



SAN FRANCISCO PLANNING DEPARTMENT

Memo to the Planning Commission

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BACKGROUND

On June 13, 2013, Planning Commission President Fong directed staff to review and analyze planning controls for formula retail uses in San Francisco due to the numerous pending proposals to change these controls. On July 25, 2013, the Planning Commission passed Resolution No. 18931, recommending to the Board of Supervisors that the issue of Formula Retail be further studied, with a focus on potential economic and visual impacts of the existing formula retail controls and anticipated impacts due to the potential expansion of controls. The Commission recommended that any future changes to the controls be based on sound data and analysis. On January 23, 2014 staff presented the Planning Commission with preliminary data collected as part of Phase 1 of the economic study. On February 27, 2014 staff presented the Planning Commission with four draft Issue Briefs as the final component of the Phase 1 report.

TODAY'S HEARING

Today's hearing is a staff presentation of the draft final report, "San Francisco Formula Retail Economic Analysis" and an opportunity for public comment on the report. This report is a compilation of the Phase 1 and Phase 2 reports with an executive summary and conclusions drawn from the findings. The report includes the Phase 2 components: a subarea analysis found in Chapter III and the neighborhood case studies found in Chapter VIII. Today's hearing is an informational item only.

TIMELINE FOR COMPLETION

The Department's goal, at the direction of the Planning Commission, is to develop a set of policy recommendations related to formula retail controls, based on a thorough understanding of existing conditions. The economic study commissioned by the Department will provide data, analysis, and data visualization that will inform the Department's policy recommendations to the Commission. In order to provide policy recommendations in a timely manner, the Department has developed the following revised timeline for completion of this work:

January 2014: Stakeholder focus group meetings
January 23, 2014: Planning Commission Hearing - Study Launch: Presentation of Phase 1 preliminary data
February 2014: Completion of Phase 1 by consultant, including data and four issue briefs
February 27, 2014: Planning Commission Hearing - Phase 1 Report: Data and four issue briefs; brief discussion of framework for Neighborhood Case Study areas.
March 2014: Stakeholder focus group meetings
March 27, 2014: Planning Commission Hearing – Expanding Formula Retail Controls: Economic Impact Report: Findings of the report released by the Office of Economic Analysis at the Office of the Controller
This item was continued to May 15, 2014 at the request of Supervisor Mar
April 2014: Completion of Phase 2 by consultant, Neighborhood Case Studies report
April 24, 2014: Planning Commission Hearing – Final Report: Further refinement of all data for draft Final Report
April 2014: Stakeholder focus group meetings
May 8, 2014: Planning Commission Hearing – Policy Recommendations: Consideration of Policy Recommendations from the Planning Department.
May 15, 2014: Planning Commission Hearing – Expanding Formula Retail Controls: Presentation by City’s Chief Economist, Ted Egan on Supervisor Mar’s Ordinance and Planning Commission Consideration of and potential recommendation on Supervisor Mar’s Ordinance [BF 130788 Expanding Formula Retail Controls]

REQUIRED COMMISSION ACTION

No action is required at this time. This is an informational hearing to present the Commission with the economic study, commissioned by the Planning Department. This study will be drawn on for development of policy recommendations to be presented on May 8.

RECOMMENDATION: Informational only; no action required
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Attachment:

San Francisco Formula Retail Economic Analysis

San Francisco Formula Retail Economic Analysis

DRAFT

April 10, 2014

prepared for:
San Francisco Planning Department



STRATEGICECONOMICS

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EXECUTIVE SUMMARY

San Francisco has regulated formula retail – defined as “a type of retail sales activity or retail sales establishment which, along with eleven or more other retail sales establishments located in the United States,” maintains certain standardized features – since the mid-2000s. The regulations are intended to protect San Francisco’s “diverse retail base” and the “distinct neighborhood retailing personalities” of the city’s different neighborhood commercial districts.

In 2013, concerns about rapid change in San Francisco’s retail market sparked renewed interest in the issue and prompted a number of proposals to revise the City’s policies. In response to these proposals, the City and County of San Francisco (City) contracted with Strategic Economics to provide data and analysis of San Francisco’s formula retail establishments and controls. This report describes the results and methodology of the analysis, which is intended to inform policy recommendations that City staff will make to the Planning Commission. The study involved the first comprehensive effort to identify and map all of San Francisco’s existing formula retail establishments, as well as extensive research into topics such as the employment and real estate impacts associated with formula retail. At key points throughout the study, the results were presented to focus groups of stakeholders and the Planning Commission, and the analysis was augmented and revised to reflect feedback from focus group participants, the Planning Commission, and City staff.

The Office of the Controller has also prepared an economic analysis in response to proposed changes to San Francisco’s formula retail policies. In February 2014, the Controller’s Office of Economic Analysis released its report, which included an analysis of consumer price and local spending differences between formula and independent retailers and an evaluation of the overall economic impact of expanding the City’s formula retail controls.¹ In order to avoid duplicating efforts and maximize the overall number of topics that could be studied, Strategic Economics did not conduct additional research on these topics.

The following sections summarize key findings and conclusions about the role that existing formula retail establishments play in San Francisco’s neighborhoods, the impacts of the City’s existing formula retail controls, and the potential effects of some of the proposed changes to the controls.

Existing Formula Retail Establishments and San Francisco’s Neighborhoods

How Many Formula Retailers Are There?

There are approximately 1,250 formula retail establishments in San Francisco, accounting for 12 percent of all retailers. These are retail establishments that, if they were to propose a new location in San Francisco today, would most likely be considered formula retailers. Formula retail occupies an estimated 11.2 million square feet of building area, accounting for 31 percent of San Francisco’s retail square footage.

Formula retail appears to be significantly less prevalent in San Francisco compared to the national average. Although exactly comparable numbers for other cities are not available, 32 percent of all retail establishments in the U.S. are associated with firms that include 10 or more outlets.²

The prevalence of formula retail varies significantly by business type and size. For example, 49 percent of San Francisco’s coffee shops are formula retail, compared to 11 percent of all restaurants. The

¹ See City and County of San Francisco Office of the Controller – Office of Economic Analysis, “Expanding Formula Retail Controls: Economic Impact Report,” February 12, 2014, <http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=5119>.

² U.S. Census Bureau, “Table EC0744SSSZ3: Retail Trade: Subject Series - Estab and Firm Size: Summary Statistics for Single Unit and Multiunit Firms for the United States: 2007,” 2007 Economic Census. Includes all retail trade establishments (NAICS codes 44-45).

vast majority of pharmacies over 3,000 square feet and supermarkets over 10,000 square feet are formula retailers, while smaller establishments are much more likely to be independent retailers. More than 80 percent of all banks are formula retail.

Who Are They?

Most formula retailers are affiliated with large companies with many outlets. Only 5 percent of formula retail establishments in San Francisco are associated with businesses with fewer than 20 total branches or subsidiaries, while another 4 percent are associated with businesses that have between 20 and 50 locations. Nearly 25 percent of the city's formula retail establishments are associated with companies that have more than 50 branches and subsidiaries, while 50 percent are associated with companies that have more than 1,000 locations.

Most formula retailers have headquarters outside of California. Slightly less than one-third (28 percent) of the city's formula retailers are headquartered in California, with half of those headquartered in San Francisco. Approximately half (54 percent) are headquartered elsewhere in the United States, while 10 percent are headquartered outside the United States. Another 8 percent of formula retail establishments are independently owned franchises (e.g., franchise locations that are not owned by the parent company); the location of the franchise owners is unknown.

Where Are They?

Formula retail is most highly concentrated in places that do not have formula retail controls and in neighborhood shopping centers. Overall, formula retail accounts for 25 percent of retail establishments in commercial/mixed-use zoning districts without formula retail controls, compared to 10 percent of retail establishments in commercial/mixed-use zoning district with controls (a category that includes all of the city's neighborhood commercial districts). Formula retail is most highly concentrated in Downtown, South of Market, and the northeastern waterfront, where new formula retail is permitted without a conditional use (CU) authorization. There are also significant concentrations of formula retail in shopping centers, including those where new formula retail requires a CU authorization – such as Lakeshore Plaza, the Laurel Village Shopping Center, and Geary and Masonic – as well as in Stonestown Galleria, where formula retail is not regulated.

Some neighborhood commercial districts that serve high-income neighborhoods and/or draw significant numbers of visitors and shoppers from around the city and region also have higher-than-average concentrations of formula retail. Examples include Union Street, Polk Street, and Upper Fillmore. These neighborhood commercial districts have high sales volumes, serve neighborhoods with particularly high population densities and average resident incomes, and are increasingly becoming known as regional shopping destinations.

Formula retailers choose locations based on the factors that all retailers tend to consider in making location decisions. These factors include customer traffic and sales volume in particular shopping districts, the demographics of surrounding neighborhoods, and the visibility and accessibility of particular storefronts. Retailers also benefit from clustering with other retailers; a concentration of retail activity creates a destination that offers variety and selection, attracting more shoppers.

What Do They Look Like?

Formula retailers generally occupy larger spaces than independent retailers do. Overall, nearly 85 percent of San Francisco's formula retailers occupy more than 3,000 square feet, while 80 percent of independent retailers occupy 3,000 square feet or less.

The relationship of formula retail to neighborhood character otherwise varies significantly depending on the type of business and the district where it is located. For example, in Upper Fillmore,

formula retail establishments tend to locate in Victorian buildings with limited parking, reflecting both the existing building stock in the district and the fact that formula retail in Upper Fillmore generally caters to comparison shoppers who are likely to drive or take transit to the district and then walk from store to store. In contrast, formula retail establishments on Ocean Avenue and Geary Boulevard are more likely to locate in single-story retail buildings with significant parking. Many of the formula retailers on Ocean Avenue and Geary Boulevard sell groceries and other personal goods that shoppers often buy in large quantities and may prefer to transport in a car.

What Goods and Services Do They Provide?

Formula retail establishments can serve local daily needs or cater to regional shoppers, depending in part on their location. For example, in Downtown, parts of South of Market, and the northeastern waterfront – areas where formula retail is generally not regulated – formula retail stores and restaurants serve a mix of workers, shoppers, and visitors from around the city, region, and world. The most common types of formula retail in these districts include apparel and accessory stores, health and beauty stores, and specialized retail stores. Some neighborhood commercial districts such as Upper Fillmore are also emerging as regional shopping destinations, and have significant clusters of both formula and independent clothing stores, beauty stores, and other regional-serving businesses. In general, however, pharmacies, grocery stores, banks, and other uses that serve residents' daily needs account for much of the formula retail in neighborhood commercial districts and other commercial/mixed-use zoning districts where formula retail is subject to controls.

How Do They Affect the Neighborhoods Where They Are Located?

Compared to independent retailers, formula retailers may be willing and able to pay higher rents in some highly desirable neighborhood commercial districts that serve local residents, shoppers from around the region, and tourists. Landlords in San Francisco's most attractive retail markets (e.g., Upper Fillmore) often require letters of credit guaranteeing 6 to 12 months' worth of rent. Prospective tenants may also find it necessary to pay either landlords or existing tenants "key money" in order to secure a lease. Start-ups and other independent retailers often find it difficult to meet these requirements. Stakeholders have also reported incidents of landlords holding retail space vacant for significant periods of time until a national tenant can be found.

However, there does not appear to be a consistent relationship between the approval of a new formula retail conditional use application and the subsequent direction of local rents and vacancies. Rather, retail market trends over time are primarily related to regional and national economic cycles.

Formula retail establishments often have the resources to improve storefronts with challenging physical conditions and can serve as anchors in revitalizing neighborhoods, but can also be challenging to involve in merchant and community organizing and outreach. Compared to independent businesses, national and regional retailers often have more resources to invest in improving façades and interiors. In addition to making physical improvements, a large, brand-name retailer can also contribute to the revitalization of a neighborhood commercial district by drawing new customers to the district. However, beyond drawing new customers, many formula retail stores contribute few other benefits to the neighborhoods where they are located. Community members note that it is challenging to establish ongoing relationships with most formula retailers because the managers rotate between stores or do not have the authority to make decisions. As a result of this management structure, local merchants associations report that few formula retailers are active participants in their efforts to organize events and activities.

What Wages and Benefits Do They Offer Employees?

Employment practices in San Francisco vary as much or more by retail subsector and firm size as by whether a business is formula or independent. On average, retail stores and restaurants in San

San Francisco pay similar wages regardless of whether the business has just one location in California (“single-site” firms, which served as a proxy for independent retailers in the employment analysis due to limitations of the employment data), or is part of a company with multiple locations in the state (“multiple-site” firms).³ However, these averages mask large pay differences within some retail subsectors. In some subsectors (e.g., electronics and appliance, furniture, health and personal care, and grocery stores) workers at multiple-site stores earned *more* than workers at single-site stores, while in other subsectors (e.g. automobile parts and accessories, liquor, shoes, and sporting goods stores), workers at multiple-site stores earned *less* than workers at single-site stores. Firms with multiple sites do tend to employ significantly more workers than firms with a single location, although some of the difference may be due to scheduling and other business practices (e.g., multiple-site firms may tend to hire more part-time or temporary workers).⁴

Both nationally and in San Francisco, retail stores and restaurants generally provide fewer benefits compared to other types of businesses. Local and national studies have also shown that firms with fewer than 20 employees – a category that includes most independent retailers – are less likely to offer health insurance, paid time off, and other benefits compared to firms with more than 20 employees, a category that includes most formula retailers. However, San Francisco’s labor laws raise the floor, so that firms in all industries are required to offer higher pay and better benefits compared to their counterparts elsewhere in the country, although small firms are exempt from some requirements.

Effects of San Francisco’s Existing Formula Retail Controls

The Conditional Use Application Process

Excluding pending applications, 75 percent of formula retail conditional use applications have been approved. However, this approval rate may under-represent the impact of the controls in reducing the prevalence of formula retail, as the application process discourages some formula retailers from considering locations in districts with controls.

The formula retail conditional use process creates disincentives for formula retailers to locate in San Francisco’s neighborhood commercial districts. According to brokers who work with chain retailers, obtaining a formula retail CU authorization typically takes 6 to 12 months and can cost tens of thousands of dollars, including fees for attorneys, architects, and community outreach consultants and other costs. As a result, brokers report that many formula retailers will not propose a new location in San Francisco’s neighborhood commercial districts unless they feel confident that their application is likely to be approved. Some formula retailers are reportedly unwilling to consider locations in San Francisco’s neighborhood commercial districts at all.

However, formula retailers’ willingness to go through the formula retail conditional use application process depends on conditions in specific districts. Formula retailers are more likely to submit applications in neighborhoods with strong market demand for new retail and where they anticipate a positive reception by the community.

The formula retail conditional use authorization process empowers well-organized community members to keep out unwanted formula retail uses. The majority of formula retail CU applications have been approved. However, in cases where community members have reached a clear consensus that a

³ National data from the 2007 Economic Census show that retail firms with fewer than 10 outlets in the United States paid an average of \$27,500 per employee, per year. In comparison, firms with 10 or more outlets paid an average of \$20,800 per employee per year. However, employment data by number of outlets were not available for San Francisco.

⁴ Data on part-time versus full-time worker status by industry and number of outlets are not available from any known source.

proposed formula retailer is not desirable and appeared at Planning Commission hearings, CU authorizations have often been denied or withdrawn. In general, community reaction to formula retail CU applications appears to depend on factors such as the potential impacts on competing businesses, and whether prospective formula retail tenants are filling long-standing vacancies and/or meeting perceived community needs.

Neighborhood Effects of the Formula Retail Controls

The formula retail controls are focused on regulating where new formula retail outlets may locate, but cannot directly regulate how businesses are operated once they have established. The formula retail controls are one of many land use regulations that the City places on the type, scale, and appearance of retail activities allowed in any given location within San Francisco. For example, in most NCDs, any proposed retail use over a certain size (typically between 2,000 and 4,000 square feet) requires a separate use size CU authorization. Other provisions of the Planning Code regulate the types of retail uses allowed in particular districts, the dimensions of retail buildings, and the size and appearance of retail signage. Zoning and other land use controls are inherently limited to regulating the type and scale of land use activities and the overall dimensions of the structures in which these activities occur. Thus, the formula retail controls cannot directly regulate hiring or employment practices or other features of how businesses are operated once they have been established, but are instead focused on regulating where *new* formula retail establishments may locate.⁵

The relatively low concentration of formula retail in commercial/mixed-use neighborhoods with formula retail controls in place suggests that the controls are successfully limiting the amount of formula retail in the city's neighborhood commercial districts, although other factors are also likely at play. In addition to the City's formula retail controls, other factors that could affect the concentration of formula retail in different neighborhoods include the prevalence of formula retail before the controls went into effect and the different retail markets that various commercial districts serve.

By creating disincentives for formula retailers to locate in San Francisco's neighborhood commercial districts, the formula retail controls may help lower costs for independent retailers. By making neighborhood commercial districts less attractive for formula retailers, formula retail controls may help lower rents in some districts, reducing costs for independent retailers.

The City's formula retail controls may be a contributing factor in some long-term vacancies, particularly of larger storefronts. Brokers report that large, deep spaces may sit empty for extended periods of time if a formula retail CU application is disapproved or withdrawn, and that these vacant spaces can act as a drag on the vibrancy and overall performance of the surrounding district. Formula retailers can generally fill more floor space than independent retailers, and can more often afford to make needed tenant improvements and pay the rents required to lease larger storefronts. However, while the formula retail controls may make leasing some spaces more challenging, obsolete building designs, significant maintenance needs, and challenging locations also likely contribute to long-term vacancies in many cases.

While it might be ideal to encourage property owners to subdivide or redevelop large, vacant retail spaces, there are significant limitations to this approach. Some large retail buildings are not possible to subdivide into multiple smaller storefronts that would be more suitable for independent businesses because of structural or design issues. In terms of redevelopment potential, some vacant retail buildings that are too big for most independent retailers are located on parcels that are too small to support enough residential units to justify the expense of the demolition and construction. Other vacant retail buildings

⁵ The City does, however, have other mechanisms for regulating employment and business practices. For example, San Francisco is nationally known for its minimum wage ordinance and other progressive labor laws.

may present other challenges for redevelopment. For example, the vacant, former Walgreens building in the Geary Boulevard case study area is wedged between two other retail buildings, making it a very challenging site for any new construction.

Current Issues and Potential Changes to Formula Retail Controls

The Board of Supervisors is considering a number of different ordinances that would, among other changes, expand the definition of formula retail to include additional land uses, businesses that have 11 or more other outlets located anywhere in the world, and businesses that are majority owned by a formula retail use subject new land uses to formula retail controls. Other proposals would create quantitative thresholds for determining the appropriate level of concentration of formula retail in neighborhood commercial districts. In addition to the changes that the Board of Supervisors is considering, stakeholders have also raised concerns about the impacts of the formula retail controls on locally owned and smaller retailers that are captured by the City's current definition of formula retail. The data and analysis performed as part of this study led to the following conclusions on these issues.

Expanding the Definition of Formula Retail

Changing the definition of formula retail to include international chains with 11 or more other establishments anywhere in the world could have a significant effect in certain neighborhoods, but is unlikely to affect many businesses citywide. This proposed policy change is particularly relevant in highly attractive shopping districts like Upper Fillmore, where international (as well as domestic) businesses are reportedly accelerating plans to open before they reach the threshold for formula retail. Other international chains have chosen to open their first San Francisco locations in neighborhoods with a strong ethnic identity, such as Japantown, Chinatown, or the Mission. Citywide, 10 percent of businesses with 11 or more other corporate family members are part of a corporation that is headquartered outside of the U.S. However, the vast majority of international businesses already have a long-established presence in the U.S. and qualify as formula retail under the current Planning Code.

Expanding the formula retail definition to include establishments that are owned by formula retail businesses is also likely to affect a small number of potential new businesses. This proposed policy change is designed to address several recent cases of new or proposed establishments that did not have to go through the formula retail CU process even though they were owned by formula retailers, such as Jack Spade in the Mission (owned by Liz Claiborne) and Athleta and Evolution Juice in Upper Fillmore (owned by The Gap and Starbucks, respectively). Citywide, however, subsidiaries – defined as companies that are more than 50 percent owned by another corporation – account for only 3 percent of retail businesses in San Francisco that have 12 or more corporate family members. Most of these would already qualify as formula retail under the existing Planning Code, because they have 11 or more other locations of the same trade name in the U.S.

Expanding the application of formula retail controls to other types of land uses could affect a significant number of businesses considering new locations in San Francisco, and make it more challenging to fill vacant storefronts in some neighborhood commercial districts. As the retail industry has become increasingly consolidated and brick-and-mortar retail stores are forced to compete with online sales, non-retail uses are playing an increasingly important role in filling vacant retail space. Personal, business, and medical services play a particularly important role in some of San Francisco's more struggling retail districts. For example, while Upper Fillmore's high sales volumes and reputation as a shopping destination continue to attract many retail stores and keep vacancies low, non-retail uses occupy a significant share of storefronts on Geary Boulevard and Ocean Avenue (40 percent and 56 percent, respectively). Given these trends, expanding formula retail controls to include new land uses could make it more difficult to maintain healthy vacancy rates (i.e., vacancy rates of no more than 10 percent) in some neighborhood commercial districts. Moreover, many personal, business, and medical services – such as hair and nail salons, gyms, and dialysis centers – serve residents' daily needs and align

with the City's vision of neighborhood commercial districts as providing a range of neighborhood-serving commercial uses.

Creating Thresholds for Concentration of Formula Retail

The appropriate concentration of formula retail for neighborhood commercial districts varies significantly depending on existing conditions and the community's preferences. The existing concentration of formula retail varies significantly across the city, and communities often react differently to formula retail CU applications depending on factors such as the potential impacts on competing businesses and whether prospective formula retail tenants are filling long-standing vacancies and/or meeting perceived community needs. Given this variation, it is not possible to define an ideal level of concentration for formula retail that could apply across multiple neighborhood commercial districts.

Reducing Impacts on Small Businesses

Changing the definition of formula retail to businesses with at least 20 or 50 other establishments (rather than the current 11) would exempt some local, fast-growing companies, while still capturing the vast majority of national chains. Examples of businesses that started in San Francisco and have recently qualified as formula retail include Philz Coffee, with 14 locations in the Bay Area; San Francisco Soup Company, with 16 locations in the Bay Area; and Pet Food Express, which recently reached approximately 50 stores in the Bay Area, Sacramento, and Carmel. Overall, however, only 5 percent of formula retailers in San Francisco are associated with businesses with fewer than 20 total branches or subsidiaries. Another 4 percent have between 20 and 50 locations. The remaining formula retailers are either franchises (about 17 percent) or have more than 50 locations (nearly 75 percent).

Franchisees and other small businesses may need more assistance in navigating formula retail and other land use controls and negotiating rents. The formula retail controls affect some small businesses as well as larger, national chains. These include rapidly growing local companies (e.g., Philz Coffee, San Francisco Soup Company) as well as some franchisees (i.e., individuals or small, local companies who purchase the right to use the trademark and other standardized features from a large, national brand). Providing these businesses with technical assistance in navigating the formula retail controls and other land use controls could help mitigate the impacts of the controls. Small businesses may also benefit from additional assistance in negotiating with landlords in neighborhood commercial districts where rents are rising rapidly.

I. INTRODUCTION

The issue of formula retail in San Francisco's neighborhoods has attracted significant attention from the city's policymakers and residents in recent months. San Francisco has regulated formula retail – defined as “a type of retail sales activity or retail sales establishment which, along with eleven or more other retail sales establishments located in the United States,” maintains certain standardized features – since the mid-2000s. Uses subject to this definition include most retail stores, restaurants, bars, liquor stores, banks, retail services,⁶ and movie theaters. Under the current San Francisco Planning Code, new formula retail in the city's neighborhood commercial districts either is prohibited or requires conditional use authorization.

In 2013, concerns about rapid change in San Francisco's retail market sparked renewed interest in the issue and prompted a number of proposals to revise the formula retail policies. In response to these proposals, the City and County of San Francisco (City) contracted with Strategic Economics to provide data and analysis of San Francisco's formula retail establishments and controls. This report describes the results and methodology of Strategic Economics' analysis, which is intended to inform policy recommendations that City staff will make to the Planning Commission. The study involved the first comprehensive effort to identify and map all of San Francisco's existing formula retail establishments, as well as extensive research into topics such as the employment and real estate impacts associated with formula retail. At key points throughout the study, the results were presented to focus groups of stakeholders and the Planning Commission, and the analysis was augmented and revised to reflect feedback from focus group participants, the Planning Commission, and City staff.

The Office of the Controller has also prepared an economic analysis in response to proposed changes to San Francisco's formula retail policies. In February 2014, the Controller's Office of Economic Analysis released its report, which included an analysis of consumer price and local spending differences between formula and independent retailers and an evaluation of the overall economic impact of expanding the City's formula retail controls.⁷ In order to avoid duplicating efforts and maximize the overall number of topics that could be studied, Strategic Economics did not conduct additional research on these topics.

Background

The San Francisco Board of Supervisors (BOS) adopted the City's first formula retail controls in 2004, with the goal of protecting San Francisco's “diverse retail base with distinct neighborhood retailing personalities.” The BOS found that “the standardized architecture, color schemes, décor and signage of many formula retail businesses can detract from the distinctive character” of San Francisco's neighborhood commercial districts (NCDs), which the City envisions as mixed-use districts that support a range of neighborhood-serving commercial uses. In addition to protecting the distinctive aesthetic character of the NCDs, the ordinance was intended to “protect [San Francisco's] vibrant small business sector and create a supportive environment for new small business innovations,” in recognition that “the unregulated and unmonitored establishment of additional formula retail uses may unduly limit or eliminate business establishment opportunities for smaller or medium-sized businesses . . . and unduly skew the mix of businesses towards national retailers in lieu of local or regional retailers.”⁸

⁶ Retail services include laundromats, dry cleaning, pet grooming, and copy centers.

⁷ See City and County of San Francisco Office of the Controller – Office of Economic Analysis, “Expanding Formula Retail Controls: Economic Impact Report,” February 12, 2014, <http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=5119>.

⁸ Ordinance Number 62-04, Board File 031501, available online at: <http://sfgov.legistar.com/LegislationDetail.aspx?ID=473759&GUID=A83D3A84-B457-4B93-BCF5-11058DDA5598&Options=ID|Text|&Search=62-04>

Initially, the City's formula retail controls were limited to a few specific NCDs (including the Hayes-Gough NCD and certain blocks in the Haight/Cole Valley area). However, in 2007, San Francisco voters approved Proposition G, which amended the Planning Code to require conditional use (CU) authorizations for new formula retail outlets in all of the city's NCDs. Because Proposition G was a voter-approved ballot initiative, the provision of the Planning Code that requires a CU authorization for new formula retail in the NCDs can only be changed through another ballot process. However, other aspects of the controls – such as the definition of formula retail, the use types that are subject to formula retail controls, and the criteria for consideration of formula retail CU applications – can be amended through the typical legislative process. For example, in 2012 the BOS expanded the controls to cover banks, credit unions, and savings and loans.⁹

The formula retail controls are one of many land use regulations that the City places on the type, scale, and appearance of retail activities allowed in any given location within San Francisco. For example, in most NCDs, any proposed retail use over a certain size (typically between 2,000 and 4,000 square feet) requires a separate use size CU authorization.¹⁰ Other provisions of the Planning Code regulate the types of retail uses allowed in particular districts, the dimensions of retail buildings, and the size and appearance of retail signage. Zoning and other land use controls are inherently limited to regulating the type and scale of land use activities and the overall dimensions of the structures in which these activities occur. Thus, the formula retail controls cannot directly regulate hiring or employment practices or other features of how businesses are operated once they have been established, but are instead focused on regulating where *new* formula retail establishments may locate.¹¹

Recent Concerns Related to Formula Retail and the Formula Retail Controls

Over the past several years, a number of concerns have drawn significant new attention to the City's formula retail policies. The increased attention to the issue has played out in the context of San Francisco's rapidly expanding economy, which has fueled one of the hottest retail markets in the country.¹² As the U.S. economy has recovered, many national retail brands have gone into expansion mode, reportedly focusing expansion plans on dense, urban environments like San Francisco.¹³ At the same time, many retail sectors are facing increased competition with online sales. As a result of these local and national trends, some small, local businesses have struggled to keep up with rising rents even as the city's economic growth has attracted new national brands and allowed other local retailers to expand.

In this context, residents, businesses, and policy makers have raised a number of concerns, including some that are directly related to the impacts of the City's formula retail controls and others that also tied to broader retail market trends. Some of the specific concerns that have been raised in the debate over formula retail include:

- **High-profile cases of nationally or internationally known brands that have recently proposed or opened locations in San Francisco but were not subject to the City's formula retail controls.** These include brands with dozens or hundreds of locations internationally but fewer than 11 other locations in the United States when they opened in San Francisco (e.g., The Kooples, Cotélaç, and Sandro, three clothing boutiques that recently opened in the Upper

⁹ For a more detailed discussion of the history of formula retail controls in San Francisco, and a complete description of the definition of formula retail, see "Formula Retail Controls Today and Tomorrow," Memorandum to the Planning Commission by Sophie Hayward, Legislative Planner and Jenny Wun, Legislative Intern, July 15, 2013.

¹⁰ See Appendix B for additional information on use size controls by zoning district.

¹¹ The City does, however, have other mechanisms for regulating employment and business practices. For example, San Francisco is nationally known for its minimum wage ordinance and other progressive labor laws.

¹² ChainLinks retail Advisors, *Fall/Winter 2013 Retail Review & Forecast*, Fall/Winter 2013.

¹³ Cassidy Turley, *National Retail Review*, Spring 2014, <http://www.ctbt.com/Web/Download-Research-File.aspx?id=E8196E98-CDAE-4AAE-8A8C-31B3AD67591E>.

Fillmore); brands that are found in many department stores or are owned by formula retail companies but have few brick-and-mortar stores under their own trademark (e.g., Jack Spade, Joie); and companies that have dozens of outlets in the United States but do not fall among the use types to which the controls apply (e.g., Chevron gas station, Equinox gym).

- **Potential impacts of the formula retail controls on locally owned and smaller retailers that are captured by the City’s definition of formula retail.** Examples of businesses that started in San Francisco and now qualify as formula retail include Philz Coffee, with 14 locations in the Bay Area; San Francisco Soup Company, with 16 locations in the Bay Area; and Pet Food Express, which recently reached approximately 50 stores in the Bay Area, Sacramento, and Carmel. In addition, some small business advocates have raised concerns over impacts on small, local franchisees – i.e., individuals or companies who purchase the right to use the trademark and other standardized features from a large, national brand. Examples of franchises subject to the formula retail controls include restaurants like Subway, Taco Bell/KFC, Jamba Juice, and Extreme Pizza and stores such as RadioShack and The Great Frame Up.
- **Concern that the expansion of formula retail is exacerbating the pressures facing small retail, restaurant, and personal service businesses in San Francisco.** Small businesses have raised a concern that formula retailers are willing and able to pay higher rents than independent retailers, contributing to rapidly rising rents in the city’s NCDs. Stakeholders have also raised concerns that some landlords prefer formula retailers or other national brands over independent retailers, and may hold retail space off the market until a national tenant can be found.¹⁴
- **Concern that the formula retail controls are contributing to the challenges that some neighborhood commercial districts continue to face even as the city’s overall economy has expanded.** For example, policymakers have expressed concerns over long-term commercial vacancies in some NCDs.¹⁵ Real estate brokers report that the formula retail controls make it more difficult to fill vacancies, particularly of large spaces (more than 3,000 square feet). At the same time, cities across the country are finding it increasingly difficult to fill retail space with retail stores (i.e., businesses selling goods directly to consumers) as the number of potential retail tenants has shrunk due to competition with e-commerce and the consolidation of national retail brands. Real estate professionals have noted a nationwide shift toward retail uses that do not compete directly with online sales, such as restaurants, grocery stores, other food stores, personal services, tax preparation, automotive services, and dry cleaners.¹⁶
- **Growing concern that new retailers – both formula and independent – are increasingly serving a luxury or high-end market and do not serve residents’ daily needs.** Stakeholders in some higher-income neighborhoods have observed that long-standing retail uses that once provided affordable goods and services to serve residents’ “daily needs” – for example, hardware stores, corner stores, and laundromats – are being replaced by new stores that predominantly sell high-end “comparison goods” such as jewelry, clothes, shoes, and furniture that most households purchase only occasionally (and tend to compare before purchasing). Meanwhile, residents of some lower-income neighborhoods have faced a lack of affordable grocery stores, drug stores, and other daily needs-serving establishments for many years. At a broad level, the shift towards higher-end, comparison shopping stores may in part reflect a regional and national decline in consumer demand from the middle class, accompanied by strong growth in retail sectors serving either the most affluent households or struggling, low-

¹⁴ As discussed in Chapter VI, national retailers typically have better credit and can sign longer leases than locally owned, independent retailers, reducing the risk to the landlord that the tenant will be unable to pay their rent.

¹⁵ San Francisco Budget and Legislative Analyst, “Preventing and Filling Commercial Vacancies in San Francisco,” August 20, 2013.

¹⁶ ChainLinks retail Advisors, *Fall/Winter 2013 Retail Review & Forecast*.

income households.¹⁷ More locally, as rents have risen in many of San Francisco's shopping districts, daily needs-serving establishments with relatively low profit margins may not be able to afford the increased rent burden. In other cases, the business owner may retire, sell their building or lease in order to take advantage of high real estate prices, or close shop for other reasons.

- **Concerns about differences in hiring practices and the quality of jobs offered by formula and independent retailers.** San Francisco's residents and elected officials place a high priority on providing high-quality, well-paying jobs that employ a diverse range of residents. Residents and stakeholders have raised concerns about whether formula and independent retailers offer jobs of comparable quality and hire a diverse workforce, and whether the formula retail controls have unintended effects on overall job creation in the city.

In response to these and other concerns, a number of proposals to revise the City's formula retail controls have recently come before the BOS. These legislative proposals include expanding the controls to cover new areas of the city, changing the definition of formula retail in certain geographic areas or citywide, adjusting the criteria for approving a formula retail CU, and changing the notification procedures for CU applications. In addition, the Planning Commission and Board of Appeals have made several recent policy decisions affecting the way the existing formula retail controls are applied.¹⁸

Purpose of this Report

In reaction to the multiple legislative proposals related to formula retail, the Planning Commission directed the Planning Department to review and analyze the overall issue of formula retail in San Francisco. The Planning Department selected Strategic Economics to conduct this study, which is intended to provide a comprehensive, data-driven profile of San Francisco's existing formula retail establishments and to address specific economic and land use concerns raised by community members and policymakers. Department staff will draw on the information in this report, public comment, and other sources to determine whether changes to the definition of formula retail, the formula retail CU process, or applicable geographic areas of the City's formula retail controls would improve neighborhood character and economic vitality.

Strategic Economics worked with Planning Department staff to identify the specific issues that are assessed in this study. The Department also convened several focus groups, where stakeholders were asked to provide feedback on potential research topics and preliminary findings. Through this process, the following topics were selected for in-depth analysis:

- The geographic distribution of existing formula retail in San Francisco in relation to formula retail controls, neighborhood demographics, and other local characteristics;
- Characteristics of San Francisco's formula retail establishments (e.g., size of establishments, types of goods sold, headquarters locations) compared to the city's independent retail establishments;
- Employment differences between formula and independent retail;
- The relationship among formula retail controls, formula retail businesses, and the real estate market;

¹⁷ Nelson D. Schwartz, "The Middle Class Is Steadily Eroding. Just Ask the Business World.," *The New York Times*, February 2, 2014, <http://www.nytimes.com/2014/02/03/business/the-middle-class-is-steadily-eroding-just-ask-the-business-world.html>.

¹⁸ Chapter II provides a complete list of recently adopted or proposed legislation and policy changes related to formula retail.

- The potential impacts of changing the Planning Code’s definition of “formula retail” as proposed by several of the ordinances under consideration before the BOS; and
- The functions that formula retail establishments play in different NCDs throughout the city, including formula retail’s role in serving the daily needs of residents’ as opposed to regional shoppers, and the extent to which formula retail adds or detracts from the aesthetic character and economic vibrancy of the city’s NCDs.

Report Organization

The report is organized into the following chapters:

- Chapter I (this introduction) provides background and describes the purpose of this report.
- Chapter II reviews the City’s existing and proposed formula retail controls, including the volume and approval rate of formula retail CU applications that have been submitted since the controls went into effect.
- Chapter III assesses the prevalence of existing formula retail establishments in San Francisco and the spatial distribution of formula retail by zoning control and subarea within the city.
- Chapter IV discusses the characteristics of San Francisco’s existing formula retail establishments in more detail.
- Chapter V analyzes differences in employment between formula and independent retail, in terms of number of workers employed, wages, and benefits,
- Chapter VI focuses on the relationship among formula retail controls, formula retail businesses, and the real estate market.
- Chapter VII evaluates the potential effect of changing the Planning Code definition of “formula retail.”
- Chapter VIII provides case studies of the role that formula retail plays in three of San Francisco’s NCDs: Upper Fillmore, Ocean Avenue, and Geary Boulevard (14th to 28th Avenues).
- Chapter IX provides a concluding summary of findings from the analysis.

Appendix A discusses in detail the methodology used to identify and characterize established formula retail establishments. Appendix B provides information on use size controls by zoning district. Appendix C provides the definitions of land uses that Supervisor Eric Mar’s proposed legislation would add to the formula retail controls. Appendix D includes additional maps and tables from the analysis of demographic and economic characteristics discussed in Chapter III. Appendix E provides a list of participants who attended the stakeholder focus groups, as well as other individuals interviewed as part of the study.

II. SAN FRANCISCO'S FORMULA RETAIL CONTROLS

This chapter provides additional background on San Francisco's existing formula retail controls and the various legislative and policy changes that have been proposed or adopted in recent months. The chapter also evaluates the volume and approval rate for formula retail conditional use applications, as one indicator of the effect that the controls have had in limiting formula retail in San Francisco's neighborhood commercial districts.

Existing and Proposed Formula Retail Controls

As discussed in Chapter I, the Board of Supervisors adopted San Francisco's first formula retail (FR) use controls in 2004 in a few specific districts. In subsequent years, a number of ordinances expanded the controls to additional districts. In 2007, San Francisco voters approved Proposition G, which requires conditional use (CU) authorizations in all of the city's neighborhood commercial districts.

Today, new formula retail is prohibited or requires CU authorization in much of San Francisco. In addition to these basic controls, additional controls have been enacted in some specific locations, typically in response to concerns regarding over-concentration of certain formula retail uses or the impacts on neighborhood character caused by larger formula retail stores. Figure II-1 shows the locations where formula retail controls are currently in place; Figure II-2 summarizes specific controls that apply only in certain zoning districts (marked in dark orange in Figure II-1).

Under the current Planning Code, "formula retail" is defined as "a type of retail sales activity or retail sales establishment which, along with eleven or more other [i.e., at least 12 total, including the proposed establishment] retail sales establishments located in the United States, maintains two or more of the following features: a standardized array of merchandise, a standardized façade, a standardized décor and color scheme, a standardized uniform, standardized signage, a trademark or a servicemark."¹⁹ Use types subject to this definition generally include restaurants, bars, liquor stores, retail stores and service establishments, banks, and movie theaters. Some uses that are often considered retail in other contexts – for example, hair salons, gyms, health care outlets, gas stations, home mortgage centers, tax service centers, and auto dealerships – are not currently subject to San Francisco's formula retail controls. The controls apply only to uses that have sought development approvals since the formula retail controls were enacted; existing formula retail establishments are not subject to new restrictions enacted after a property received entitlements.²⁰

The formula retail controls are one of many land use regulations that the City places on the type, scale, and appearance of retail activities allowed in any given location in San Francisco. For example, in most NCDs, any proposed retail use over a certain size (typically between 2,000 and 4,000 square feet) requires a separate use size CU authorization.²¹ The Planning Code also includes separate provisions for large-scale retail; retail uses over 90,000 square feet in the C-3 zoning districts and 50,000 square feet in all other zoning districts require CU authorization, while retail over 120,000 square feet is generally prohibited.²² Other provisions of the Planning Code regulate the types of retail uses allowed in particular districts, the dimensions of retail buildings, and the size and appearance of retail signage.

In 2013, a number of additional legislative and policy changes to the formula retail controls were proposed or adopted, including proposed ordinances that would modify the definition of formula retail

¹⁹ San Francisco Planning Code, Sections 303(i)(1), 703.3, and 803.6(c).

²⁰ "Entitlements" are approvals for the right to develop a property for a desired purpose or use.

²¹ See Appendix B for additional information on use size controls by zoning district.

²² San Francisco Planning Code, Section 121.6.

and expand the areas in which controls apply. The various proposed ordinances would expand the formula retail controls to cover new areas of the city; change the definition of formula retail in certain areas or citywide; adjust the criteria for approving formula retail CU applications; and/or expand noticing procedures for CU applications. Figures II-3 and II-4, respectively, provide a map and summary of proposed or recently adopted legislation and policy changes.

Figure II-1. Existing Formula Retail Controls in San Francisco

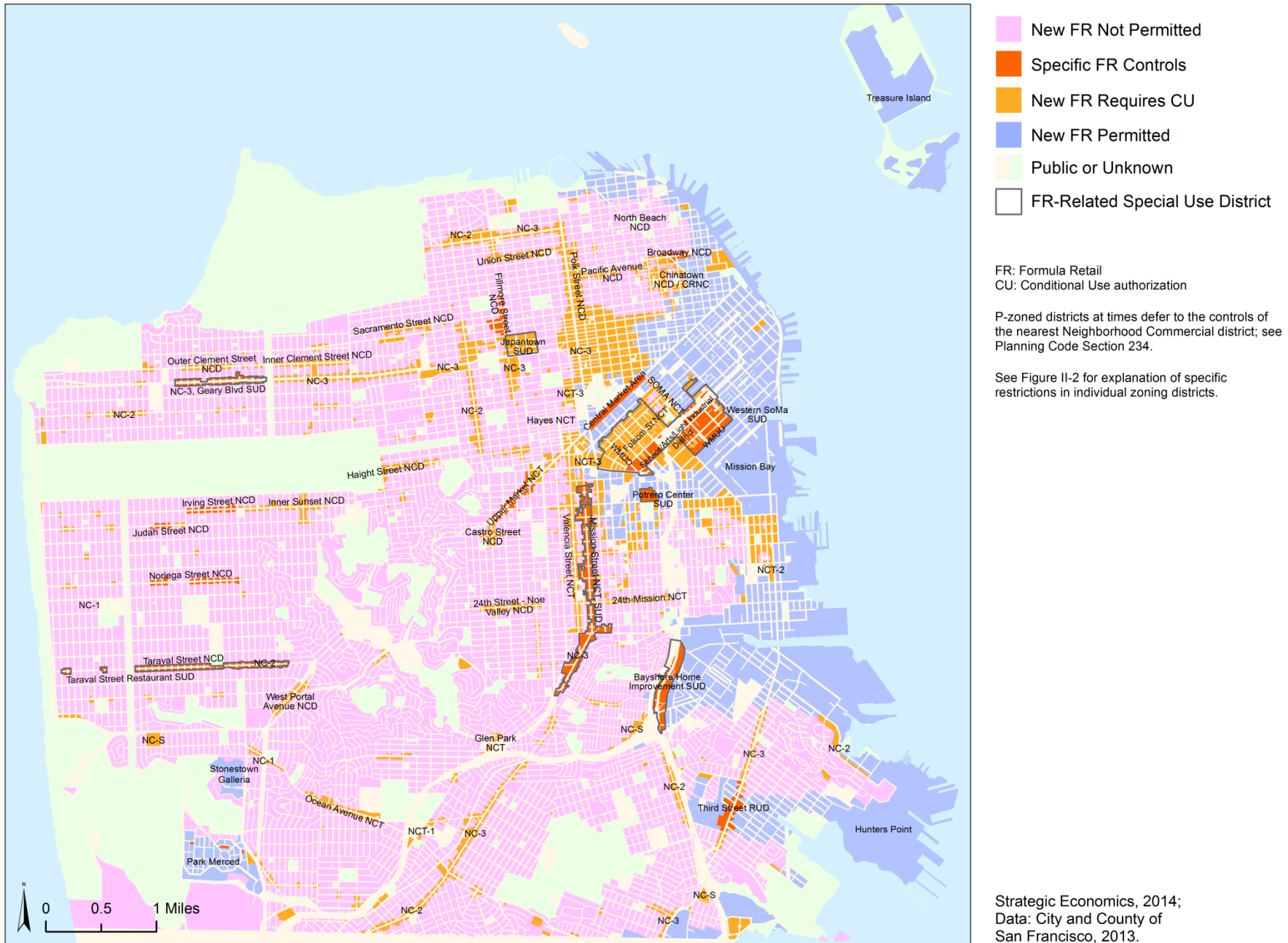


Figure II-2. Summary of Existing Specific Formula Retail Controls Applicable in Individual Zoning Districts

Zoning District	Underlying FR Control	Specific Restriction
Fillmore Street NCD (Upper Fillmore)	FR requires a CU	FR Restaurants and Limited Restaurants not permitted
Broadway NCD	FR requires a CU	FR Restaurants and Limited Restaurants not permitted
Mission Street FR Restaurant SUD	FR requires a CU	FR Restaurants and Limited Restaurants not permitted
Taraval Street Restaurant SUD	FR requires a CU	FR Restaurants and Limited Restaurants not permitted
Geary Boulevard FR Pet Store and Restaurant SUD	FR permitted	FR Pet Supply Store not permitted; Formula Retail Restaurants and Limited Restaurants not permitted
Taraval Street NCD	FR requires a CU	Trade Shops are subject to FR controls
Noriega Street NCD	FR requires a CU	Trade Shops are subject to FR controls
Irving Street NCD	FR requires a CU	Trade Shops are subject to FR controls
WSoMa Mixed-Use Office District (WMUO)	FR requires a CU	FR not permitted if use is over 25,000 square feet
Service/Arts/Light Industrial District (SALI)	FR requires a CU	FR not permitted if use is over 25,000 square feet
Upper Market NCT	FR requires a CU	CU required for Limited Financial Services and Business or Professional Services (18-month interim control)
Central Market Area Bayshore Boulevard Home Improvement SUD	FR permitted	CU required for FR fronting on Market Street between Sixth Street and Van Ness Avenue (18-month interim control)
Third Street Formula Retail RUD	FR permitted Mixed zoning: in some zoning districts within this SUD FR requires CU and in some districts FR is permitted	Any new FR requires CU
Potrero Center Mixed- Use SUD	FR requires a CU	Relieves FR requirements for parcels which would otherwise require a CU

This table summarizes the specific formula retail controls applicable in certain zoning districts, as shown in Figure II-1.

Acronyms:

- FR: Formula retail
- CU: Conditional use authorization
- NCD: Neighborhood Commercial District
- NCT: Neighborhood Commercial Transit District
- SUD: Special Use District
- RUD: Restricted Use District

Source: City and County of San Francisco, 2013.

