges specifically looking for ways to repair inequities by population or geography. This work will be integrated with other on-going City efforts, including supporting Cultural Districts and community strategies in specific neighborhoods. The Department will also make recommendations for updating the Commerce and Industry Element of the General Plan.

## **Conclusion: A Call to Action for Equitable Economic Recovery**

At the same time that the pandemic has shown the extent of our inequities, it has also shown that we have an unexpected resiliency and willingness to come together to support one another in ways large and small. It is possible that in the future people will look back and see the pandemic as a turning point in America's willingness to use the tools of government to advance equity. After a generation of neglect and disinvestment, the Federal government started making significant investments to support income and housing security for lower income and unhoused people and the results were immediate and dramatic. Expansion of unemployment benefits and several rounds of federal stimulus checks helped millions of workers weather a crisis which would have been much worse without decisive public action.

San Francisco showed that it too could address emergent health and safety needs and act to protect and stabilize vulnerable residents while showing creativity and collaboration. City leaders moved to protect tenants with sweeping eviction protections and mobilize resources to support local businesses and organizations. Businesses quickly adapted to rapidly evolving health orders working to maintain services for our communities while simultaneously protecting the health and safety of employees and customers. City agencies collaborated in rapid and unprecedented ways to implement the expansion of parklets and Shared Spaces to support small businesses as well as by reducing the financial and regulatory burden they face. City agencies installed wifi in public housing and other affordable housing developments and SROs. The City also created learning hubs for vulnerable youth and the children of essential workers at various City facilities. These achievements

demonstrate that the City can act together in a rapid way to meet community needs and the needs of the most vulnerable.

As the city navigates the ongoing economic uncertainty and health challenges of the pandemic to continue to reopen and rebuild, we have the opportunity to build a city that is more equitable and resilient to future shocks. We can invest in businesses, workers, and neighborhoods in ways that expand opportunity and access while maintaining our dynamism and cultural richness. While this time is certainly difficult, it can also be a time of creativity and courage to ensure that the city's recovery is robust and reaches and lifts up people and communities who were struggling before the pandemic and suffered some of its worst effects. Planning, OEWD, and MOHCD will continue to work together and with fellow city agencies, elected officials, and the community in coming months to respond to the evolving health and economic situation and develop and implement strategies for an equitable economic recovery that leads to a better city for all.