Figure II-3. Recently Proposed or Adopted Location-Specific Changes to San Francisco's Formula Retail Controls

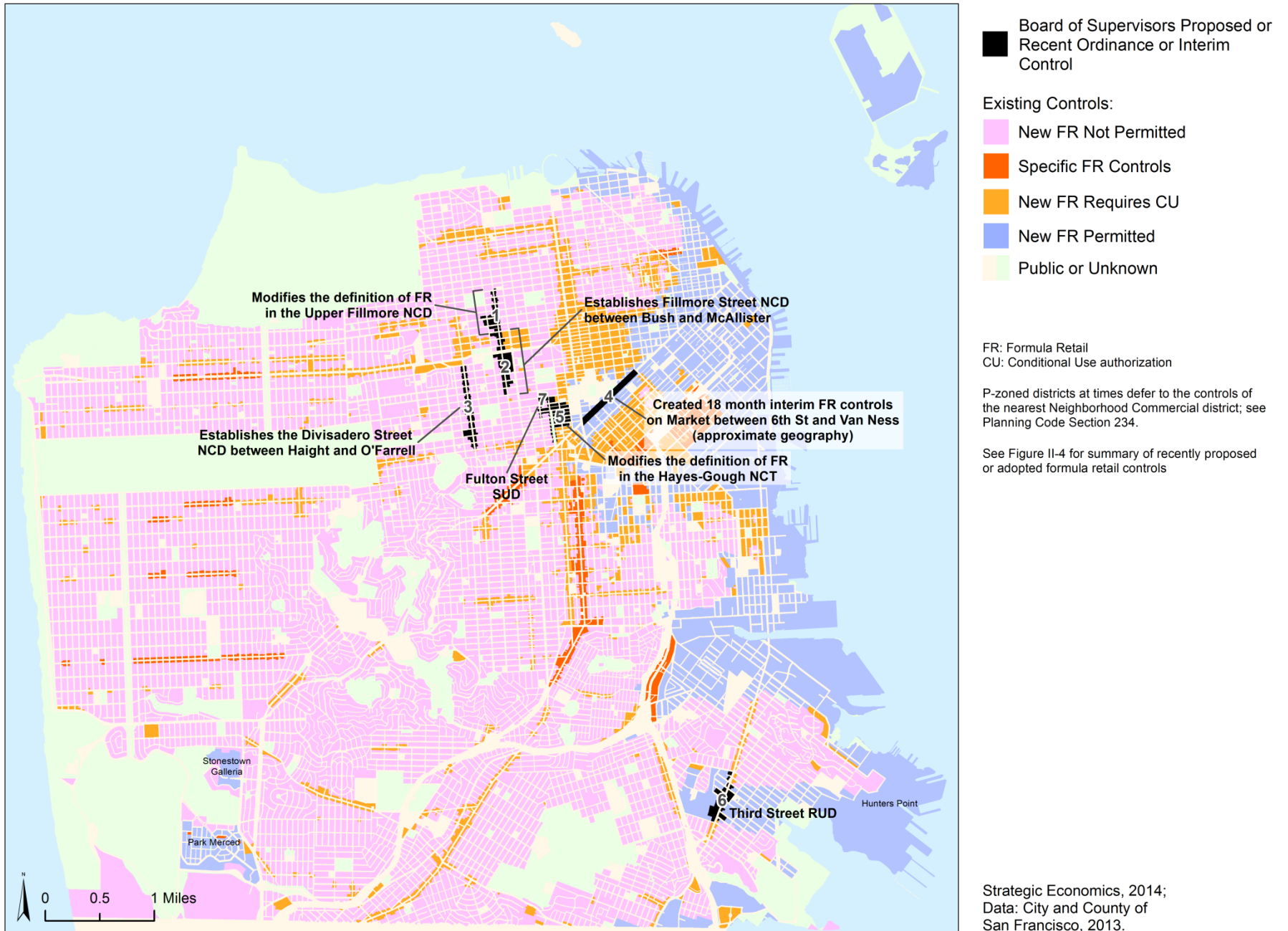


Figure II-4. Summary of Recently Proposed or Adopted Changes to San Francisco's Formula Retail Controls

Map Key (a)	Legislative or Policy Change	Type of Action	Status
1	Modification to the definition of formula retail in the Upper Fillmore Neighborhood Commercial District (NCD) to include retail with 11 or more establishments anywhere in the world, and establishments where 50% or more of stock, shares, etc. are owned by a formula retail use.	BOS Ordinance (Farrell)	Pending committee action
2	Establishment of the Fillmore Street Neighborhood Commercial District (NCD) between Bush and McAllister Streets. The proposal seeks to weight the community voice over other considerations, generally weight the hearing toward disapproval, legislate a requirement for pre-application meeting (which is already Planning Commission policy), and codify criteria for approval related to the concentration of existing formula retail.	BOS Ordinance (Breed)	Referred to Planning Department; Planning Commission recommended further study
3	Establishment of the Divisadero Street Neighborhood Commercial District (NCD) between Haight and O'Farrell Streets. The proposal seeks to weight the community voice over other considerations, generally weight the hearing toward disapproval, legislate a requirement for pre-application meeting (which is already Planning Commission policy), and codify criteria for approval related to the concentration of existing formula retail.	BOS Ordinance (Breed)	Referred to Planning Department; Planning Commission recommended further study
4	Establishment of 18-month interim controls on Market Street between Sixth Street and Van Ness Avenue (the Central Market area). A conditional use authorization is required for any formula retail fronting on Market Street in this area.	BOS Ordinance (Kim)	Enacted; expires February 2015
5	Modification of the definition of formula retail in the Hayes-Gough Neighborhood Commercial Transit District (NCT) to include retail with 11 or more establishments anywhere in the world, and establishments where 50% or more of stock, shares, etc. are owned by a formula retail use.	BOS Ordinance (Breed)	Referred to Planning Department; Planning Commission recommended further study
6	Modification of zoning controls in the Third Street Formula Retail Restricted Use District (RUD) and expansion of applicability of formula retail controls citywide. This mixed-use district had some parcels where CU was not required for formula retail. Now all parcels in this RUD require CU for the establishment of CU. Certain changes to existing entitled formula retail locations citywide now trigger the need for a new CU hearing.	BOS Ordinance (Cohen)	Enacted
7	Creation of the Fulton Grocery Special Use District (SUD). The Planning Commission recently recommended this SUD, which would create an exception to the current prohibition on formula retail in the Hayes Gough NCT so as to allow the Commission to consider a formula retail grocer by CU.	BOS Ordinance (Breed)	Pending committee action on formula retail change
N/A	Expansion of the citywide definition of formula retail to include businesses that have 11 or more outlets worldwide, and to include businesses that are at least 50% owned by a formula retail business; expands application to other types of retail uses (e.g., "Adult Entertainment," "Automobile Service Station," "Hotel, Tourist," "Tobacco Paraphernalia Establishment"); requires the Planning Commission to consider economic impact on other businesses in the area as part of the CU process; expands noticing procedures for formula retail applications.	BOS Ordinance (Mar)	Pending committee action

Map Key (a)	Legislative or Policy Change	Type of Action	Status
N/A	Creation of the first quantitative basis for evaluating concentration of formula retail in the Upper Market Neighborhood Commercial District and Neighborhood Commercial Transit District. Planning Department staff will recommend disapproval of any project that brings the concentration of formula retail within 300 feet of the subject property to 20% or greater of total linear store frontage.	Planning Commission Policy	Adopted
N/A	Board of Appeals ruling. Established that if a company has signed a lease for a location (even if the location is not yet occupied), the lease counts toward the 11 establishments needed to be considered formula retail.	Board of Appeals ruling	
N/A	Amendment of the San Francisco Public Works code to restrict food trucks that are associated with formula retail establishments. For this restriction, the formula retail definition includes "affiliates" of formula retail restaurants, which includes an entity that is owned by or has a financial or contractual agreement with a formula retail use.	BOS Ordinance (Wiener)	Passed

(a) See Figure II-3.

Acronyms:

BOS: Board of Supervisors

CU: Conditional use authorization

N/A: Not applicable

Source: City and County of San Francisco, 2013.

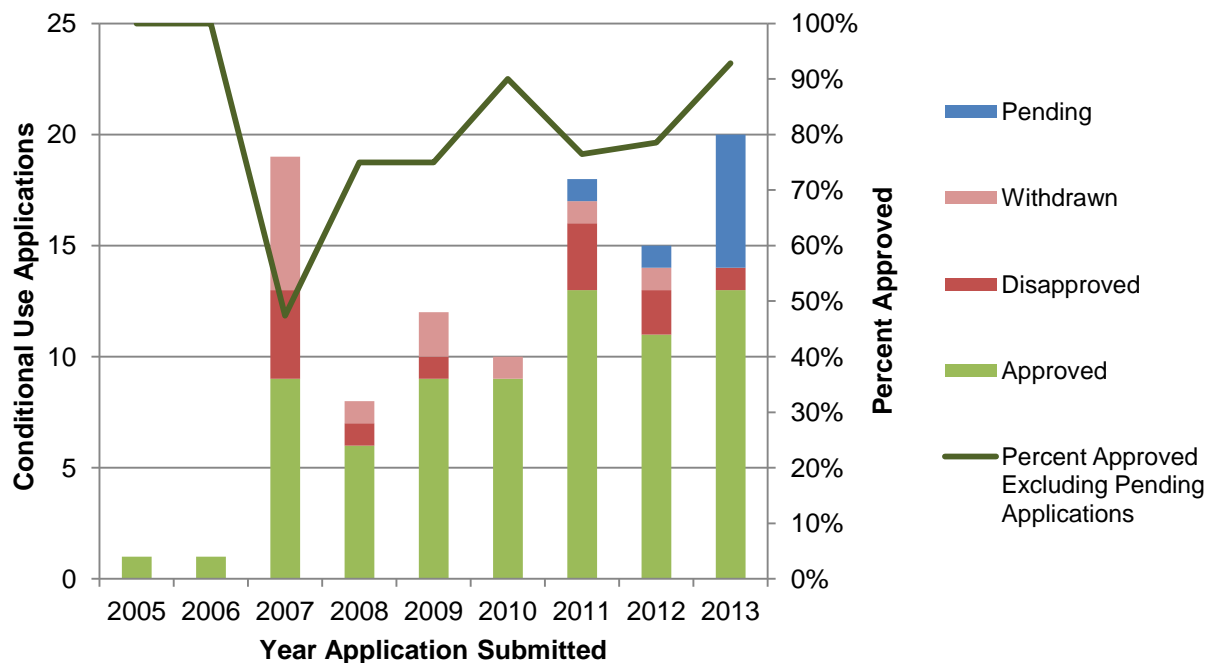
Formula Retail Conditional Use Applications

San Francisco’s formula retail CU process is intended to allow the Planning Commission to determine whether each formula retail applicant is necessary, desirable, and consistent with the general character of the neighborhood. This discretionary determination is informed by public comment generated by required neighborhood notifications. Each formula retail applicant in neighborhoods with controls in place must prove to the Commission that the specific business will improve the neighborhood. In making this determination, the Commission is required to consider the following five criteria:

1. The existing concentrations of formula retail uses within the district.
2. The availability of other, similar retail uses within the district.
3. The compatibility of the proposed formula retail use with the existing architectural and aesthetic character of the district.
4. The existing retail vacancy rates within the district.
5. The existing mix of citywide-serving retail uses and neighborhood-serving retail uses within the district.

The Planning Department has received approximately 100 formula retail conditional use applications since the formula retail regulations went into effect. Figure II-5 shows formula retail CU applications by year filed and action taken. Figure II-6 provides a map of formula retail CU applications by status. Key findings are as follows.

Figure II-5. Formula Retail Conditional Use Applications by Year Application Was Filed and Action Taken, 2004-January 2014



Sources: City and County of San Francisco, 2013; Strategic Economics, 2014.

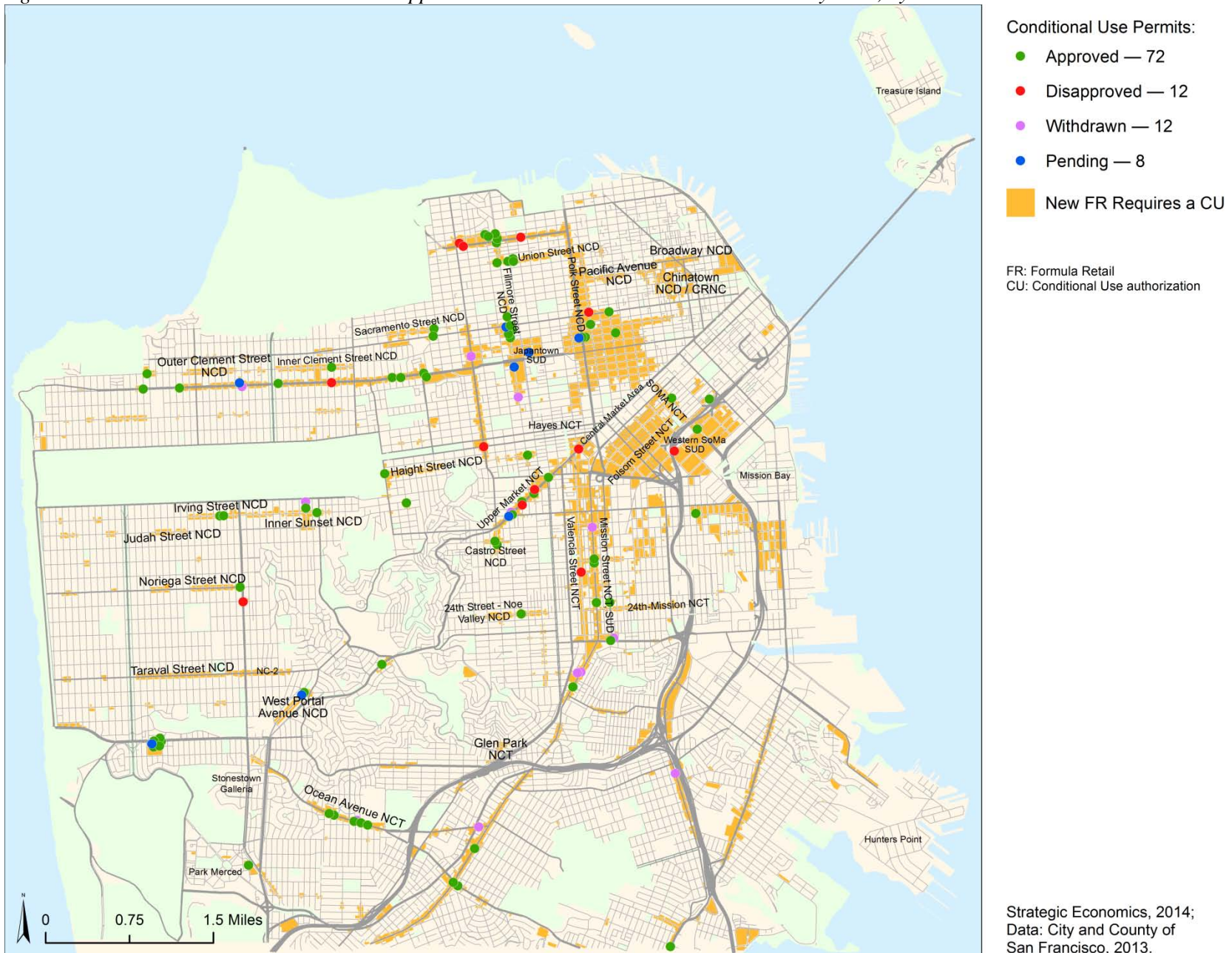
Conditional use activity has varied significantly over time, following broader economic trends. In 2007, the first year that CU authorizations were required for formula retail in most neighborhoods, 19 formula retail CU applications were filed with the Planning Department (Figure II-5). During the nationwide recession between 2008 and 2010, formula retail CU applications fell to between 8 and 12 a

year. As the economy has recovered, so have the number of formula retail CU applications. In 2013, the Planning Department received 20 applications, an all-time high. Six of these (30 percent) have not yet been resolved.

Excluding pending applications, 75 percent of all formula retail CU applications have been approved. However, the approval rate varies from year to year. As shown in Figure II-5, fewer than half of formula retail CU applications that were submitted in 2007 were eventually approved. Since then, 75 percent or more of applications have been approved every year. Although the number of CU applications appears to correlate with broader economic conditions, the approval rate does not.

The general decline in applications and higher approval rate since 2007 may reflect self-selection on the part of formula retailers. The decline in applications and increase in approval rates suggests that formula retailers have become more selective in submitting CU applications since the controls first went into effect in most neighborhoods. According to real estate brokers, many formula retailers will not propose a new location in San Francisco's neighborhood commercial districts unless they feel at least somewhat confident that their CU application is likely to be approved. Some formula retailers are reportedly unwilling to consider locations in San Francisco's neighborhood commercial districts at all. To the extent that the formula retail CU process discourages formula retailers from considering locations in districts with controls, the CU application and approval rates may underrepresent the impact of the controls in reducing the prevalence of formula retail.

Figure II-6. Formula Retail Conditional Use Applications Received between 2004 and January 2014, by Action Taken



III. SAN FRANCISCO'S FORMULA RETAIL: HOW MUCH IS THERE AND WHERE IS IT LOCATED?

Using data purchased by the City and County of San Francisco from Dun & Bradstreet (D&B), a commercial vendor, Strategic Economics identified, mapped, and analyzed existing retailers that would most likely be considered “formula retail” if the businesses were to propose a new location in San Francisco today.²³ (As described in Chapter II, the City’s formula retail controls apply only to applicants seeking to establish a new retail location in certain districts, not to existing outlets.)

This chapter describes key findings from this analysis, which provided a broad look at the prevalence of formula and independent retail in San Francisco by type, and the spatial distribution of formula and independent retail by zoning control and subarea within the city. The chapter also evaluates formula retail conditional use applications by geographic subarea. The analysis presented in this chapter was intended to answer questions such as:

- How much formula retail does San Francisco already have, and of what type?
- How does the concentration of formula retail vary across San Francisco? Understanding the existing concentration of formula retail in different parts of the city may provide some baseline for making future decisions about appropriate concentration levels.²⁴
- Is formula retail less prevalent in neighborhood commercial districts and other zoning districts where formula retail controls are in place?
- In addition to the controls, what other factors might contribute to the spatial distribution of formula retail? For example, how does the prevalence of formula retail correspond with population and employment density, resident incomes, visitor traffic, regional access, and other factors that retailers typically consider in determining where to locate?
- Which parts of the city have attracted the most formula retail conditional use applications, and how do formula retail CU approval rates vary within the city?

Information presented in subsequent chapters is also relevant to many of these questions. Chapter IV provides a more in-depth look at other characteristics of San Francisco’s existing formula retail establishments, including square footage, headquarters location, and the number of outlets in formula retail chains. Chapter VIII provides three case studies that explore in more detail the functions that formula retail establishments play in different neighborhood commercial districts, including formula retail’s role in serving the daily needs of residents’ as opposed to regional shoppers, and the extent to which formula retail adds or detracts from aesthetic character and economic vibrancy.

Prevalence of Formula Retail in San Francisco

Key findings from the citywide analysis are described below.

There are approximately 1,250 formula retail establishments in San Francisco, accounting for 12 percent of all retailers. These are retail establishments that, if they were to propose a new location in San Francisco today, would most likely be considered formula retailers. Formula retail occupies an estimated

²³ Appendix A provides a complete description of the methodology used to conduct the analysis and limitations associated with the data.

²⁴ The existing concentration of formula retail uses within a district is one of the criteria that the Planning Commission is required to consider in hearing a request for a formula retail CU authorization, but concentration levels have been interpreted differently in different places. The Planning Commission recently created the first quantitative measure of formula retail concentration in Upper Market, and some of the legislation before the Board of Supervisors would codify a quantitative measure of concentration.

11.2 million square feet of building area, accounting for 31 percent of San Francisco's retail square footage. Figure III-1 shows the total number of formula and independent retail establishments and square feet by use type.

In contrast, 32 percent of all retail establishments in the U.S. are associated with firms that include 10 or more outlets.²⁵ This national average is calculated from the 2007 Economic Census, and does not exactly match San Francisco's definition of formula retail or the methodology used to identify formula retail in this analysis. Despite these caveats, however, formula retail appears to be significantly less prevalent in San Francisco when compared to the national average.

Stores account for the majority of San Francisco's formula retail, followed by restaurants, bars, and cafés. Nearly 60 percent of the city's formula retail establishments are stores, defined as establishments that sell goods to the public (e.g., groceries, auto parts, pet supplies, jewelry, etc.). Twenty-three percent are restaurants, bars, or cafés, and 18 percent are banks, credit unions, or savings and loans (Figure III-1). The remaining two percent are retail services, a category that includes copy centers, pet care (excluding veterinary) services, laundromats, and dry cleaners. In comparison, 69 percent of San Francisco's independent retail establishments are stores, 25 percent are restaurants, 6 percent are retail services, and less than 1 percent are financial services. The distribution of formula and independent uses is similar on a square footage basis.

Banks, credit unions, and savings and loans make up less than 20 percent of the city's total formula retail establishments, but more than 80 percent of all banking establishments are formula retailers. There are approximately 260 retail banks, credits unions, and savings and loans in San Francisco, of which 220 are formula retail (Figure III-1).

Figure III-1. Formula and Independent Retail by Use Type: Number of Establishments and Square Feet

Use Type	Formula Retail	% of Total Formula Retail	Independent Retail	% of Total Independent Retail	Formula Retail as a % of All Retail
Number of Establishments					
Stores	720	58%	6,500	69%	10%
Restaurants & Bars	280	23%	2,350	25%	11%
Retail Services	30	2%	590	6%	4%
Banks, Credit Unions, S&L	220	18%	40	0%	84%
Total	1,250	100%	9,480	100%	12%
Square Feet					
Stores	6,880,200	61%	15,320,700	63%	31%
Restaurants & Bars	1,911,600	17%	7,428,200	30%	20%
Retail Services	230,600	2%	1,436,900	6%	14%
Banks, Credit Unions, S&L	2,179,800	19%	189,000	1%	92%
Total	11,202,100	100%	24,374,800	100%	31%

Acronyms:

S&L: Savings and loans

Columns may not add due to rounding.

²⁵ U.S. Census Bureau, "Table EC0744SSSZ3: Retail Trade: Subject Series - Estab and Firm Size: Summary Statistics for Single Unit and Multiunit Firms for the United States: 2007," 2007 Economic Census. Includes all retail trade establishments (NAICS codes 44-45).

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

The most common types of formula retail stores in San Francisco include apparel and accessories stores, pharmacies, specialized retail stores, other health and personal care stores, electronics and appliance stores, and supermarkets and other grocery stores. Figure III-2 shows the most common types of formula and independent retail stores (i.e., businesses that sell goods to the public) in San Francisco, by number of establishments and square feet. “Specialized retail stores” include produce, auto parts, pet supply, office supply, and gift stores; the “other health and personal care” category includes cosmetic and beauty stores, eyeglass stores, and health food/supplement stores. Note that while these are the most common types of formula retail stores, there are many more independent retailers than formula retailers of each type. For example, the 240 apparel and accessory formula retail stores account for just 15 percent of all apparel and accessory retailers in the city. Formula retail accounts for the highest percentage of stores in the pharmacy and drug store (49 percent), other health and personal care store (20 percent), apparel and accessories (15 percent), and electronics and appliance (15 percent) categories.

The most common types of independent stores are specialized retail stores; apparel and accessories stores; supermarkets and other grocery stores; sporting goods, hobby, books, and music stores; and furniture and home furnishings stores.

Figure III-2. Most Common Types of Formula and Independent Retail Stores in San Francisco

Most Common Types of Formula Retail Stores		Number of Stores	% of All Stores in Category	Square Feet	% of All Square Feet in Category
1	Apparel & Accessories	240	15%	2,150,400	41%
2	Pharmacies & Drug Stores	90	49%	937,600	81%
3	Other Specialized Retail Stores	70	4%	666,100	15%
4	Other Health & Personal Care Stores	60	20%	375,400	39%
5	Electronics & Appliances	60	15%	459,300	37%
6	Supermarkets & Other Grocery Stores	50	7%	745,800	29%
7	Furniture & Home Furnishings	30	7%	626,500	35%
8	Other Food Stores	30	8%	145,600	16%
9	Convenience & Liquor Stores	30	10%	76,900	13%
10	Building Materials & Garden Supplies	30	9%	146,100	16%
Most Common Types of Independent Retail Stores		Number of Stores	% of All Stores in Category	Square Feet	% of All Square Feet in Category
1	Other Specialized Retail Stores	1,700	96%	3,819,200	85%
2	Apparel & Accessories	1,410	85%	3,037,300	59%
3	Supermarkets & Other Grocery Stores	710	93%	1,793,300	71%
4	Sporting Goods, Hobby, Book, Music	680	97%	1,623,300	92%
5	Furniture & Home Furnishings	430	93%	1,176,100	65%
6	Other Food Stores	340	92%	768,400	84%
7	Electronics & Appliances	310	85%	793,600	63%
8	Building Materials & Garden Supplies	270	91%	770,000	84%
9	Other Health & Personal Care Stores	260	80%	598,200	61%
10	Convenience & Liquor Stores	250	90%	530,700	87%

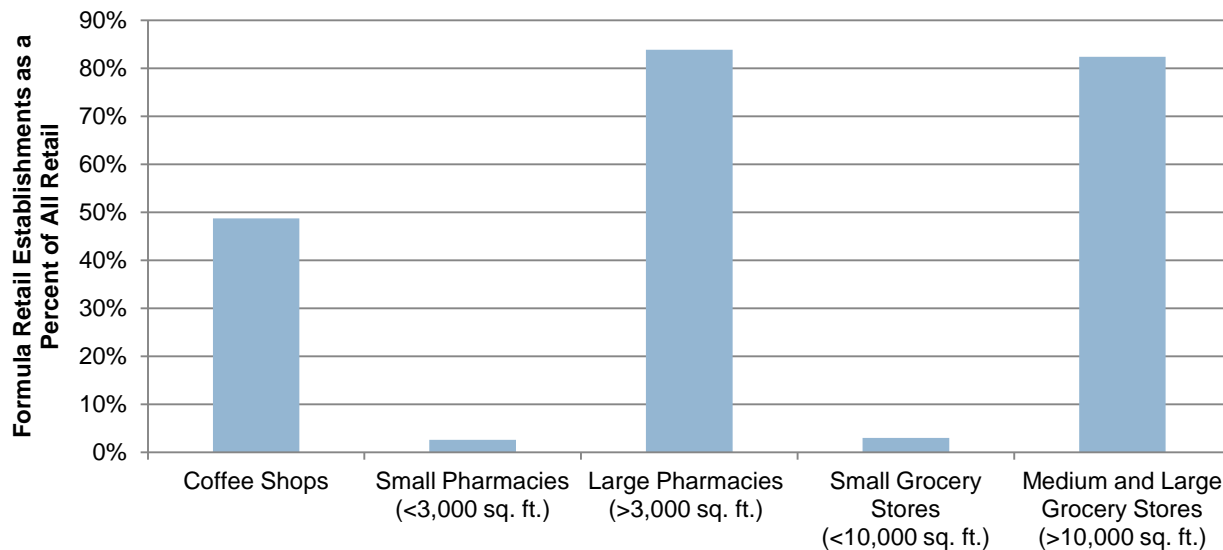
“Other specialized retail stores” include produce, auto parts, pet supply, office supply, gift stores, florists, and others.

“Other health and personal care stores” include cosmetic and beauty stores, eyeglass stores, and health food/supplement stores.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Within the broad categories of business establishments, there is significant variation in the prevalence of formula retail. For example, Figure III-3 shows formula retail establishments as a percent of all retail establishments for coffee shops, pharmacies, and grocery stores. While 11 percent of all restaurants are formula retail, 49 percent of all coffee shops are formula retail. For supermarkets and pharmacies, the prevalence of formula retail varies significantly by size of establishment. The vast majority of pharmacies over 3,000 square feet and supermarkets over 10,000 square feet are formula retailers, while smaller establishments are much more likely to be independent retailers.

Figure III-3. Formula Retail as a Percent of All Retail in Category: Coffee Shops, Pharmacies, and Grocery Stores



Acronyms:

sq. ft.: Square feet

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

The Spatial Distribution of Formula Retail

The prevalence of formula retail varies significantly not only by type of use, but also by location within the city. In general, retail establishments – whether formula or independent – tend to cluster in concentrated nodes with high customer traffic, good visibility, and easy vehicle and pedestrian access. A concentration of retail activity creates a destination that offers variety and selection, attracting more shoppers. In addition to providing critical mass, successful shopping districts are often anchored by a large, name-brand retailer (such as a grocery store, major pharmacy, or department store) that drives business to smaller retailers in the same district. A cluster of similar businesses, such as restaurants or clothing boutiques, can also act as an anchor. In addition to the characteristics of the shopping district, retailers also typically consider neighborhood population and employment density, resident incomes, other demographic characteristics, and visitor traffic in selecting their locations.

This section explores the spatial distribution of formula retail in order to understand how the concentration of retail – and specifically formula retail – varies across San Francisco in relation to factors such as the presence of formula retail controls and demographic and employment characteristics. Because San Francisco has over 100 separate zoning districts and dozens of distinct neighborhoods – including approximately two dozen named neighborhood commercial districts (NCDs) and neighborhood commercial transit districts (NCTs) – it was not possible to study the concentration of formula retail for

each potentially relevant geographic area. Instead, Strategic Economics worked with City staff to identify four zoning district categories based on where formula retail is subject to controls and the predominant types of use allowed (commercial/mixed-use, residential, or industrial), and nine geographic subareas that broadly reflect the mix of zoning districts, existing land use characteristics, market conditions, and demographic characteristics in different parts of San Francisco.²⁶

The methodology and key findings from the zoning district and geographic subarea analyses are described below.

Formula and Independent Retail by Zoning District Category

Figure III-4 shows formula and independent retail – including number of establishments and total square feet – by zoning district category. The four zoning district categories are:

- Commercial/mixed-use (MU) zoning districts with formula retail controls: Includes all of the City's NCDs, as well as other predominantly commercial or mixed-use districts where formula retail either is not permitted or requires a conditional use authorization.²⁷
- Commercial/MU zoning districts with no formula retail controls: Includes the City's community business (C-2) and downtown commercial (C-3) districts, as well as other predominantly commercial or mixed-use districts where formula retail is permitted without conditional use authorization.²⁸ Generally, this category includes most of the Financial District and the waterfront, as well as Stonestown Galleria, Park Merced, Mission Bay, and Hunters Point.
- Industrial zoning districts with no formula retail controls: Includes the heavy commercial (C-M), light industrial (M-1), and heavy industrial (M-2) districts, as well as all production, distribution, and repair (PDR) districts.²⁹ Formula retail is permitted without a conditional use authorization in these districts.
- Residential zoning districts with formula retail controls: Includes the City's predominantly residential districts.³⁰ Formula retail is not permitted in these districts.

Key findings from the zoning district analysis are described below.

In commercial/mixed-use zoning districts, formula retail is much less concentrated in districts that have controls in place than in districts that do not. Formula retailers account for 10 percent of the retail establishments and 24 percent of the retail square feet in commercial/MU districts with controls in place. In comparison, 25 percent of the retail establishments and 53 percent of the retail square feet in commercial/MU districts without controls are formula retail (Figure III-4).

Likewise, commercial/mixed-use zoning districts with controls in place have many more independent retailers than districts without controls. As shown in Figure III-4, commercial/MU districts with formula retail controls have approximately the same number of formula retailers (about 600) as commercial/MU districts with no controls. However, the former districts have many more independent

²⁶ An early version of the geographic subarea analysis used the City's eleven Supervisorial Districts as the basis for analysis, to reflect the nature of the legislative proposals related to formula retail. However, feedback from the stakeholder focus groups indicated that the Supervisorial Districts were not the most relevant unit of analysis, so the subareas were revised to better reflect the city's neighborhoods and retail market conditions.

²⁷ In addition to all NCDs, this category includes the following districts: CCB, CRNC, CVR, MUG, RC-3, RC-4, RCD, RED-MX, SALI, UMU, WMUG, WMUO, the Japantown SUD, the Western SoMa SUD, and the Bayshore Boulevard Home Improvement SUD.

²⁸ In addition to all C-2 and C-3 districts, this category includes the Hunters Point, Mission Bay, and Park Merced districts as well as MUO, MUR, RH DTR, RSD, SB-DTR, SLI, SPD, SSO, TB DTR, and UMU.

²⁹ With the exception of that part of the PDR-2 district that falls within the Bayshore Boulevard Improvement SUD.

³⁰ Includes RH-1, RH-2, RH-3, RM-1, RM-2, RM-3, RM-4, RTO, RED, and RTO-M districts.

retailers (5,240 establishments, occupying an estimated 13.5 million square feet) compared to the districts without controls (1,880 establishments, or 5.4 million square feet). As a result, formula retailers account for a much lower percentage of retail establishments in commercial/MU districts with controls than in those districts without controls.

There are very few formula retail establishments in industrial and residential zoning districts. Formula retail accounts for only six percent of all retail establishments in industrial zoning districts and two percent of all retail establishments in residential zoning districts (Figure III-4).

The relatively low concentration of formula retail in zoning districts with controls may reflect the influence of the City's formula retail controls, as well as other factors. Other factors that could affect the concentration of formula retail in different zoning districts include the prevalence of formula retail before the controls went into effect and the different retail markets that various commercial districts serve.

Figure III-4. Formula and Independent Retail by Zoning District: Number of Establishments and Square Feet

Zoning District Categories	Formula Retail	% of Total Formula Retail	Independent Retail	% of Total Independent Retail	Formula Retail as a % of All Retail
Number of Establishments					
Commercial/MU With FR Controls	570	46%	5,240	55%	10%
Commercial/MU No FR Controls	620	49%	1,880	20%	25%
Industrial No FR Controls	20	2%	370	4%	6%
Residential With FR Controls	40	3%	1,980	21%	2%
Total (All Districts)	1,250	100%	9,470	100%	12%
Square Feet					
Commercial/MU With FR Controls	4,243,600	38%	13,458,700	55%	24%
Commercial/MU No FR Controls	6,076,200	54%	5,395,400	22%	53%
Industrial No FR Controls	190,900	2%	1,267,300	5%	13%
Residential With FR Controls	691,500	6%	4,253,300	17%	14%
Total (All Districts)	11,202,100	100%	24,374,900	100%	31%

Acronyms:

MU: Mixed-use

FR: Formula retail

Columns may not add due to rounding.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Formula and Independent Retail by Geographic Subarea

Figure III-5 shows the geographic subareas that were defined for the purposes of this analysis. The subareas were intended to generally reflect the mix of zoning districts, existing land use characteristics, market conditions, and demographic characteristics in different parts of the city, and do not reflect specific Planning Department boundaries or other City policy.³¹

The subarea analysis is based on a series of maps, tables, and charts that illustrate the following factors:

- Number of retail establishments per 1,000 residents (Figure III-6).
- Prevalence of formula and independent retail by geographic subarea (Figure III-7) and zoning district category (Figure III-8).
- Concentration of formula retail, measured as formula retail establishments as a percentage of total retail establishments per square mile (Figure III-9).
- Formula retail conditional use applications by geographic subarea (Figure III-10).
- Spatial distribution of selected retail types – grocery stores, restaurants and bars, and apparel and accessories stores – that exemplify different retail location patterns (Figures III-11, III-12, and III-13).

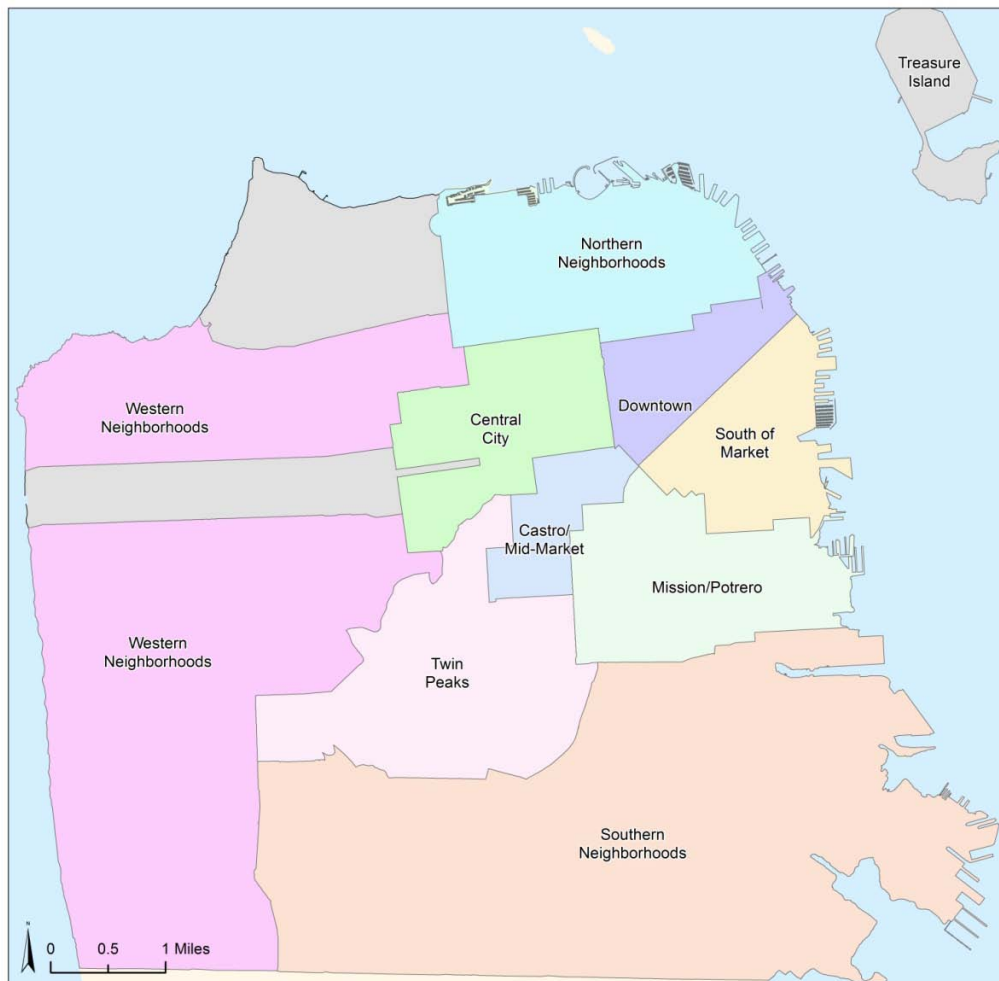
This section also incorporates information on population and employment density, resident incomes, and visitor traffic (as indicated by density of hotels).³² Appendix D provides the complete set of demographic and employment maps and tables prepared for this analysis, along with maps of total existing retail establishments (formula and independent) per square mile and formula retail establishments per square mile. In addition to this data analysis, the section also incorporates qualitative findings drawn from discussions with stakeholders and Strategic Economics' understanding of the San Francisco retail market.

Key findings are described below in three sub-sections that respectively discuss the concentration of retail and prevalence of formula retail by subarea, formula retail conditional use authorizations by subarea, and the special distribution of selected retail types.

³¹ Treasure Island was excluded from the subarea analysis because there are no formula retail establishments on the island.

³² The case studies in Chapter VIII explore a wider range of demographic factors in more detail.

Figure III-5. Geographic Subareas



Strategic Economics, 2014.
Data: City and County of San Francisco, 2013.

Concentration of Retail and Prevalence of Formula Retail by Geographic Subarea

The following findings discuss the concentration of retail and prevalence of formula retail by subarea, in relation to factors such as population and employment density, resident income, visitor traffic, and the presence of formula retail controls. These demographic and neighborhood characteristics are factors that retailers often consider in selecting locations, and therefore help explain why formula retail is more concentrated in some locations than in others.

Downtown has a large total amount of retail and a significantly higher concentration of formula retail compared to the other subareas. Downtown has an average of 48 total retail establishments per 1,000 residents (Figure III-6), reflecting the many non-resident workers,³³ regional shoppers, and tourists that this subarea attracts as San Francisco’s central business district and a “regional center for comparison shopper retailing and direct consumer services.”³⁴ Consistent with the City’s vision of Downtown as a regional shopping destination, larger use sizes (up to 90,000 square feet in the C-3 District) are permitted than in the NCDs, and formula retail is not subject to controls in most parts of the subarea.

³³ 67 percent of Downtown workers commute in from outside of San Francisco, significantly higher than the citywide average (59 percent of all workers employed in San Francisco live outside the city).

³⁴ San Francisco Planning Code, Section 210.3. C-3 Districts: Downtown Commercial.

Downtown also has a particularly high concentration of formula retail, accounting for 22 percent of all retail establishments – more than twice the percentage in any other subarea (Figure III-7). In keeping with the absence of formula retail controls in this subarea, 90 percent of formula retail establishments are located in commercial/MU districts with no controls (Figure III-8). Within Downtown, formula retail is particularly highly concentrated in regional shopping and entertainment destinations such as Union Square, the Westfield Centre, the Financial District, and the waterfront (Figure III-9).

Like Downtown, South of Market (SoMa) has a relatively large amount of retail compared to the subarea’s population, and a high share of formula retail establishments. After Downtown, SoMa has the second highest ratio of retail to population, at 23 retail establishments per 1,000 residents (Figure III-6). The significant amount of retail in SoMa may reflect residents' high incomes (the average household income in SoMa is \$139,890, compared to the citywide average of \$107,560). SoMa also attracts visitors to attractions such as AT&T Park and the Yerba Buena Center. Formula retail accounts for 12 percent of all retail establishments in SoMa, more than all other subareas except Downtown and the Western Neighborhoods (Figure III-7). In addition to the demographics and visitor attractions, formula retailers may also be drawn to parts of this subarea that are characterized by the availability of large, modern storefronts with off-street parking and convenient freeway and transit access. Most of the commercial areas in SoMa are not subject to formula retail controls, and some of the controls that are in place were implemented as recently as 2013. Slightly more than half (56 percent) of formula retail in the subarea is located in zoning districts with no controls (Figure III-8).

The Northern Neighborhoods subarea has the highest total number of retailers, reflecting this subarea’s high population density, high household incomes, and significant visitor traffic. As shown in Figure III-6, the Northern Neighborhoods have the most total retail establishments in the city (2,250), or 21 retail establishments per 1,000 residents. Retailers are likely attracted to this subarea’s high population density (49 persons per acre, compared to an average of 31 persons per acre for the city as a whole), high average household income (\$124,150, compared to \$107,560 for the city overall), and significant visitor traffic (the Northern Neighborhoods have the second highest number of hotels in the city, after Downtown).

Figure III-6. Total Retail Establishments per 1,000 Residents

	Total Retail Establishments	Total Population	Total Retail Establishments per 1,000 Residents
Downtown	1,970	41,009	48
Northern Neighborhoods	2,250	106,816	21
Western Neighborhoods	1,730	184,950	9
South of Market	700	30,026	23
Southern Neighborhoods	1,190	199,097	6
Central City	930	70,162	13
Mission/Potrero	970	56,381	17
Castro/Mid-Market	470	31,313	15
Twin Peaks	480	58,680	8
Total	10,730	806,149	13

Columns may not add due to rounding.

Sources: Dun & Bradstreet, 2012; U.S. Census Bureau, 2008-2012 American Community Survey; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Figure III-7. Formula and Independent Retail by Geographic Subarea: Number of Establishments and Square Feet, 2012

Subareas	Formula Retail	% of Total Formula Retail	Independent Retail	% of Total Independent Retail	Formula Retail as a % of All Retail
Number of Establishments					
Downtown	430	34%	1,540	16%	22%
Northern Neighborhoods	220	18%	2,030	21%	10%
Western Neighborhoods	210	17%	1,520	16%	12%
South of Market	80	7%	620	7%	12%
Southern Neighborhoods	80	6%	1,110	12%	7%
Central City	70	6%	860	9%	8%
Mission/Potrero	60	5%	910	10%	6%
Castro/Mid-Market	40	3%	430	5%	9%
Twin Peaks	40	3%	440	5%	8%
Total (All Subareas)	1,250	100%	9,480	100%	12%
Square Feet					
Downtown	4,409,300	39%	4,160,200	17%	51%
Northern Neighborhoods	1,902,600	17%	5,160,500	21%	27%
Western Neighborhoods	1,622,800	14%	3,633,200	15%	31%
South of Market	891,700	8%	1,873,400	8%	32%
Southern Neighborhoods	639,500	6%	2,754,600	11%	19%
Central City	525,300	5%	2,168,500	9%	20%
Mission/Potrero	497,300	4%	2,415,800	10%	17%
Castro/Mid-Market	373,600	3%	1,158,600	5%	24%
Twin Peaks	326,900	3%	999,000	4%	25%
Total (All Subareas)	11,202,100	100%	24,374,800	100%	31%

Columns may not add due to rounding.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

While the Northern Neighborhoods subarea has a high number of total retail establishments, formula retail accounts for a slightly lower-than-average percentage of all retail in this subarea. Formula retail accounts for 10 percent of all the retail establishments in the Northern Neighborhoods, slightly lower than the citywide average of 12 percent (Figure III-7). However, there are specific locations within the Northern Neighborhood where formula retail is more concentrated. About 40 percent of formula retail in the Northern Neighborhoods is located in places without controls (Figure III-8), mainly at well-known, waterfront tourist destinations such as Ghirardelli Square and Fisherman's Wharf. Certain neighborhood commercial districts such as Lombard Street, Union Street, Polk Street, and Upper Fillmore also have slightly above average concentrations of formula retail (Figure III-9). These NCDs serve neighborhoods with particularly high population densities and average resident incomes, and are also increasingly becoming known as regional shopping destinations.

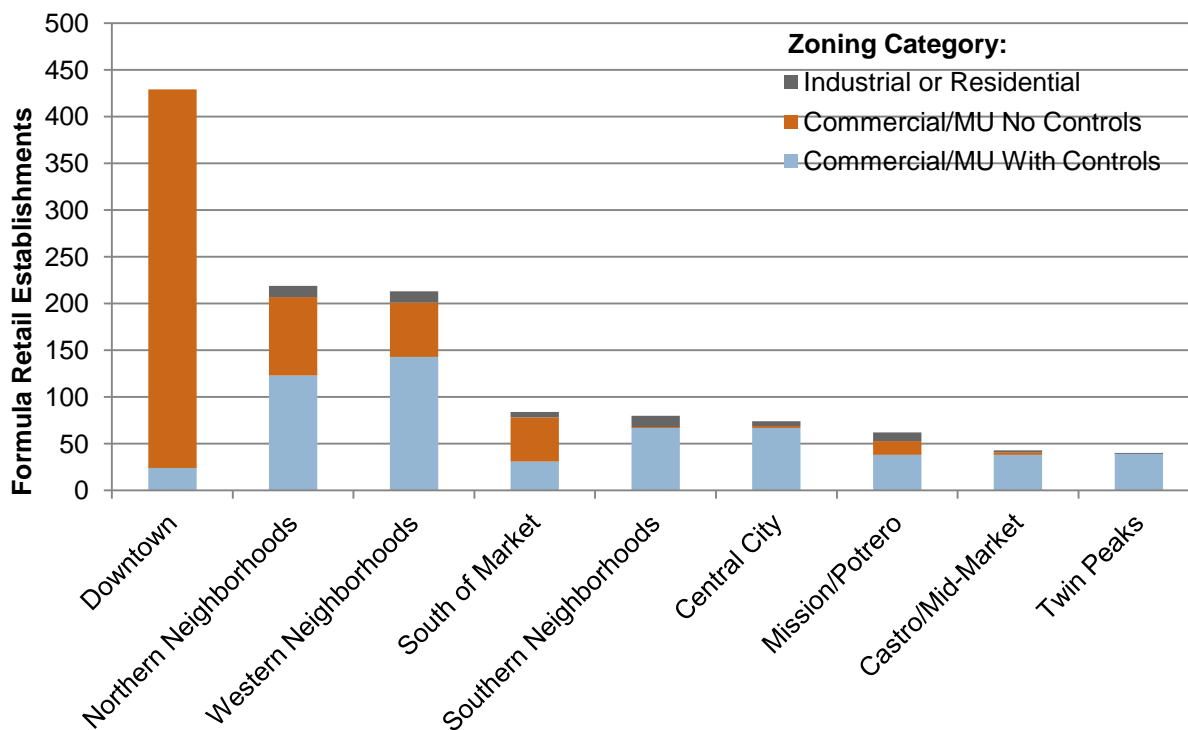
The Western Neighborhoods subarea has a relatively high share of formula retail establishments, concentrated at major shopping centers. Although the Western Neighborhoods have a lower-than-average number of retailers compared to the subarea's overall population (9 retailers per 1,000 residents, as shown in Figure III-6), approximately 12 percent of retailers in the subarea are formula – the citywide average, but a higher share than in most other subareas. Within the Western Neighborhoods, formula retail is concentrated at shopping centers such as Laurel Village Shopping Center, the intersection of Geary and Masonic (north of Golden Gate Park), Stonestown Galleria and Lakeside Plaza (south of Sloat

Boulevard). With the exception of Stonestown Galleria, formula retail requires a conditional use authorization in all of these shopping centers. Stonestown Galleria accounts for approximately 30 percent of formula retail establishments in the subarea (Figure III-8).³⁵

In all other subareas, formula retail accounts for less than 10 percent of all retail establishments. In the Southern Neighborhoods, Central City, Mission/Potrero, Castro/Mid-Market, and Twin Peaks subareas, formula retail accounts for less than 10 percent of all establishments and no more than 25 percent of all retail square feet (Figure III-7). These subareas differ significantly in their demographic and market conditions. However, in all five subareas, most of the commercial development is located in neighborhood commercial districts which have had formula retail controls in place since at least 2007. NCDs are intended as mixed-use corridors that support neighborhood-serving commercial uses on lower floors and housing above. These districts typically provide convenience goods and services to the surrounding neighborhoods as well as limited comparison shopping goods for a wider market.

Most commercial areas in the Southern Neighborhoods, Central City, Mission/Potrero, Castro/Mid-Market, and Twin Peaks subareas are subject to formula retail controls. Reflecting this fact, formula and other retail establishments in these subareas are primarily located in neighborhood commercial districts and other areas that are subject to formula retail controls (Figure III-8).

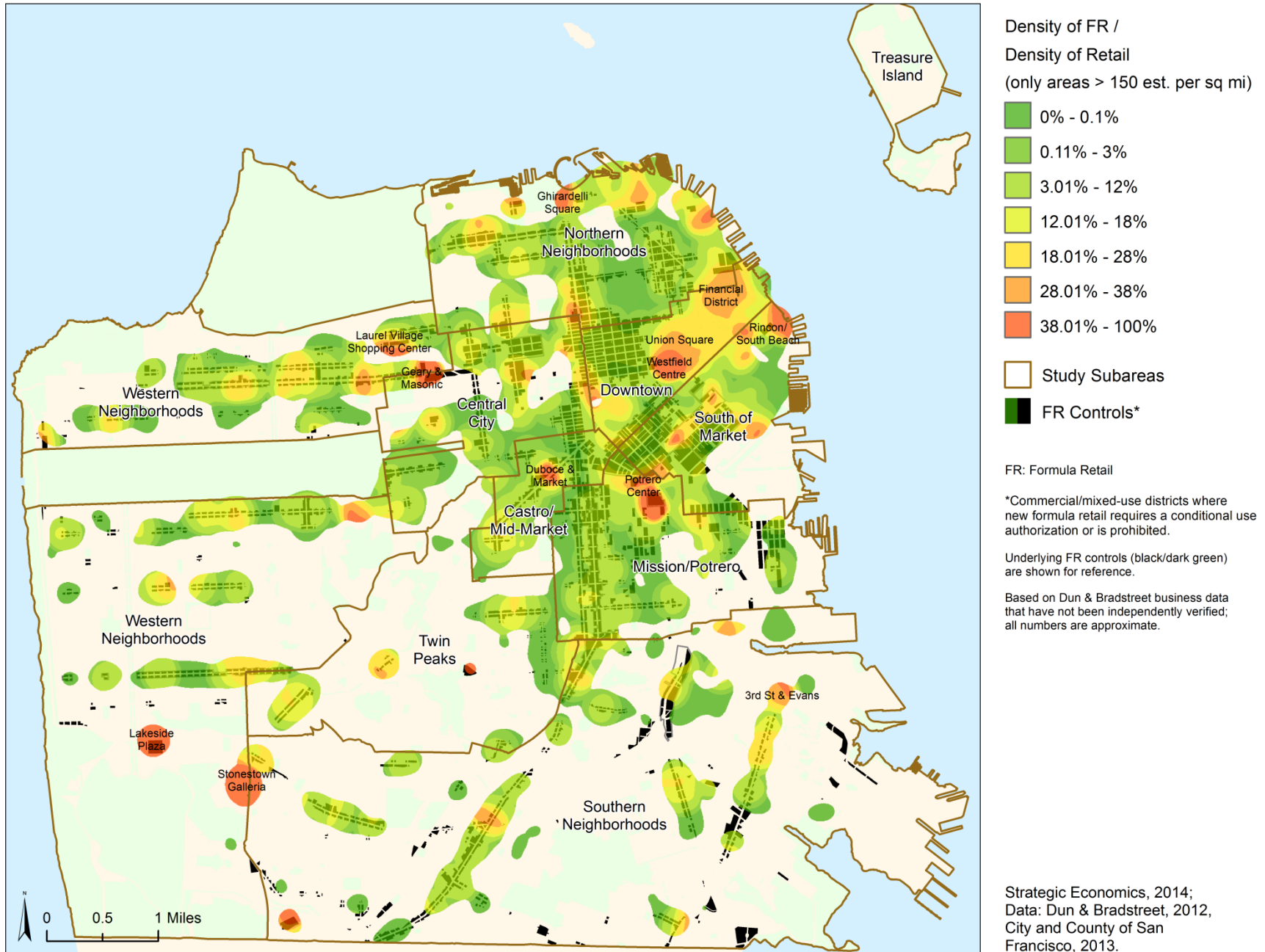
Figure III-8. Formula Retail Establishments by Geographic Subarea and Zoning District Category, 2012



Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

³⁵ Stonestown Galleria and Park Merced are the only other commercial/MU districts in the Western Neighborhoods that are not subject to formula retail controls. However, very little retail of any kind is currently located at Park Merced.

Figure III-9. Formula Retail Concentrations (Formula Retail as a Percent of Total Existing Retail Establishments)



Formula Retail CU Applications by Geographic Subarea

This section describes formula retail CU application and approval rates by geographic subarea.

The Western Neighborhoods have attracted the most formula retail CU applications, reflecting the many shopping centers in this subarea. As shown in Figure III-9, the Western Neighborhoods have attracted 24 formula retail CU applications, accounting for nearly a quarter of all such applications in the city. Of those applications that have been resolved, 82 percent have been approved. Many of the formula retail CU applications in this subarea are located in shopping centers such as Lakeside Plaza, Laurel Village, and Geary and Masonic, where they are typically approved. However, Geary Boulevard, Clement Street, Irving Street, and Noriega Street have also attracted some CUs over the years, with more mixed approval rates (see Figure II-6 in Chapter II for a map of CUs by action taken).

The Northern Neighborhoods, Central City, Southern Neighborhoods, and Castro/Mid-Market have each attracted more than a dozen formula retail CU applications, while the other subareas have only attracted a handful. Note that in most of Downtown and SoMa, formula retail does not require a CU authorization. There does not appear to be a direct correlation between number of applications and demographics at the subarea level. For example, of the four subareas with the highest application rates, the Northern Neighborhoods and Castro/Mid-Market subareas have average household incomes that are above the citywide average, while the Central City and Southern Neighborhoods have below-average household incomes.

Formula retail CU application approval rates are lowest in the Southern Neighborhoods, Castro/Mid-Market, and Mission/Potrero subareas. In most subareas, at least 75 percent of all formula retail CU applications have been approved. However, in the Southern Neighborhoods, Castro/Mid-Market, and Mission/Potrero subareas, fewer than 70 percent have been approved (Figure III-9). While all three of these subareas also have relatively low concentrations of existing formula retail establishments (Figure III-7), the subareas otherwise vary significantly in terms of market conditions and demographics. The low approval rates may reflect prevailing community sentiment, rather than any quantifiable characteristics that the three subareas share.

Figure III-10. Formula Retail Conditional Use Applications by Geographic Subarea and Action Taken

Subarea	Action Taken				Total Applications	% of Citywide Total Applications	% Approved in Subarea (a)
	App- roved	Disapp- roved	With- drawn	Pen- ding			
Western Neighborhoods	18	2	2	2	24	23%	82%
Northern Neighborhoods	13	4			17	16%	76%
Central City	9	1	2	4	16	15%	75%
Southern Neighborhoods	10		5		15	14%	67%
Castro/Mid-Market	7	3	1	1	12	12%	64%
Mission/Potrero	5	1	2		8	8%	63%
Downtown	4				4	4%	100%
South of Market	3	1			4	4%	75%
Twin Peaks	3			1	4	4%	100%
Total	72	12	12	8	104	100%	75%

(a) Excluding pending applications

Sources: City and County of San Francisco, 2013; Strategic Economics, 2014.

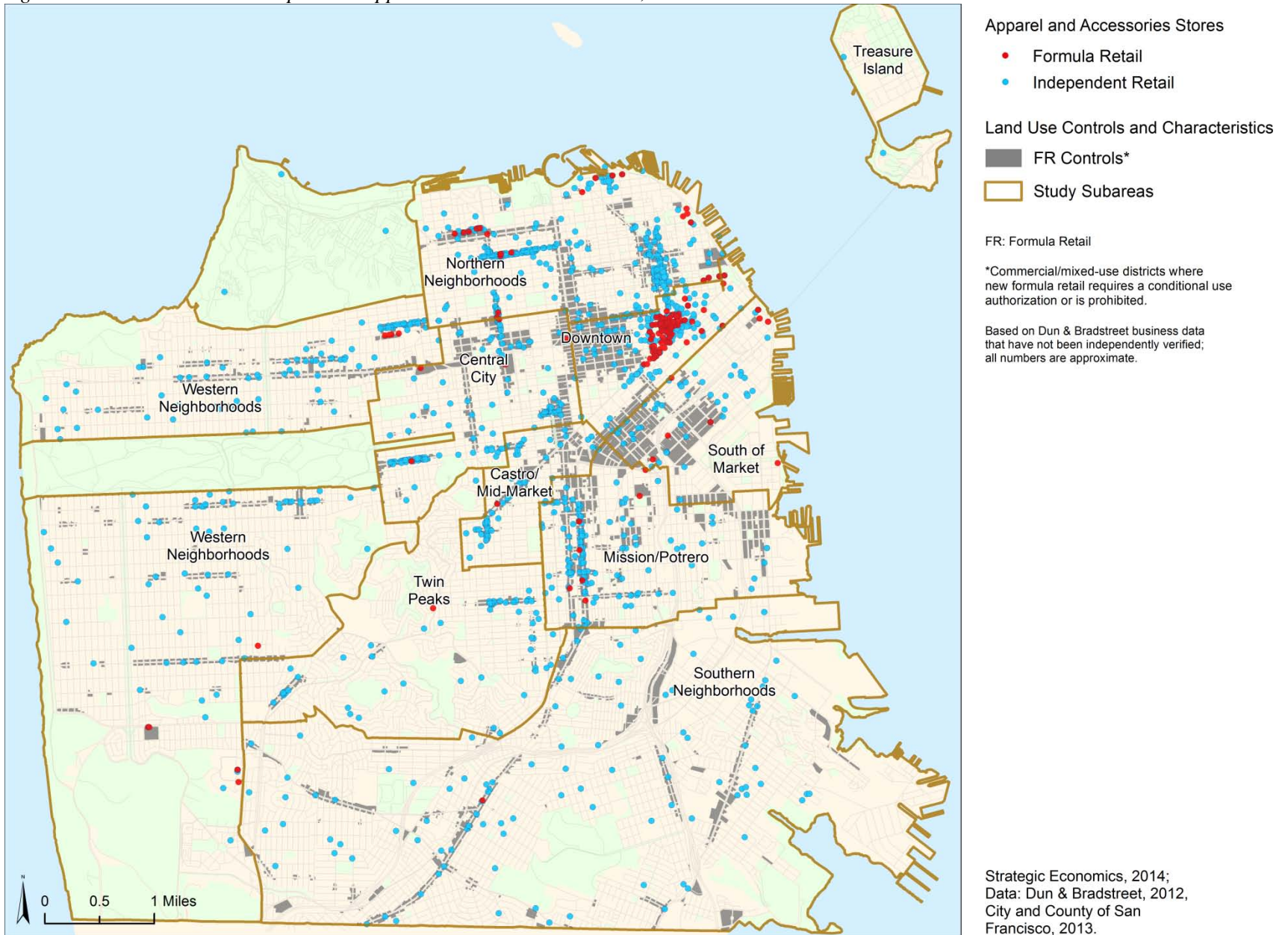
Spatial Distribution of Selected Retail Types

The following findings describe how selected types of retailers – including both formula and independent retail – are distributed across the city in relation to factors that retailers often consider in selecting their locations. The three retail use types discussed below were selected to illustrate the distinct location patterns of different types of retail. Apparel and accessories stores sell “comparison goods” – products like clothes, shoes, furniture, and cars – that shoppers like to test and compare before purchasing. Grocery stores, on the other hand, serve residents’ daily needs. Depending on their price point and location, restaurants and bars can either draw residents and workers on a daily basis, or serve as a special destination for visitors, shoppers, residents, and workers. As discussed below, these different functions lead to distinct spatial patterns.

Comparison retailers, such as apparel and accessories stores, are especially likely to cluster together in concentrated nodes. Comparison retailers are particularly likely to benefit from co-locating with similar retailers in destinations where shoppers can walk from store to store, particularly in locations that benefit from strong regional accessibility, high population densities and household incomes, and/or significant visitor traffic. For example, Figure III-9 shows how both independent and formula apparel and accessory stores tend to cluster, but formula retail is particularly concentrated in specific locations. The vast majority of formula retail apparel and accessory stores are located in the Union Square/Westfield Centre area of Downtown. Union Square is the city’s premier retail destination, known for its luxury boutiques and high-end department stores. With its central location and excellent transit access, the district draws many tourists and shoppers from across the city and region. There are no formula retail controls in place in this part of Downtown.

There are also a number of neighborhood commercial districts with apparel and accessory clusters. Most of these districts require a conditional use authorization for new formula retail, and tend to have a mix of both formula and independent apparel and accessory stores as well as other stores (e.g., shoes, home furnishings) and restaurants. In the Northern Neighborhoods, high-end shopping districts such as North Beach, Chestnut Street, Union Street, and Upper Fillmore offer a range of apparel and accessory stores, home furnishings, and other specialty items. These districts benefit from strong local buying power (reflected in high local population densities and high average household incomes) as well as significant visitor traffic. Other neighborhood shopping districts with strong concentrations of accessory and apparel stores, such as Mission Street, serve more moderate income parts of the city and offer more affordable products.

Figure III-11. Formula and Independent Apparel and Accessories Stores, 2012



Retailers that serve daily needs, such as grocery stores, are more evenly dispersed in neighborhood commercial districts – although some low-income areas like the Tenderloin and Bayview are less-well served by full-service supermarkets. Figure III-12 shows formula and independent grocery stores by size (greater or fewer than 10,000 square feet). Grocery stores often serve as anchors for clusters of convenience-oriented retail that draw from a local market, typically within a one-mile radius. While both independent and formula grocery stores are located throughout the city, they are more concentrated in the northeastern subareas where population densities are highest (the Northern Neighborhoods, Central City, Downtown, Castro/Mid-Market, and Mission/Potrero). Less densely populated areas in the Southern and Western Neighborhoods have fewer grocery stores. For example, there are nearly 2 grocery stores for every 1,000 residents in the Northern Neighborhoods and 1.4 grocery stores per 1,000 residents in Mission/Potrero. In comparison, there are approximately 0.6 grocery stores for every 1,000 residents in the Southern and Western Neighborhoods.³⁶ Downtown and the Southern Neighborhoods have a particularly low concentration of formula retail grocery stores, which tend to be significantly larger than independent grocers and may offer a wider range of fresh produce and health foods.³⁷

Restaurants and bars are also distributed across the city, though they are particularly concentrated in Downtown and the Northern Neighborhoods. As shown in Figure III-13, there is a significant concentration of formula and independent restaurants in Downtown and the Northern Neighborhoods, likely serving residents, Downtown workers, and visitors who come to shop or stay at the many hotels in these subareas. However, most of the city's neighborhood commercial districts have a number of both formula and independent restaurants.

³⁶ The citywide average is 0.9 grocery stores per 1,000 residents.

³⁷ As discussed above, more than 80 percent of all medium and large grocery stores (over 10,000 square feet) in San Francisco are formula retail.

Figure III-12. Formula and Independent Grocery Stores, 2012

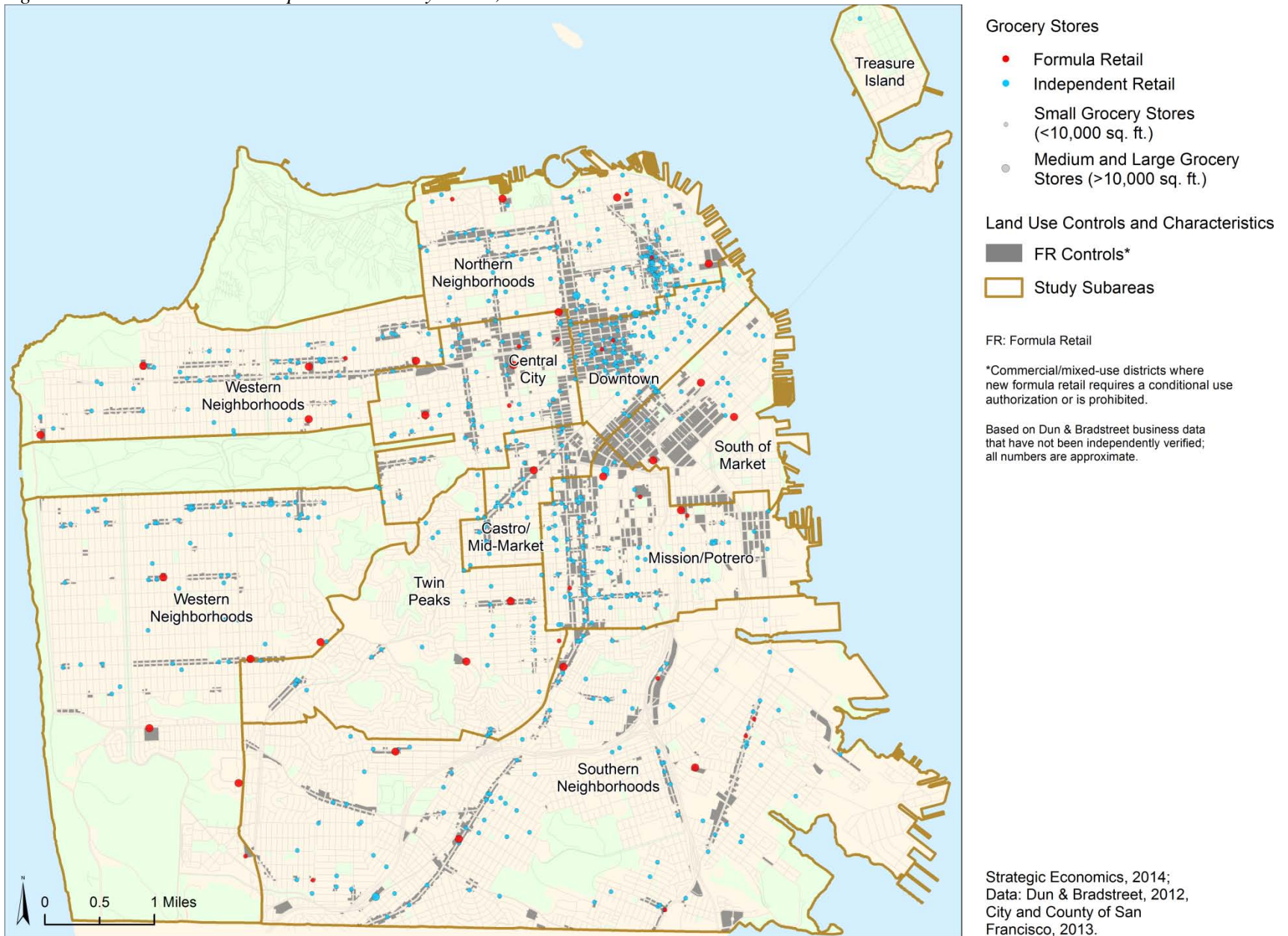
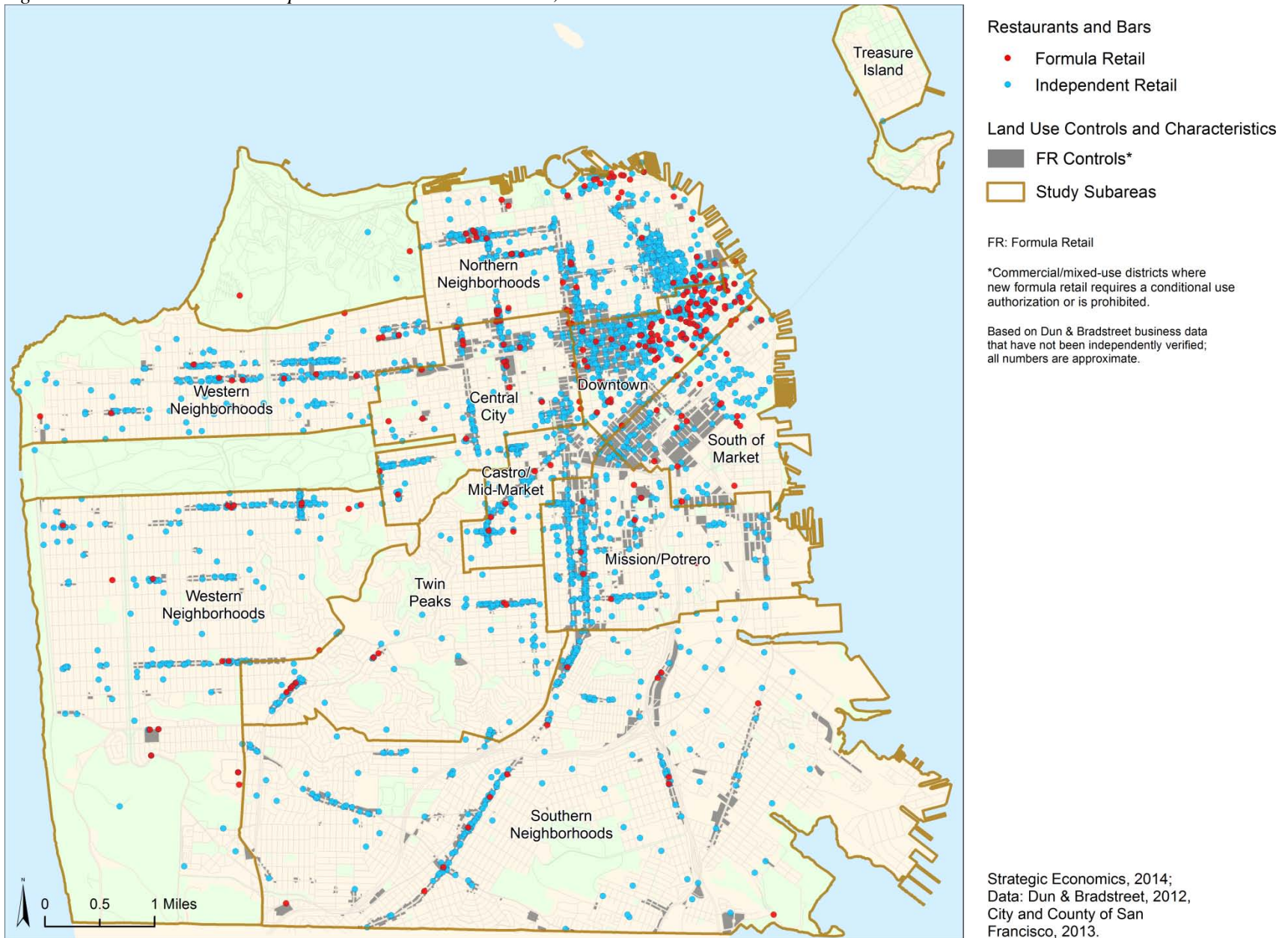


Figure III-13. Formula and Independent Restaurants and Bars, 2012



Summary of Findings

Formula retail accounts for 12 percent of all retail establishments in San Francisco and 31 percent of the city's total retail square footage. Although exactly comparable numbers for other cities are not available, formula retail appears to be significantly less prevalent in San Francisco compared to the national average. In the U.S. overall, 32 percent of all retail establishments are associated with firms that include 10 or more outlets.³⁸

In general, the spatial distribution of formula retail is highly correlated with the spatial distribution of independent retail, indicating that formula retail location decisions remain strongly influenced by the propensity of retailers to cluster in concentrated nodes with high customer traffic, good visibility, and easy vehicle and pedestrian access.

However, formula retail is generally much less concentrated in districts that have controls in place than in districts that do not. Formula retail is most highly concentrated in Downtown, SoMa, and the northeastern waterfront. These areas are least regulated, and also attract significant numbers of visitors and workers from elsewhere in the city and region. In contrast, while the Western Neighborhoods also have a significant concentration of formula retail, formula retail in this subarea tends to cluster in shopping centers, including those where new formula retail requires a CU authorization – such as Lakeshore Plaza, the Laurel Village Shopping Center, and Geary and Masonic – as well as in Stonestown Galleria, where formula retail is not regulated. There are also significant concentrations of formula retail in NCDs in the Northern Neighborhood subarea, such as Union Street, Polk Street, and Upper Fillmore. These NCDs serve neighborhoods with particularly high population densities and average resident incomes, and are also increasingly becoming known as regional shopping destinations. Formula retail is less concentrated in most of the rest of the city, where most of the commercial development is located in NCDs that have had formula retail controls in place since at least 2007.

This difference suggests that the City's formula retail controls may be successfully limiting the amount of formula retail in the city's neighborhood commercial districts, although other factors are also influencing the prevalence of formula retail in different neighborhoods. For example, given that the City has only received approximately 100 formula retail CU applications since the first controls went into effect in 2004, the prevalence of formula retail in most neighborhoods today strongly reflects conditions before the controls went into effect. The implementation of controls in certain neighborhoods could also have had the effect of pushing new formula retail into areas that are not regulated, such as Downtown and most of SoMa.

³⁸ U.S. Census Bureau, "Table EC0744SSSZ3: Retail Trade: Subject Series - Estab and Firm Size: Summary Statistics for Single Unit and Multiunit Firms for the United States: 2007," 2007 Economic Census. Includes all retail trade establishments (NAICS codes 44-45).

IV. CHARACTERISTICS OF SAN FRANCISCO'S FORMULA RETAIL

This chapter examines San Francisco's existing formula retail establishments in more depth, providing additional information on characteristics of the city's retail including:

- Size (square feet) of formula retail establishments, compared to independent retailers;
- Most common types of formula retail uses, compared to independent retailers;
- Headquarters locations of formula retailers; and
- Number of outlets in formula retail chains.

Most of the analysis described below compared the commercial/mixed-use (MU) districts with formula retail controls to those commercial/MU districts without controls.³⁹ This analysis was intended to shed light on how formula retail establishments compared to independent retail establishments in terms of business size and the types of goods and services they provide, and to explore how the presence of formula retail controls is correlated with the size, type of use, and other characteristics of formula retail establishments. The findings described in this chapter also shed light on some of the issues that stakeholders have raised about the impacts of the City's formula retail controls on small and locally owned businesses.

The findings described in this chapter are based on the 2012 Dun & Bradstreet dataset, and are therefore subject to the limitations of the data discussed in Appendix A.

Size of Establishments

Figure IV-1 compares the distribution of store sizes for formula and independent retail establishments. Figure IV-2 compares store sizes of formula retail establishments located in commercial/MU districts with and without formula retail controls in place. Key findings include the following.

On average, formula retail establishments are larger than independent retailers. The median establishment size for formula retailers is 6,500 square feet, compared to 2,200 square feet for independent retailers. Overall, nearly 85 percent of formula retailers occupy more than 3,000 square feet, while 80 percent of independent retailers occupy 3,000 square feet or less (Figure IV-1).

Approximately 10 formula retailers and 5 independent retailers are over 50,000 square feet, the threshold for San Francisco's large-scale retail controls. In addition to the City's formula retail controls, the Planning Code includes a separate conditional use requirement for large-scale retail; retail uses over 90,000 square feet in the C-3 zoning districts and 50,000 square feet in all other zoning districts require CU authorization, while retail over 120,000 square feet is generally prohibited.⁴⁰ Fewer than one percent of existing formula retail establishments exceed the 50,000-square-foot threshold.

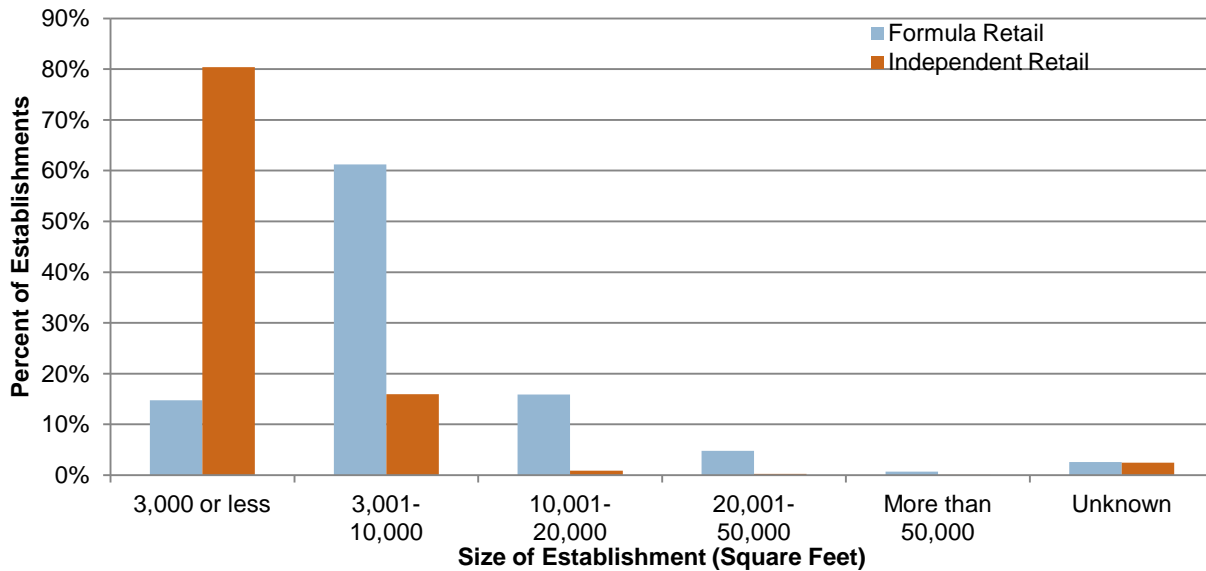
Formula retail establishments in commercial/mixed-use districts with controls tend to be slightly smaller than in commercial/mixed-use districts without controls. The median formula retail

³⁹ See Chapter III for a description of the commercial/MU zoning district categories. The industrial and residential zoning district categories have too few formula retail establishments to produce robust results for some of the more detailed factors discussed below. As discussed above in Chapter III, the data shown throughout this report have been aggregated in order to ensure that the results are robust. In general, statistics based on fewer than 20 establishments were considered unreliable and are not shown.

⁴⁰ San Francisco Planning Code, Section 121.6.

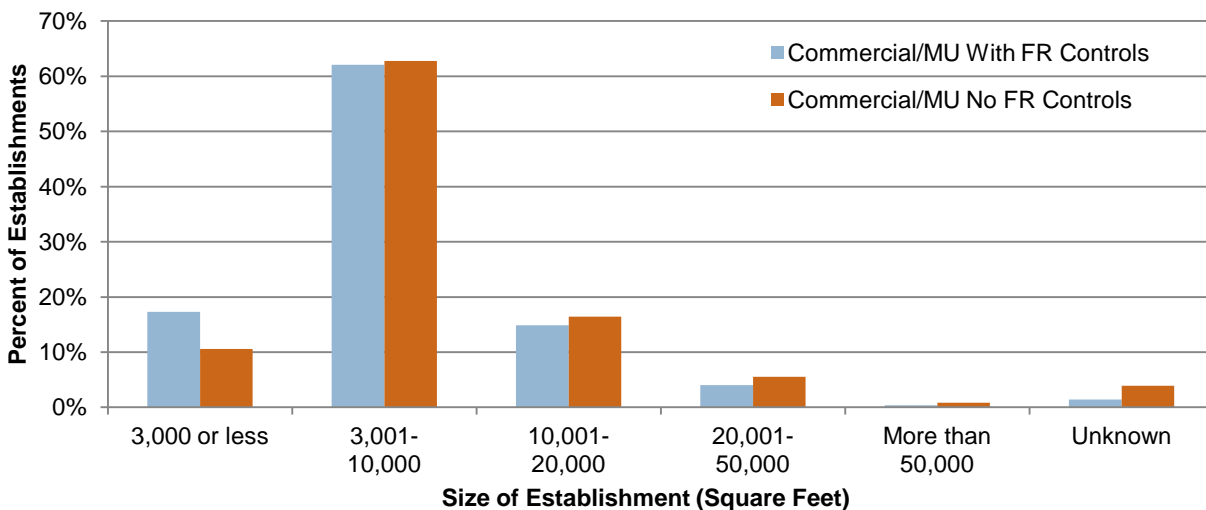
establishment size in the commercial/MU districts with controls is 6,400 square feet, compared to 6,900 square feet in commercial/MU districts with controls, 6,100 square feet in industrial districts, and 4,000 square feet in residential districts. Commercial/MU districts with controls also tend to have fewer formula retail establishments over 10,000 square feet and more establishments occupying 3,000 square feet or less compared to districts without controls (Figure IV-2).

Figure IV-1. Formula and Independent Retail Establishments by Store Size



Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Figure IV-2. Formula Retail Establishments by Store Size: Commercial/Mixed-Use Zoning Districts with and without Formula Retail Controls



Acronyms:

MU: Mixed-use

FR: Formula retail

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Types of Uses

Figure IV-3 compares formula retail use types in commercial/MU districts with and without controls. Figures IV-4 and IV-5 show the most common types of formula and independent stores (i.e., businesses that sell goods to the public) in commercial/MU districts with and without controls, respectively. Key findings about types of formula retail are described below.

Compared to commercial/mixed-use districts without controls, commercial/mixed-use districts with controls have fewer formula retail stores and more formula retail banks. There are approximately 290 formula retail stores in commercial/MU districts with controls, accounting for 51 percent of formula retail establishments and 8 percent of all stores in those districts (Figure IV-3). In commercial/MU districts without controls there are 390 formula retail stores, accounting for 63 percent of formula retail establishments and 23 percent of all stores. In contrast, the majority of formula banks are located in commercial/MU districts with controls (140, compared to 80 in districts without controls).⁴¹ On a square-footage basis, the distribution of formula retail use types is more similar; in both types of commercial/MU districts, stores account for about 60 percent of formula retail square feet, banks account for about 20 percent, restaurants and bars account for slightly less than 20 percent, and retail services make up the remainder.

Figure IV-3. Formula Retail Establishments by Use Type: Commercial/Mixed-Use Zoning Districts with and without Formula Retail Controls

Use Type	Commercial/MU With FR Controls			Commercial/MU Without FR Controls		
	Formula Retail	% of Total Formula Retail	Formula Retail as a % of All Retail	Formula Retail	% of Total Formula Retail	Formula Retail as a % of All Retail
Number of Establishments						
Stores	290	51%	8%	390	63%	23%
Restaurants & Bars	130	22%	8%	140	23%	23%
Retail Services	10	2%	4%	10	2%	12%
Banks, Credit Unions, S&L	140	24%	87%	80	12%	84%
Total	570	100%	10%	620	100%	25%
Square Feet						
Stores	2,545,600	60%	25%	3,531,000	58%	52%
Restaurants & Bars	690,100	16%	13%	1,172,400	19%	40%
Retail Services	151,300	4%	16%	79,300	1%	24%
Banks, Credit Unions, S&L	856,600	20%	90%	1,293,500	21%	96%
Total	4,243,600	100%	24%	6,076,200	100%	53%

Acronyms:

S&L: Savings and loans

MU: Mixed-use

FR: Formula retail

Columns may not add due to rounding.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

⁴¹ Note that San Francisco's formula retail controls only expanded to include banks, credit unions, and savings and loans in 2012.

In commercial/mixed-use districts with formula retail controls in place, the most common types of formula retail stores include pharmacies and drug stores, other specialized retail stores, apparel and accessory stores, and supermarkets and other grocery stores. The most common types of independent retail stores in commercial/MU districts with formula retail controls are specialized retail stores (e.g., auto parts, office supply, and pet supply stores), apparel and accessories, and supermarkets and other grocery stores (Figure IV-4). These store types, particularly the prevalence of supermarkets and pharmacies, reflect the neighborhood-serving function of many of the City’s neighborhood commercial districts (NCDs).

Stores in commercial/mixed-use districts without controls are less diverse, with apparel stores accounting for the majority of formula retailers. Other health and personal care stores (i.e., cosmetic and beauty stores, eyeglass stores, and health food/supplement stores) are the second most common type of formula retail store (Figure IV-5). Apparel stores are also the most common type of independent retail establishments in these districts, followed closely by specialized retail stores.

Figure IV-4. Most Common Types of Formula and Independent Retail Stores in Commercial/Mixed-Use Zoning Districts with Formula Retail Controls

Most Common Types of Formula Retail Stores	Establishments	% of All Stores in Category	Square Feet	% of All Square Feet in Category
1 Pharmacies & Drug Stores	60	48%	633,800	82%
2 Other Specialized Retail Stores	40	4%	286,800	13%
3 Apparel & Accessories	40	5%	298,500	16%
4 Supermarkets & Other Grocery Stores	40	8%	568,400	33%
5 Electronics & Appliances	30	18%	202,200	38%
Most Common Types of Independent Retail Stores	Establishments	% of All Stores in Category	Square Feet	% of All Square Feet in Category
1 Other Specialized Retail Stores	880	96%	1,902,200	87%
2 Apparel & Accessories	730	95%	1,528,400	84%
3 Supermarkets & Other Grocery Stores	430	92%	1,139,400	67%
4 Sporting Goods, Hobby, Book, Music	300	97%	827,700	92%
5 Other Food Stores	200	95%	434,700	89%

¹Other specialized retail stores” include produce, auto parts, pet supply, office supply, gift stores, florists, and others.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Figure IV-5. Most Common Types of Formula and Independent Retail Stores in Commercial/Mixed-Use Zoning Districts without Formula Retail Controls

Most Common Types of Formula Retail Stores	Establishments	% of All Stores in Category	Square Feet	% of All Square Feet in Category
1 Apparel & Accessories	200	35%	1,837,700	67%
2 Other Health & Personal Care Stores	40	39%	265,300	59%
3 Other Specialized Retail Stores	30	8%	259,000	23%
4 Electronics & Appliances	30	20%	254,600	47%
5 Pharmacies & Drug Stores	30	66%	237,900	88%
Most Common Types of Independent Retail Stores	Establishments	% of All Stores in Category	Square Feet	% of All Square Feet in Category
1 Apparel & Accessories	370	65%	905,100	33%
2 Other Specialized Retail Stores	340	92%	873,800	77%
3 Electronics & Appliances	110	80%	287,000	53%
4 Sporting Goods, Hobby, Book, Music	90	92%	211,800	80%
5 Supermarkets & Other Grocery Stores	80	90%	193,400	66%

"Other specialized retail stores" include produce, auto parts, pet supply, office supply, gift stores, florists, and others.

"Other health and personal care stores" include cosmetic and beauty stores, eyeglass stores, and health food/supplement stores.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Other Characteristics of Formula Retail

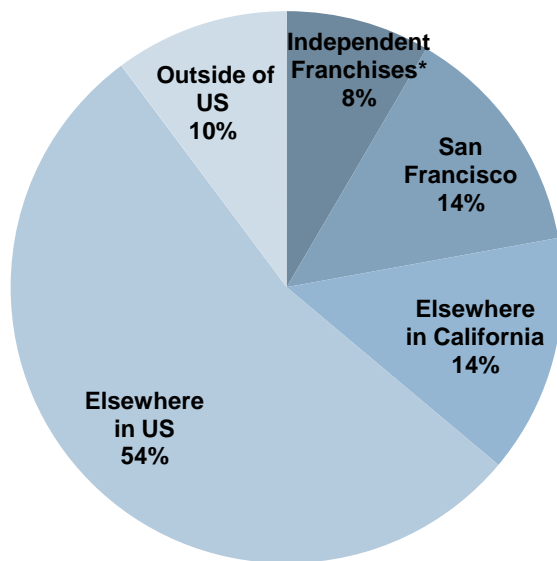
Figure IV-6 shows the distribution of formula retail establishments by the location of their headquarters. Figure IV-7 compares headquarter locations in commercial/MU districts with and without formula retail controls. Figure IV-8 shows formula retail establishments by the number of associated corporate family members (branches and subsidiaries). Findings are discussed below.

Approximately 28 percent of the city's formula retailers are headquartered in California, with half of those headquartered in San Francisco. As shown in Figure IV-6, another 8 percent of formula retail establishments are independently owned franchises (e.g., franchise locations that are not owned by the parent company); the location of the franchise owners is unknown. Ten percent of formula retailers are headquartered outside the United States.⁴²

Commercial/mixed-use districts with formula retail controls are home to more independently owned franchises and California-based companies than districts without controls. Figure IV-7 compares the headquarters locations of formula retail establishments located in commercial/MU districts with and without controls.

⁴² Note that a small percentage of these may not technically qualify as formula retailers, as discussed in Chapter VII.

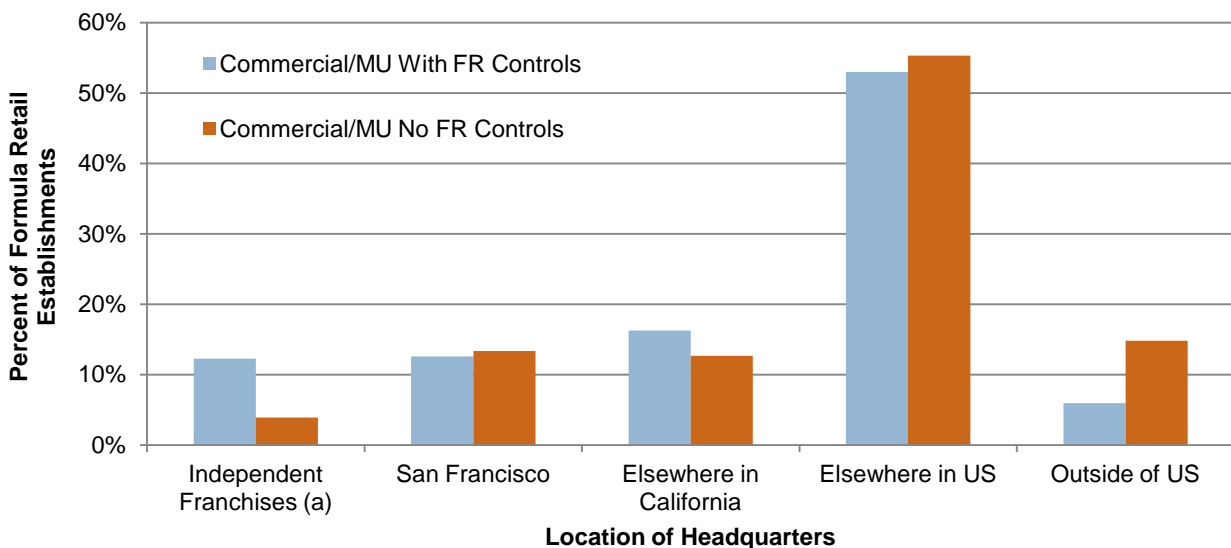
Figure IV-6. Formula Retail Establishments by Location of Headquarters



*Franchises that are not owned by or legally linked to the parent company; headquarters location unknown.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Figure IV-7. Formula Retail Establishments by Location of Headquarters: Commercial/Mixed-Use Zoning Districts with and without Formula Retail Controls



(a) Franchises that are not owned by or legally linked to the parent company; headquarters location unknown.

Acronyms:

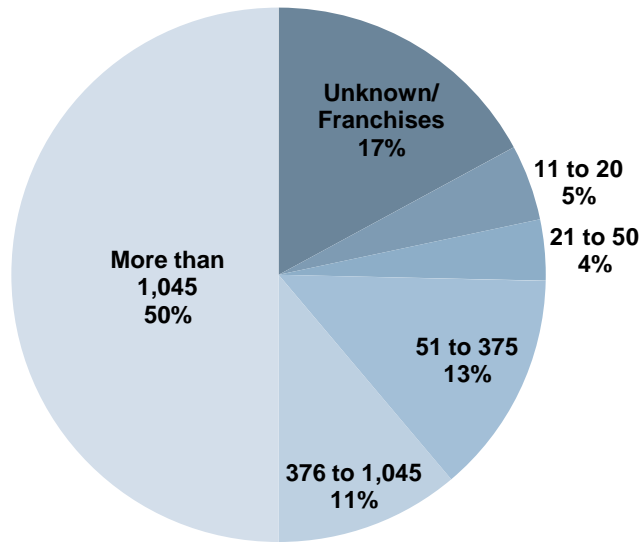
MU: Mixed-use

FR: Formula retail

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Three-quarters of San Francisco’s formula retail establishments are associated with companies that have more than 50 branches and subsidiaries. The breakdown of formula retail by number of family members (Figure IV-8) is similar in commercial/MU districts with and without controls, except that, as discussed above, districts with controls have more franchises.

Figure IV-8. Formula Retail Establishments by Number of Corporate Family Members (Branches and Subsidiaries)



Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Summary of Findings

Formula retail establishments tend to be significantly larger than independent retail establishments. Overall, nearly 85 percent of formula retailers occupy more than 3,000 square feet, while 80 percent of independent retailers occupy 3,000 square feet or less. Most formula retailers are affiliated with large companies with many outlets, and are headquartered outside of California.

Formula retail is much less concentrated in commercial/MU districts with controls than in districts without, and formula retail establishments tend to be smaller in districts with controls in place. In addition, formula retail is more likely to take the form of neighborhood-serving stores (supermarkets or pharmacies) and banks, credit unions, and savings and loans in commercial/MU districts with controls than in those without. These differences may reflect the influence of the City’s formula retail controls, as well as other factors such as the prevalence of formula retail before the controls went into effect and the different retail markets that various commercial districts serve. For example, many of the districts with controls are predominantly daily needs-serving. In contrast, the districts without controls include shopping districts that serve a large number of workers, regional shoppers, and out-of-town visitors, as well as San Francisco residents.

V. EMPLOYMENT AND FORMULA RETAIL

San Francisco's residents and elected officials place a high priority on providing high-quality, well-paying jobs that employ a diverse range of residents. The City has some of the most progressive labor laws in the country, and many residents and stakeholders have raised concerns about the quality of jobs offered by formula retail. This chapter examines differences in employment between formula and independent retail in terms of number of workers employed, wages, and benefits.⁴³

Background and Methodology

Studying how formula and independent retailers in San Francisco differ in terms of employment and job quality factors is challenging for a number of reasons. Relatively few sources provide data on employment at the local level, and the data they provide are limited by the types of information collected from individual employers and by the need to protect the privacy of workers and firms. As a result of these constraints, detailed data on the demographics of workers or part-time versus full-time status are only available at the national level, through sources that do not distinguish between independent and formula retailers.⁴⁴

Adding to the challenge, the definition of "formula retail" in the San Francisco Planning Code is very specific and is neither reflected in the literature on retail employment nor possible to exactly replicate with available data sources. Moreover, previous studies on retail employment have generally focused on comparing jobs and job quality at different types of retail chains (e.g., grocery stores versus electronics retailers, or supercenters versus traditional grocery stores), or on assessing the wages and economic impact of Walmart and other "supercenters,"⁴⁵ rather than the broader employment practices of chain versus independent retailers.

This chapter is based on an analysis of employment data provided by the California Employment Development Department from the Quarterly Census of Employment and Wages, supplemented by a literature review of local and national studies that have examined retail or restaurant employment by subsector or size of business. The chapter also draws on results from a survey that researchers at U.C. Berkeley conducted in 2009 that collected information on the health and paid sick leave benefits offered by firms in San Francisco and elsewhere in the Bay Area. These data sources are described in more detail below. The chapter focuses on retail stores – i.e., businesses that sell goods to the general public – and restaurants.⁴⁶ Because of the limitations of the data and the literature, firm size (number of establishments or number of employees, as available) is used as the best available proxy for understanding the differences between formula and independent retailers.

⁴³ The City and County of San Francisco's Office of Economic Analysis recently released a separate study of formula retail that assessed (among other topics) the effect of formula v. independent retail on the city's broader economy, including the multiplier effects created by consumer spending as it circulates through the economy and expands overall employment. This analysis focuses more narrowly on understanding the wages and benefits offered by different types of retailers.

⁴⁴ For example, the Current Population survey provides data on the demographics of employees by industry and firm size, but only at the national level. The U.S. Census Bureau's American Community Survey and Longitudinal-Employer Household Dynamics program provide local-level information on worker characteristics (e.g., age, race, ethnicity, educational attainment), but not by firm size or number of outlets.

⁴⁵ There are no Walmart stores located in San Francisco, and the City has separate land use controls governing large-scale retail. (Retail uses over 90,000 square feet in the C-3 zoning districts and over 50,000 square feet in all other zoning districts require CU authorization; retail over 120,000 square feet is generally prohibited. See San Francisco Planning Code, Section 121.6.)

⁴⁶ Banks, credit unions, and savings and loans are also subject to the City's definition of formula retail (as are a few types of retail services). However, the banking industry includes a wide range of occupations with very different pay and benefit levels, and it was not possible to differentiate between retail banking jobs and other types of jobs.

Findings

The following sections provide a review of San Francisco’s unique labor laws and national employment trends in the retail and restaurant industries, followed by an analysis of employment, wages, and benefits in San Francisco retail and restaurant industries.

Local and National Context

San Francisco is nationally known for its progressive laws aimed at improving pay, access to health care, and paid sick leave for all workers, particularly lower-wage workers.⁴⁷ Figure V-1 shows those local labor laws that apply to most businesses located in San Francisco. (Other mandates, not shown, apply only to employers with contracts or leases with the City.) The City’s minimum wage applies to all workers in San Francisco, except for individuals who are the parents, spouses, domestic partners, or children of the employer. The Paid Sick Leave Ordinance also applies to all employees, although employees at larger firms (with 10 or more workers) can accrue more hours of sick leave. The Health Care Security Ordinance and Family Friendly Workplace Ordinance both apply only to workers with 20 or more workers nationwide, and larger firms (100 or more workers) are required to provide more generous health care benefits.

Most formula retailers are likely subject to the Health Care Security and Family Friendly Workplace Ordinances. Given that formula retail establishments must, by definition, have at least 12 locations in the U.S., it is likely that nearly all formula retailers have at least 20 employees nationwide. On the other hand, many independent retailers are likely to be exempt from these laws. For example, as discussed below, San Francisco retail stores with just one location in California employed an average of 8 workers in 2012, while restaurants with a single location employed an average of 15 workers. Independent estimates suggest that, overall, about 25 percent of San Francisco workers at for-profit firms are employed at companies that are exempt from the Health Care Security Ordinance.⁴⁸

Figure V-1. San Francisco Labor Laws

Law	Employer Applicability	Requirement	Effective Date
Minimum Wage Ordinance	All employers with employees who work in San Francisco more than two hours per week, including part-time and temporary workers*	All employees who work in San Francisco more than two hours per week, including part-time and temporary workers, are entitled to the San Francisco minimum wage (\$10.74 per hour as of January 2014).	February 2004
Paid Sick Leave Ordinance	All employers** with employees who work in San Francisco, including part-time and temporary workers	All employees who work in San Francisco, including part-time and temporary workers, are entitled to paid time off from work when they are sick or need medical care, and to care for their family members or designated person when those persons are sick or need medical care.	February 2007

⁴⁷ Michael Reich, Ken Jacobs, and Miranda Dietz, eds., *When Mandates Work: Raising Labor Standards at the Local Level*, 2014, <http://www.ucpress.edu/book.php?isbn=9780520278141>.

⁴⁸ *Ibid.*, chap. 5.

Health Care Security Ordinance	Employers with 20 or more employees nationwide, including part-time and temporary workers (and non-profit employers with 50 or more employees)	Employers must spend a minimum amount (set by law) on health care for each employee who works eight or more hours per week in San Francisco. The expenditure rate varies by employer size; in 2014, for-profit businesses with 20 to 99 employees nationwide are required to spend \$1.63 per worker per hour paid; employers with 100+ employees nationwide are required to spend \$2.44 per worker per hour paid.	January 2008
Family Friendly Workplace Ordinance	Employers with 20 or more employees nationwide, including part-time and temporary workers	Employers must allow any employee who is employed in San Francisco, has been employed for six months or more by the current employer, and works at least eight hours per week on a regular basis to request a flexible or predictable working arrangement to assist with care-giving responsibilities.	January 2014

*Individuals who are the parents, spouses, domestic partners, or children of the employers are not covered by the San Francisco Minimum Wage Ordinance.

**For employees of employers for which fewer than 10 persons work for compensation during a given week, there is a cap of 40 hours of accrued paid sick leave; for employees of other employers, there is a cap of 72 hours of accrued paid sick leave.

Source: City and County of San Francisco Labor Standards Enforcement, 2014.

Nationally, retail stores and restaurants tend to provide workers with lower wages, more limited benefit coverage, and fewer and more irregular work hours compared to other industries. The relatively low wages, limited benefit coverage, and higher likelihood of part-time and non-standard working hours at retail stores and restaurants are related to the pressure facing firms in these industries to compete on low pricing and customer convenience (e.g., to be open long hours and on weekends and holidays).⁴⁹

However, there is significant variation in pay and job quality within the retail sector. For example, some firms pay more and provide better benefits to attract better talent, reduce turnover, and increase productivity. Examples include many electronics, hardware, and high-end clothing stores that compete for customer business based on quality of service and where knowledgeable salespersons are often highly valued. In contrast, other stores put a higher priority on low costs and low prices, and tend to pay lower wages.⁵⁰ Walmart is the classic example; workers there earn approximately 12 percent less than other retail workers and 14.5 percent less than workers at large retailers, and rely heavily on public programs for health care and other needs.⁵¹ Beyond business strategy, other factors that influence retail job quality include state and local labor laws, unionization, and the competitiveness of the local labor market.⁵²

⁴⁹ Francoise Carré, Chris Tilly, and Diana Denham, “Explaining Variation in the Quality of U.S. Retail Jobs” (presented at the Annual Meeting of the Labor and Employment Relations Association, Denver, CO, 2010), <http://www.russellsage.org/sites/all/files/Carre-Tilly-Retail%20job%20quality-LERA-01.03.10-final-rev2.pdf>; Francoise Carré and Chris Tilly, *Short Hours, Long Hours: Hour Levels and Trends in the Retail Industry in the United States, Canada, and Mexico*, Upjohn Institute Working Paper 12-183 (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research., 2012), <http://www.econstor.eu/handle/10419/64322>; Annette D. Bernhardt, *The Future of Low-Wage Jobs: Case Studies in the Retail Industry*, IEE Working Paper (Institute on Education and the Economy, Teachers College, Columbia University, 1999), <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.41.885&rep=rep1&type=pdf>.

⁵⁰ Carré, Tilly, and Denham, “Explaining Variation in the Quality of U.S. Retail Jobs.”

⁵¹ Ken Jacobs, Dave Graham-Squire, and Stephanie Luce, *Living Wage Policies and Big-Box Retail: How a Higher Wage Standard Would Impact Walmart Workers and Shoppers*, Research Brief (UC Berkeley Center for Labor Research and Education, 2011), <http://www.mef101.org/Issues/Resources/11-0428%20-%20Bigbox%20Living%20Wage%20Policies.pdf>.

⁵² Carré, Tilly, and Denham, “Explaining Variation in the Quality of U.S. Retail Jobs.”

Nationally, retail firms with fewer than 10 outlets tend to pay higher average wages than firms with more than 10 outlets. National data from the 2007 Economic Census show that retail firms with fewer than 10 outlets in the United States paid an average of \$27,500 per employee, per year. In comparison, firms with 10 or more outlets paid an average of \$20,800 a year. Overall, retail firms with fewer than 10 outlets employ fewer workers per establishment and per million dollars in sales. However, excluding motor vehicles and parts, gasoline stations, and nonstore retailers (industries that San Francisco does not typically regulate as formula retail), firms with fewer than 10 outlets actually employ slightly more workers per million dollars in sales (5.8) compared to firms with 10 or more outlets (5.1). These differences may in part reflect differences in the number of hours that employees are scheduled to work; the Economic Census does not provide information on hours worked or part- versus full-time status of workers by firm size.

Figure V-2. U.S. Retail Firms by Number of Establishments: Average Jobs per Establishment, Jobs per Million Dollars in Sales, and Annual Average Wages, 2007

	Jobs per Establishment	Jobs per Million Dollars in Sales	Average Annual Wages per Employee
All Retail			
Firms with fewer than 10 outlets	7.8	3.5	\$27,500
Firms with 10 or more outlets	26.4	4.3	\$20,800
Excluding Motor Vehicles and Parts, Gasoline Stations, and Nonstore Retailers			
Firms with fewer than 10 outlets	6.7	5.8	\$22,900
Firms with 10 or more outlets	30.1	5.1	\$20,000

Sources: U.S. Census Bureau, Economic Census, 2007; Strategic Economics, 2014.

Studies have shown that large firms are generally more likely to offer better health care coverage, hire more minorities, and comply with labor laws compared to smaller firms. For example, a 2012 national survey sponsored by the Kaiser Family Foundation found that 61 percent of small firms (those employing 3 to 199 workers) offered workers health insurance, compared to 98 percent of firms with 200 workers or more. Firms with fewer than 10 workers were least likely to offer health insurance to employees, with only 50 percent of firms of this size offering coverage in 2012. Workers at small firms were also responsible for paying a higher share of costs than workers at large firms.⁵³ A 2001 national survey of employers and households found that larger firm size was associated with hiring significantly more African-Americans.⁵⁴ A 2009 survey of 4,500 low-wage workers in New York, Chicago, and Los Angeles found that while labor law violations occur at firms of all sizes, workers at small companies (employing fewer than 100 workers) were significantly more likely to experience violations.⁵⁵

These differences between small and large firms may have to do with a number of factors, including awareness of labor laws, hiring methods, and financial resources.

⁵³ Nirmita Panchal, Matthew Rae, and Gary Claxton, *Snapshots: A Comparison of the Availability and Cost of Coverage for Workers in Small Firms and Large Firms* (Kaiser Family Foundation, December 5, 2012), <http://kff.org/private-insurance/issue-brief/snapshots-a-comparison-of-the-availability-and-cost-of-coverage-for-workers-in-small-firms-and-large-firms/>.

⁵⁴ Philip Moss and Chris Tilly, *Stories Employers Tell: Race, Skill, and Hiring in America* (Russell Sage Foundation, 2001).

⁵⁵ Annette D. Bernhardt et al., *Broken Laws, Unprotected Workers: Violations of Employment and Labor Laws in America's Cities* (Center for Urban Economic Development, 2009).

Employment and Wages at Retail Stores and Restaurants in San Francisco

This section provides findings on employment and wages, based on an analysis of employment data provided by the California Employment Development Department (EDD) from the Quarterly Census of Employment and Wages (QCEW) program. QCEW employment data are derived from quarterly tax reports that California employers are required to submit to the EDD under state and federal unemployment insurance laws. The data count all workers who are covered by unemployment insurance and who worked during, or received pay for, a given pay period. Business owners, self-employed workers, unpaid family members, and certain farm and domestic workers are excluded from the employment counts.⁵⁶ EDD does not provide information on part-time versus full-time worker status⁵⁷ or number of hours worked; such information is not available at the local level from any known data source.

For the purposes of this study, the EDD created a customized report for the City and County of San Francisco that provided employment and wage data for selected industries (at the four-digit North American Industry Classification System [NAICS] level) in the retail, restaurant, and finance sectors. The data were provided for two categories of firms:

- 1) Firms located in San Francisco that have a single location in California (referred to as “single-site” firms below).
- 2) Firms located in San Francisco that have multiple worksites in California (“multiple-site” firms).

Note that this definition of “multiple-site” firms does not exactly match the definition of “formula retail” in the Planning Code. However, the EDD data represent the best available proxy for studying the differences in employment and wages at formula and independent retailers.

Complete results are provided in Figures IV-3 through IV-5. Key findings from the analysis are discussed below.

Approximately 47 percent of San Francisco’s retail workers and 18 percent of the city’s restaurant workers are employed at firms with multiple locations in California. In total, approximately 40,200 people worked in retail stores located in San Francisco in 2012, while another 52,600 worked in the city’s restaurants. Of these workers, 19,000 were employed at stores with multiple sites in California, while 9,400 were employed at multiple-site restaurants.

Within the retail sector, the industries that employ the most people in San Francisco include grocery stores (7,000 workers), clothing stores (6,900 workers), department stores (4,500 workers), and health and personal care stores (4,100 workers).⁵⁸ Several other industries each employed between 1,000 and 2,000 workers in 2012, including electronics and appliance stores; specialty foods stores; home furnishings stores; building materials and supplies dealers; other miscellaneous store retailers; sporting good, hobby, and musical instrument stores; and office supply, stationery, and gift stores.

More than 60 percent of workers in the city’s health and personal care, clothing, grocery, and department store industries are employed at firms that have multiple sites in California. Eighty

⁵⁶ Bureau of Labor Statistics, “Employment and Wages Online,” 2010, <http://www.bls.gov/cew/cewbultn10.htm#Employment>.

⁵⁷ Some studies suggest that the distinction between part- and full-time jobs in the retail industry has become less about number of hours worked, and more about status, wage levels, and access to a benefits package. Many retail managers in the U.S. report shortening the number of hours guaranteed to full-time workers, while increasing the number of hours worked by part-time employees (who typically receive lower hourly pay and fewer benefits). Carré and Tilly, *Short Hours, Long Hours*.

⁵⁸ The health and personal care stores category includes pharmacies and drug stores, cosmetics stores, optical goods stores, and other health and personal care stores.

percent of health and personal care workers, 66 percent of clothing store workers, and 64 percent of grocery store workers were employed at multiple-site firms in 2012. Employment data by number of worksites are not available for department stores due to confidentiality concerns, but 15 out of San Francisco's 16 department stores had multiple sites in the state. In several other industries – including shoe stores; sporting goods, hobby, and musical instrument stores; electronics and appliance stores; lawn and garden equipment stores; and other general merchandise stores – just over half of all workers were employed at multiple-site firms.

On a per-establishment basis, firms with multiple sites tend to employ more workers in San Francisco than firms with a single location. On average, multiple-site restaurants employed 27 workers per establishment in 2012, compared to 15 workers for single-site restaurants. Similarly, multiple-site stores employed an average of 23 workers per store in 2012, compared to 8 workers per single-site store. These averages mask significant variation in the average number of workers employed among different types of stores, but multiple-site stores employ more workers per establishment in almost every retail category. For example, multiple-site grocery stores employed an average of 91 workers, compared to 9 workers per store for single-site grocery store. In comparison, multiple-site health and personal care stores employed 15 workers per store, compared to 6 workers per store for single-site firms in the same industry.

Note that these differences may be due in part to different scheduling practices; multiple-site firms may tend to hire more part-time or temporary workers. In addition, the average number of employees per store may reflect underlying differences in single- and multiple-site businesses. For example, Chapter IV shows that formula retail establishments tend to occupy bigger floor plates than independent businesses, and larger businesses would be expected to employ more workers. Other factors may be specific to particular types of retail. For example, the grocery store category includes both supermarkets – which have large floor plates and employ dozens of workers – and small, independently owned corner stores.

Retail stores and restaurants are among the lowest-paying industries in the city, but there is significant variation in pay within the retail sector. In 2012, the average wage for all workers employed by privately owned firms in San Francisco was \$1,680 per week.⁵⁹ In comparison, the average weekly wage for San Francisco workers was \$815 at retail stores and \$490 at restaurants. However, employers in some retail subsectors paid significantly higher average wages. In the electronics and appliance store, home furnishings, automobile dealer,⁶⁰ and furniture store categories, workers earned an average of \$1,200 to \$1,600 a week. Other retail jobs tend to pay much less. For example, workers at sporting goods/musical instrument stores, shoe stores, lawn and garden equipment stores, specialty food stores, gasoline stations, and book, periodical, and music stores were paid less than \$575 a week on average in 2012.

As with the average number of workers per store, average pay rates likely reflect a range of factors including the ratio of full-time to part-time workers, the number of workers who worked the full year, and the number of individuals in high-paying versus low-paying occupations within each industry.⁶¹

The difference in average pay rate between single- and multiple-site stores and restaurants also varies significantly by industry. On average, single- and multiple-site stores and restaurants pay very similar wages. However, the averages obscure large differences within some industries. For example, in the electronics and appliance, furniture, office supplies/stationery/gift, other general merchandise, health and personal care, and grocery store industries, workers at multiple-site stores earned between \$110 and

⁵⁹ All wages assume a 50-week work year.

⁶⁰ Note that automobile dealers are not currently covered by San Francisco's formula retail controls.

⁶¹ State of California Employment Development Department, Quarterly Census of Employment and Wages, 2012; Strategic Economics, 2014.

\$1,285 a week *more* than workers at single-site stores. However, at stores selling automobile parts and accessories, liquor, shoes, sporting goods, used merchandise, home furnishings, and other miscellaneous goods, workers at multiple-site stores earned between \$120 and \$1,630 *less* than workers at single-site stores.

Figure V-3. Total Workforce by Industry (Retail, Restaurant, and Finance) and Single- versus Multiple-Site Firms: San Francisco, 2012

NAICS Code	Industry	Total Workforce (a)			
		Single-Site Firms	Firms with Multiple Sites	Total, All Firms	Firms with Multiple Sites as % of All Firms
Stores					
4451	Grocery Stores	2,523	4,550	7,072	64%
4481	Clothing Stores	2,307	4,578	6,885	66%
4521	Department Stores	*	*	4,461	*
4461	Health and Personal Care Stores	792	3,256	4,048	80%
4431	Electronics and Appliance Stores	924	996	1,920	52%
4452	Specialty Food Stores	1,570	212	1,782	12%
4422	Home Furnishings Stores	1,166	615	1,781	35%
4441	Building Material and Supplies Dealers	922	513	1,435	36%
4539	Other Miscellaneous Store Retailers	983	366	1,349	27%
4511	Sporting Goods, Hobby, Musical Instrument Stores	617	680	1,297	52%
4532	Office Supplies, Stationery, Gift Stores	671	455	1,125	40%
4482	Shoe Stores	406	588	993	59%
4411	Automobile Dealers (b)	600	299	900	33%
4529	Other General Merchandise Stores	416	425	841	51%
4483	Jewelry, Luggage, Leather Goods Stores	525	285	810	35%
4471	Gasoline Stations (b)	511	200	711	28%
4533	Used Merchandise Stores	400	269	669	40%
4453	Beer, Wine, and Liquor Stores	417	77	494	16%
4512	Book, Periodical, and Music Stores	282	210	492	43%
4421	Furniture Stores	284	158	442	36%
4413	Automotive Parts, Accessories, and Tire Stores	181	141	322	44%
4531	Florists	176	0	177	0%
4442	Lawn and Garden Equipment and Supplies Stores	81	87	167	52%
	Total Stores	16,753	18,956	40,172	47%
Restaurants					
7225	Restaurants	38,120	8,364	46,483	18%
7224	Drinking Places (Alcoholic Beverages)	3,230	0	3,230	0%
7223	Special Food Services (b)	1,903	983	2,887	34%
	Total Restaurants	43,253	9,347	52,600	18%
Banks, Credit Unions, Savings & Loans					
5221	Depository Credit Intermediation	912	10,949	11,861	92%

(a) Average monthly employment in 2012.

(b) Use not subject to San Francisco's formula retail controls.

*Suppressed to preserve confidentiality

"Single-Site Firms" are firms that reported one worksite in California; "Firms with Multiple Sites" reported multiple worksites in California.

Acronyms:

NAICS: North American Industry Classification System

Sources: State of California Employment Development Department (EDD), Quarterly Census of Employment and Wages, 2012; Strategic Economics, 2014. Based on EDD data that have not been independently verified.

Figure V-4. Average Workers per Establishment by Industry (Retail, Restaurant, and Finance) and Single- versus Multiple-Site Firms: San Francisco, 2012

NAICS Code	Industry	Average Workers per Establishment		
		Single-Site Firms	Firms with Multiple Sites	All Firms
Stores				
4451	Grocery Stores	9	91	22
4481	Clothing Stores	10	28	17
4521	Department Stores	*	*	297
4461	Health and Personal Care Stores	6	15	12
4431	Electronics and Appliance Stores	9	15	11
4452	Specialty Food Stores	9	10	9
4422	Home Furnishings Stores	14	27	16
4441	Building Material and Supplies Dealers	9	21	11
4539	Other Miscellaneous Store Retailers	5	25	7
4511	Sporting Goods, Hobby, Musical Instrument Stores	8	28	12
4532	Office Supplies, Stationery, Gift Stores	5	12	6
4482	Shoe Stores	15	14	14
4411	Automobile Dealers (a)	67	75	69
4529	Other General Merchandise Stores	10	71	18
4483	Jewelry, Luggage, Leather Goods Stores	5	13	6
4471	Gasoline Stations (a)	10	7	9
4533	Used Merchandise Stores	7	13	9
4453	Beer, Wine, and Liquor Stores	5	19	6
4512	Book, Periodical, and Music Stores	9	22	13
4421	Furniture Stores	5	11	6
4413	Automotive Parts, Accessories, and Tire Stores	7	11	8
4531	Florists	3	N/A	3
4442	Lawn and Garden Equipment and Supplies Stores	5	14	8
	Total Stores	8	23	14
Restaurants				
7225	Restaurants	16	28	17
7224	Drinking Places (Alcoholic Beverages)	10	N/A	10
7223	Special Food Services (a)	24	20	22
	Total Restaurants	15	27	17
Banks, Credit Unions, Savings & Loans				
5221	Depository Credit Intermediation	31	36	35

(a) Use not subject to San Francisco's formula retail controls.

*Suppressed to preserve confidentiality

"Single-Site Firms" are firms that reported one worksite in California; "Firms with Multiple Sites" reported multiple worksites in California.

Acronyms:

N/A: Not applicable (no firms fall in these categories)

NAICS: North American Industry Classification System

Source: State of California Employment Development Department (EDD), Quarterly Census of Employment and Wages, 2012; Strategic Economics, 2014. Based on EDD data that have not been independently verified.

Figure V-5. Average Weekly Pay per Employee by Industry (Retail, Restaurant, and Finance) and Single-versus Multiple-Site Firms: San Francisco, 2012

		Average Weekly Pay per Employee (a)				
NAICS Code	Industry	Single-Site Firms	Firms with Multiple Sites	All Firms	Difference (b)	% Difference
Stores						
4451	Grocery Stores	\$523	\$634	\$595	\$111	18%
4481	Clothing Stores	\$575	\$631	\$611	\$56	9%
4521	Department Stores	*	*	\$757	*	*
4461	Health and Personal Care Stores	\$923	\$1,141	\$1,098	\$218	19%
4431	Electronics and Appliance Stores	\$982	\$2,267	\$1,648	\$1,285	57%
4452	Specialty Food Stores	\$508	\$447	\$500	-\$61	-14%
4422	Home Furnishings Stores	\$2,124	\$495	\$1,561	-\$1,629	-329%
4441	Building Material and Supplies Dealers	\$926	\$858	\$902	-\$68	-8%
4539	Other Miscellaneous Store Retailers	\$1,066	\$681	\$962	-\$385	-57%
4511	Sporting Goods, Hobby, Musical Instrument Stores	\$683	\$466	\$573	-\$217	-47%
4532	Office Supplies, Stationery, Gift Stores	\$486	\$745	\$588	\$259	35%
4482	Shoe Stores	\$639	\$424	\$512	-\$214	-51%
4411	Automobile Dealers (c)	\$1,507	\$1,592	\$1,534	\$85	5%
4529	Other General Merchandise Stores	\$534	\$773	\$655	\$240	31%
4483	Jewelry, Luggage, Leather Goods Stores	\$1,095	\$1,062	\$1,085	-\$34	-3%
4471	Gasoline Stations (c)	\$488	\$449	\$477	-\$38	-9%
4533	Used Merchandise Stores	\$894	\$475	\$726	-\$419	-88%
4453	Beer, Wine, and Liquor Stores	\$635	\$428	\$603	-\$207	-48%
4512	Book, Periodical, and Music Stores	\$483	\$409	\$452	-\$74	-18%
4421	Furniture Stores	\$1,116	\$1,560	\$1,273	\$444	28%
4413	Automotive Parts, Accessories, and Tire Stores	\$837	\$718	\$784	-\$118	-16%
4531	Florists	\$593	N/A	\$592	N/A	N/A
4442	Lawn and Garden Equipment and Supplies Stores	\$538	\$484	\$508	-\$55	-11%
	Total Stores	\$823.19	\$821	\$815	-\$2	0%
Restaurants						
7225	Restaurants	\$490	\$494	\$494	\$3	1%
7224	Drinking Places (Alcoholic Beverages)	\$431	N/A	\$431	N/A	N/A
7223	Special Food Services (b)	\$472	\$664	\$539	\$191	29%
	Total Restaurants	\$485	\$512	\$493	\$26	5%
Banks, Credit Unions, Savings & Loans						
5221	Depository Credit Intermediation	\$2,284	\$2,900	\$2,852	\$616	21%

(a) Assumes 50-week work year.

(b) Average weekly pay for firms with multiple sites, minus average weekly pay for single-site firms.

(c) Use not subject to San Francisco's formula retail controls.

*Suppressed to preserve confidentiality

"Single-Site Firms" are firms that reported one worksite in California; "Firms with Multiple Sites" reported multiple worksites in California.

Acronyms:

N/A: Not applicable (no firms fall in these categories)

NAICS: North American Industry Classification System

Source: State of California Employment Development Department (EDD), Quarterly Census of Employment and Wages, 2012; Strategic Economics, 2014. Based on EDD data that have not been independently verified.

Employee Benefits

In 2009, two years after the adoption of San Francisco's Paid Sick Leave Ordinance and one year after the adoption of the Health Care Security Ordinance, researchers at U.C. Berkeley surveyed 1,010 firms in San Francisco and elsewhere in the Bay Area on their health benefit and paid sick leave offerings. Results were broken down by firm size (number of workers at location) and, for paid sick leave, by industry.⁶² Note that all results discussed below are based on data gathered prior to the adoption of the Affordable Care Act (ACA), which introduced a series of policies designed to improve access to health coverage. Most of provisions of the ACA went into effect at the beginning of 2014.

This section discusses the results of the survey. Figures V-6 and V-7 show the percent of surveyed firms that offered health insurance and the deductible of the most popular health plans by firm size and location. Figure V-8 shows the percent of surveyed firms that offered paid sick leave by firm size and industry. Key findings are as follows.

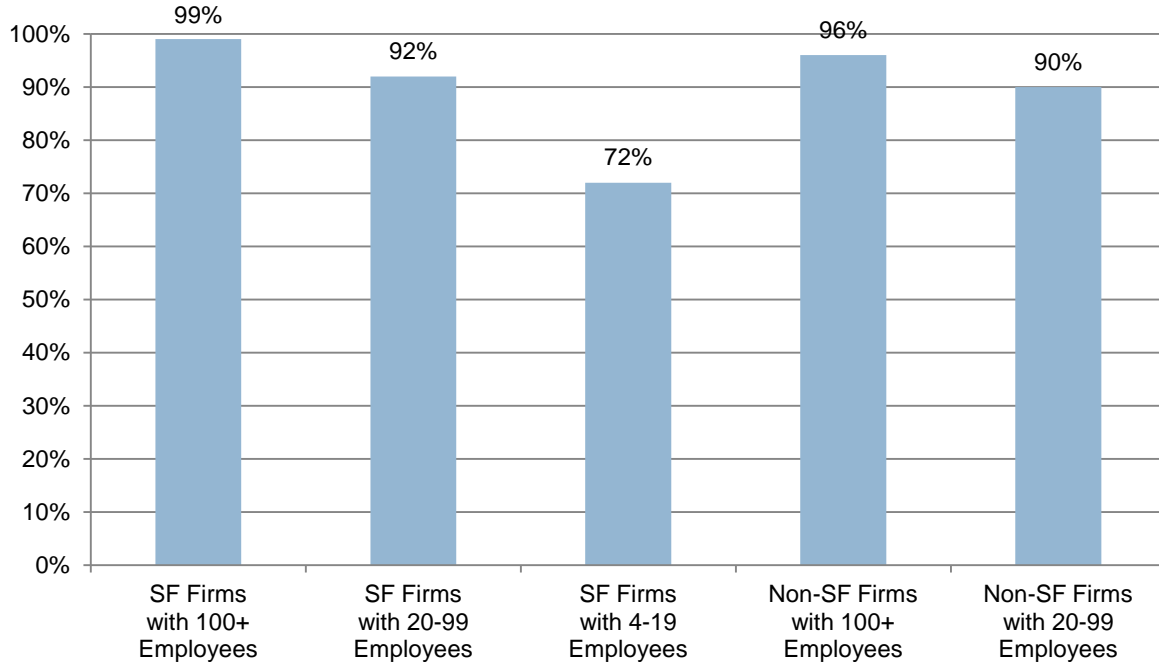
Firms in San Francisco were more likely to offer health insurance than firms elsewhere in the Bay Area in 2009. In San Francisco, 99 percent of large firms (100 or more employees) and 92 percent of medium firms (20 to 99 employees) offered health insurance in 2009, compared to 96 percent of large firms and 90 percent of medium firms elsewhere in the Bay Area (Figure V-6).

Compared to large firms, small firms were less likely to offer health insurance and more likely to offer policies with higher deductibles. In San Francisco, just over 70 percent of small firms (4 to 19 employees) offered insurance in 2009 (Figure V-6). Of those firms that offered insurance, small firms were much more likely than medium or large firms to have a high deductible (more than \$1,000) for the most popular plan (Figure V-7). The 2009 survey did not collect data on small firms located elsewhere in the Bay Area, but the percentage of small firms offering insurance in San Francisco appears to be high by national standards. As a point of comparison, a national study by the Kaiser Foundation found that only 50 percent of firms with fewer than 10 workers offered health insurance to their employees in 2012.⁶³

⁶² As discussed above, formula/multiple-site retail stores and restaurants tend to be significantly larger than independent/single-site businesses. The results shown below were reported in William H. Dow, Arindrajit Dube, and Carrie Hoverman Colla, *Bay Area Employer Health Benefits Survey: Health Benefits Report 2009* (University of California Berkeley, May 2010), <http://www.irl.berkeley.edu/cwed/wp/healthbenefits10.pdf>; and Vicky Lovell, "Universal Paid Sick Leave," in *When Mandates Work: Raising Labor Standards at the Local Level* (Berkeley: University of California Press, 2014), 197–225.

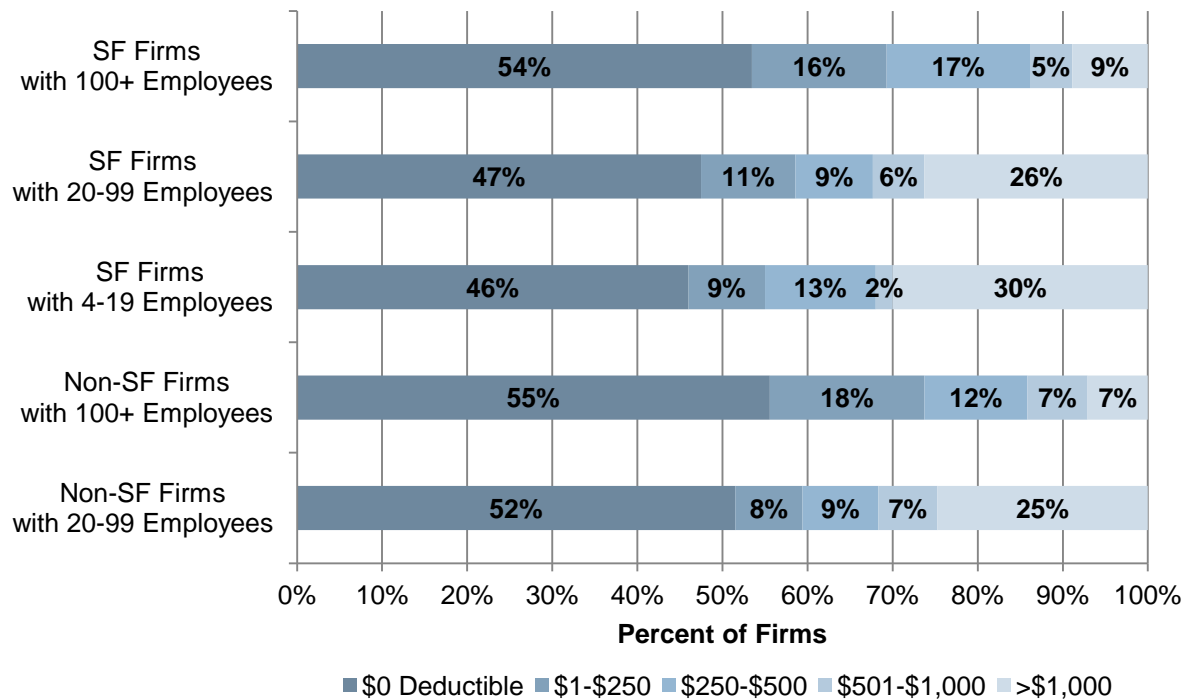
⁶³ Panchal, Rae, and Claxton, *Snapshots*.

Figure V-6. Percent of Firms that Offered Health Insurance by Firm Size and Location (San Francisco versus Elsewhere in the Bay Area), 2009



Source: "Bay Area Employer Health Benefits Survey: Health Benefits Report 2009."

Figure V-7. Deductible of Most Popular Health Plan, by Firm Size and Location (San Francisco versus Elsewhere in the Bay Area), 2009



Source: "Bay Area Employer Health Benefits Survey: Health Benefits Report 2009."

While the majority of San Francisco firms provided paid sick leave in 2009, paid sick leave was less common at small businesses and businesses in the leisure and hospitality and retail and wholesale trade sectors. The 2007 Paid Sick Leave Ordinance mandated that all employees who work in San Francisco, including part-time and temporary workers, are entitled to paid time off from work when they or their family members are sick or need medical care. As of 2009, 82 percent of all firms in San Francisco indicated that they were in compliance with the law (Figure V-8). In comparison, 78 percent of very small businesses (fewer than 10 employees), 62 percent of businesses in the hospitality trade, and 78 percent of businesses in the retail and wholesale trade provided paid sick leave.⁶⁴

Figure V-8. Percent of San Francisco Firms Providing Paid Sick Leave by Number of Workers and Sector, 2009

Number of Workers at Firm (All Industries)	% of Firms Providing Paid Sick Leave
1 to 9	78.4%
10 to 24	92.0%
25 to 49	97.5%
50 or More	99.4%
Sector (All Firm Sizes)	
Leisure and Hospitality	62.1%
Retail and Wholesale Trade	77.9%
All Firms	82.1%

Sources: Bay Area Employer Health Benefits Survey, 2009; Calculations by Lovell, 2014.

Summary of Findings

Employment practices vary as much or more by retail subsector and firm size as by whether a business is “formula” or “independent.” On average, single- and multiple-site retail stores and restaurants in San Francisco pay similar wages. However, these averages mask large pay differences within some retail subsectors. Firms with multiple sites do tend to employ significantly more workers than firms with a single location, although some of the difference may be due to scheduling and other business practices (e.g., multiple-site firms may tend to hire more part-time or temporary workers).

Both nationally and in San Francisco, retail stores, restaurants, and smaller firms typically provide fewer benefits compared to other types of businesses. However, San Francisco’s labor laws raise the floor, so that firms in all industries are required to offer higher pay and better benefits compared to their counterparts elsewhere in the country (although small firms are exempt from some requirements).

⁶⁴ For most types of firms, the percentage offering paid sick leave in 2009 represented a significant increase from before the Paid Sick Leave Ordinance went into effect. Prior to the implementation of the ordinance, only 64 percent of very small firms (fewer than 10 workers), 24 percent of hospitality firms, and 62 percent of retail and wholesale trade firms offered paid sick leave.

VI. FORMULA RETAIL AND THE REAL ESTATE MARKET

This chapter explores the relationships among the commercial real estate market in San Francisco's neighborhood districts, formula retail controls, and formula retail establishments. In addition to qualitatively assessing the roles that formula retail and the controls play in neighborhood districts, Strategic Economics used data from CoStar, a commercial vendor, to examine whether the approval, disapproval, or withdrawal of conditional use (CU) applications is correlated with either increases or decreases in area rental rates and vacancies in selected neighborhood districts.

Background and Methodology

Although individual brokers and businesses have many anecdotes about the impact of either formula retail controls or formula retail businesses on the commercial real estate market, it is difficult to isolate and measure those impacts on a citywide or even neighborhood basis. The performance of neighborhood commercial districts is constantly shifting due to broader economic trends and other factors, and each of San Francisco's individual shopping districts has its own unique character and serves a distinct market, making the districts difficult to compare. Moreover, no known sources collect reliable data – especially time series data – on rents and vacancies in neighborhood-serving districts.

In order to explore the relationship between formula retail and the real estate market in light of these challenges, this chapter draws on multiple qualitative and quantitative sources. These include comments provided by real estate brokers, merchant association representatives, and other stakeholders during the first round of focus groups; interviews with several additional San Francisco real estate brokers; published broker reports;⁶⁵ and a case study analysis of CoStar data.

CoStar contacts brokers, owners, and developers on a quarterly basis, surveying them about vacancies, asking rents, rents from recent transactions, tenants, and other information. In San Francisco, CoStar tracks more than 7,000 retail buildings, most of which are located in and around Downtown. Although CoStar maintains the largest and most comprehensive database of commercial real estate information in the country, the brokers interviewed for this chapter cautioned that the data should be interpreted with great care. CoStar's information is self-reported by real estate brokers, many of whom withhold rental rates in order to protect their competitive position. In addition, many properties are not listed on CoStar. Small landlords in neighborhood commercial districts are particularly unlikely to list their properties with CoStar. Despite these limitations, CoStar remains the only available source for neighborhood-level data on rents and vacancies and – given that the data are collected by a single source using a consistent method over time – can at least be expected to capture broad trends over time.

Strategic Economics used the CoStar database to collect quarterly data on rents and vacancies in neighborhood commercial districts (NCDs). After collecting data on a number of NCDs located throughout the city, Strategic Economics selected for further analysis four districts that had attracted at least four to six conditional use applications since 2007, and for which CoStar reported a sufficient number of transactions in most quarters to produce meaningful data on rents and vacancies. These districts are the Mission Street Neighborhood Commercial Transit District (NCT), the Ocean Avenue NCT, Lombard and Chestnut Streets between Fillmore and Divisadero Streets, and Geary Boulevard

⁶⁵ Terranomics Retail Services, "San Francisco Retail Report," Second Quarter 2013; Marcus & Millichap, "Market Overview: San Francisco Market Overview," Third Quarter 2013; CoStar, "The CoStar Retail Report: San Francisco Retail Market," Year-End 2013.

between 28th and Masonic Avenues.⁶⁶ For comparison, data were also collected on the broader submarkets in which the neighborhood commercial districts are located.⁶⁷

Findings

Understanding the Retail Market

Retail rents and vacancies are influenced by many factors, including broader economic trends, the location of specific neighborhoods and storefronts, and landlord and tenant expectations. This section discusses some of the general factors that influence local retail markets.

Fundamentally, retail real estate markets are driven by demand for goods and services. Consumer demand is strongly affected by the performance of the regional, national, and global economy.

At the local level, rents and vacancies vary significantly depending on location, reflecting the customer traffic and sales volume that different locations are expected to yield. For example, rents will tend to be higher and vacancies lower in shopping districts that draw many visitors from across the region or serve a neighborhood with high average incomes, factors that typically generate high retail sales volumes. Retailers also benefit from clustering with other retailers; a concentration of retail activity creates a destination that offers variety and selection, attracting more shoppers.

Successful shopping districts are often anchored by a large, name-brand retailer that drives business to smaller retailers in the same district. A cluster of similar businesses, such as restaurants or clothing boutiques, can also act as an anchor.

National retailers typically seek large, prominent storefronts, while mom-and-pop retailers are often better suited for (and can better afford) smaller, shallower spaces. The location and characteristics of any given storefront will also affect how long the property stays vacant, the types of tenants that the space can attract, and the rent that the landlord can charge. Retail tenants typically prefer spaces that are highly visible and accessible to prospective shoppers, but individual tenants often have very specific requirements for the kind of space that they occupy. For example, restaurants require specific utility connections and ventilation improvements.

Landlords often perceive a benefit in renting to national or regional chains. The expectations and resources of individual landlords and tenants will affect the terms of any given transaction. For instance, landlords often perceive a benefit in renting to chains, which typically have better credit and can sign longer leases than local, independent retailers, lowering the risk that the tenant will be unable to pay its rent. Landlords also have an interest in renting a vacant space and beginning to collect rent as soon as possible.

Regulations that restrict the potential range of tenants – such as controls on where formula retail can locate – would be expected to drive down rents and increase vacancies. Land use regulations can affect the real estate market by constraining the supply or viability of retail space. Some zoning regulations, like formula retail controls, effectively limit the viability of retail space by restricting the types of tenants that are permitted in particular locations or increasing the time and cost of receiving entitlements. These types of regulations would be expected to decrease rents and increase vacancy rates. On the other hand, zoning regulations can also effectively limit the supply of retail space by restricting the

⁶⁶ Several districts were initially included in the analysis but had to be discarded due to insufficient data. These include the Polk Street NCD, Lakeside Plaza, and the Upper Fillmore NCD.

⁶⁷ CoStar divides San Francisco into several submarkets. The Mission Street and Ocean Street NCTs are located in the “Southern City” submarket, which includes the area south of 16th Street and west of Highway 101. Lombard/Chestnut and Geary are located in the “West of Van Ness” submarket, which includes the area west of Van Ness Avenue and north of 16th Street.

location, amount, or type of retail development that can occur. Regulations that limit supply would typically be expected to increase rents and decrease vacancy rates. In addition to the formula retail controls, the San Francisco Planning Code includes many other provisions that restrict the ability of property owners to develop new space, and the types of tenants that are permitted in certain locations.

San Francisco's Commercial Real Estate Market and Formula Retail

San Francisco's retail market is among the strongest in the country, but rents vary significantly by location within the city. San Francisco's low unemployment rate and growing household incomes have led to a booming commercial real estate sector. Terranomics, a real estate firm focused on the retail sector in Northern California, reported that asking rents for freestanding and street level retail space increased 10 to 15 percent between mid-2012 and mid-2013 in the city as a whole. Average asking rents in the second quarter of 2013 ranged from \$20 per square foot per year (NNN⁶⁸) in some outlying areas to between \$50 and \$60 in the heart of the Financial District and \$100 to \$200 at Union Square.⁶⁹ These rents reflect the range of sales volumes that stores can expect to generate in different locations within the city.

The formula retail regulations create disincentives for formula retailers to locate in San Francisco's neighborhood commercial districts. According to brokers who work with chain retailers, obtaining a formula retail CU authorization typically takes 6 to 12 months and can cost tens of thousands of dollars, including fees for attorneys, architects, and community outreach consultants and other costs. As a result, brokers report that many formula retailers are unwilling to consider locations in San Francisco's neighborhood commercial districts. In addition, because of the time, cost, and uncertainty associated with the CU process, formula retailers typically insist on leases that give the tenant the right to terminate if the tenant does not succeed in obtaining the necessary entitlements, and/or to delay paying rent until the entitlements are issued.

The formula retail regulations also create costs and uncertainty for landlords, but market conditions in the most attractive markets may still favor formula retailers. For landlords, these provisions mean that signing a formula retailer as a tenant can entail significant opportunity costs (i.e., no rent for 6 to 12 months) and uncertainty. On the other hand, many landlords in San Francisco's most attractive retail markets (e.g., Upper Fillmore) require letters of credit guaranteeing 6 to 12 months' worth of rent, and/or charge a several thousand dollars in "key money" as a condition of signing the lease.⁷⁰ Start-ups and other independent retailers often find it difficult to meet these requirements.

Formula retail controls may help lower costs for independent retailers, but most of these retailers are not suited for spaces with large floor plates. By making neighborhood commercial districts less attractive for formula retailers, the formula retail controls likely help create lower-cost opportunities for independent retailers who cannot compete for space in San Francisco's premium retail locations. However, most independent retailers are best suited for smaller storefronts; as discussed in Chapter IV, 80 percent of independent retailers occupy 3,000 square feet or less, while 85 percent of formula retailers occupy more than 3,000 square feet. Brokers report that large, deep spaces may sit empty for extended periods of time if a formula retail CU application is disapproved or withdrawn, and that these vacant spaces can act as a drag on the vibrancy and overall performance of the surrounding district.⁷¹

⁶⁸ In a triple net (NNN) lease, the tenant agrees to pay all real estate taxes, building insurance, and maintenance on the property in addition to rent and utilities.

⁶⁹ Terranomics, 2013.

⁷⁰ Note that "key money" can refer to payments that new tenants make either to a landlord in order to secure a lease, or to an existing tenant for the right to assume the tenant's lease.

⁷¹ The Planning Commission considers neighborhood vacancy rates in deciding whether to issue formula retail CU authorizations.

A formula retailer that serves as an anchor can have a positive effect on neighboring retailers and the local real estate market, while other formula retailers may detract from the economic health of a district. As discussed in Chapter V, most of the literature on the economic impact of chain retail has focused on Walmart or other big box stores.⁷² However, San Francisco's formula retail controls cover a wide range of business types and big box stores are very rare in the city; as shown in Chapter IV, only five percent of the city's formula retail establishments are between 20,000 and 50,000 square feet, while less than one percent are more than 50,000 square feet. As a result, it is impossible to generalize about the impact of formula retail on neighboring retailers or the broader real estate market based on previous studies. However, the experience of brokers, merchants, and other stakeholders illustrates that different formula retailers can have different neighborhood impacts. For example, a formula retailer that serves as an anchor and draws new customers to a neighborhood commercial district can have a positive effect on other retailers in the district, and potentially lead to increased sales and rents. Other formula retailers could detract from the attractiveness or distinctive feel of a district, leading to decreased sales and rents and increased vacancies.

Regional and national economic trends appear to be the most important factor affecting the performance of neighborhood commercial districts. Figures VI-1 through VI-4 show formula retail CU application activity (approved, disapproved, and withdrawn applications) compared to average rents and vacancy rates in selected neighborhood commercial districts.⁷³ For comparison, the charts also show average rents and vacancy rates in the broader submarkets, as defined by CoStar. Overall, rents began to fall in 2008 or 2009 as the national economy plunged into recession, and began to increase again in 2011 or 2012 as the economy recovered. Formula retail CU application activity is also strongly correlated with the business cycle, with most of the applications occurring before or after the recession. Vacancy rates are much more volatile, likely reflecting the outsize effect that one or two newly vacated or filled storefronts can have on the average vacancy rate in a small area.

Formula retail conditional use applications that were approved in 2008 or 2009 were generally followed by a decrease in rents; applications approved after 2011 were generally followed by an increase in rents. This pattern reflects the over-riding importance of the business cycle in driving the retail market. The Lombard/Chestnut area (Figure VI-3) showed a slightly different pattern; rents continued to go up for several quarters after Apple and Urban Outfitters were approved in 2007 and 2008, with the dip in rents slightly delayed and more shallow compared to the other districts. This may in part reflect the fact that Apple and Urban Outfitters helped support an increase in rents by attracting new customers to the area; on the other hand, the Lombard/Chestnut area may simply have performed better due to other underlying strengths.

Summary of Findings

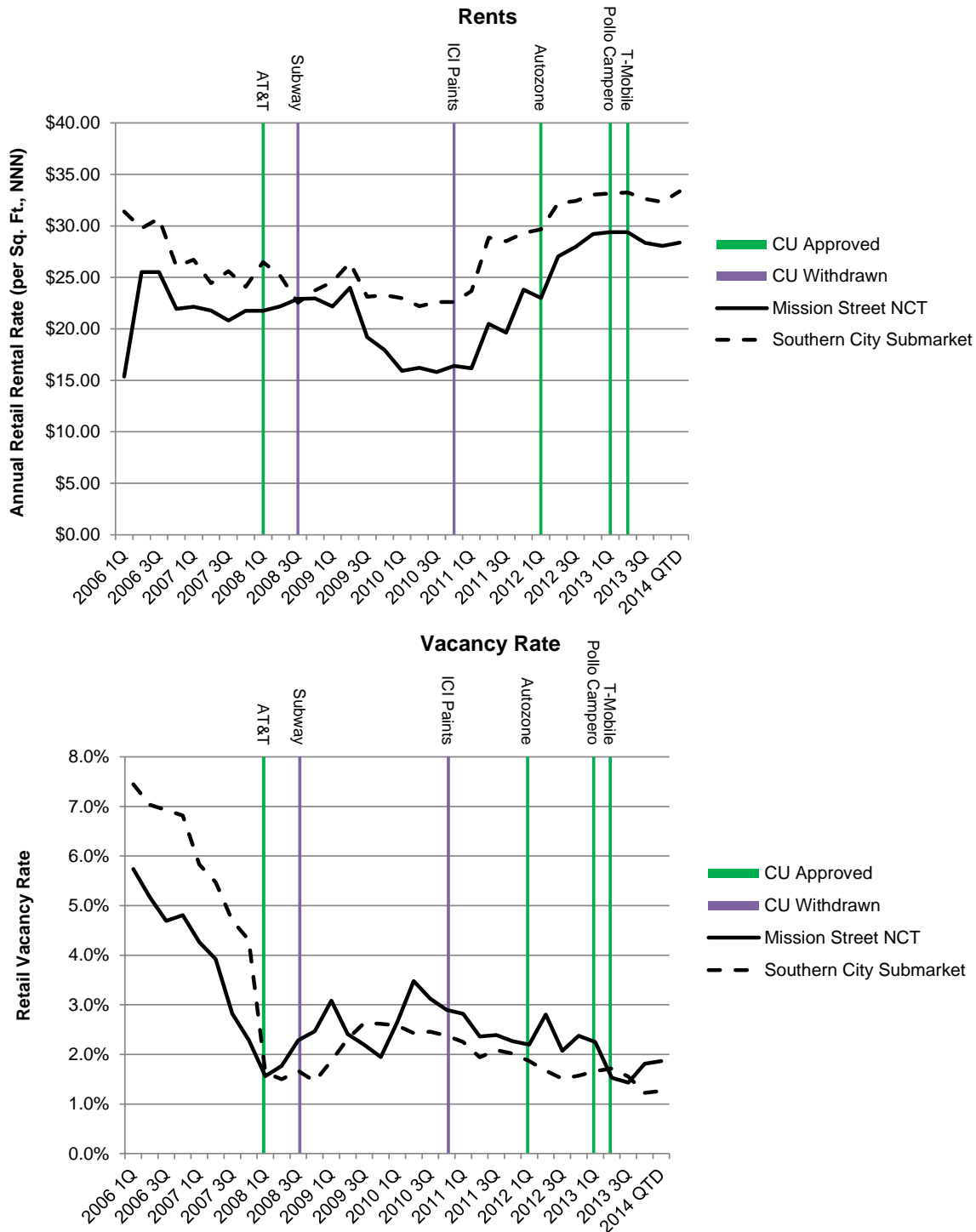
The impact of formula retail and formula retail controls on the real estate market in San Francisco's neighborhood commercial districts is as complex and varied as the districts themselves. Based on the selected neighborhoods for which data were available, there does not appear to be a consistent relationship between the approval of a new formula retail CU and the subsequent direction of local rents

⁷²For example, see John Haltiwanger, Ron Jarmin, and Cornell John Krizan, *Mom-and-Pop Meet Big-Box: Complements or Substitutes?*, Working Paper (Cambridge, MA: National Bureau of Economic Research, September 2009), <http://www.sciencedirect.com/science/article/pii/S0094119009000643>; David Neumark, Junfu Zhang, and Stephen Ciccarella, *The Effects of Wal-Mart on Local Labor Markets*, Working Paper (Cambridge, MA: National Bureau of Economic Research), accessed February 18, 2014, <http://www.nber.org/papers/w11782.pdf>; Emek Basker, "Job Creation or Destruction? Labor Market Effects of Wal-Mart Expansion," *Review of Economics and Statistics* 87, no. 1 (February 1, 2005): 174–83, doi:10.1162/0034653053327568.

⁷³Note that CUs are shown in the quarter in which final Planning Department action took place. Leases may have been signed as many as 6 to 12 months prior to Planning Department action on the CU; for CUs that were approved, the formula retailer in question may not open until several months later.

and vacancies. Rather, retail market trends over time appear to be primarily related to regional and national economic cycles. Moreover, different formula retailers likely have different neighborhood impacts; a new retailer can have a positive, negative, or neutral effect depending on the extent to which it contributes to the overall attractiveness of the district and attracts new customers. These effects are explored in more detail in the neighborhood case studies in Chapter VIII.

Figure VI-1. Rents, Vacancies, and Formula Retail Conditional Use Application Activity in the Mission Street Neighborhood Commercial Transit District, 2006-January 2014



The Southern City Submarket stretches south of 16th Street to the Daly City border, and west of Highway 101 to the shoreline.

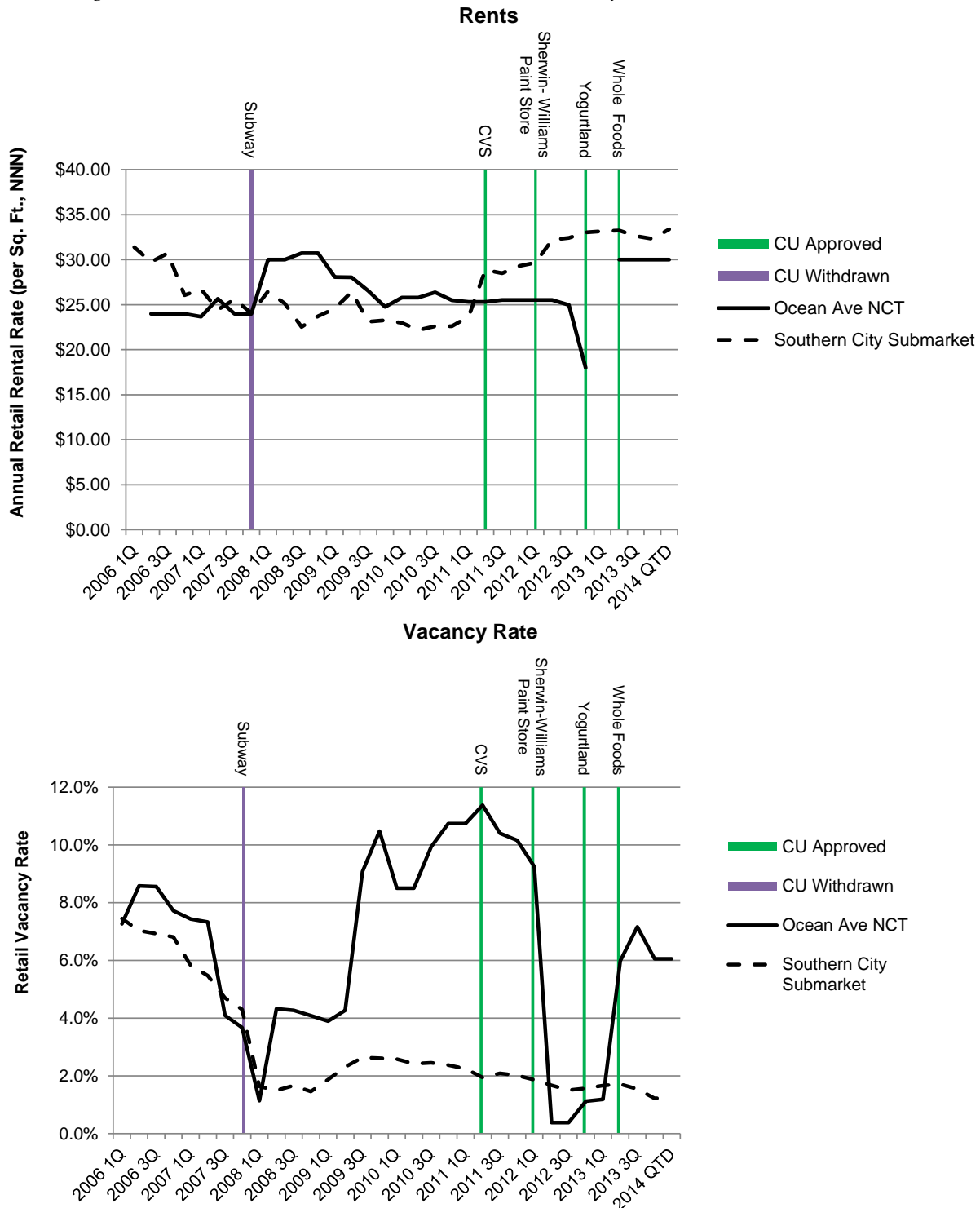
Acronyms:

- CU: Conditional use application
- NCT: Neighborhood commercial transit district
- NNN: Triple net

Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.

Rents and vacancies based on CoStar data that have not been independently verified.

Figure VI-2. Rents, Vacancies, and Formula Retail Conditional Use Application Activity in the Ocean Avenue Neighborhood Commercial Transit District, 2006-January 2014



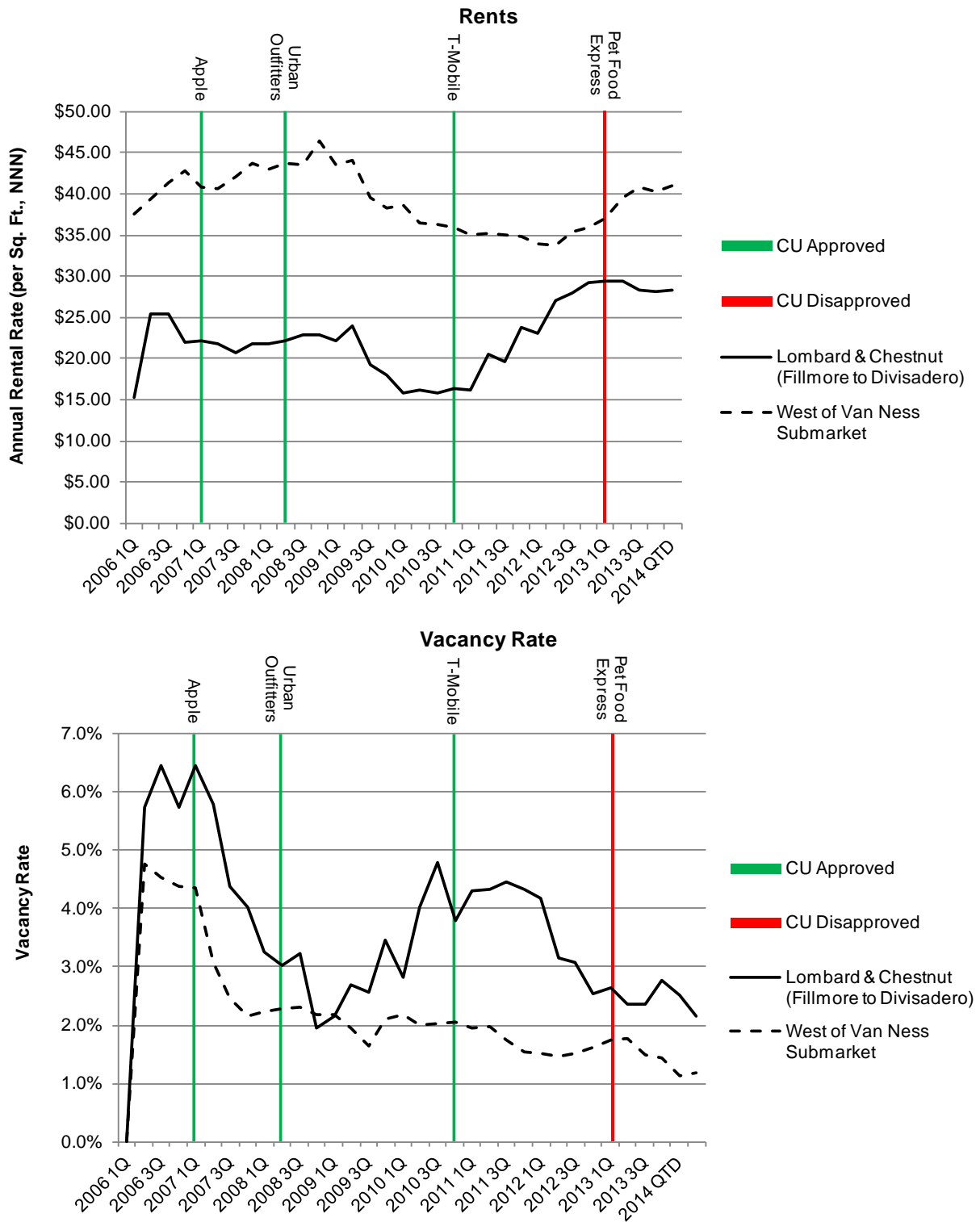
The Southern City Submarket stretches south of 16th Street to the Daly City border, and west of Highway 101 to the shoreline.

Acronyms:

- CU: Conditional use application
- NCT: Neighborhood commercial transit district
- NNN: Triple net

Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.
 Rents and vacancies based on CoStar data that have not been independently verified.

Figure VI-3. Rents, Vacancies, and Formula Retail Conditional Use Application Activity on Lombard and Chestnut Streets (Fillmore Street to Divisadero Street), 2006-January 2014



The West of Van Ness Submarket stretches west from Van Ness Avenue and north of 16th Street to the shoreline.

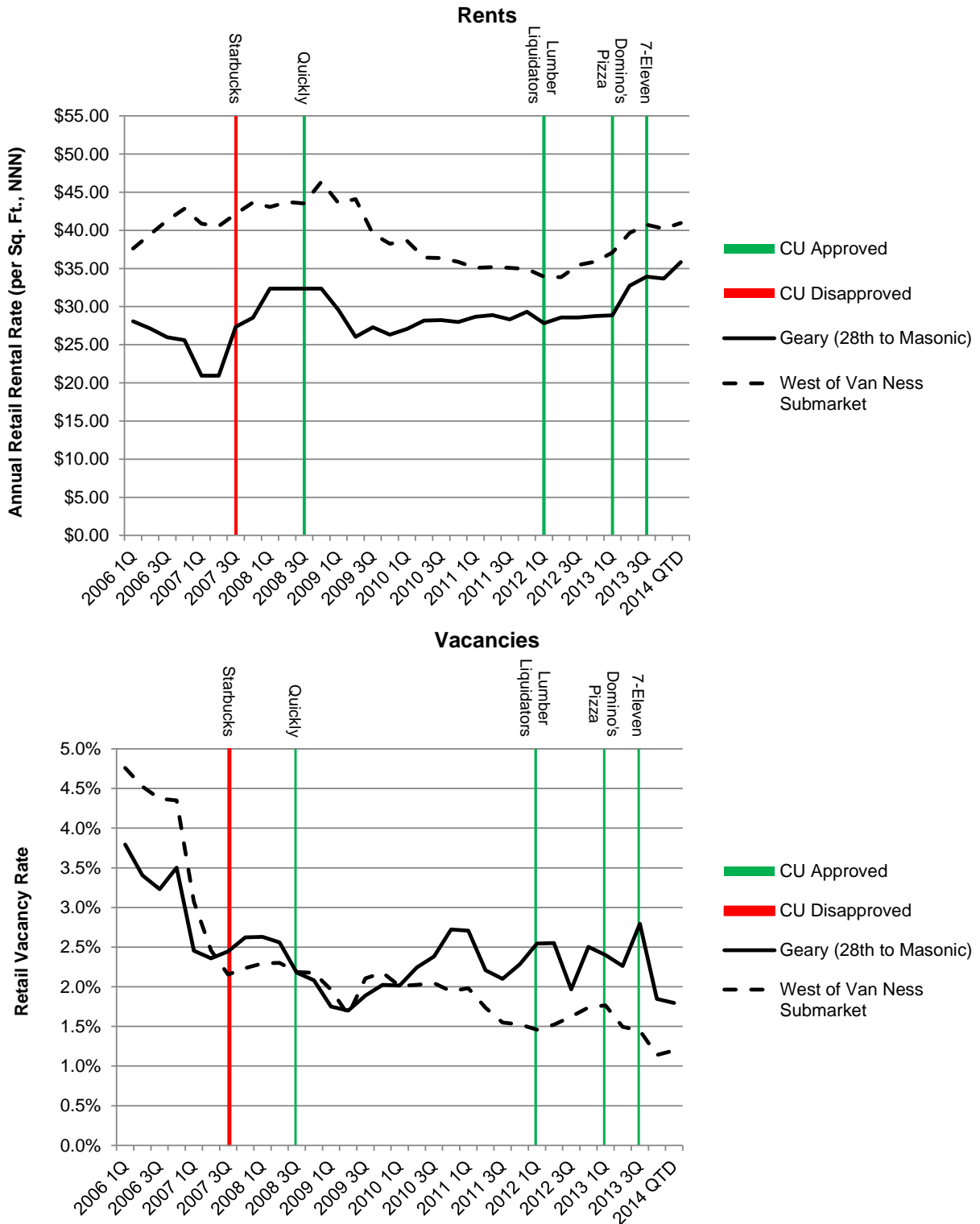
Acronyms:

CU: Conditional use application; NNN: Triple net

Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.

Rents and vacancies based on CoStar data that have not been independently verified.

Figure VI-4. Rents, Vacancies, and Formula Retail Conditional Use Application Activity on Geary Boulevard (28th Avenue to Masonic Avenue), 2006-January 2014



The West of Van Ness Submarket stretches west from Van Ness Avenue and north of 16th Street to the shoreline.
 Acronyms:

CU: Conditional use application; NNN: Triple net

Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.
 Rents and vacancies based on CoStar data that have not been independently verified.

VII. CHANGING THE DEFINITION OF FORMULA RETAIL

This chapter assesses the potential effect of changing the definition of “formula retail” in the San Francisco Planning Code, as proposed in various ordinances under consideration before the Board of Supervisors.

Background and Methodology

As summarized in Chapter II, the Planning Code currently defines formula retail as “a type of retail sales activity or retail sales establishment which, along with eleven or more other retail sales establishments [i.e., 12 total, including the proposed establishment] located in the United States, maintains two or more of the following features: a standardized array of merchandise, a standardized façade, a standardized décor and color scheme, a standardized uniform, standardized signage, a trademark or a servicemark.”⁷⁴ Use types subject to this definition generally include restaurants, bars, liquor stores, retail stores and service establishments, banks, and movie theaters. On the other hand, some uses that are often considered retail in other contexts – for example, hair salons, gyms, health care outlets, gas stations, home mortgage centers, tax service centers, and auto dealerships – are not currently subject to the City’s formula retail controls.

The Board of Supervisors is considering a number of ordinances that would alter the City’s formula retail controls. Among other proposed changes, the various ordinances could potentially affect the definition of formula retail in three key ways:

1. Change the definition of a formula retail use to include businesses that have 11 or more other retail establishments located *anywhere in the world*; currently, formula retail is defined based on the number of establishments located in the U.S. only.
2. Expand the definition of formula retail to include establishments “where fifty percent (50%) or more of the stock, shares, or any similar ownership interest . . . is owned by a formula retail use, or a subsidiary, affiliate, or parent of a formula retail use, even if the establishment itself may have fewer than eleven other retail sales establishments permitted or located in the world.”
3. Apply the definition to new land uses; these are listed Figure VII-1 and defined in Appendix C.

Ordinances proposed by Supervisors Mark Farrell and London Breed would make the first two changes listed above (including businesses with 11 or more locations anywhere in the world or where 50 percent or more of the company is owned by a formula retail use) to the definition of formula retail in selected neighborhood commercial districts only. An ordinance proposed by Supervisor Eric Mar would make all three changes to the citywide definition of formula retail.

In order to evaluate the potential impact of these changes, Strategic Economics assessed how many *existing* business establishments in San Francisco would be considered “formula retail” under these proposals. Note that establishments that are already entitled in San Francisco would not be subject to changes in the formula retail controls unless such a business opened a new location within the city. However, San Francisco’s existing businesses are the best available proxy for understanding the types of businesses that are likely to consider locating in San Francisco in the future. Moreover, existing businesses may be affected by the controls if they propose to open a new location in the city. The analysis was performed using information on headquarters location, business status (whether a business is a subsidiary, branch, franchise, or headquarters), number of global corporate family members (chains and

⁷⁴ San Francisco Planning Code, Section 303(i)(1).

subsidiaries), and type of industry included for each establishment in the 2012 Dun & Bradstreet (D&B) dataset.

Findings

Expanding the definition of formula retail to apply to businesses with eleven or more outlets worldwide would likely affect a limited number of businesses. Ten percent of businesses with 12 or more corporate family members are part of a corporation that is headquartered outside of the U.S. However, the vast majority of these have long-established presences in the U.S. and already qualify as formula retail under the current Planning Code.⁷⁵ This includes many of the rapidly expanding, international brands that already have a presence in San Francisco or have recently proposed a new location, such as Pollo Campero (Central American-based fast food restaurant), Aesop (Australian-based perfume and body products store), Loving Hut (international vegan restaurant), Daiso (Japanese home products), and Uniqlo (Japanese clothing store).⁷⁶ Many (though not all) of these international chains have chosen to open their San Francisco locations in neighborhoods with a strong ethnic identity, such as Japantown, Chinatown, or the Mission.

The proposed change would affect a limited number of international companies that have fewer than 12 establishments in the U.S., but more in other countries. Books Kinokuniya (Japanese bookstore with dozens of locations in Japan and other countries, including eight establishments in the U.S. and one in San Francisco's Japantown) and Muji (Japanese retailer that sells a variety of household goods, with eight locations in the U.S., including one in San Francisco) are examples of brands that could be affected by the change if they proposed a new location in districts where formula retail is regulated.

Similarly, expanding the definition to include establishments that are majority-owned by formula retail businesses is also likely to affect a small number of potential new businesses. This proposed policy change is designed to address several recent cases of new or proposed establishments that did not have to go through the formula retail CU process even though they were owned by formula retailers, such as Jack Spade in the Mission (owned by Liz Claiborne) and Athleta and Evolution Juice in Upper Fillmore (owned by The Gap and Starbucks, respectively). Based on the businesses that are already located in San Francisco, however, this proposed change is unlikely to have a wide-ranging effect. Subsidiaries – defined as a corporation that is more than 50 percent owned by another corporation and has a different legal business name from its parent company – account for only 3 percent of retail businesses in San Francisco that have 12 or more corporate family members. Most of these would already qualify as formula retail under the existing Planning Code, because they have 12 or more locations of the same trade name in the U.S.⁷⁷

Expanding the application of formula retail controls to other types of land uses would affect a more significant number of potential applicants. Figure VII-1 shows the estimated number of establishments that fall into the land use categories that Supervisor Mar's proposed legislation would add to the list of uses potentially subject to formula retail regulations. Appendix C provides definitions for the land uses, as

⁷⁵ For example, highly recognizable brands like T-Mobile (based in Germany), 7-Eleven (headquartered in Japan), The Body Shop (headquartered in England), and Sephora (based in France) account for many of the 130 businesses headquartered outside of the United States. Note that because the majority of businesses headquartered overseas have at least 12 outlets in the U.S., these businesses were generally considered to be "formula retail" for the purposes of the study and are included in the statistics provided in Chapters III and IV.

⁷⁶ Uniqlo has 17 locations in California, New Jersey, New York, and Connecticut; however, when the brand opened its first San Francisco location in 2012 it had just four other locations in New York and New Jersey. Carolyn Said, "Uniqlo Opens S.F. Store," *SFGate*, October 4, 2012, <http://www.sfgate.com/business/article/Uniqlo-opens-S-F-store-3919489.php#src=fb>.

⁷⁷ Note that because the majority of subsidiaries have at least 12 outlets in the U.S., these businesses were generally considered to be "formula retail" for the purposes of the study and are included in the statistics provided in Chapters III and IV.

excerpted from the Planning Code. Many of the land uses included in the legislation cover types of businesses that people often think of as retail but that are not currently covered by the definition of formula retail, such as salons, gyms, and other personal service establishments; automobile sales, rentals, service, and repair; and gas stations. In addition, wholesale companies, administrative offices, business or professional service companies, medical clinics, and hotels would also be affected.

Based on the industry (North American Industry Classification System [NAICS]) codes recorded in the D&B dataset, an estimated 21,330 existing businesses in San Francisco most likely fall into one of these land use categories. Of these 860 (4 percent) could potentially be considered formula retail based on the number of corporate family members recorded in the D&B database (Figure VII-1).

Figure VII-1. Land Uses Included in Supervisor Eric Mar's Proposed Legislation: Potential Number of Formula Retail Establishments

Land Use	Potential Formula Retail Establishments (a)	Estimated Total Establishments	Potential Formula Retail Establishments as a % of Total
Automobile Sale or Rental	50	210	24%
Automotive Gas Station	40	120	31%
Automotive Service Station and Repair	20	580	4%
Hotel, Tourist	90	550	16%
Service, Administrative	140	4,590	3%
Service, Business or Professional	150	2,960	5%
Service, Fringe Financial	30	210	16%
Service, Medical	80	4,960	2%
Service, Personal & Massage Establishment	50	2,160	2%
Trade Shops	30	690	4%
Wholesale Sales	160	3,470	4%
Other (b)	30	830	4%
Total	860	21,330	4%

(a) Includes franchises and businesses with 12 or more total global corporate family members (branches or subsidiaries).

(b) Includes ambulance service, animal hospital, automobile parking, automotive wash, other entertainment, mortuary, and storage land uses.

Certain land uses (light manufacturing, limited service financial, adult entertainment, neighborhood agriculture, large-scale agriculture) were excluded from the analysis because no corresponding North American Industry Classification System (NAICS) codes were identified; remaining land uses (tobacco paraphernalia establishments, gift store tourist oriented, jewelry store) were excluded because they are already covered under existing formula retail legislation.

Columns may not add due to rounding.

Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Summary of Findings

Changing the definition of formula retail to include subsidiaries of formula retailers or international chains with fewer than 11 other establishments in the U.S. is unlikely to have a wide-reaching effect, although some potential applicants would be affected. On the other hand, expanding the application of formula retail controls to other types of land uses could affect a significant number of businesses considering new locations in San Francisco.

VIII. NEIGHBORHOOD CASE STUDIES

This chapter provides case studies of the role that formula retail plays in San Francisco's neighborhood commercial districts, focusing on three such districts: the Upper Fillmore Neighborhood Commercial District (NCD), the Ocean Avenue Neighborhood Commercial Transit District (NCT), and Geary Boulevard between 14th Avenue and 28th Avenue.⁷⁸ As envisioned in the San Francisco Planning Code, NCDs are primarily intended to provide retail goods and services for the immediately surrounding neighborhoods. One of the main purposes of the City's formula retail controls is to protect the distinct character of San Francisco's NCDs, as well as the diversity of businesses and merchandise available in the NCDs.

In order to explore how formula retail establishments and the formula retail controls fit into this vision, the case studies discuss the different functions that formula retail establishments can play in serving local residents and workers versus shoppers from elsewhere in the city or region. The case studies also examine how new and existing formula retail establishments and the City's formula retail controls contribute to or detract from the overall aesthetics and economic vitality of the districts, and how the formula retail conditional use (CU) process has proceeded in different neighborhoods. As discussed in Chapter II, the CU process is intended to allow the Planning Commission to determine whether each formula retail applicant is necessary, desirable, and consistent with the general character of the neighborhood, a decision that is informed by public comment.⁷⁹

The case studies were selected to represent a diverse spectrum of San Francisco's neighborhood commercial districts, including a wide range of geographic locations, physical contexts, retail functions, and neighborhood demographics. Upper Fillmore, located in the Northern Neighborhoods subarea (as defined in Chapter III), is a rapidly changing district that in recent years has seen a significant shift in the types of retailers occupying local storefronts. The district's pedestrian-scaled streets, well-maintained Victorian buildings, and location in one of San Francisco's highest income neighborhoods has attracted a growing number of new high-end formula clothing stores and other chain retail establishments.

In contrast, Ocean Avenue and Geary Boulevard were among the 25 neighborhoods selected for the Invest in Neighborhoods Initiative, a program of the Mayor's Office of Economic and Workforce Development (OEWD) that focuses City resources on neighborhoods demonstrating economic need and potential for growth. Ocean Avenue is a walkable, compact shopping district in the Southern Neighborhoods subarea, with many commercial buildings dating from the 1920s, 1930s, and 1940s.⁸⁰ The district has a range of formula and independent retailers that serve the daily needs of residents and students from nearby City College of San Francisco, and has experienced significant new public and private investment beginning with a Better Neighborhoods planning and rezoning effort that started in the early 2000s. The Geary Boulevard case study area, located in the Outer Richmond, is a diverse commercial district known for Chinese, Korean, Irish, and Russian retailers and restaurants. The district both serves daily shoppers from the surrounding, moderate income neighborhoods and attracts shoppers from around the region,⁸¹ reflecting the high daily traffic that Geary Boulevard carries as one of San

⁷⁸ The Geary Boulevard case study area is zoned NC-3 (moderate scale commercial), but is not a named NCD.

⁷⁹ Strategic Economics and City staff intentionally selected three NCDs where formula retail is subject to conditional use authorization and not prohibited, since there are no current proposals to expand the districts where formula retail is prohibited.

⁸⁰ City and County of San Francisco, *Balboa Park Station: An Area Plan of the General Plan of the City and County of San Francisco*, 2009, <http://www.sf-planning.org/Modules/ShowDocument.aspx?documentid=1983>.

⁸¹ San Francisco Office of Economic and Workforce Development Invest in Neighborhoods Program, "Geary Boulevard Neighborhood Profile, February 2013, <http://oewd.org/IIN.aspx>.

Francisco's major arterial corridors. The district has not been the subject of a major rezoning effort, but is undergoing a planning process to bring bus rapid transit (BRT) to the area by 2019.

Case Study Methodology

The case studies are based on a range of quantitative and qualitative research methods. To the extent possible for each case study, Strategic Economics conducted the following tasks:

- Site visits.
- Review of existing resources, including (as available for each district) Invest in Neighborhood reports from the Mayor's Office of Economic and Workforce Development, newspaper articles, blogs, and other relevant websites.
- Interviews with two to three stakeholders, including a representative from the local merchants' association, a commercial real estate broker, and/or a representative from a local residents' association.⁸²
- Characterization of existing formula and independent retail establishments, based on the 2012 Dun & Bradstreet dataset and (as available for each district) recent storefront inventories conducted by the Invest in Neighborhoods Program, local merchants' associations, and the San Francisco Commercial Brokers' "Formula Retail Mapping Project."
- Assessment of formula retail conditional use (CU) applications over time.
- Examination of demographic data in the surrounding "primary trade area" (defined as Census Tracts located within a half-mile radius of each shopping district⁸³), including data on population and household density, household types, household income, and race and ethnicity.
- Analysis of City sales tax data, including data on the number of stores and restaurants reporting sales tax and average sales tax revenues generated per establishment between 2002 and 2013. Note that because of the way the City collects sales tax data, sales tax revenues were only available for businesses with one location in San Francisco (referred to as "single-site" businesses below).⁸⁴ While most of these are likely to be independent retailers, some "single-site" businesses may have 11 or more other locations outside of the city.
- Analysis of CoStar real estate data on rents and vacancies over time (as available for each district).⁸⁵
- Survey of "auto-oriented" parcels, including surface parking lots, parking garages, and gas stations. The surveys were based on parking data collected by SF Park in 2011, as updated and verified using Google Maps and Google Streetview.

The following sections discuss the results of the analysis performed for each case study.

⁸² A list of interviewees is provided in Appendix E.

⁸³ A one-mile radius is a common rule of thumb for defining the trade area for most daily needs-serving uses. However, a half-mile radius better captures the primary trade area for San Francisco's neighborhoods given the city's geographic barriers and the density of neighborhood commercial districts in the city.

⁸⁴ Firms with more than one site in San Francisco report all sales tax revenues to one central location; it is not possible to determine how much of the revenues originated from any particular location.

⁸⁵ CoStar maintains the largest and most comprehensive database of commercial real estate information in the country, but the data are subject to significant limitations. CoStar's information is self-reported by real estate brokers, many of whom withhold rental rates in order to protect their competitive position. In addition, many properties are not listed on CoStar.

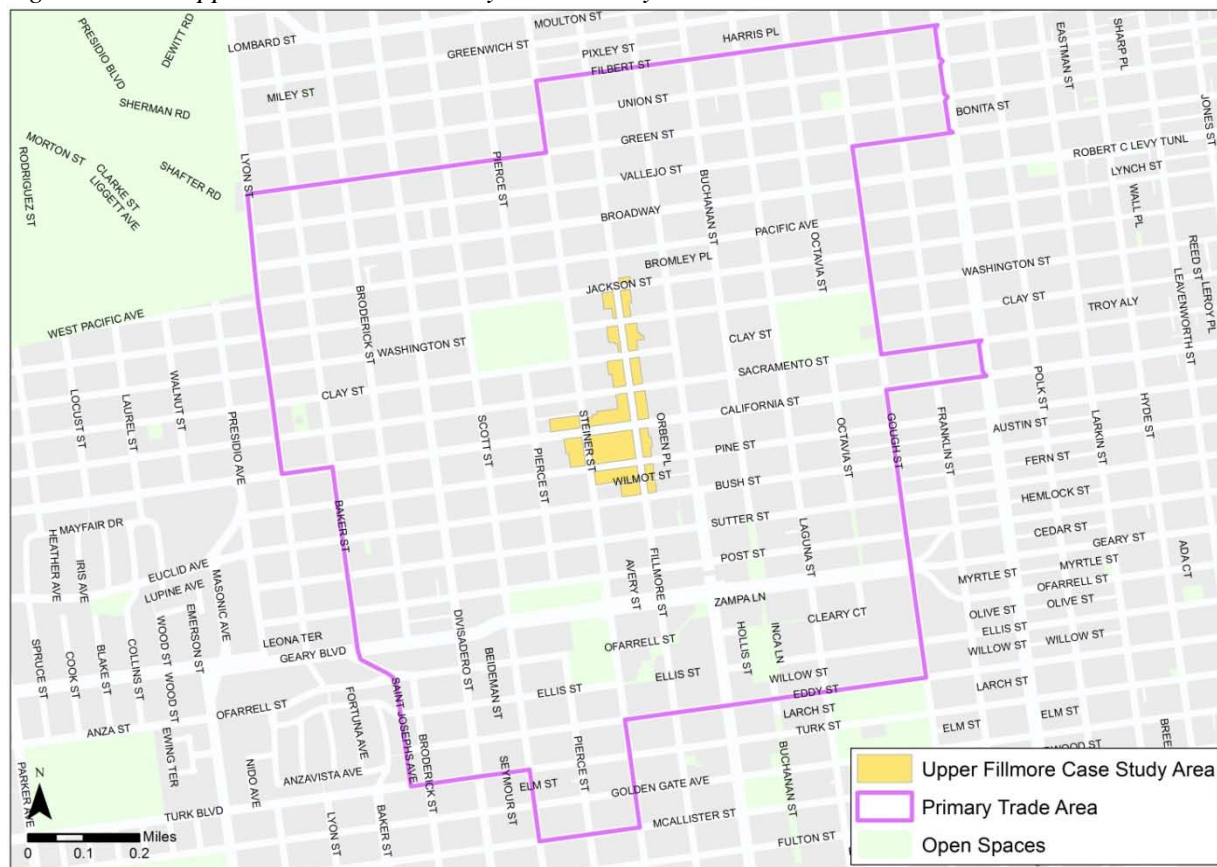
Upper Fillmore Neighborhood Commercial District

The Upper Fillmore NCD (shown in Figure VIII-1) is a long-standing retail and restaurant district that serves one of San Francisco’s highest-income neighborhoods and is currently emerging as a high-end fashion destination. High-end stores and restaurants – including both formula and independent retailers – are drawn to Upper Fillmore by the demographics of the surrounding neighborhood, the district’s pedestrian-oriented, Victorian shopping environment, and the advantages of co-locating with similar retailers in a district that is becoming a regional destination.

In recent months, formula retail has become a controversial topic in Upper Fillmore as the neighborhood has attracted a number of new high-end formula clothing stores and other chain retail establishments. As the mix of retail in the district has changed, residents have raised concerns about a loss of neighborhood-serving businesses, while some independent retailers have expressed unease over competition from national brands. In response to these concerns, Supervisor Mark Farrell introduced legislation in July 2013 that would amend the San Francisco Planning Code to expand the definition of formula retail in the Upper Fillmore NCD. Supervisor Farrell’s proposed legislation would tighten the City’s formula retail controls in Upper Fillmore to cover retail with 11 or more other establishments anywhere in the world, and establishments where 50 percent or more of stock or shares are owned by a formula retail use.

The following sections discuss the retail dynamics in Upper Fillmore, the formula retail conditional use applications that have been submitted, local demographic, sales, and market trends, and the relationship between formula retail and the district’s urban form.

Figure VIII-1. Upper Fillmore Case Study and Primary Trade Area



The “Primary Trade Area” is defined as those Census Tracts located within a half-mile radius of each shopping district. Sources: City and County of San Francisco, 2013; Strategic Economics, 2014.

Retail Dynamics

Upper Fillmore has attracted a significant concentration of retail stores and restaurants, including a large number of high-end apparel and beauty stores. As of early 2014, 68 stores and 27 restaurants and bars were located in Upper Fillmore (Figure VIII-2). Of the 68 stores, more than half sold apparel and jewelry or other accessories. Another 6 stores were in the “other health and personal care” category, which predominantly consists of cosmetics stores (Figure VIII-3). In addition to the use types shown in Figures VIII-2 – which are all regulated under the City’s formula retail controls – the Upper Fillmore district is also home to a number of salons, spas, and other personal service establishments that are not regulated as formula retail.⁸⁶ The cluster of fashion boutiques, beauty stores, and restaurants in the district work together to create a regional destination, attracting residents and visitors who come to patronize multiple establishments.

Compared to citywide averages, Upper Fillmore has a high concentration of formula retail establishments. Formula retail accounts for 20 percent of all retail establishments and 15 percent of restaurants and bars in the case study area. In comparison, in the city as a whole, 10 percent of stores and 11 percent of restaurants and bars are formula retail (Figure VIII-2). Formula retail accounts for a particularly high share of apparel and accessories stores and furniture and home furnishings stores compared to citywide averages (Figure VIII-3).

Figure VIII-2. Formula and Independent Retail Establishments by Use Type: Upper Fillmore Neighborhood Commercial District, Early 2014

Use Type	Upper Fillmore NCD				San Francisco (a)
	Formula Retail	Independent Retail	Total	Formula Retail as a % of Total	Formula Retail as a % of Total
Stores	14	54	68	21%	10%
Restaurants & Bars	4	23	27	15%	11%
Retail Services	0	5	5	0%	4%
Banks, Credit Unions, S&L	3	0	3	100%	84%
Movie Theaters	0	1	1	0%	N/A
Total	21	83	104	20%	12%

(a) San Francisco data are from the 2012 Dun & Bradstreet dataset, and have not been independently verified.

Use types shown are subject to formula retail controls.

Acronyms:

S&L: Savings and loans

N/A: Not available

Sources: Dun & Bradstreet, 2012; San Francisco Commercial Real Estate Brokers, "Formula Retail Mapping Project," 2014; Strategic Economics, 2014. All numbers are approximate.

⁸⁶ A detailed storefront inventory (like those provided by the OEWD for Ocean Avenue and Geary Boulevard) was not available for the Upper Fillmore case study area.

Figure VIII-3. Retail Stores by Type: Upper Fillmore Neighborhood Commercial District, Early 2014

Store Type	Upper Fillmore NCD				San Francisco (a)
	Formula Retail	Independent Retail	Total	Formula Retail as a % of Total	Formula Retail as a % of Total
Apparel & Accessories	10	28	38	26%	15%
Other Retail Stores (b)	1	10	11	9%	4%
Other Health & Personal Care (c)	1	5	6	17%	20%
Furniture & Home Furnishings	1	3	4	25%	7%
Sporting Goods, Hobby, Book, Music	0	4	4	0%	3%
Supermarkets & Other Grocery	0	3	3	0%	7%
Convenience, Liquor, & Other Food	1	1	2	50%	10%
Total	14	54	68	21%	10%

(a) San Francisco data are from the 2012 Dun & Bradstreet dataset, and have not been independently verified.

(b) Includes florists, gift stores, stationery stores, art galleries and framing stores, used merchandise stores, and other miscellaneous retailers.

(c) Includes cosmetics and beauty stores, eyeglass stores, and health supplement stores.

Sources: Dun & Bradstreet, 2012; San Francisco Commercial Real Estate Brokers, "Formula Retail Mapping Project," 2014; Strategic Economics, 2014. All numbers are approximate

Brokers and local stakeholders report that international companies, formula retail subsidiaries, and other fast-growing brands are “racing” to open locations in Upper Fillmore before they meet the definition of formula retail. According to brokers, some international and fast-growing domestic chains are accelerating plans to open in the popular shopping district before they reach the threshold for formula retail, in order to secure a location without going through the formula retail CU application process. For example, rapidly expanding clothing boutiques like Alice + Olivia, Roberta Freymann, Steven Alan, and James Perse reportedly opened locations in Upper Fillmore shortly before reaching the 11-store threshold. Several international chains with significant presences in other countries that recently opened in the district – such as The Kooples, Cotélaç, and Sandro (three French clothing lines) – did not require formula retail CU authorizations because they had fewer than 11 other locations in the United States. Other recently opened businesses, such as Evolution Juice and Athleta, are owned by large formula retail uses (Starbucks and The Gap, respectively) but did not require formula retail CU authorizations because the Planning Code currently defines formula retail based on trademark and branding, rather than ownership.⁸⁷

Supervisor Farrell’s legislation would address concerns about the international chain retailers and subsidiaries by expanding the definition of formula retail in the Upper Fillmore NCD to include retail with 11 or more other establishments anywhere in the world, and establishments where 50 percent or more of stock or shares are owned by a formula retail use.

⁸⁷ “Getting to 11,” *The New Fillmore*, June 1, 2012, <http://newfillmore.com/2012/06/01/getting-to-11/>.

Figure VIII-4. Evolution Juice (left) and Alice + Olivia (right) in Upper Fillmore



Source: Strategic Economics, 2014.

Local residents and merchants have noticed a decline in the number of businesses in the district that serve residents' daily needs. The case study area does include several independent grocery stores, including a Mollie Stone's Market, the Mayflower Market, and Gino's Grocery Company. The district also has an independent movie theater, one of the few left in the city. Several pharmacies, including a Walgreens and the pharmacy at the California Pacific Medical Center, are located immediately outside the boundaries of the Upper Fillmore Neighborhood Commercial District. However, stakeholders have voiced concerns about the loss in recent years of a hardware store, laundromat, dry cleaners, and other stores serving daily needs.

The decline in daily needs-serving retailers and service providers reflects the fact that these businesses tend to have lower profit margins than stores that sell comparison goods. In general, daily needs-serving businesses typically have lower profit margins than businesses that sell comparison goods. As a result, brokers and other stakeholders report some daily needs-serving businesses have been unable to afford increased rents, or decided to take "key money" – i.e., a payment for the right to assume an existing tenant's lease – from a comparison goods retailer and close shop. (As discussed below, both formula and independent retailers have reportedly paid key money on Upper Fillmore.) Meanwhile, at least one business owner who owned his building decided he could make more money by renting his space to another retailer than by continuing to operate his own store. In other cases, long-time business owners may simply have retired.

Some community members have raised concerns that formula retailers are less engaged with the community than independent retailers; however, no enforcement actions have been filed with the Planning Department. Concerns about formula retailers' lack of community participation have been raised on local blogs,⁸⁸ and in public comments for at least one formula retail CU application in Upper Fillmore.⁸⁹

⁸⁸ Barbara Kate Repa, "Polo's Promises Go Unfulfilled," *The New Fillmore*, April 2, 2010, <http://newfillmore.com/2010/04/02/polos-promises-go-unfulfilled/>.

⁸⁹ San Francisco Planning Department, Planning Commission Final Motion No. 17578, April 10, 2008.

Formula Retail Conditional Use Activity

Despite the controversies over formula retail in Upper Fillmore, all five formula retail conditional use applications filed in the case study area have been approved by the Planning Commission and none of these approvals have been appealed to the Board of Supervisors. Figure VIII-5 shows the formula retail CU applications that have been filed in Upper Fillmore since CU authorization was first required in 2007. Four of the five applications were for clothing stores; the fifth (Kiehl's) is a cosmetics and skin care store.⁹⁰

Figure VIII-5. Formula Retail Conditional Use Applications in Upper Fillmore Neighborhood Commercial District, 2007 - January 2014

Business Name	Address	File Date	Action Date	Action Taken
Polo Ralph Lauren	2040 Fillmore St	2007	2008	Approved with conditions
Black Fleece	2223 Fillmore St	2009	2009	Approved with conditions
Bo Concept (a)	1928 Fillmore St	2010	2010	Approved with conditions
Kiehl's	1971 Fillmore St	2010	2011	Approved with conditions
Rag & Bone	2060 Fillmore St	2013	2014	Approved with conditions

(a) Bo Concept has since closed.

Sources: City and County of San Francisco, 2014; Strategic Economics, 2014.

However, there was one appeal over whether a proposed tenant should be subject to the City's formula retail controls. The Planning Department initially determined that German-based clothing brand Oska was not a formula retail use. After a local boutique owner appealed, the Board of Appeals subsequently ruled that Oska did qualify as a formula retailer, because the company had 11 other establishments in the U.S. including two signed leases.⁹¹ Oska subsequently decided not to formula retail CU application in this location.

Demographics, Sales, and Market Trends

The high population density and high household incomes in the Upper Fillmore trade area are a key factor in the district's appeal to high-end retailers, including high-end formula and other chain retailers. Figures VIII-6 through VIII-9 provide an overview of the selected demographics for the Census Tracts in the half-mile radius around the Upper Fillmore NCD. According to retail brokers, the high disposable incomes of many residents – as evidenced by the trade area's high population density (Figure VIII-6), high average incomes (Figure VIII-6), and high share of single-person households (Figure VIII-7) – are a primary reason that high-end retailers are attracted to Upper Fillmore.

⁹⁰ Sterling Bank and Chase Bank received conditional use authorizations in 2006 and 2011, respectively, for establishing new financial services institutions. However, the two banks did not require formula retail CUs because they were entitled before financial services were added to the definition of formula retail in the Planning Code in 2012.

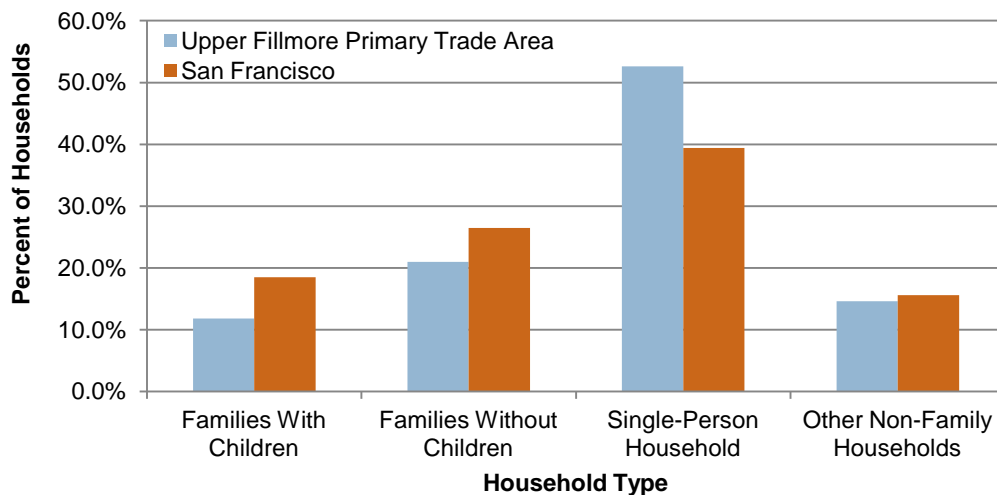
⁹¹ Barbara Kate Repa, "Oska Stirs Chain Store Fight on Fillmore," *The New Fillmore*, March 3, 2013, <http://newfillmore.com/2013/03/03/oska-stirs-chain-store-fight-on-fillmore/>; "City Tightens Chain Store Limits," *The New Fillmore*, May 31, 2013, <http://newfillmore.com/2013/05/31/city-tightens-chain-store-limits/>.

Figure VIII-6. Population, Households, and Average Household Income: Upper Fillmore Primary Trade Area and San Francisco, 2012

	Upper Fillmore Primary Trade Area	San Francisco
Population	35,331	807,755
Number of Households	19,552	340,839
Average Household Size	1.8	2.4
Population Density (People per Acre)	44.6	31.4
Households per Acre	24.7	13.2
Average Household Income	\$136,050	\$107,520

Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

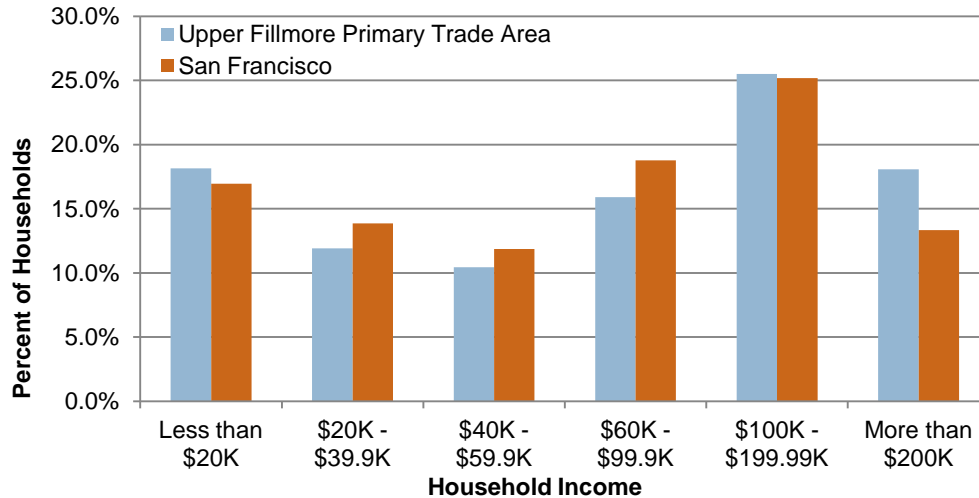
Figure VIII-7. Households by Type: Upper Fillmore Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

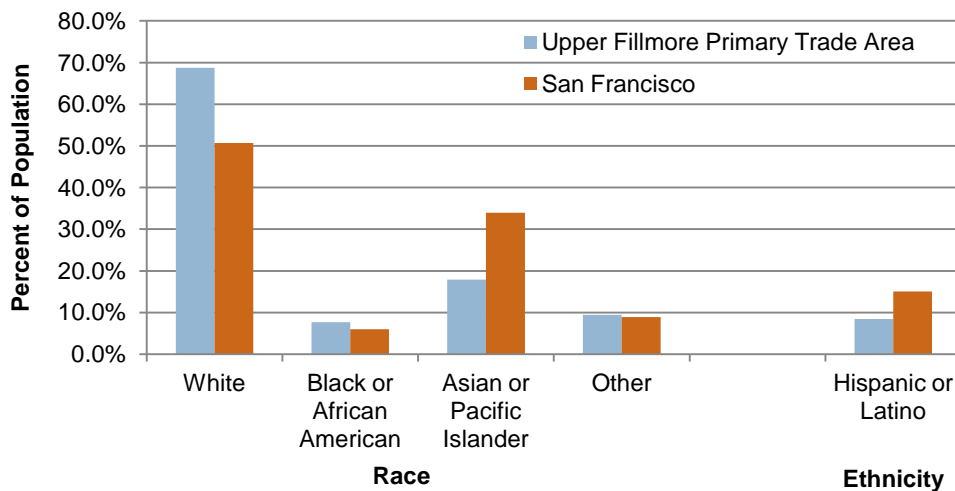
However, many neighborhood residents are unlikely to be able to afford the high-end products available for sale in the commercial district. Despite the trade area’s high average incomes, the neighborhood has a higher percentage of households earning less than \$20,000 a year compared to the citywide average, reflecting the presence of several low-income housing developments in the area (Figure VIII-8). Indeed, residents observe that some of the single-person households in the area are seniors living on fixed incomes and in subsidized or rent-controlled housing. A very high percentage of the population is white – nearly 70 percent in the trade area, compared to 50 percent of the city’s entire population. However, African-Americans make up a slightly higher share of the population than in San Francisco overall, a legacy of the area’s history as a center of African-American culture (Figure VIII-9).

Figure VIII-8. Households by Income Level: Upper Fillmore Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

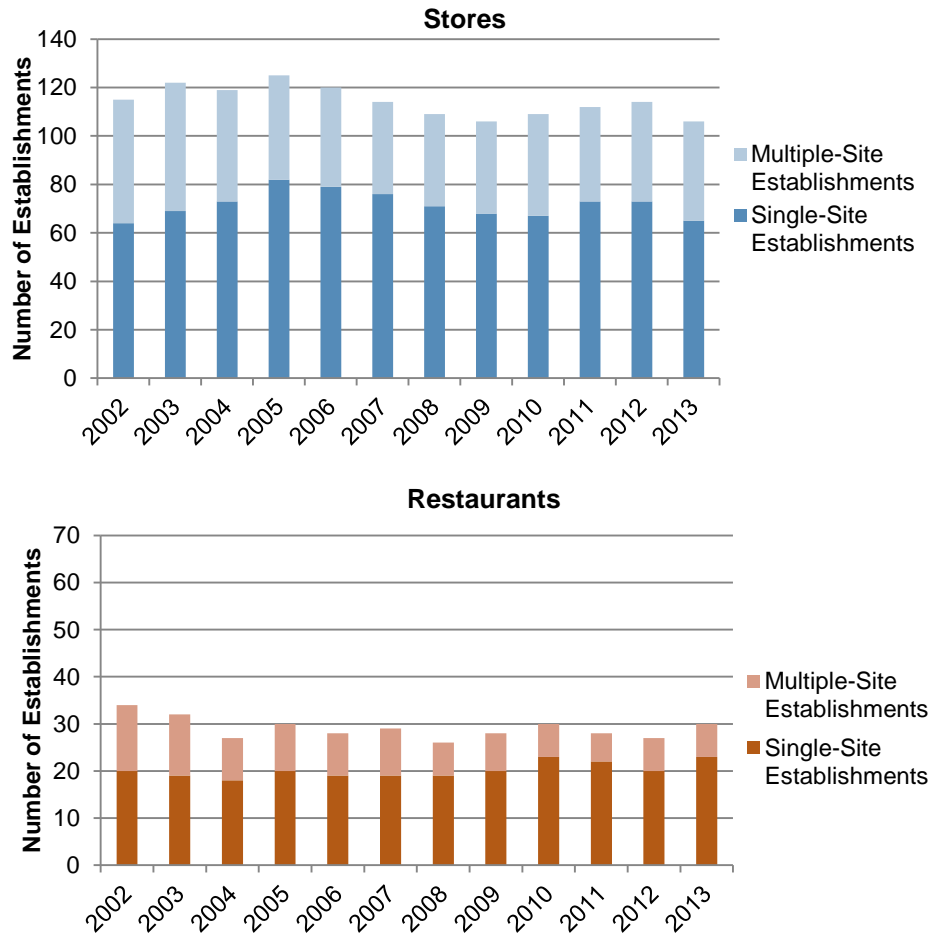
Figure VIII-9. Population by Race and Ethnicity: Upper Fillmore Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

Despite the reported increase in formula retail establishments and other chains on Upper Fillmore, the number of single-site establishments in the case study areas was approximately the same in 2013 as in 2002. Figure VIII-10 shows the number of restaurants and retail stores in the Upper Fillmore that reported just one location in San Francisco (“single-site” establishments) or more than one location in San Francisco (“multiple-site” establishments). Note that in Upper Fillmore in particular, some single-site businesses are national or international brands with just one location in the city. As Figure VIII-10 shows, the number of stores has fluctuated over time, generally tracking regional economic conditions. There were approximately the same number of single-site stores (63) and restaurants (23) in Upper Fillmore in 2013 as in 2002.

Figure VIII-10. Single- and Multiple-Site Stores and Restaurants Reporting Sales Tax in the Upper Fillmore Neighborhood Commercial District, 2002-2013

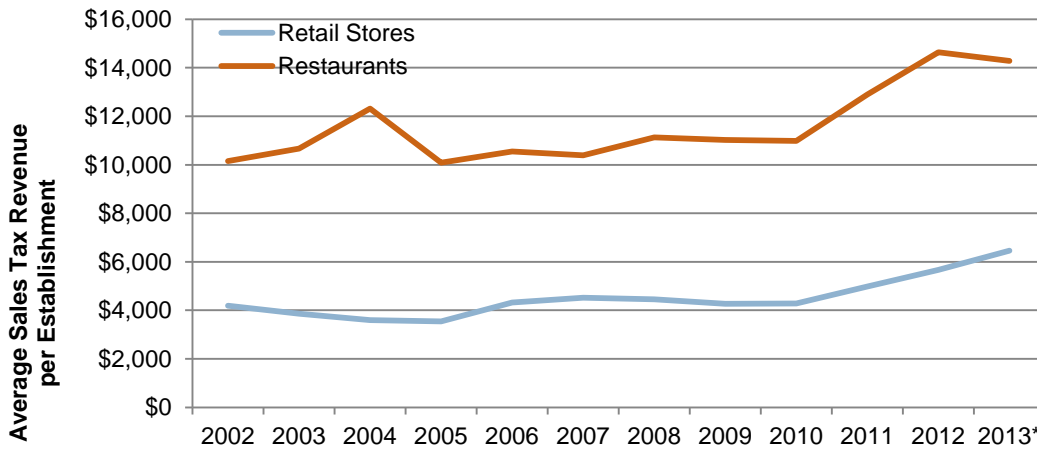


"Single-Site" establishments had one location in San Francisco; "multiple-site" establishments had more than one location in the city.

Sources: San Francisco Office of Economic Analysis, 2014; Strategic Economics, 2014.

Single-site establishments are performing very strongly. Figure VIII-11 shows the average sales tax revenue generated by single-site restaurants and stores. As discussed below, single-site restaurants and bars in the Upper Fillmore generate significantly more revenue on average than restaurants and bars in the Ocean Avenue and Geary Boulevard case study areas. Sales have increased rapidly since the economy began to recover in 2010, although restaurant sales dipped slightly between 2012 and 2013.

Figure VIII-11. Average Sales Tax Revenue Per Single-Site Establishment: Upper Fillmore Neighborhood Commercial District, 2002-2013 (Adjusted to 2013 Dollars)



"Single-Site" establishments are firms that reported one location in San Francisco.

*Includes estimate of fourth-quarter sales tax revenues for 2013, based on average revenues in first three quarters of the year.

Sources: San Francisco Office of Economic Analysis, 2014; Strategic Economics, 2014.

Reflecting the high sales volume in the district, brokers report that rents are increasing rapidly and there are few if any long-term vacancies in the district. Rents in Upper Fillmore have reportedly reached \$140 per square foot in some recent transactions, significantly above retail rents in other neighborhood commercial districts.⁹² According to brokers and recent articles and reports, new tenants in Upper Fillmore often secure their leases before storefronts become vacant.⁹³ For example, two storefronts that were vacant as of early 2014 at 2060-66 California Street (a former Royal Ground Coffee Shop and a laundromat, shown in Figure VIII-12) were already leased to Rag & Bone, a formula retail clothing boutique.

⁹² Renee Frojo, "Fillmore Street Hits New Fashion Heights," *San Francisco Business Times*, May 4, 2012, <http://www.bizjournals.com/sanfrancisco/print-edition/2012/05/04/fillmore-street-hits-new-fashion-heights.html>. Reliable CoStar data on rents were not available for this case study area.

⁹³ *Ibid.*; San Francisco Commercial Real Estate Brokers, *Formula Retail Mapping Project*, 2014.

Figure VIII-12. The Former Royal Ground Coffee Shop at Fillmore and California Streets, Site of a Future Rag & Bone Clothing Boutique (a Formula Retail Use Approved by the Commission in February 2014)



Source: Strategic Economics, 2014.

High rents and the need to pay “key money” to secure space make it challenging for new daily needs-serving businesses to locate in the district. Some recent transactions have reportedly involved the exchange of “key money,” where a business that wants to locate on the street pays an existing tenant for the right to assume the tenant’s lease. Both formula and independent retailers have reportedly paid key money, but this type of payment – combined with the area’s high rents – poses a significant barrier for start-ups and other small businesses with limited financial resources, including daily needs-serving businesses that typically have lower profit margins than high-end clothing stores and other comparison good retailers.

Neighborhood Character

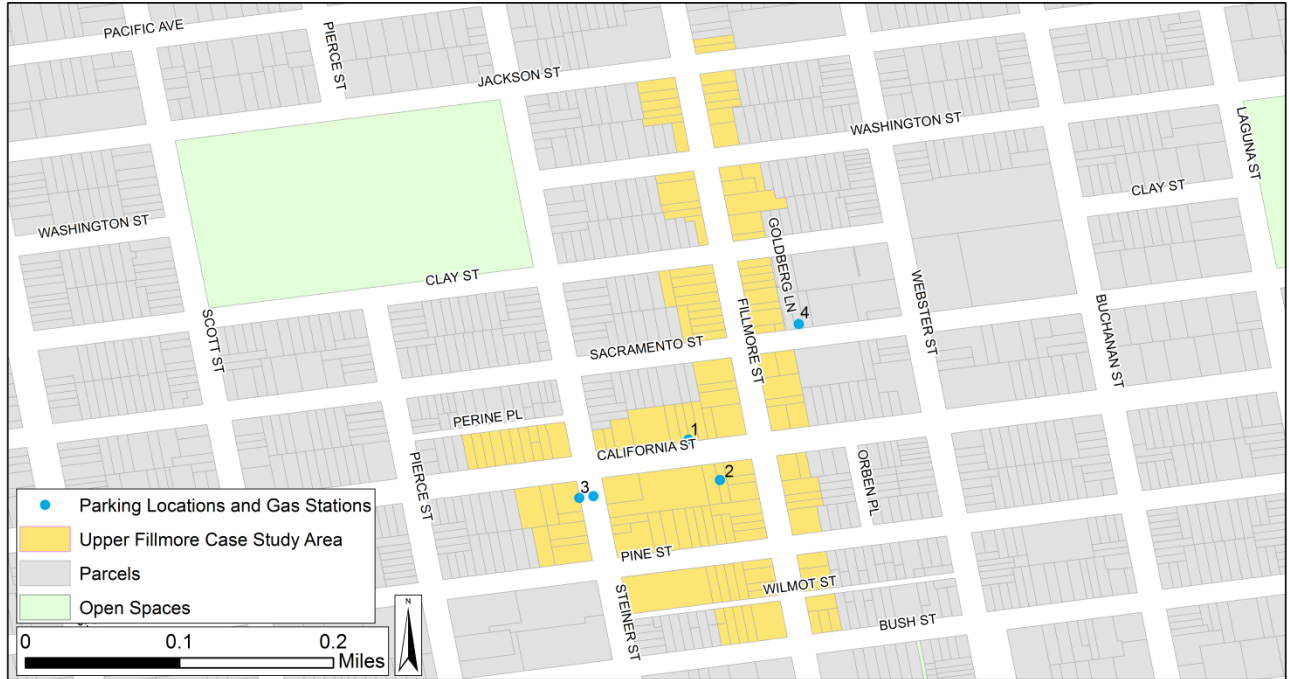
Upper Fillmore’s pedestrian-scaled streets, well-maintained Victorian buildings, and the size and quality of the retail spaces create an attractive shopping environment. Brokers report that the visual appeal of the Victorian buildings is one of the key factors that attract both formula and independent retailers to Upper Fillmore.

Formula retail establishments in Upper Fillmore generally locate in medium-sized storefronts. On average, formula retailers occupy slightly more space than independent retailers in Upper Fillmore – about 5,900 square feet per establishment, compared to an average of 2,900 per independent retailer.⁹⁴

While the stores may be larger, formula retail establishments in Upper Fillmore still tend to locate in Victorian buildings with limited parking. Figure VIII-13 shows where public and private parking lots, as well as gas stations, are located in the Upper Fillmore NCD, as well as which establishments they serve. None of the formula retailers in the district are located on parcels with large surface parking lots.

⁹⁴ Based on data from the 2012 Dun & Bradstreet database that have not been independently verified.

Figure VIII-13. Auto-Oriented Uses (Parking Locations and Gas Stations): Upper Fillmore Neighborhood Commercial District



1. Public Parking Lot
48 Spaces

2. Mollie Stone Market
Private Lot
60 Spaces

3. Shell Gas Station & Service Center
Private Lot
18 Spaces

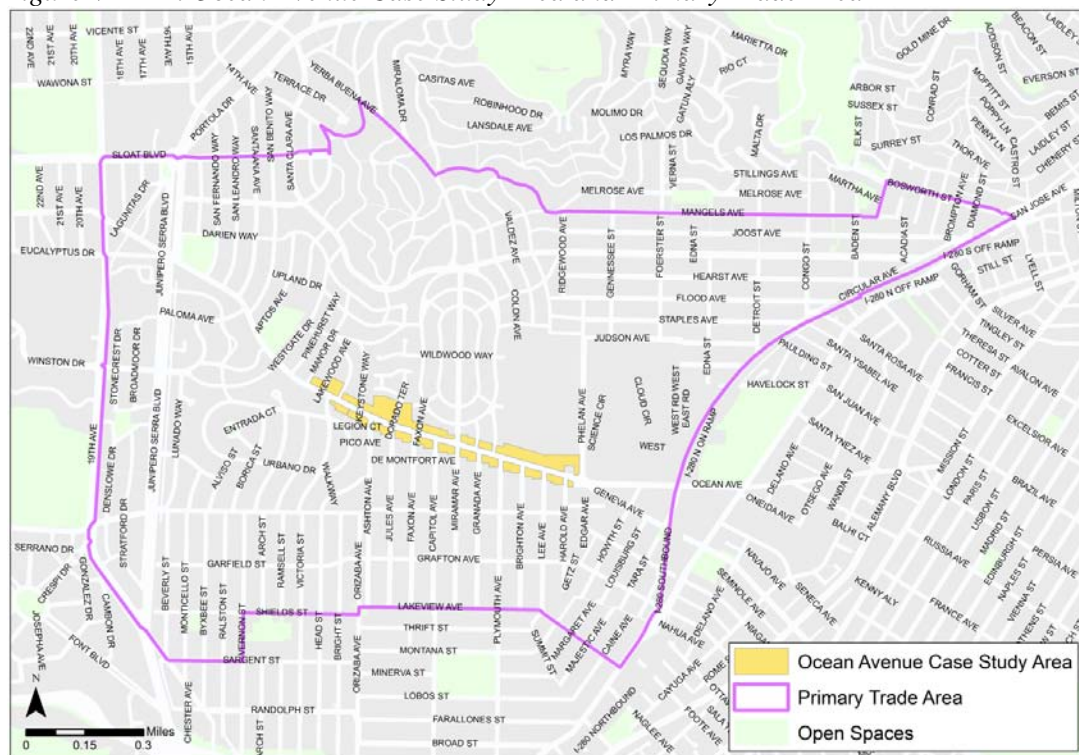
4. Unknown Retail
Private Lot
Unknown Spaces

Formula retail establishments are noted in bold.
Sources: SF Park, 2011; Strategic Economics, 2014.

Ocean Avenue Neighborhood Commercial Transit District

The Ocean Avenue NCT (shown in Figure VIII-14) is a compact, walkable commercial district located in the southwestern part of the city, directly west of City College of San Francisco. The district is located within a 10- to 20-minute walk of Balboa Park BART Station and directly off of I-280, and is served by three Muni Metro lines and several bus lines. Beginning with the Balboa Park Station Better Neighborhoods planning process in the early 2000s, the district has undergone significant revitalization. Recent public and private investments include a new Avalon Bay apartment project with a Whole Foods on the ground floor, a new public library, and a redesigned bus terminal. The Mayor’s Office of Economic and Workforce Development recently selected Ocean Avenue for the Invest in Neighborhoods program, focusing City resources on the district. Meanwhile, the Ocean Avenue Association became a community benefit district (CBD)⁹⁵ in 2010, allowing the organization to generate assessment revenues that – together with grant funds from the City and other organizations – have paid for new trees and landscaping, street and sidewalk cleaning, public safety, marketing, technical assistance for small businesses, and other programs.⁹⁶

Figure VIII-14. Ocean Avenue Case Study Area and Primary Trade Area



The “Primary Trade Area” is defined as those Census Tracts located within a half-mile radius of each shopping district. Sources: City and County of San Francisco, 2013; Strategic Economics, 2014.

⁹⁵ Community benefit districts are a type of assessment district, in which property or business owners elect to pay an assessment in order to fund activities such as street and sidewalk cleaning, public safety, and marketing programs. CBD programming is typically administered by a local merchants’ association.

⁹⁶ Marisa Lagos, “Ocean Avenue Making Waves in Ingleside,” *San Francisco Chronicle*, October 1, 2013, <http://www.sfgate.com/bayarea/article/Ocean-Avenue-making-waves-in-Ingleside-4857792.php#src=fb>; John King, “Students, Residents Come Together on S.F.’s City College Hill,” *San Francisco Chronicle*, December 18, 2013, <http://www.sfgate.com/bayarea/place/article/Students-residents-come-together-on-S-F-s-City-5073095.php#src=fb>; J.K. Dineen, “Building beyond the Boom,” *San Francisco Business Times*, June 28, 2013, <http://www.bizjournals.com/sanfrancisco/print-edition/2013/06/28/building-beyond-the-boom.html>; John King, “Exciting, Enticing: Housing That Fits in,” *San Francisco Chronicle*, February 17, 2013, <http://www.sfgate.com/bayarea/place/article/Exciting-enticing-housing-that-fits-in-4284949.php#src=fb>.

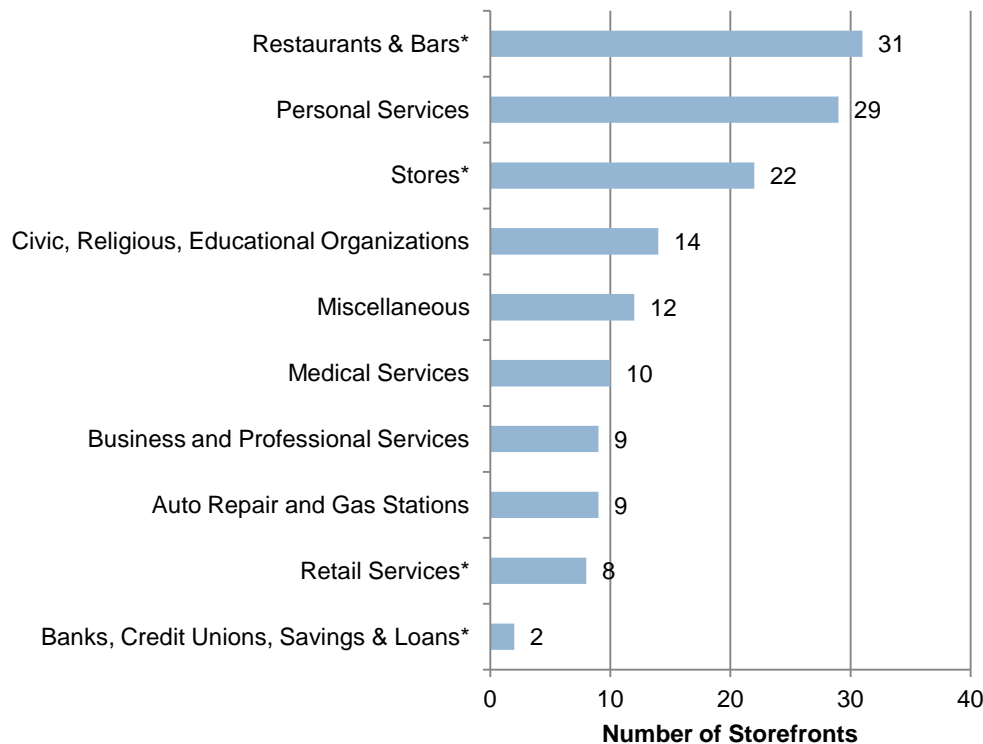
Formula retail establishments in the Ocean Avenue NCT provide goods and services that serve the daily needs of local residents, workers, and students, and have contributed to the ongoing revitalization of the district. However, the corporate structure of formula retail establishments has also posed a barrier to involving formula retailers in efforts to organize and improve the area.

The following sections discuss the retail dynamics in the case study area, the formula retail conditional use applications that have been submitted, local demographic, sales, and market trends, and the relationship between formula retail and the district’s urban form.

Retail Dynamics

In contrast to Upper Fillmore, many storefronts on Ocean Avenue are tenanted with personal services, civic organizations, medical services, and other uses that are not subject to formula retail controls. Figure VIII-15 shows the number of storefronts on Ocean Avenue by type. Uses that are subject to the formula retail controls are indicated with an asterisk. Of the approximately 146 occupied storefronts in the case study area, 83 storefronts (or 56 percent) are occupied by uses that are not subject to the controls. Most of these businesses are independent, but some are chains or franchises. Examples of chains or franchises in the case study area that are not considered formula retail under the Planning Code definition include 24 Hour Fitness, Union 76, Valero, Rai Care Centers of Northern California (a dialysis center), and the Avalon Bay Communities leasing center.

Figure VIII-15. Occupied Storefronts by Type: Ocean Avenue Neighborhood Commercial Transit District, Early 2014



*Use type subject to formula retail controls.
 Sources: Dun & Bradstreet, 2012; OEWD Invest in Neighborhoods, 2013; Strategic Economics, 2014.
 All numbers are approximate.

Formula retail accounts for 16 percent of the retail establishments in the district. Figure VIII-16 provides additional detail on those use types that are subject to formula retail controls, including the

number of formula retail establishments by category. In total, there are 10 known formula retail establishments on Ocean Avenue: 5 stores, 4 restaurants, and 1 bank. Compared to the citywide average, formula retailers make up a particularly high share of retail stores on Ocean Avenue.

Figure VIII-16. Formula and Independent Retail Establishments by Use Type: Ocean Avenue Neighborhood Commercial Transit District, Early 2014

Use Type	Ocean Avenue NCT				San Francisco (a)
	Formula Retail	Independent Retail	Total	Formula Retail as a % of Total	Formula Retail as a % of Total
Stores	5	17	22	23%	10%
Restaurants & Bars	4	27	31	13%	11%
Retail Services	0	8	8	0%	4%
Banks, Credit Unions, S&L	1	1	2	50%	84%
Total	10	53	63	16%	12%

(a) San Francisco data are from the 2012 Dun & Bradstreet dataset, and have not been independently verified.

Use types shown are subject to formula retail controls.

Acronyms:

S&L: Savings and loans

Sources: Dun & Bradstreet, 2012; OEWD Invest in Neighborhoods Initiative, 2013; Ocean Avenue Association, 2014; Strategic Economics, 2014. All numbers are approximate.

Many of the formula and independent retail stores in the district serve the daily needs of residents, workers, and students. Figure VIII-17 shows the types of retail stores in the district by type. The formula retail stores on the street include a 7-11 convenience store, two pharmacies (CVS and Walgreens), and the new Whole Foods. Much of the independent retail also serves daily needs, although some independent, specialized retailers – e.g., a furniture store, an appliance store, a sewing supplies store – also likely attract shoppers from elsewhere in the city or region.

Figure VIII-17. Retail Stores by Type: Ocean Avenue Neighborhood Commercial Transit District, Early 2014

Store Type	Ocean Avenue NCT				San Francisco (a)
	Formula Retail	Independent Retail	Total	Formula Retail as a % of Total	Formula Retail as a % of Total
Other Retail Stores (b)	0	6	6	0%	4%
Convenience & Liquor Stores	1	3	4	25%	10%
Furniture and Appliances	0	3	3	0%	11%
Sporting Goods, Hobby, Book, Music	0	3	3	0%	3%
Apparel & Accessories	0	2	2	0%	15%
Pharmacies & Drug Stores	2	0	2	100%	49%
Building Materials & Garden Supplies	1	0	1	100%	9%
Supermarkets & Other Grocery	1	0	1	100%	7%
Total Stores	5	17	22	23%	10%

(a) San Francisco data are from the 2012 Dun & Bradstreet dataset, and have not been independently verified.

(b) Includes fruit and vegetable market, dollar store, pawn shop, framing store, sewing supplies store.

Sources: Dun & Bradstreet, 2012; OEWD Invest in Neighborhoods Initiative, 2013; Ocean Avenue Association, 2014; Strategic Economics, 2014. All numbers are approximate.

Both formula and independent retailers have contributed to the effort to revitalize Ocean Avenue. The new Whole Foods, which opened in 2013, filled a long-standing need for a grocery store in the Ingleside area and reportedly attracts shoppers from across the Southern Neighborhoods. Champa Gardens, a Southeast Asian restaurant in Oakland, opened a second location near Ocean Avenue in 2013, drawing additional attention to the district. According to the Executive Director of the Ocean Avenue Association, many formula retailers are also active participants in the community. For example, Whole Foods regularly donates meeting space, food, and resources to the community. Other formula retailers encouraged their landlords to vote in favor of establishing the CBD, and regularly provide volunteers for community events.

However, community members note that it is challenging to establish ongoing relationships with formula retailers because the managers rotate between stores or do not have the authority to make decisions. On the other hand, independent businesses can present different challenges. For instance, many small businesses need assistance in maintaining a well-kept façade, or in putting together a business plan.

Figure VIII-18. The New Champa Garden Restaurant (left), Ingleside Branch of the San Francisco Public Library (right), and Avalon Bay/Whole Foods Development (bottom)



Source: Strategic Economics, 2014.

Formula Retail Conditional Use Applications

Since 2007, the case study area has attracted six formula retail conditional use applications; all but one has been approved. Figure VIII-21 shows the formula retail CU application activity in the district. Residents reportedly opposed the Subway location because the proposed formula retail restaurant would have competed with nearby Viking’s Giant Submarines, a local independent retailer.

Figure VIII-19. Formula Retail Conditional Use Applications in Ocean Avenue Neighborhood Commercial Transit District, 2007-January 2014

Business Name	Address	File Date	Action Date	Action Taken
Subway	1326 Ocean Avenue	2007	2007	Withdrawn
CVS Pharmacy	1760 Ocean Avenue	2011	2011	Approved with conditions
Sherwin-Williams Paint Store	1415 Ocean Avenue	2011	2012	Approved with conditions
Yogurtland	1250 Ocean Avenue	2012	2012	Approved with conditions
Fresh & Easy (a)	1830 Ocean Avenue	2012	2012	Approved with conditions
Whole Foods Market	1150 Ocean Avenue	2012	2013	Approved with conditions

(a) Approved but never opened.

Sources: City and County of San Francisco, 2014; Strategic Economics, 2014.

Demographic, Sales, and Market Trends

The primary trade area around the Ocean Avenue Neighborhood Commercial Transit District has relatively high household incomes, a high share of families, and a high proportion of Asian residents. Figures VIII-20 through VIII-23 provide selected demographic characteristics for the Census Tracts in the half-mile radius around the Ocean Avenue case study area. Compared to the city as a whole, the primary trade area has relatively high household incomes (Figures VIII-20 and VIII-21), many families with and without children (Figure VIII-22), and a high share of Asian residents (Figure VIII-23). Both formula and independent retailers have adapted their offerings to reflect the neighborhood's demographics. For example, Beep's Burgers – a local burgers joint that has been on Ocean Avenue since 1962 – now offers teriyaki bowls as well as burgers,⁹⁷ while the Whole Foods deli was recently serving bánh mì sandwiches.

However, the half-mile radius captures portions of a number of distinct neighborhoods with different demographic characteristics. On the west side of the primary trade area, St. Francis Wood and the Ingleside Terrace/Merced Heights neighborhoods are more affluent, while the Ingleside and Sunnyside neighborhoods to the east have lower average incomes.

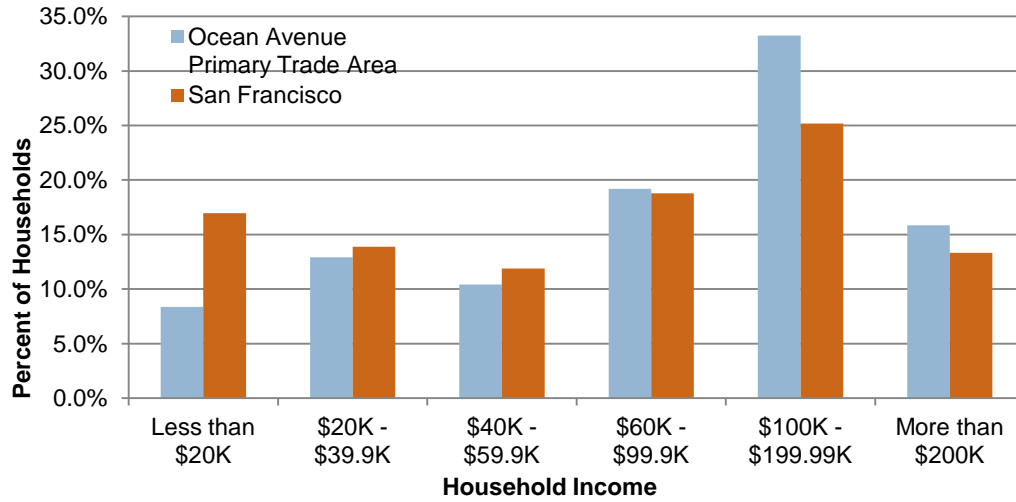
Figure VIII-20. Population, Households, and Average Household Income: Ocean Avenue Primary Trade Area and San Francisco, 2012

	Ocean Avenue Primary Trade Area	San Francisco
Population	30,968	807,755
Number of Households	10,095	340,839
Average Household Size	3.1	2.4
Population Density (People per Acre)	25.0	31.4
Households per Acre	8.1	13.2
Average Household Income	\$123,499	\$107,520

Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

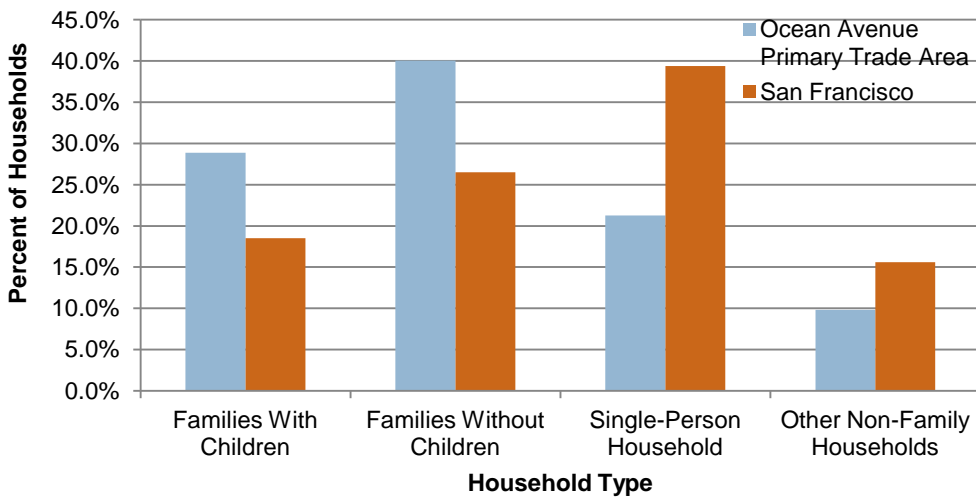
⁹⁷ King, "Students, Residents Come Together on S.F.'s City College Hill."

Figure VIII-21. Households by Income Level: Ocean Avenue Primary Trade Area and San Francisco, 2012



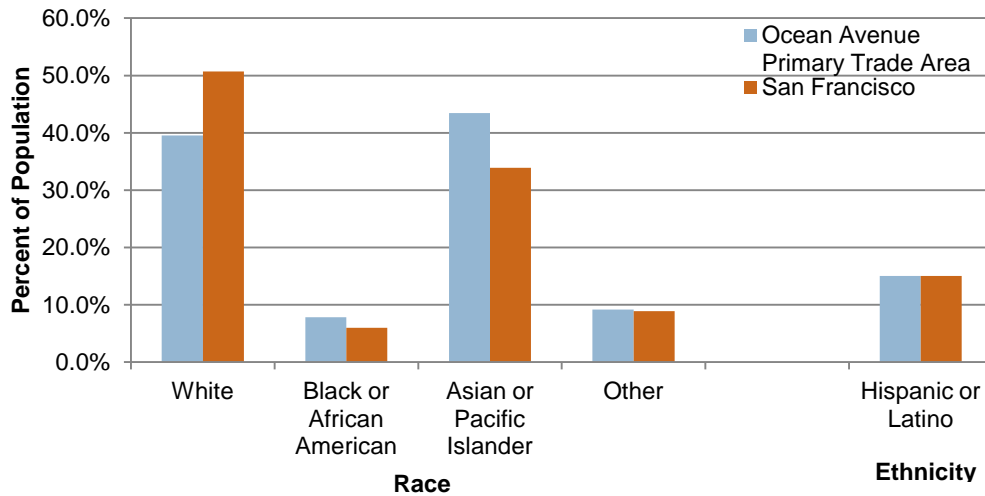
Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

Figure VIII-22. Households by Type: Ocean Avenue Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

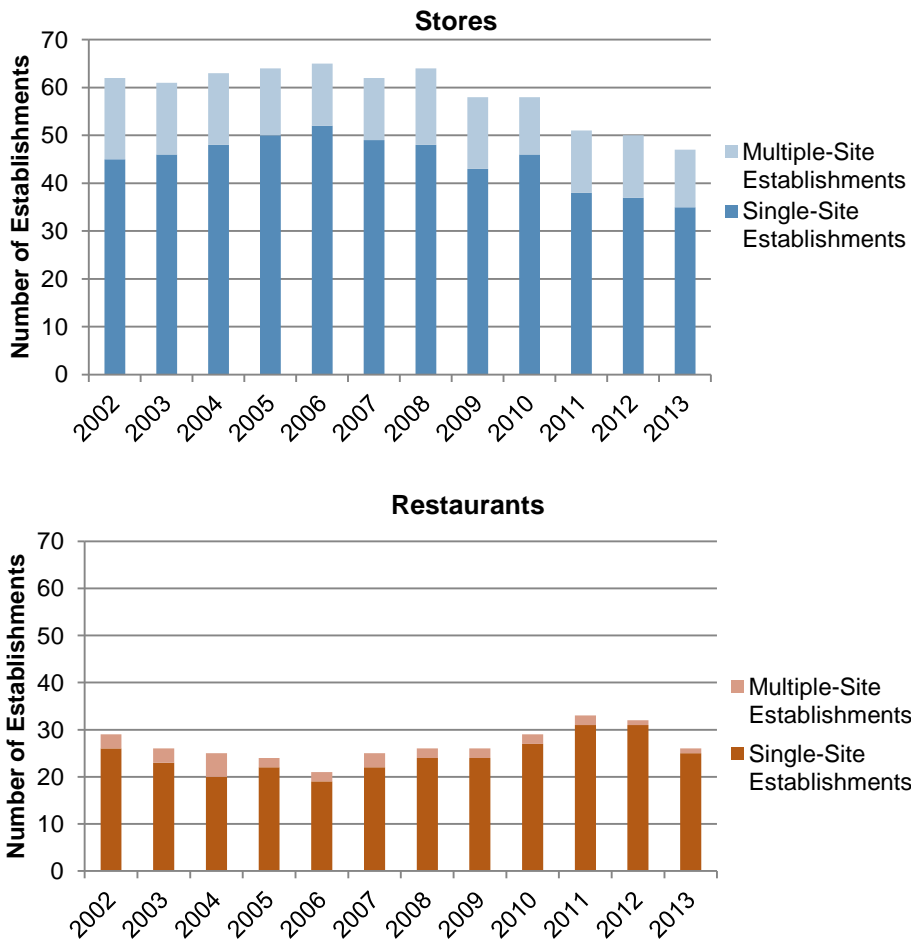
Figure VIII-23. Population by Race and Ethnicity: Ocean Avenue Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

The number of stores reporting sales tax has gone down over time, while the number of restaurants has fluctuated with the economy. Figure VIII-24 shows number of stores and restaurants on Ocean Avenue with one location in San Francisco (“single-site establishments”) or more than one location in San Francisco (“multiple-site establishments”). The total number of stores reporting sales tax revenues declined from 62 in 2002 to 47 in 2013. Single-site stores accounted for 74 percent of all stores on Ocean Avenue in 2013, approximately the same share as in 2002. The overall decline in stores may be linked to national trends; across the country, the number of potential retail tenants has shrunk due to competition with e-commerce and the consolidation of national retail brands. Traditional retail spaces across the country are increasingly being filled with personal, financial, and medical service uses.

Figure VIII-24. Single- and Multiple-Site Stores and Restaurants Reporting Sales Tax in the Ocean Avenue Neighborhood Commercial Transit District, 2002-2013

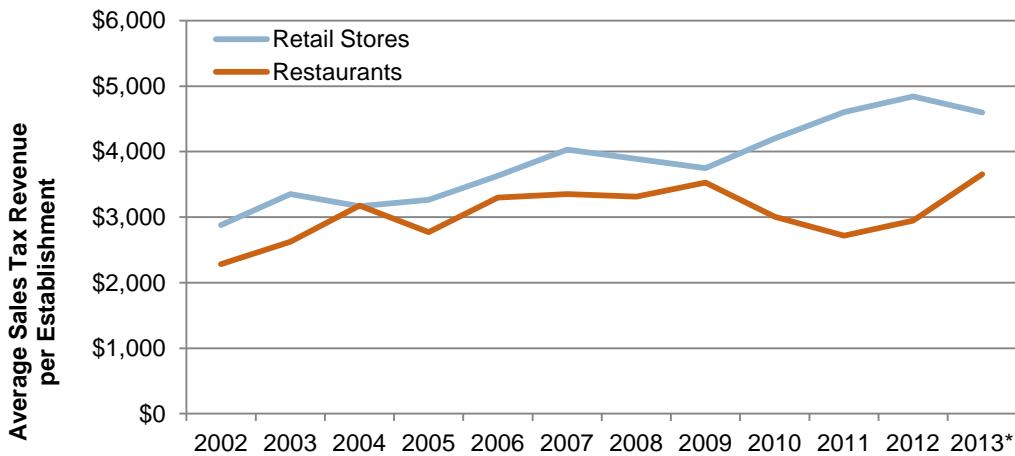


"Single-Site" establishments had one location in San Francisco; "multiple-site" establishments had more than one location in the city.

Sources: San Francisco Office of Economic Analysis, 2014; Strategic Economics, 2014.

Sales tax revenues from single-site establishments have recovered since the recession. Figure VIII-25 shows average sales tax revenue per single-site establishment in the Ocean Avenue NCT. In 2013, retail stores on Ocean Avenue generated an average of \$4,500 in sales tax revenues per store, slightly higher than average sales tax revenues for stores in the Geary case study area (\$3,700 per store in 2013) and lower than in Upper Fillmore (\$6,500 per store). Restaurants on Ocean Avenue reported lower sales tax revenues (an average of \$3,700 per restaurant) than restaurants on Geary Boulevard (\$5,400 per restaurant) or in Upper Fillmore (\$14,300 per restaurant).

Figure VIII-25. Average Sales Tax Revenue Per Single-Site Establishment: Ocean Avenue Neighborhood Commercial Transit District, 2002-2013 (Adjusted to 2013 Dollars)



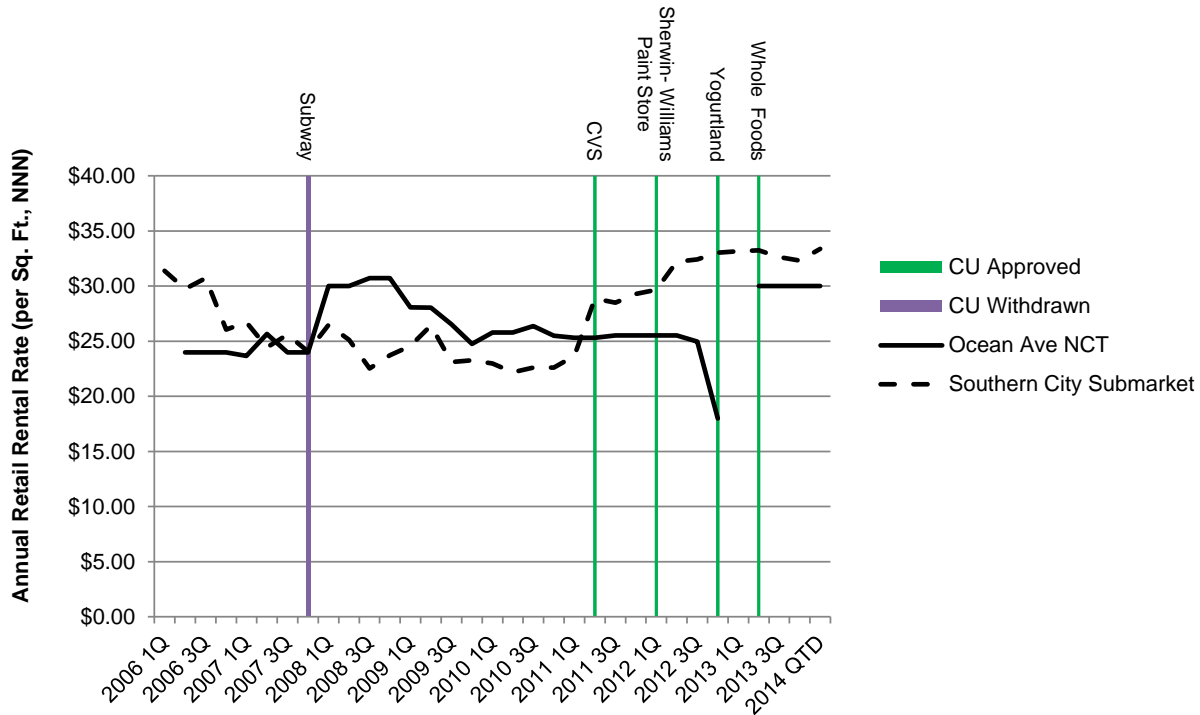
"Single-Site" establishments are firms that reported one location in San Francisco.

*Includes estimate of fourth-quarter sales tax revenues for 2013, based on average revenues in first three quarters of the year.

Sources: San Francisco Office of Economic Analysis, 2014; Strategic Economics, 2014.

Rents in the commercial district appear to be strengthening, while the vacancy rate is stable. Figure VIII-26 shows rental data from CoStar for the Ocean Avenue NCT and Southern City commercial real estate submarket (defined by CoStar), as well as the quarter when formula retail conditional use applications were approved or withdrawn. While rents in a small area can fluctuate significantly from quarter to quarter due to one or two transactions, the available data indicate that rents in the case study area increased at the end of 2013. Inventories conducted by OEWD and the Ocean Avenue Association found that the vacancy rate declined slightly, from 11 to 10 percent of all storefronts, between February 2013 and February 2014.

Figure VIII-26. Rents and Formula Retail Conditional Use Application Activity in the Ocean Avenue Neighborhood Commercial Transit District and Southern City Submarket, 2006-January, 2014



Fresh & Easy is not shown because store never opened, although a CU application was approved. The Southern City Submarket stretches south of 16th Street to the Daly City border, and west of Highway 101 to the shoreline.

Acronyms:

- CU: Conditional use application
- NCT: Neighborhood commercial transit district
- NNN: Triple net

Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014. Rents based on CoStar data that have not been independently verified.

Formula retail controls may among the many factors contributing to some long-term vacancies, along with design challenges, maintenance needs, and other issues. For example, a 17,300-square-foot former Rite Aid at the corner of Ocean Avenue and Dorado Terrace has been vacant for approximately five years, creating a gap in activity that stretches for nearly half a block (Figure VIII-27). The space was developed in the 1980s as part of a mixed-use development and was originally occupied by Safeway.⁹⁸ The most recent tenant, Rite Aid, closed in 2009, when the company sold the Ocean Avenue store and seven other locations to Walgreens. Walgreens still holds the lease, pays monthly rent on the building, and must approve any new tenants – a common arrangement that allows a national retailer to keep out competitors. The space requires significant improvements in order to be suitable for a new tenant. According to the listing broker, a formula retail tenant would be in the best position to invest in the needed tenant improvements and occupy the large floor plate, but potential formula retail tenants have been unwilling to consider the location because of concerns about the CU authorization process. However, a Fresh and Easy grocery store successfully applied for a formula retail CU authorization to locate in the space in 2012, although the store never opened (Fresh & Easy scaled back its expansion plans around this time due to the company’s financial troubles). Design challenges may also be contributing to the difficulty of leasing the space. The building has only a few, small windows and an entry that is recessed from the street, making it unappealing for many retailers, and has structural issues that make it difficult to further subdivide.

⁹⁸ It has since been subdivided; the other unit in the building is occupied by 24 Hour Fitness.

Figure VIII-27. Vacant Storefront at Ocean Avenue and Dorado Terrace (1830 Ocean Avenue)



Source: Strategic Economics, 2014.

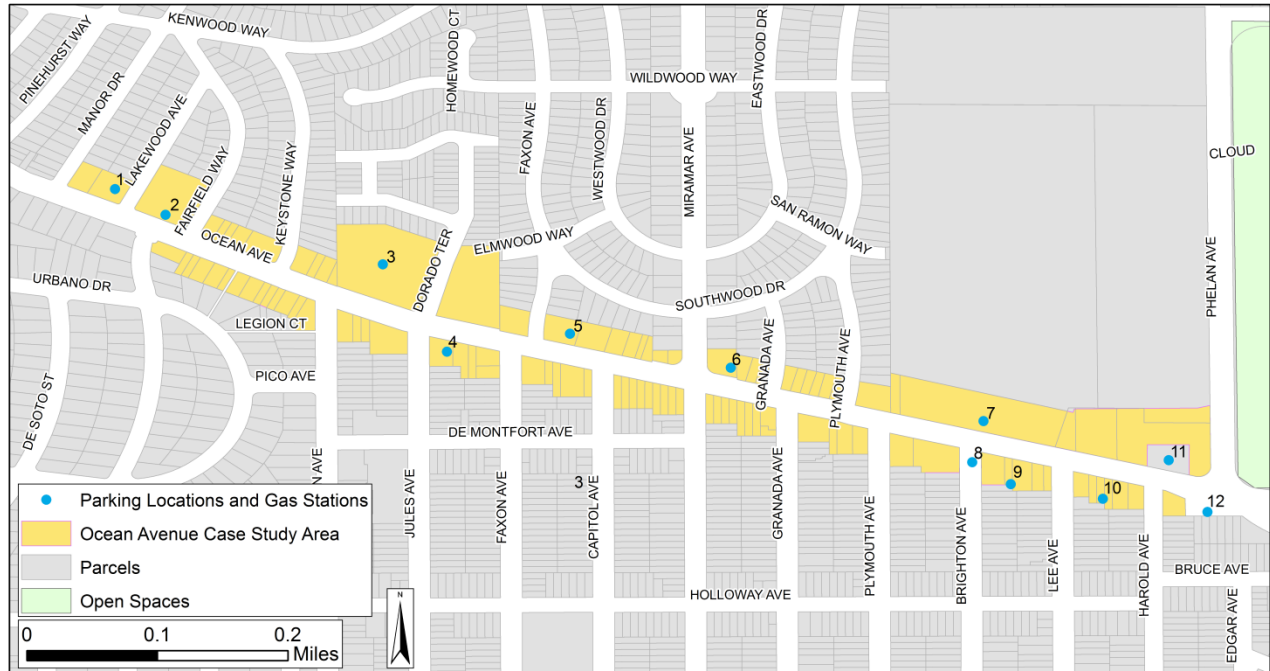
Neighborhood Character

Ocean Avenue is a walkable, compact shopping district, with many commercial buildings dating from the 1920s, 1930s, and 1940s. Although many of the older buildings have a distinct architectural character, others are in need of façade improvements. As discussed above, approximately 10 percent of the storefronts on Ocean Avenue are vacant, and 56 percent are occupied by non-retail uses.

Unlike in Upper Fillmore, many of the formula retailers on Ocean Avenue occupy auto-oriented buildings with significant surface parking. Figure VIII-28 shows parking lots, garages, and gas stations in the case study area. As noted in bold, many of the surface lots serve formula retailers, including Taco-Bell/KFC and 7-Eleven, Walgreens, and McDonalds (the Whole Foods garage is tucked behind the building). There are also three gas stations in the case study area; gas stations are not currently regulated as formula retail.⁹⁹

⁹⁹ Note that data on the size of formula versus independent storefronts were not available for the Ocean Avenue case study area, because the Dun & Bradstreet data (which provide square footage information) were substantially modified and updated for this case study area.

Figure VIII-28. Auto-Oriented Uses (Parking Locations and Gas Stations): Ocean Avenue Neighborhood Commercial Transit District



- | | | | |
|---|---|--|---|
| <p>1. Taco Bell/KFC/7-Eleven
Private Lot
22 Spaces</p> | <p>2. Voice of Pentacost High School
Private Lot
25 Spaces</p> | <p>3. Vacant Retail
Private Garage
60 Spaces</p> | <p>4. Valero Gas Station
Private Lot
15 Spaces</p> |
| <p>5. Walgreens
Private Lot
20 Spaces</p> | <p>6. Ocean Avenue Service & Gas Station
Private Lot
14 Spaces</p> | <p>7. Whole Foods
Private Garage
Unknown Spaces</p> | <p>8. McDonalds
Private Lot
29 Spaces</p> |
| <p>9. Fenced Off Lot
Private Lot
22 Spaces</p> | <p>10. Beeps Drive-In
Private Lot
11 Spaces</p> | <p>11. Fire Station
Private Lot
20 Spaces</p> | <p>12. 76 Gas Station
Private Lot
12 Spaces</p> |

Formula retail establishments are noted in bold.
Sources: SF Park, 2011; Strategic Economics, 2014.

Geary Boulevard (14th to 28th Avenues)

The Geary Boulevard case study area (shown in Figure VIII-29) is a diverse commercial district known for its dim sum and Korean restaurants, Irish bars, and Russian bakeries and grocery stores. The district is also home to many personal care establishments and neighborhood-serving shops, including a number of formula retail fast food restaurants, banks, and other chain stores. Together, this wide variety of retail offerings serves locals while also attracting specialty shoppers from around the Bay Area. The district also benefits from an active merchants’ association and a well-organized residents’ association. At the same time, however, the case study area faces physical challenges including poorly maintained sidewalks, buildings, and signage, as well as many long-term small businesses that could benefit from façade and other tenant improvements. Geary Boulevard itself is a major east-west arterial with fast-moving traffic. As a result of these physical conditions and the length and disparateness of the commercial district, the case study area struggles to present a distinct identity.¹⁰⁰

The following sections discuss the retail dynamics in the case study area, the formula retail conditional use applications that have been submitted, local demographic, sales, and market trends, and the relationship between formula retail and the district’s urban form.

Figure VIII-29. Geary Boulevard Case Study Area and Primary Trade Area



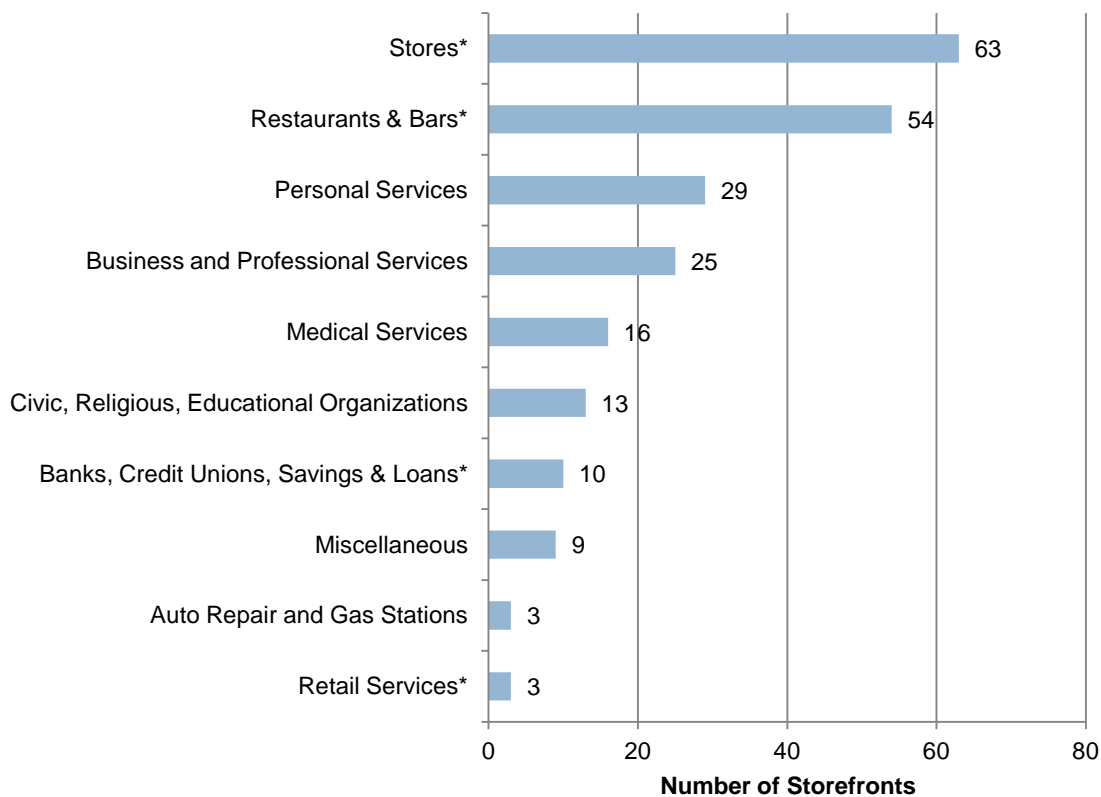
The “Primary Trade Area” is defined as those Census Tracts located within a half-mile radius of each shopping district. Sources: City and County of San Francisco, 2013; Strategic Economics, 2014.

¹⁰⁰ San Francisco Office of Economic and Workforce Development Invest in Neighborhoods Program, “Geary Boulevard Neighborhood Profile, February 2013, <http://oewd.org/IIN.aspx>.

Retail Dynamics

Stores, restaurants, banks, and retail services occupy approximately 60 percent of the storefronts in the Geary Boulevard case study area. Figure VIII-30 shows the approximately 225 occupied storefronts in the case study area by type. Personal services, business and professional services, medical services, and other uses that are not regulated as formula retail occupy approximately 40 percent of the storefronts in the district – slightly lower than on Ocean Avenue, where non-retail uses account for 56 percent of all storefronts. The Invest in Neighborhoods program has identified an “overabundance of nail salons, massage parlors and day spas” (i.e., personal services) as one of the challenges facing the neighborhood.¹⁰¹ While most of the non-retail uses are independent businesses, examples of chains and franchises that would not be considered formula retail under the Planning Code include Jiffy Lube, Best Cuts, H&R Block, All State Insurance, Farmers Insurance, and State Farm Insurance.

Figure VIII-30. Occupied Storefronts by Type: Geary Boulevard Case Study Area, Early 2014



*Use type subject to formula retail controls.

Sources: Dun & Bradstreet, 2012; OEWD Invest in Neighborhoods, 2013; Strategic Economics, 2014.

All numbers are approximate.

Formula retail accounts for 16 percent of all retail establishments, but only 11 percent of stores and 9 percent of restaurants and bars are formula retail. Figure VIII-31 shows those uses that are subject to the City’s formula retail controls. The overall proportion of formula retail (16 percent) is skewed

¹⁰¹ San Francisco Office of Economic and Workforce Development Invest in Neighborhoods Program, “Geary Boulevard Neighborhood Profile.”

upwards by the many formula retail banks in the case study area. The share of formula retail stores and restaurants in the case study area is comparable to citywide averages.

Figure VIII-31. Formula and Independent Retail Establishments by Use Type: Geary Boulevard Case Study Area, Early 2014

Use Type	Geary Boulevard Case Study Area				San Francisco (a)
	Formula Retail	Independent Retail	Total	Formula Retail as % of Total	Formula Retail as % of Total
Stores	7	56	63	11%	10%
Restaurants & Bars	5	49	54	9%	11%
Retail Services	0	3	3	0%	4%
Banks, Credit Unions, S&L	9	1	10	90%	84%
Total	21	109	130	16%	12%

(a) San Francisco data are from the 2012 Dun & Bradstreet dataset, and have not been independently verified.

Use types shown are subject to formula retail controls.

Acronyms:

S&L: Savings and loans

Sources: Dun & Bradstreet, 2012; OEWD Invest in Neighborhoods Initiative, 2013; Ocean Avenue Association, 2014; Strategic Economics, 2014. All numbers are approximate.

The Geary Boulevard case study area is home to a wide range of formula and independent retail stores serving both residents' daily needs and providing more specialized goods. Figure VIII-32 shows retail stores by type in the case study area. The district's formula retail stores include both daily needs-serving retailers (such as a new Grocery Outlet, a Walgreens pharmacy, and several convenience stores) and more specialized/comparison shopping stores such as an Aaron Brothers framing store, a Radio Shack, and a Ross Dress for Less department store.

Figure VIII-32. Retail Stores by Type: Geary Boulevard Case Study Area, Early 2014

Retail Store Type	Geary Boulevard Case Study Area				San Francisco (a)
	Formula Retail	Independent Retail	Total	Formula Retail as % of Total	Formula Retail as % of Total
Other Retail Stores (b)	1	15	16	6%	4%
Furniture & Appliances	1	10	11	9%	11%
Supermarkets & Other Grocery	1	5	6	17%	7%
Apparel & Accessories	0	5	5	0%	15%
Convenience & Liquor Stores	2	3	5	40%	10%
Bakeries	0	5	5	0%	N/A
Pharmacies & Drug Stores	1	4	5	20%	49%
Building Materials & Garden Supplies	0	3	3	0%	9%
Other Health & Personal Care Stores	0	3	3	0%	20%
Sporting Goods, Hobby, Book, Music	0	3	3	0%	3%
Department Stores	1	0	1	100%	7%
Total	7	56	63	11%	10%

(a) San Francisco data are from the 2012 Dun & Bradstreet dataset, and have not been independently verified.

(b) Includes florists, framing stores, produce markets, office supply, gift, jewelry, and tobacco stores.

N/A: Not available

Sources: Dun & Bradstreet, 2012; OEWD Invest in Neighborhoods Initiative, 2013; Ocean Avenue Association, 2014; Strategic Economics, 2014. All numbers are approximate.

Formula Retail Conditional Use Applications

The community has generally supported conditional use applications for formula retail that fills long-standing needs, but organized to oppose a formula retail use that competed with existing small businesses. Figure VIII-33 lists the formula retail CU applications that have been filed in the Geary Boulevard case study area since CU authorizations for formula retail were first required in 2007. A Grocery Outlet was approved and opened in late 2013 in a 13,500-square-foot space formerly occupied by Cala Foods. According to local stakeholders, community members generally supported the application because it helped fill a need for grocery stores. On the other hand, many community members organized to oppose an Unleashed by PetCo store location that was proposed for 5411 Geary Boulevard, because it competed with existing independent pet stores in the area. In response to opposition to the PetCo store, the Board of Supervisors passed legislation in 2011 that bans formula retail pet supply stores in the case study area. The PetCo application was subsequently withdrawn.

Figure VIII-33. Formula Retail Conditional Use Applications in Geary Boulevard Case Study Area, 2007-January 2014

Business Name	Address	File Date	Action Date	Action Taken
Unleashed by PetCo	5411 Geary Blvd	2011	Not applicable	Withdrawn
Grocery Outlet	6333 Geary Blvd	2013	2013	Approved with conditions
Kelly Moore Paint	5411 Geary Blvd	2013	Not applicable	Withdrawn

Sources: City and County of San Francisco, 2014; Strategic Economics, 2014.

Demographic and Market Trends

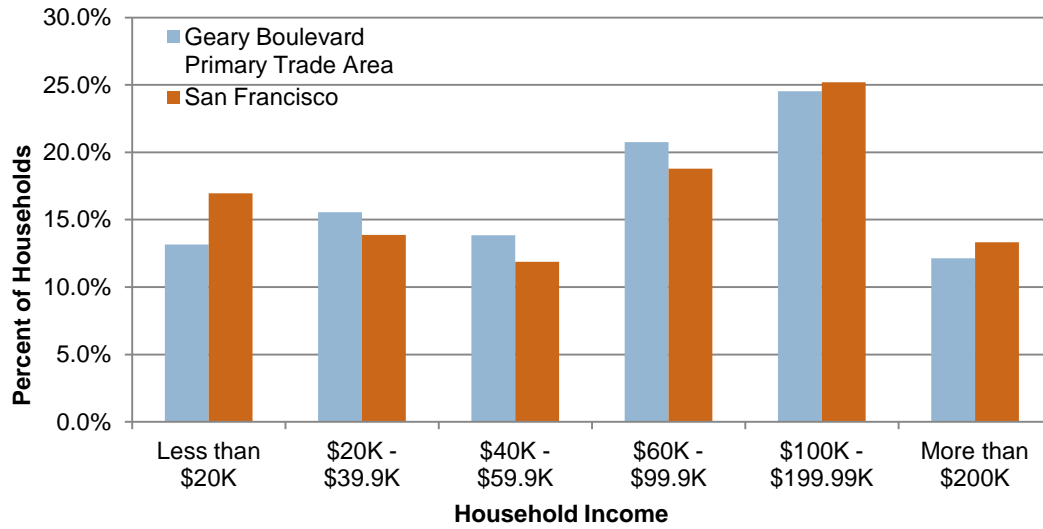
The half-mile radius around the Geary Boulevard case study area is home to many moderate-income households, including many families. Figures VIII-34 through VIII-37 provide selected demographic characteristics for the Census Tracts in the half-mile radius around the Geary Boulevard case study area. The population density in the Geary Boulevard primary trade area (40 people per acre) is nearly as high as in the half-mile surrounding Upper Fillmore (44 people per acre), but in contrast to Upper Fillmore slightly more than half of all households in the Geary trade area are families (Figure VIII-36). The average household income around Geary is slightly lower than the citywide average of \$107,500 (Figure VIII-34). Compared to San Francisco as a whole, a high proportion of households in the Geary trade area earn between \$20,000 and \$99,999 a year (Figure VIII-35). Asian and white residents account for a nearly equal share of the population (Figure VIII-37).

Figure VIII-34. Population, Households, and Average Household Income: Geary Boulevard Primary Trade Area and San Francisco, 2012

	Geary Boulevard Primary Trade Area	San Francisco
Population	50,429	807,755
Number of Households	20,308	340,839
Average Household Size	2.5	2.4
Population Density (People per Acre)	40.2	31.4
Households per Acre	16.2	13.2
Average Household Income	\$104,067	\$107,520

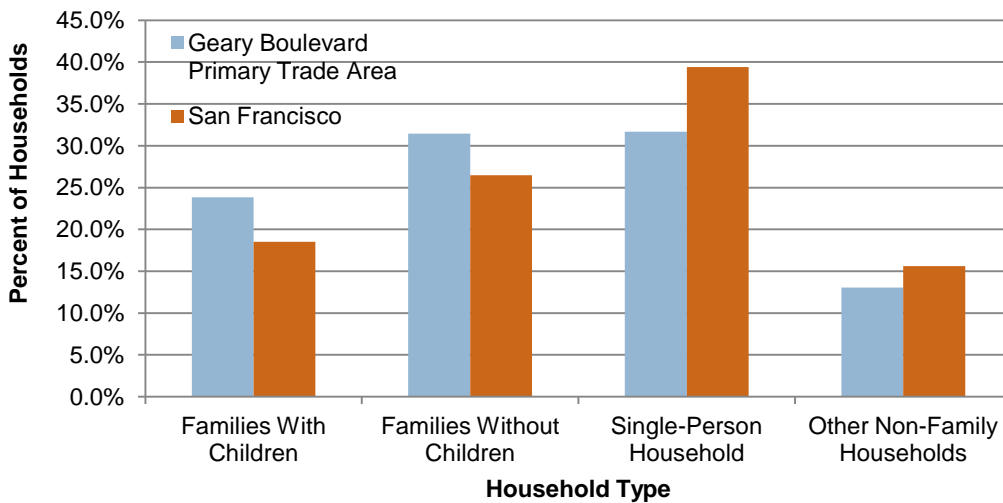
Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

Figure VIII-35. Households by Income Level: Geary Boulevard Primary Trade Area and San Francisco, 2012



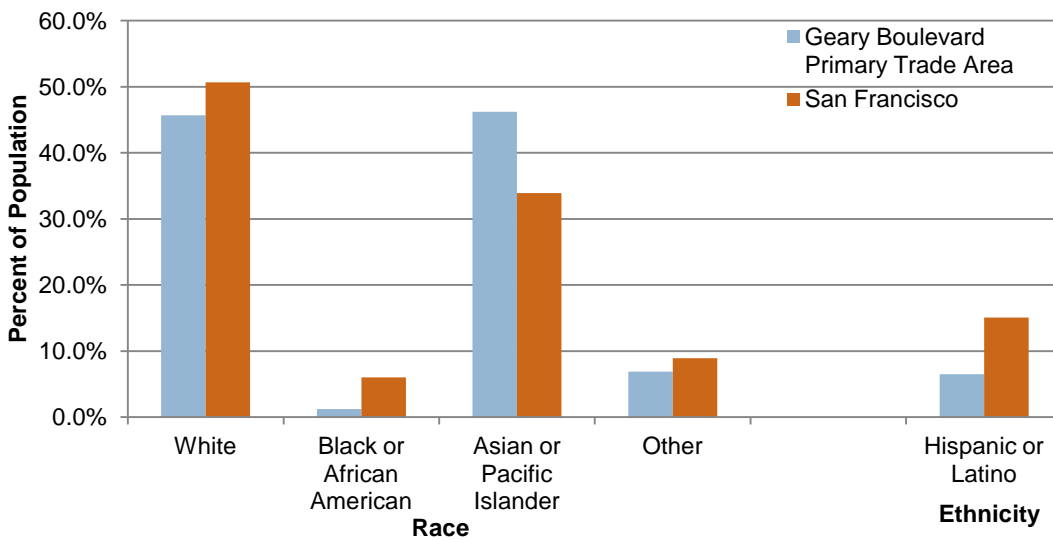
Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

Figure VIII-36. Households by Type: Geary Boulevard Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

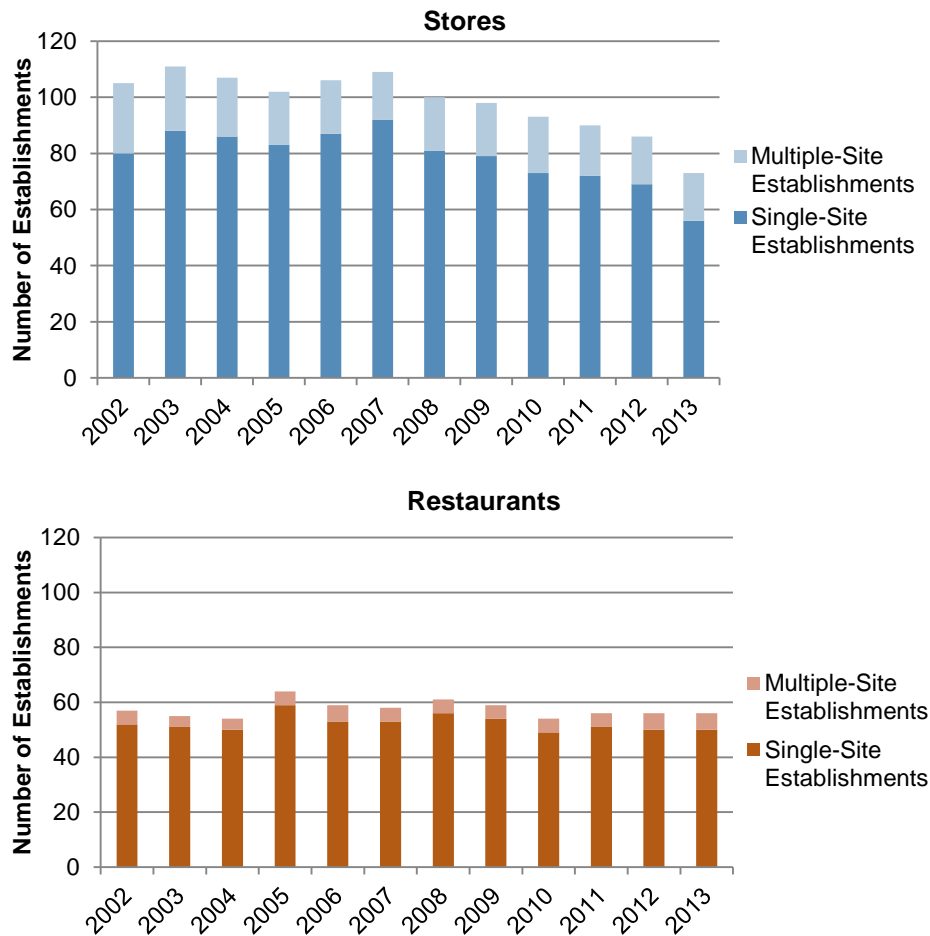
Figure VIII-37. Population by Race and Ethnicity: Geary Boulevard Primary Trade Area and San Francisco, 2012



Sources: U.S. Census Bureau American Community Survey, 2008-2012; Strategic Economics, 2014.

The number of stores reporting sales tax has declined over time, while the number of restaurants has remained stable. As shown in Figure VIII-38, the number of stores (including both single-site and multiple-site establishments) has declined steadily since 2007. As on Ocean Avenue, this trend likely reflects the challenges that traditional brick-and-mortar retail stores are facing nationwide. Meanwhile, the number of restaurants has remained stable. For both stores and restaurants, single-site establishments accounted for approximately the same percentage of total establishments in 2013 as in 2002.

Figure VIII-38. Single- and Multiple-Site Stores and Restaurants Reporting Sales Tax in the Geary Boulevard Case Study Area, 2002-2013

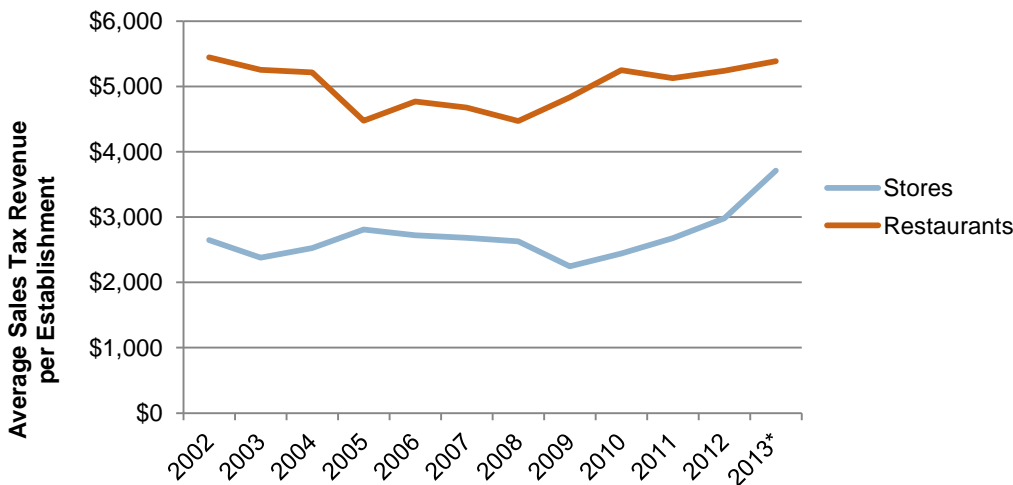


"Single-Site" establishments had one location in San Francisco; "multiple-site" establishments had more than one location in the city.

Sources: San Francisco Office of Economic Analysis, 2014; Strategic Economics, 2014.

Since the recession, sales tax revenues from single-site establishments have recovered strongly. Figure VIII-39 shows average sales tax revenue per single-site establishment in the Geary Boulevard case study area. In 2013, stores in the case study area generated an average of \$3,700 in sales tax revenues per establishment, slightly lower than average per-store revenues on Ocean Avenue (\$4,600 per establishment) and significantly lower than in Upper Fillmore (\$6,500). Restaurants on Geary Boulevard reported higher sales tax revenues (an average of \$5,400 per establishment) than restaurants on Ocean Avenue (\$3,700), but significantly lower revenues than restaurants in Upper Fillmore (\$14,300).

Figure VIII-39. Average Sales Tax Revenue Per Single-Site Establishment: Geary Boulevard Case Study Area, 2002-2013 (Adjusted to 2013 Dollars)



"Single-Site" establishments had one location in San Francisco.

*Includes estimate of fourth-quarter sales tax revenues for 2013, based on average revenues in first three quarters of the year.

Sources: San Francisco Office of Economic Analysis, 2014; Strategic Economics, 2014.

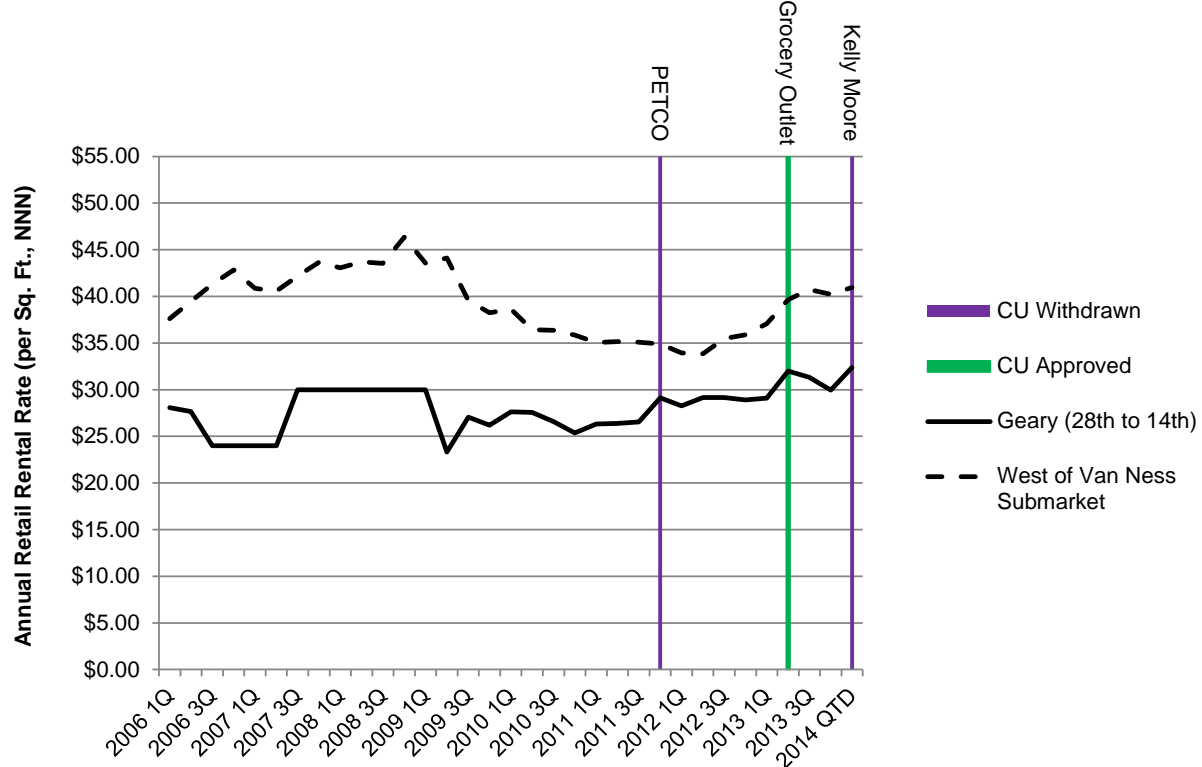
Reflecting increasing sales volumes, rents in the district are reportedly rising while the vacancy rate has declined over the past year. Figure VIII-40 provides CoStar data on rents for the Geary Boulevard case study area and West of Van Ness commercial real estate submarket (defined by CoStar), and shows the quarter when formula retail conditional use applications were approved or withdrawn. According to CoStar, rents have risen slightly in the case study area since early 2011. Local merchants have also raised concerns about an upward pressure on rents.¹⁰² Storefront inventories conducted by OEWD in February 2013 and December 2013 show the vacancy rate falling from eight percent to six percent over the course of the year.

Several large, long-vacant storefronts have proved challenging to fill with traditional retail uses. For example, a 5,000-square-foot former Walgreens site at 5411 Geary Boulevard (shown in Figure VIII-41) has been vacant for a number of years. As discussed above, Unleashed by PetCo submitted a formula retail CU application for the space in 2011, which was withdrawn amid significant controversy. An application for a Kelly Moore paint store in 2013 was also withdrawn. In early 2014, the space was leased by Hi-Five Sports, an indoor sports facility that will include a large basketball court for private events, classes, and practice.¹⁰³ As an athletic facility and the company's first brick-and-mortar location, Hi-Five Sports did not require a formula retail CU authorization.

¹⁰² Ibid.

¹⁰³ Thomas K. Pendergast, "Proposal for New Petco Store on Geary Draws Public Ire," *The Richmond Review*, February 2011, <http://www.sfrichmondreview.com/archives/richmondreview/2011editions/Feb11/petco.html>; Joshua Sabatini, "Petco Barred from San Francisco's Geary Street by Pet-Supply Chain Ban," *The San Francisco Examiner*, July 27, 2011, <http://www.sfexaminer.com/sanfrancisco/petco-barred-from-san-franciscos-geary-street-by-pet-supply-chain-ban/Content?oid=2178777>; "Hi-Five Sports Zone Moving into Former Walgreens Space near 18th & Geary," *Richmondsfblog.com*, March 6, 2014, <http://richmondsfblog.com/2014/03/06/hi-five-sports-zone-moving-into-former-walgreens-space-near-18th-geary/>.

Figure VIII-40. Rents and Formula Retail Conditional Use Application Activity in the Geary Boulevard Case Study Area and West of Van Ness Submarket, 2006-January 2014



The West of Van Ness Submarket stretches west from Van Ness and north of 16th Street to the shoreline.

Acronyms:

CU: Conditional use application; NNN: Triple net

Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.

Rents based on CoStar data that have not been independently verified.

Figure VIII-41. Long-Term Vacant Storefront in the Geary Boulevard Case Study Area (5411 Geary Boulevard)



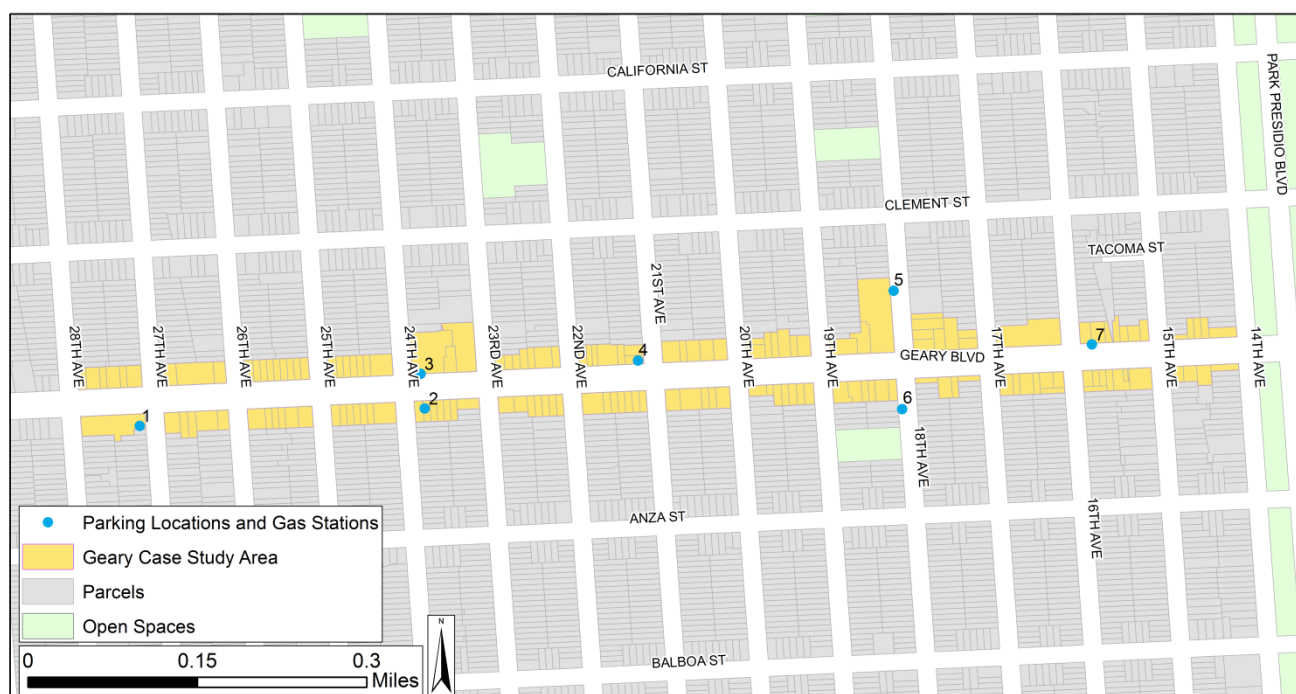
Source: Strategic Economics, 2014.

Neighborhood Character

The Geary Boulevard case study area faces physical challenges including poorly maintained sidewalks, buildings, and signage, as well as many long-term small businesses that could benefit from façade and other tenant improvements. Geary Boulevard itself is a major east-west arterial with fast-moving traffic. As a result of these physical conditions and the length and disparateness of the commercial district, the case study area struggles to present a distinct identity.

Most of the private parking facilities in the Geary Boulevard case study area serve formula retail uses. Figure VIII-42 shows the location of auto-oriented uses, including public and private parking lots and gas stations, in the case study area.¹⁰⁴ Formula retail uses – including Grocery Outlet, First Republic Bank, Walgreens, Ross, and Blockbuster – occupy three of the four parcels with private parking lots or garages. The fourth private parking lot serves a gas station.

Figure VIII-42. Auto-Oriented Uses (Parking Locations and Gas Stations): Geary Boulevard Case Study Area



- | | | | |
|---|--|------------------------------------|---|
| 1. Private Parking Lot
31 Spaces
Store closed or no signage | 3. Chevron Gas Station
Private Lot
15 Spaces | 5. Public Parking Lot
52 Spaces | 7. Walgreens/Ross/Blockbuster
Private Garage
150 Spaces |
| 2. First Republic Bank
Private Lot
Eight Spaces | 4. Public Parking Lot
21 Spaces | 6. Public Parking Lot
34 Spaces | |

Formula retail establishments are noted in bold.
Sources: SF Park, 2011; Strategic Economics, 2014.

¹⁰⁴ Note that data on the size of formula versus independent storefronts were not available for the Geary Boulevard case study area, because the Dun & Bradstreet data (which provide square footage information) were substantially modified and updated for this case study area.

Figure VIII-43. Selected Formula Retailers in the Geary Boulevard Case Study Area



Source: Strategic Economics, 2014.

Summary of Findings

Figure VIII-44 summarizes some of the characteristic features of the three neighborhood case study areas. Taken together, the case studies suggest the following conclusions.

Depending on their location, formula retail establishments can serve local daily needs or cater to regional shoppers. In Upper Fillmore, formula retailers are part of a cluster of high-end fashion boutiques that serves many shoppers from across the city and region as well as high-income residents. Meanwhile, community members have expressed concerns about a loss of independent daily needs-serving businesses, which tend to have lower profit margins and thus struggle to afford the district’s high rents. On Geary Boulevard and Ocean Avenue, most formula and independent retail businesses tend to be in categories that serve residents’ and workers’ daily needs, such as grocery stores, drug stores, banks, and coffee shops. However, as a major arterial, Geary Boulevard has more comparison shopping – including formula and independent retailers – compared to Ocean Avenue.

The urban form of formula retail establishments in the case study areas varies significantly, depending on the characteristics of existing built space in the district and the type of function that the retailers serve. In Upper Fillmore, formula retail establishments tend to locate in Victorian buildings with limited parking, although on average formula retailers occupy larger storefronts than independent retailers. In contrast, formula retail establishments on Ocean Avenue and Geary Boulevard are more likely to locate in auto-oriented buildings with significant parking. This difference reflects the eras when the districts were developed and existing types of buildings in the case study areas – after all, most of the formula retail has located in existing buildings – as well as the different functions that formula retail plays

in the different neighborhoods. Formula retail in Upper Fillmore generally caters to comparison shoppers who are likely to drive or take transit to the district and then walk from store to store. On the other hand, much of the formula retail on Ocean Avenue and Geary Boulevard sell groceries and personal goods that many shoppers buy in large quantities and prefer to transport in a car.

Figure VIII-44. Summary of Selected Case Study Area Characteristics

	Upper Fillmore	Ocean Avenue	Geary Boulevard (14th to 28th Avenues)
Retail Mix	--High-end apparel and beauty stores, home furnishings --Limited daily needs-serving stores --Restaurants	--Personal services, civic organizations, medical services --Many daily needs-serving stores --Restaurants	--Personal services, civic organizations, medical services --Mix of daily needs-serving stores and comparison shopping --Restaurants
Neighborhood Character	--Pedestrian-oriented shopping streets --Traditional Victorian mixed-use buildings --Limited off-street parking for formula and independent retail	--Pedestrian-oriented arterial --Mix of single-use retail buildings and mixed-use development --Several surface parking lots serving formula retailers	--Major arterial corridor --Mix of single-use retail buildings and mixed-use development --Several surface parking lots and garages serving formula retailers
Trade Area Demographics	--High household incomes --Small household sizes	--Moderate to high household incomes --Many families	--Moderate household incomes --Many families
Concentration of Formula Retail (Formula Retail as a % of Total Retail Establishments)	20% (does not include international chains and formula retail subsidiaries)	16%	16%
Formula Retail Conditional Use Applications Since 2007	Five; all approved	Six; one withdrawn, five approved	Three; two withdrawn, one approved
Average Sales Tax Revenues per Single-Site Establishments	\$6,500 (stores) \$14,300 (restaurants)	\$4,600 (stores) \$3,700 (restaurants)	\$3,700 (stores) \$5,400 (restaurants)
Retail Vacancy Rate (Late 2013/Early 2014)	Effectively zero	10%	6%

Source: Strategic Economics, 2014.

Personal, business, and medical services play an important role in filling vacant retail space in daily needs-serving districts like the Ocean Avenue and Geary Boulevard case study areas, reflecting national retail market trends. While Upper Fillmore's high sales volumes and reputation as a shopping destination continues to attract many retail stores and keep vacancies low, non-retail uses occupy a significant share of storefronts on Geary Boulevard and Ocean Avenue (40 percent and 56 percent, respectively). Moreover, the latter two case study areas both experienced decreases in the number of retail stores reporting sales tax revenues between 2002 and 2013. This trend reflects the challenge that cities across the country are facing in filling retail space with traditional retail activities as the industry has become increasingly consolidated, with chain stores dominating much of the retail landscape. More

recently, brick-and-mortar retail stores have also been forced to compete with online sales. Increasingly, cities, landlords, and brokers rely on businesses that do not typically face competition from Internet-based retailers (e.g., restaurants, food stores, and personal services), or that offer specialized customer service or a unique shopping experience (e.g., high-end clothing stores). Given these trends, expanding formula retail controls to include personal, business, and medical services could potentially make it more difficult to maintain healthy vacancy rates (i.e., vacancy rates of no more than 10 percent) in some NCDs.

The City's formula retail controls may make some spaces more challenging to lease, especially larger buildings that are often best suited for formula retailers. Brokers report that the controls make leasing large (>3,000 square foot) spaces particularly challenging, because formula retailers can generally fill more floor space than independent retailers and can more often afford to make needed tenant improvements and pay the rents required to lease larger storefronts. On the other hand, formula retail controls are likely only one of many factors contributing to long-term vacancies. For example, the vacancy of the former Rite Aid space on Ocean Avenue is directly tied to corporate restructurings of national chains (the space became vacant when the Rite Aid was purchased by Walgreens; a Fresh & Easy that was approved for the site never opened, due to the company's larger financial problems). The storefront, which occupies the ground floor of a mixed-use building, also suffers from significant design challenges including structural issues that make it difficult to subdivide.

Formula retail establishments often have the resources to improve storefronts with challenging physical conditions and can serve as anchors in revitalizing neighborhoods, but can also be challenging to involve in merchant and community organizing and outreach. The Whole Foods on Ocean Avenue is an example of a formula retail business that has helped bring new customer traffic to a struggling corridor. On the other hand, community members note that it is challenging to establish ongoing relationships with many formula retailers because the managers rotate between stores or do not have the authority to make decisions.

The City's formula retail controls generally serve as a disincentive for formula retail establishments to locate in NCDs, but formula retailers' willingness to go through the formula retail conditional use application process depends on conditions in specific districts. The Upper Fillmore and Ocean Avenue case study areas have each attracted five to six formula retail CU applications since the controls went into effect in 2007, suggesting that at least some formula retail establishments have determined that demand for their goods and services is strong enough in these neighborhoods to outweigh the cost and uncertainty of the CU process. Indeed, all of the CU applications in Upper Fillmore and all but one on Ocean Avenue have been approved. On the other hand, the Geary Boulevard case study area has only attracted three formula retail CU applications, of which two have been withdrawn. The lower application rate on this part of Geary Boulevard likely reflects more challenging market conditions, as indicated by the lower average household incomes in the trade area and lower sales volume for retail stores compared to the other two case study areas. The significant community opposition that PetCo Unleashed encountered may also serve as a deterrent for new formula retail CU applicants.

Community reaction to formula retail conditional use applications appears to depend on the potential impact on competing businesses and whether prospective formula retail tenants are filling long-standing vacancies or meeting perceived community needs. The City's formula retail CU application process is designed to consider these factors. When considering a request for a formula retail CU, the Planning Commission is required to consider criteria such as the existing concentration of formula retail uses, the availability of other similar retail uses, the existing retail vacancy rates, the existing mix of citywide- and neighborhood-serving uses, and the compatibility of the proposed project with the existing architectural and aesthetic character of the district.

IX. CONCLUSION

The analysis described in this report suggests a number of conclusions about the role that existing formula retail establishments play in San Francisco's neighborhoods, the impacts of the City's existing formula retail controls, and the potential effects of some of the proposed changes to the controls. These conclusions are discussed below.

Existing Formula Retail Establishments and San Francisco's Neighborhoods

Formula retail is most highly concentrated in places that do not have formula retail controls and in neighborhood shopping centers. Overall, formula retail accounts for 25 percent of retail establishments in commercial/mixed-use zoning districts without formula retail controls, compared to 10 percent of retail establishments in commercial/mixed-use zoning district with controls (a category that includes all of the city's neighborhood commercial districts). Formula retail is most highly concentrated in Downtown, South of Market, and the northeastern waterfront, where new formula retail is permitted without a conditional use (CU) authorization. There are also significant concentrations of formula retail in shopping centers, including those where new formula retail requires a CU authorization – such as Lakeshore Plaza, the Laurel Village Shopping Center, and Geary and Masonic – as well as in Stonestown Galleria, where formula retail is not regulated.

Formula retail establishments can serve local daily needs or cater to regional shoppers, depending in part on their location. For example, in Downtown, parts of South of Market, and the northeastern waterfront – areas where formula retail is generally not regulated – formula retail stores and restaurants serve a mix of workers, shoppers, and visitors from around the city, region, and world. The most common types of formula retail in these districts include apparel and accessory stores, health and beauty stores, and specialized retail stores. Some neighborhood commercial districts such as Upper Fillmore are also emerging as regional shopping destinations, and have significant clusters of both formula and independent clothing stores, beauty stores, and other regional-serving businesses. In general, however, pharmacies, grocery stores, banks, and other uses that serve residents' daily needs account for much of the formula retail in neighborhood commercial districts and other commercial/mixed-use zoning districts where formula retail is subject to controls.

Real estate market conditions may favor formula retailers in some highly desirable neighborhood commercial districts that serve local residents, shoppers from around the region, and tourists. Landlords in San Francisco's most attractive retail markets (e.g., Upper Fillmore) often require letters of credit guaranteeing 6 to 12 months' worth of rent. Prospective tenants may also find it necessary to pay either landlords or existing tenants "key money" in order to secure a lease. Start-ups and other independent retailers often find it difficult to meet these requirements. Stakeholders have also reported incidents of landlords holding retail space vacant for significant periods of time until a national tenant can be found.

However, there does not appear to be a consistent relationship between the approval of a new formula retail conditional use application and the subsequent direction of local rents and vacancies. Rather, retail market trends over time are primarily related to regional and national economic cycles.

Formula retail establishments often have the resources to improve storefronts with challenging physical conditions and can serve as anchors in revitalizing neighborhoods, but can also be challenging to involve in merchant and community organizing and outreach. Compared to independent businesses, national and regional retailers often have more resources to invest in improving façades and interiors. In addition to making physical improvements, a large, brand-name retailer can also contribute to the revitalization of a neighborhood commercial district by drawing new customers to the district. However, beyond drawing new customers, many formula retail stores contribute few other

benefits to the neighborhoods where they are located. Community members note that it is challenging to establish ongoing relationships with most formula retailers because the managers rotate between stores or do not have the authority to make decisions. As a result of this management structure, local merchants associations report that few formula retailers are active participants in their efforts to organize events and activities.

Formula retailers generally occupy larger spaces than independent retailers do, but the relationship of formula retail to neighborhood character otherwise varies significantly depending on the type of business and the district where it is located. Overall, nearly 85 percent of San Francisco’s formula retailers occupy more than 3,000 square feet, while 80 percent of independent retailers occupy 3,000 square feet or less. However, the types of buildings that formula retailers occupy vary significantly depending on business type and the characteristics of specific neighborhood commercial districts. For example, in the Upper Fillmore case study area, formula retail establishments tend to locate in Victorian buildings with limited parking, reflecting both the existing building stock in the district and the fact that formula retail in Upper Fillmore generally caters to comparison shoppers who are likely to drive or take transit to the district and then walk from store to store. In contrast, formula retail establishments in the Ocean Avenue and Geary Boulevard case study area are more likely to locate in single-story retail buildings with significant parking. Many of the formula retailers on Ocean Avenue and Geary Boulevard sell groceries and other personal goods that shoppers often buy in large quantities and may prefer to transport in a car.

Employment practices in San Francisco vary as much or more by retail subsector and firm size as by whether a business is formula or independent. On average, retail stores and restaurants in San Francisco pay similar wages regardless of whether the business has just one location in California (“single-site” firms, which served as a proxy for independent retailers in the employment analysis due to limitations of the employment data), or is part of a company with multiple locations in the state (“multiple-site” firms).¹⁰⁵ However, these averages mask large pay differences within some retail subsectors. In some subsectors (e.g., electronics and appliance, furniture, health and personal care, and grocery stores) workers at multiple-site stores earned *more* than workers at single-site stores, while in other subsectors (e.g. automobile parts and accessories, liquor, shoes, and sporting goods stores), workers at multiple-site stores earned *less* than workers at single-site stores. Firms with multiple sites do tend to employ significantly more workers than firms with a single location, although some of the difference may be due to scheduling and other business practices (e.g., multiple-site firms may tend to hire more part-time or temporary workers).¹⁰⁶

Both nationally and in San Francisco, retail stores and restaurants generally provide fewer benefits compared to other types of businesses. Local and national studies have also shown that firms with fewer than 20 employees – a category that includes most independent retailers – are less likely to offer health insurance, paid time off, and other benefits compared to firms with more than 20 employees, a category that includes most formula retailers. However, San Francisco’s labor laws raise the floor, so that firms in all industries are required to offer higher pay and better benefits compared to their counterparts elsewhere in the country, although small firms are exempt from some requirements.

¹⁰⁵ National data from the 2007 Economic Census show that retail firms with fewer than 10 outlets in the United States paid an average of \$27,500 per employee, per year. In comparison, firms with 10 or more outlets paid an average of \$20,800 per employee per year. However, employment data by number of outlets were not available for San Francisco.

¹⁰⁶ Data on part-time versus full-time worker status by industry and number of outlets are not available from any known source.

Effects of San Francisco's Existing Formula Retail Controls

The relatively low concentration of formula retail in commercial/mixed-use neighborhoods with formula retail controls in place suggests that the controls are successfully limiting the number of new formula retail stores in the city's neighborhood commercial districts, although other factors are also likely at play. In addition to the City's formula retail controls, other factors that could affect the concentration of formula retail in different neighborhoods include the prevalence of formula retail before the controls went into effect and the different retail markets that various commercial districts serve.

By creating disincentives for formula retailers to locate in San Francisco's neighborhood commercial districts, the formula retail controls may help lower rents for independent retailers. According to brokers who work with chain retailers, obtaining a formula retail CU authorization typically takes 6 to 12 months and can cost tens of thousands of dollars, including fees for attorneys, architects, and community outreach consultants and other costs. As a result, brokers report that many formula retailers will not propose a new location in San Francisco's neighborhood commercial districts unless they feel confident that their CU application is likely to be approved or the location is so desirable that the store is willing to take the risk. Some formula retailers are reportedly unwilling to consider locations in San Francisco's neighborhood commercial districts at all. By making neighborhood commercial districts less attractive for formula retailers, formula retail controls may help lower rents in some districts, reducing costs for independent retailers.

However, formula retailers' willingness to go through the formula retail conditional use application process depends on conditions in specific districts. Formula retailers are more likely to submit applications in neighborhoods with strong market demand for new retail and where they anticipate a positive reception by the community.

The City's formula retail controls may be a contributing factor in some long-term vacancies, particularly of larger storefronts. Brokers report that large, deep spaces may sit empty for extended periods of time if a formula retail CU application is disapproved or withdrawn, and that these vacant spaces can act as a drag on the vibrancy and overall performance of the surrounding district. Formula retailers can generally fill more floor space than independent retailers, and can more often afford to make needed tenant improvements and pay the rents required to lease larger storefronts. However, while the formula retail controls may make leasing some spaces more challenging, obsolete building designs, significant maintenance needs, and challenging locations also likely contribute to long-term vacancies in many cases.

While it might be ideal to encourage property owners to subdivide or redevelop large, vacant retail spaces, there are significant limitations to this approach. Some large retail buildings are not possible to subdivide into multiple smaller storefronts that would be more suitable for independent businesses because of structural or design issues. In terms of redevelopment potential, some vacant retail buildings that are too big for most independent retailers are located on parcels that are too small to support enough residential units to justify the expense of the demolition and construction. Other vacant retail buildings may present other challenges for redevelopment. For example, the vacant, former Walgreens building in the Geary Boulevard case study area is wedged between two other retail buildings, making it a very challenging site for any new construction.

Existing formula retail controls empower well-organized community members to keep out unwanted formula retail uses. The majority of formula retail CU applications have been approved. However, in cases where community members have reached a clear consensus that a proposed formula retailer is not desirable and appeared at Planning Commission hearings, CU authorizations have often been denied or withdrawn. In general, community reaction to formula retail CU applications appears to

depend on factors such as the potential impacts on competing businesses, and whether prospective formula retail tenants are filling long-standing vacancies and/or meeting perceived community needs.

Current Issues and Potential Changes to Formula Retail Controls

The Board of Supervisors is considering a number of different ordinances that would, among other changes, expand the definition of formula retail to include additional land uses, businesses that have 11 or more other outlets located anywhere in the world, and businesses that are majority owned by a formula retail use subject new land uses to formula retail controls. Other proposals would create quantitative thresholds for determining the appropriate level of concentration of formula retail in neighborhood commercial districts. In addition to the changes that the Board of Supervisors is considering, stakeholders have also raised concerns about the impacts of the formula retail controls on locally owned and smaller retailers that are captured by the City's current definition of formula retail. The data and analysis performed as part of this study led to the following conclusions on these issues.

Changing the definition of formula retail to include international chains with 11 or more other establishments anywhere in the world could have a significant effect in certain neighborhoods, but is unlikely to affect many businesses citywide. This proposed policy change is particularly relevant in highly attractive shopping districts like Upper Fillmore, where international (as well as domestic) businesses are reportedly accelerating plans to open before they reach the threshold for formula retail. Other international chains have chosen to open their first San Francisco locations in neighborhoods with a strong ethnic identity, such as Japantown, Chinatown, or the Mission. Citywide, 10 percent of businesses with 11 or more other corporate family members are part of a corporation that is headquartered outside of the U.S. However, the vast majority of international businesses already have a long-established presence in the U.S. and qualify as formula retail under the current Planning Code.

Expanding the formula retail definition to include establishments that are owned by formula retail businesses is also likely to affect a small number of potential new businesses. This proposed policy change is designed to address several recent cases of new or proposed establishments that did not have to go through the formula retail CU process even though they were owned by formula retailers, such as Jack Spade in the Mission (owned by Liz Claiborne) and Athleta and Evolution Juice in Upper Fillmore (owned by The Gap and Starbucks, respectively). Citywide, however, subsidiaries – defined as companies that are more than 50 percent owned by another corporation – account for only 3 percent of retail businesses in San Francisco that have 12 or more corporate family members. Most of these would already qualify as formula retail under the existing Planning Code, because they have 11 or more other locations of the same trade name in the U.S.

Expanding the application of formula retail controls to other types of land uses could affect a significant number of businesses considering new locations in San Francisco, and make it more challenging to fill vacant storefronts in some neighborhood commercial districts. As the retail industry has become increasingly consolidated and brick-and-mortar retail stores are forced to compete with online sales, non-retail uses are playing an increasingly important role in filling vacant retail space. Personal, business, and medical services play a particularly important role in some of San Francisco's more struggling retail districts. For example, while Upper Fillmore's high sales volumes and reputation as a shopping destination continue to attract many retail stores and keep vacancies low, non-retail uses occupy a significant share of storefronts on Geary Boulevard and Ocean Avenue (40 percent and 56 percent, respectively). Given these trends, expanding formula retail controls to include new land uses could make it more difficult to maintain healthy vacancy rates (i.e., vacancy rates of no more than 10 percent) in some neighborhood commercial districts. Moreover, many personal, business, and medical services – such as hair and nail salons, gyms, and dialysis centers – serve residents' daily needs and align with the City's vision of neighborhood commercial districts as providing a range of neighborhood-serving commercial uses.

The appropriate concentration of formula retail for neighborhood commercial districts varies significantly depending on existing conditions and the community's preferences. The existing concentration of formula retail varies significantly across the city, and communities often react differently to formula retail CU applications depending on factors such as the potential impacts on competing businesses and whether prospective formula retail tenants are filling long-standing vacancies and/or meeting perceived community needs. Given this variation, it is not possible to define an ideal level of concentration for formula retail that could apply across multiple neighborhood commercial districts.

Changing the definition of formula retail to businesses with at least 20 or 50 other establishments (rather than the current 11) would exempt some local, fast-growing companies, while still capturing the vast majority of national chains. Examples of businesses that started in San Francisco and have recently qualified as formula retail include Philz Coffee, with 14 locations in the Bay Area; San Francisco Soup Company, with 16 locations in the Bay Area; and Pet Food Express, which recently reached approximately 50 stores in the Bay Area, Sacramento, and Carmel. Overall, however, only 5 percent of formula retailers in San Francisco are associated with businesses with fewer than 20 total branches or subsidiaries. Another 4 percent have between 20 and 50 locations. The remaining formula retailers are either franchises (about 17 percent) or have more than 50 locations (nearly 75 percent).

Franchisees and other small businesses may need more assistance in navigating formula retail and other land use controls and negotiating rents. The formula retail controls affect some small businesses as well as larger, national chains. These include rapidly growing local companies (e.g., Philz Coffee, San Francisco Soup Company) as well as some franchisees (i.e., individuals or small, local companies who purchase the right to use the trademark and other standardized features from a large, national brand). Providing these businesses with technical assistance in navigating the formula retail controls and other land use controls could help mitigate the impacts of the controls. Small businesses may also benefit from additional assistance in negotiating with landlords in neighborhood commercial districts where rents are rising rapidly.

APPENDIX A. DATA SOURCES AND METHODOLOGY: IDENTIFYING EXISTING FORMULA RETAIL

As summarized in Chapter III, Strategic Economics identified formula and independent retail establishments using a database of all businesses in San Francisco purchased in 2012 from Dun & Bradstreet (D&B). D&B is a commercial vendor that collects and sells data on businesses, assigning each establishment in its database a unique, location-specific Data Universal Numbering System (D-U-N-S®) Number. D&B also collects a wide range of data points on each individual establishment including business name, trade name, address, annual sales volume, number of employees, square feet of establishment, year opened, line of business, and corporate linkages, including categorizing each establishment by whether it is a single location, branch, headquarters, or subsidiary. The City and County of San Francisco geocoded each establishment based on the address provided by D&B.

The 2012 D&B database includes approximately 82,000 business establishments located in San Francisco. In order to identify formula and other retail establishments, Strategic Economics used the following methodology:

1. **Identifying retail:** Strategic Economics used the North American Industry Classification System (NAICS) codes¹⁰⁷ that D&B provides for each establishment in the dataset to identify types of businesses that would most likely be subject to the definition of formula retail in the San Francisco Planning Code.¹⁰⁸ Figure A-1 shows the NAICS codes considered to be “retail” under this definition, based on the Planning Code and discussions with Planning Department staff. Retail establishments were grouped into broad “use types” for the purposes of the analysis: stores; restaurants, bars, and cafes; retail services; banks, credit unions, and savings and loans.¹⁰⁹ Note that some uses that are often considered retail in other contexts – for example, hair salons, gyms, health care outlets, gas stations, home mortgage centers, tax service centers, and auto dealerships – are not currently subject to San Francisco’s formula retail controls, and were therefore excluded from the definition of retail for the purposes of this analysis. Establishments located at San Francisco International Airport were also excluded from the analysis.
2. **Identifying formula retail:** Formula retailers were identified as retail establishments with 12 or more global corporate family members – i.e., branches and subsidiaries – as identified by D&B. D&B defines a branch as “a secondary location of a business. . . It will have the same legal business name as its headquarters, although branches frequently operate under a different trade [name].” A subsidiary is defined as “a corporation that is more than 50 percent owned by another corporation.”¹¹⁰

¹⁰⁷ NAICS is the standard code system used by federal statistical agencies for classifying business establishments.

¹⁰⁸ As stated in Section 303(i)(2) of the Planning Code, the following uses (as defined in Article 7 and Article 8 of the Planning Code) are subject to the definition of formula retail: "Bar," "Drive-up Facility," "Eating and Drinking Use," "Liquor Store," "Sales and Service, Other Retail," "Restaurant," "Limited-Restaurant," "Take-Out Food," "Sales and Service, Retail," "Service, Financial," "Movie Theater," and "Amusement and Game Arcade." In addition, in the Taraval Street Neighborhood Commercial District (NCD), Noriega Street NCD, and Irving Street NCD, "Trade Shops" are also subject to the formula retail controls. Trade shops are defined in Section 790.124 as “a retail use which provides custom crafted goods and/or services for sale directly to the consumer, reserving some storefront space for display and retail service for the goods being produced on site...” including repair of personal apparel, accessories, household goods, appliances, and furniture; upholstery services; carpentry; building, electrical, painting, roofing, furnace or pest control contractors; printing of a minor processing nature; tailoring; and other artisan craft uses, including fine arts uses.

¹⁰⁹ Trade shops (in the Taraval, Noriega, and Irving Street NCDs), movie theaters, and arcades were also initially included in the definition of “retail,” as these uses are subject to the definition of formula retail in the Planning Code. However, the analysis identified no trade shops (in the relevant NCDs) or arcades that could be considered formula retail, and the number of movie theaters in the database was too small (fewer than 20) to draw any meaningful conclusions. Therefore, these uses have been excluded from the analysis.

¹¹⁰ Dun & Bradstreet, “Glossary of D&B Terms,” <https://www.dnb.com/product/birgloss.htm>.

Businesses with fewer than 12 corporate family members, including businesses with a single location, were categorized as “independent” retail establishments.

3. **Limited data cleaning:** The dataset was too large to permit verification of all records. Strategic Economics conducted a limited assessment of the data, focusing on specific business types (movie theaters, coffee shops, pet stores, banks, grocery stores, pharmacies, and wholesale establishments¹¹¹). This process involved searching for known formula and independent retail establishments, as identified using Internet store locators, Yelp, and other websites, in order to verify the NAICS code, number of branches, and locations of establishments. Following this assessment, Strategic Economics made limited corrections to the data, including changing inaccurate NAICS codes (for example, re-categorizing retail grocery stores with wholesale NAICS codes) and reclassifying businesses that were incorrectly identified as either formula or independent based on the number of corporate family members listed in the D&B database. In order to maintain consistency across the dataset, Strategic Economics did not add establishments that were missing from the data or remove closed establishments, businesses with incorrect addresses, or duplicate locations.

Interpreting the Analysis

In general, the analysis is limited by the information available in the D&B dataset and the quality of the data, which has not been independently verified. The data shown throughout this report have been aggregated in order to ensure that the results are robust.¹¹² Nevertheless, the results should be interpreted with the understanding that the analysis has some limitations, including the following:

- **The methodology used to identify formula retail does not exactly match the City’s definition of formula retail.** Strategic Economics used the industry codes¹¹³ that D&B provides for each establishment in the dataset to identify types of businesses that would most likely be subject to the definition of formula retail in the Planning Code. These codes approximate, but do not exactly correspond to, the specific retail uses subject to the definition of formula retail under the Planning Code. In addition, the analysis relied on the number of global corporate family members (including chains and subsidiaries) as a proxy for formula status, the only such indicator available. In contrast, the definition of formula retail in the Planning Code only includes establishments located in the United States and is based on standardized branding, signage, and other aesthetic factors, irrespective of ownership.
- **The data are static.** All results are from D&B’s 2012 dataset. Although the City has purchased D&B data going back to 2004 for other purposes, the number of global corporate family members – the data field that served as the basis for identifying formula retail establishments – is not available in most previous years.
- **Data on individual businesses (including industry, number of employees, and square footage) are largely self-reported and/or modeled by D&B, and have not been independently verified.** In addition, some types of data (e.g., annual sales, year opened) are only available for a limited number of businesses in the dataset; this analysis only used variables for which data were available for most establishments.
- **Not all businesses are included in the dataset, and businesses that close or relocate may not be removed.** Although the D&B is commonly considered the best commercial source of business data, the dataset is missing some businesses and includes others that are closed or have relocated, as well as some duplicate locations.

¹¹¹ A number of retail establishments were miscategorized as Wholesale Trade (NAICS code 42).

¹¹² For example, findings based on fewer than 20 establishments were considered unreliable and are not shown.

¹¹³ The North American Industry Classification System (NAICS) is the standard code system used by federal statistical agencies for classifying business establishments.

Figure A-1. North American Industry Classification System Codes Included in Definition of Retail, by Use Type

NAICS Code	Description	Use Type
441310	Automotive Parts & Accessories Stores	Stores
442110	Furniture Stores	Stores
442210	Floor Covering Stores	Stores
442291	Window Treatment Stores	Stores
442299	All Other Home Furnishings Stores	Stores
443111	Household Appliance Stores	Stores
443112	Radio, Television, & Other Electronics Stores	Stores
443120	Computer & Software Stores	Stores
443130	Camera & Photographic Supplies Stores	Stores
444110	Home Centers	Stores
444120	Paint & Wallpaper Stores	Stores
444130	Hardware Stores	Stores
444190	Other Building Material Dealers	Stores
444210	Outdoor Power Equipment Stores	Stores
444220	Nursery, Garden Center, & Farm Supply Stores	Stores
445110	Supermarkets & Other Grocery (except Convenience) Stores	Stores
445120	Convenience Stores	Stores
445210	Meat Markets	Stores
445220	Fish & Seafood Markets	Stores
445230	Fruit & Vegetable Markets	Stores
445291	Baked Goods Stores	Stores
445292	Confectionery & Nut Stores	Stores
445299	All Other Specialty Food Stores	Stores
445310	Beer, Wine, & Liquor Stores	Stores
446110	Pharmacies & Drug Stores	Stores
446120	Cosmetics, Beauty Supplies, & Perfume Stores	Stores
446130	Optical Goods Stores	Stores
446191	Food (Health) Supplement Stores	Stores
446199	All Other Health & Personal Care Stores	Stores
448110	Men's Clothing Stores	Stores
448120	Women's Clothing Stores	Stores
448130	Children's & Infants' Clothing Stores	Stores
448140	Family Clothing Stores	Stores
448150	Clothing Accessories Stores	Stores
448190	Other Clothing Stores	Stores
448210	Shoe Stores	Stores
448310	Jewelry Stores	Stores
448320	Luggage & Leather Goods Stores	Stores
451110	Sporting Goods Stores	Stores
451120	Hobby, Toy, & Game Stores	Stores
451130	Sewing, Needlework, & Piece Goods Stores	Stores
451140	Musical Instrument & Supplies Stores	Stores
451211	Book Stores	Stores
451212	News Dealers & Newsstands	Stores
451220	Prerecorded Tape, Compact Disc, & Record Stores	Stores
452111	Department Stores (except Discount Department Stores)	Stores
452112	Discount Department Stores	Stores
452910	Warehouse Clubs & Supercenters	Stores
452990	All Other General Merchandise Stores	Stores
453110	Florists	Stores
453210	Office Supplies & Stationery Stores	Stores
453220	Gift, Novelty, & Souvenir Stores	Stores
453310	Used Merchandise Stores	Stores
453910	Pet & Pet Supplies Stores	Stores
453920	Art Dealers	Stores

NAICS Code	Description	Use Type
453930	Manufactured (Mobile) Home Dealers	Stores
453991	Tobacco Stores	Stores
453998	All Other Miscellaneous Store Retailers (except Tobacco Stores)	Stores
512131	Motion Picture Theaters (except Drive-Ins)	Movie Theaters and Arcades (a)
512132	Drive-In Motion Picture Theaters	Movie Theaters and Arcades (a)
722110	Full-Service Restaurants	Restaurants, Bars, Cafes
722211	Limited-Service Restaurants	Restaurants, Bars, Cafes
722212	Cafeterias	Restaurants, Bars, Cafes
722213	Snack & Nonalcoholic Beverage Bars	Restaurants, Bars, Cafes
722330	Mobile Food Services	Restaurants, Bars, Cafes
722410	Drinking Places (Alcoholic Beverages)	Restaurants, Bars, Cafes
323114	Quick Printing	Retail Services
812310	Coin-Operated Laundries & Drycleaners	Retail Services
812320	Drycleaning & Laundry Services (except Coin-Operated)	Retail Services
812910	Pet Care (except Veterinary) Services	Retail Services
812921	Photofinishing Laboratories (except One-Hour)	Retail Services
238350	Finish Carpentry Contractors	Trade Shops (a)
323110	Commercial Lithographic Printing	Trade Shops (a)
323111	Commercial Gravure Printing	Trade Shops (a)
323113	Commercial Screen Printing	Trade Shops (a)
323116	Manifold Business Forms Printing	Trade Shops (a)
323117	Books Printing	Trade Shops (a)
323118	Blankbook, Looseleaf Binders, & Devices Manufacturing	Trade Shops (a)
323119	Other Commercial Printing	Trade Shops (a)
323121	Tradebinding & Related Work	Trade Shops (a)
323122	Prepress Services	Trade Shops (a)
811411	Home & Garden Equipment Repair & Maintenance	Trade Shops (a)
811412	Appliance Repair & Maintenance	Trade Shops (a)
811420	Reupholstery & Furniture Repair	Trade Shops (a)
811430	Footwear & Leather Goods Repair	Trade Shops (a)
811490	Other Personal & Household Goods Repair & Maintenance	Trade Shops (a)
522110	Commercial Banking	Banks, Credit Unions, Savings & Loans
522120	Savings Institutions	Banks, Credit Unions, Savings & Loans
522130	Credit Unions	Banks, Credit Unions, Savings & Loans
713120	Amusement Arcades	Movie Theaters and Arcades (a)

(a) Trade shops (in the Taraval, Noriega, and Irving Street NCDs), movie theaters, and arcades were also initially included in the definition of "retail," as these uses are subject to the definition of formula retail in the Planning Code. However, the analysis identified no trade shops (in the relevant NCDs) or arcades that could be considered formula retail, and the number of movie theaters in the database was too small (fewer than 20) to draw any meaningful conclusions. Therefore, these uses have been excluded from the analysis.

Acronyms:

NAICS: North American Industry Classification System

Source: Strategic Economics, 2014.

APPENDIX B. SAN FRANCISCO'S USE SIZE CONTROLS

The following tables provide information on the use size limitations in San Francisco's neighborhood commercial districts (Figure B-1) and other commercial districts (Figure B-2), and on the City's conditional use requirements for large-scale retail (Figure B-3).

Figure B-1. Article 7 Zoning Districts – Use Size Limitations

Zoning District	Use Size Limit (a)
North Beach NCD	2,000 square feet Nonresidential uses over 4,000sqft not permitted, except for Movie Theater
Castro Street NCD	2,000 square feet Nonresidential uses over 4,000sqft not permitted, except certain Large Institutions as defined in Sec. 715.21.
Pacific Avenue NCD	2,000 square feet
Inner Clement Street NCD	
Inner Sunset NCD	
Outer Clement Street NCD	
Upper Fillmore Street NCD	
Haight Street NCD	
Polk Street NCD	2,500 square feet
Sacramento Street NCD	
Union Street NCD	
24 th Street-Mission NCT	
24 th Street-Noe Valley NCD	
West Portal Avenue NCD	2,500 square feet Nonresidential uses over 4,000sqft not permitted
NC-1, NCT-1	
Broadway	
Hayes-Gough NCT	
Upper Market Street NCD	3,000 square feet
Upper Market Street NCT	
Valencia Street NCD	
NC-2, NCT-2	
SoMa NCT	
Ocean Avenue NCT	
Glen Park NCT	
Folsom Street NCD	3,500 square feet
Noriega Street NCD	
Taraval Street NCD	
Judah Street NCD	
Irving Street NCD	
NC-3, NCT-3, Mission Street	
NC-S	6,000 square feet
Excelsior-Outer Mission NCD	

(a) Use size indicated is principally permitted. Use sizes greater than those indicated require a Conditional Use authorization from the Planning Commission unless otherwise prohibited.

Source: San Francisco Planning Code, Section 121.2.

Figure B-2. Article 8 Zoning Districts – Use Size

Zoning District (Planning Code Section)	Use Size Restrictions (Square Feet)
Chinatown Visitor Retail (811.1)	P up to 2500 C for 2501-5000 Restaurants up to 5000 P
Chinatown Residential NCD (812.1)	P up to 2500 C 2501 – 4000
RED (813)	No retail
South Park (814)	Retail up to 5000/lot C for 5000 bar or liquor store
SLR (816)	No use size limitations
SLI (817)	Financial services up to 4000 and other criteria
Rincon Hill Res MU (827)	P up to 25,000 C Above No individual ground floor tenant may occupy more than 75' of frontage for a depth of 25' on Folsom Street
South Beach Downtown Res (829)	P up to 25,000 C Above
MUG (840)	All Retail: P up to 25,000/lot; Above 25,000 permitted if the ratio of other permitted uses to retail is at least 3:1 Formula Retail: C subject to use size of retail
MUR (841)	Formula Retail permitted, no use size restrictions
MUO (842)	All Retail: P up to 25,000/lot
UMU (843)	All Retail: P up to 25,000/lot; above 25,000/lot permitted if ratio of other permitted uses to retail is at least 3:1. P up to 3999 per use, C over 4000 per use
WMUG (844)	P up to 10,000/lot; Above not permitted; C for Formula Retail
WMUO (845)	P up to 10,000/lot; C up to 25,000; above not permitted Formula Retail: C up to 25,000; not permitted above
SALI (846)	Retail: P up to 10,000/lot; C up to 25,000; above not permitted Formula Retail: C up to 25,000/lot; above not permitted
Red-MX (847)	Retail and Formula Retail not permitted – except with C in a Historic Building; Limited Restaurants and Restaurants are P up to 1250/lot area, C above and not permitted if in excess of 1 FAR;

Acronyms:

P = Principally Permitted

C = Conditional Use Authorization required

FAR = Floor Area Ratio

Source: San Francisco Planning Code, Article 8.

Figure B-3. Large Scale Retail Use Conditional Use Requirements

Single Retail Use Size	Conditional Use Requirements
Over 50,000 gsf	Requires Conditional Use authorization in all but the C-3 Zoning District
Over 90,000 gsf	Requires Conditional Use authorization in C-3 Zoning District, unless already prohibited
Over 120,000 gsf	Prohibited in all but the C-3 Zoning District
Over 120,000 gsf AND sells groceries, contains more than 20,000 Stockpiling Units (SKUs); and devotes more than 5% of its total sales floor area to the sale of non-taxable merchandise	Prohibited in all Zoning Districts

Acronyms:

Gsf = Gross Square Feet

Source: San Francisco Planning Code, Section 121.6.

APPENDIX C: DEFINITIONS OF LAND USES INCLUDED IN SUPERVISOR ERIC MAR'S PROPOSED LEGISLATION

An ordinance proposed by Supervisor Eric Mar would, among other changes, add the following land uses to the definition of formula retail in the San Francisco Planning Code.

Figure C-1. Land Uses Included in Supervisor Eric Mar's Proposed Legislation: Definitions

Land Use	Definition (Excerpted from San Francisco Planning Code)
Ambulance Service	A retail use which provides medically related transportation services.
Animal Hospital	A retail use which provides medical care and accessory boarding services for animals, not including a commercial kennel....
Automobile Parking	A use which provides temporary parking accommodations for private vehicles whether conducted within a garage or on an open lot, excluding accessory parking...and community residential parking....
Automobile Sale or Rental	A retail use which provides vehicle sales or rentals whether conducted within a building or on an open lot.
Automotive Gas Station	A retail automotive service use which provides motor fuels, lubricating oils, air, and water directly into motor vehicles and without providing automotive repair services, including self-service operations which sell motor fuel only.
Automotive Service Station and Automotive Repair	Service Station: A retail automotive service use which provides motor fuels and lubricating oils directly into motor vehicles and minor auto repairs; Repair: A retail automotive service use which provides any of the following automotive repair services when conducted within an enclosed building having no openings....
Automotive Wash	A retail automotive service use which provides cleaning and polishing of motor vehicles....
Entertainment, Adult	A retail use which includes the following: adult bookstore...adult theater...and encounter studio....
Entertainment, Other	A retail use, other than adult entertainment...which provides live entertainment, including dramatic and musical performances, and/or provides amplified taped music for dancing on the premises, including but not limited to Places of Entertainment and Limited Live Performance Locales, as defined in Section 1060 of the Police Code, and which is adequately soundproofed or insulated so as to confine incidental noise to the premises. Other entertainment also includes a bowling alley, billiard parlor, shooting gallery, skating rink and other commercial recreational activity, but it excludes amusement game arcades, as defined in Section 790.4 of [the Planning] Code and regulated in Section 1036 of the Police Code.
Gift Store Tourist Oriented	A retail use which involves the marketing of small art goods, gifts, souvenirs, curios, novelties to the public, particularly those who are visitors to San Francisco rather than local residents.
Hotel, Tourist	A retail use which provides tourist accommodations, including guest rooms or suites, which are intended or designed to be used, rented, or hired out to guests (transient visitors) intending to occupy the room for less than 32 consecutive days.
Jewelry Store	A retail use which primarily involves the sale of jewelry to the general public.
Large-Scale Urban Agriculture	The use of land for the production of food or horticultural crops to be harvested, sold, or donated that occur: (1) on a plot of land 1 acre or larger or (2) on smaller parcels that cannot meet the physical and operational standards for Neighborhood Agriculture.
Light Manufacturing, Wholesale Sales	Light Manufacturing: A nonretail use which provides for the fabrication or production of goods, by hand or machinery, for distribution to retailers or wholesalers for resale off the premises, primarily involving the assembly, packaging, repairing, or processing of previously prepared materials.... Wholesale Sales: A nonretail use which exclusively provides goods or commodities for resale or business use, including accessory storage....

Land Use	Definition (Excerpted from San Francisco Planning Code)
Neighborhood Agriculture	A use that occupies less than 1 acre for the production of food or horticultural crops to be harvested, sold, or donated and comply with the controls and standards herein. The use includes, but is not limited to, home, kitchen, and roof gardens. Farms that qualify as Neighborhood Agricultural use may include, but are not limited to, community gardens, community-supported agriculture, market gardens, and private farms.
Service Limited, Financial	A retail use which provides banking services, when not occupying more than 15 feet of linear frontage or 200 square feet of gross floor area.
Service, Personal and Massage Establishment	<p>Personal Service: A retail use which provides grooming services to the individual, including salons, cosmetic services, tattoo parlors, and health spas, or instructional services not certified by the State Educational Agency, such as art, dance, exercise, martial arts, and music classes.</p> <p>Massage Establishment: Massage establishments are defined by Section 1900 of the San Francisco Health Code. The massage establishment shall first obtain a permit from the Department of Public Health pursuant to Section 1908 of the San Francisco Health Code. Massage establishments shall generally be subject to Conditional Use authorization.</p>
Storage Tobacco	A retail use which stores within an enclosed building household goods or goods and materials used by other businesses at other locations, but which does not store junk, waste, salvaged materials, automobiles, inflammable or highly combustible materials, or wholesale goods or commodities. It shall include self-storage facilities for household goods.
Paraphernalia Establishments	Retail uses where Tobacco Paraphernalia is sold, distributed, delivered, furnished or marketed from one person to another.
Trade Shop	A retail use which provides custom crafted goods and/or services for sale directly to the consumer, reserving some storefront space for display and retail service for the goods being produced on site....

Source: San Francisco Planning Code, Sections 790 and 890, February 2014.

APPENDIX D. DEMOGRAPHIC AND ECONOMIC ANALYSIS

This appendix provides the following additional maps and tables created as part of the subarea analysis:

- Map of total existing retail establishments (formula and independent) per square mile (Figure D-1)
- Map of total existing formula retail establishments per square mile (Figure D-2)
- Map of population density by Census Tract (Figure D-3)
- Table summarizing population and household density by geographic subarea (Figure D-4)
- Map of employment density by Census Block (Figure D-5)
- Table summarizing employment density by geographic subarea (Figure D-6)
- Map of average household income by Census Tract (Figure D-7)¹¹⁴
- Map of households earning less than \$20,000 a year by Census Tract (Figure D-8)
- Table summarizing household incomes by geographic subarea (Figure D-9)
- Hotels and motels by subarea (Figure D-10)

Note that in the map of average household income (Figure D-5), darker colors indicate higher-income areas; in the map of households earning less than \$20,000 a year (Figure D-6), darker colors indicate higher concentrations of low-income households.

¹¹⁴ Average (mean) household income rather than median household income was used for this analysis because the former indicator more closely represents residents' buying power.

Figure D-1. Total Existing Retail Establishments (Formula and Independent) per Square Mile, 2012

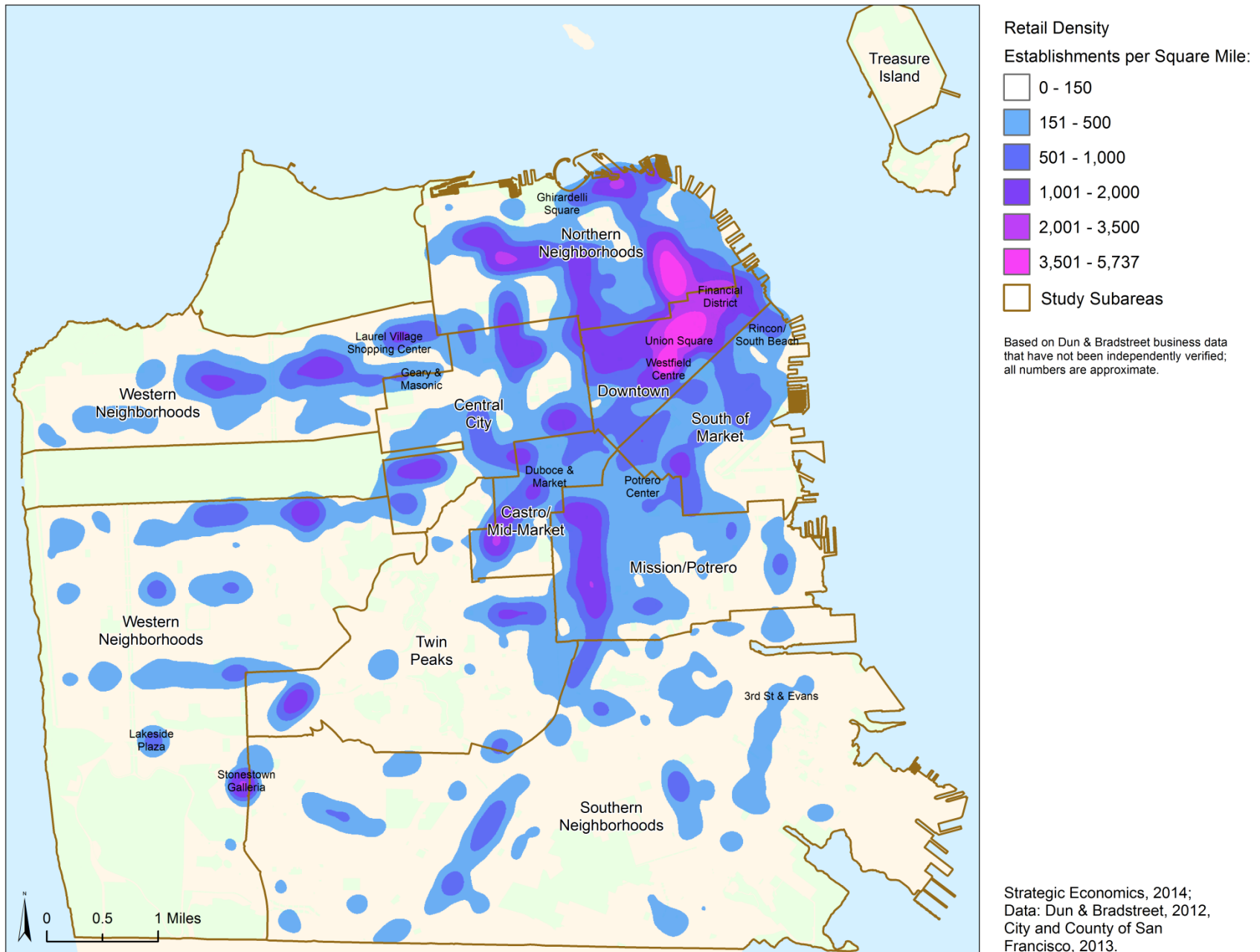


Figure D-2. Existing Formula Retail Establishments per Square Mile, 2012

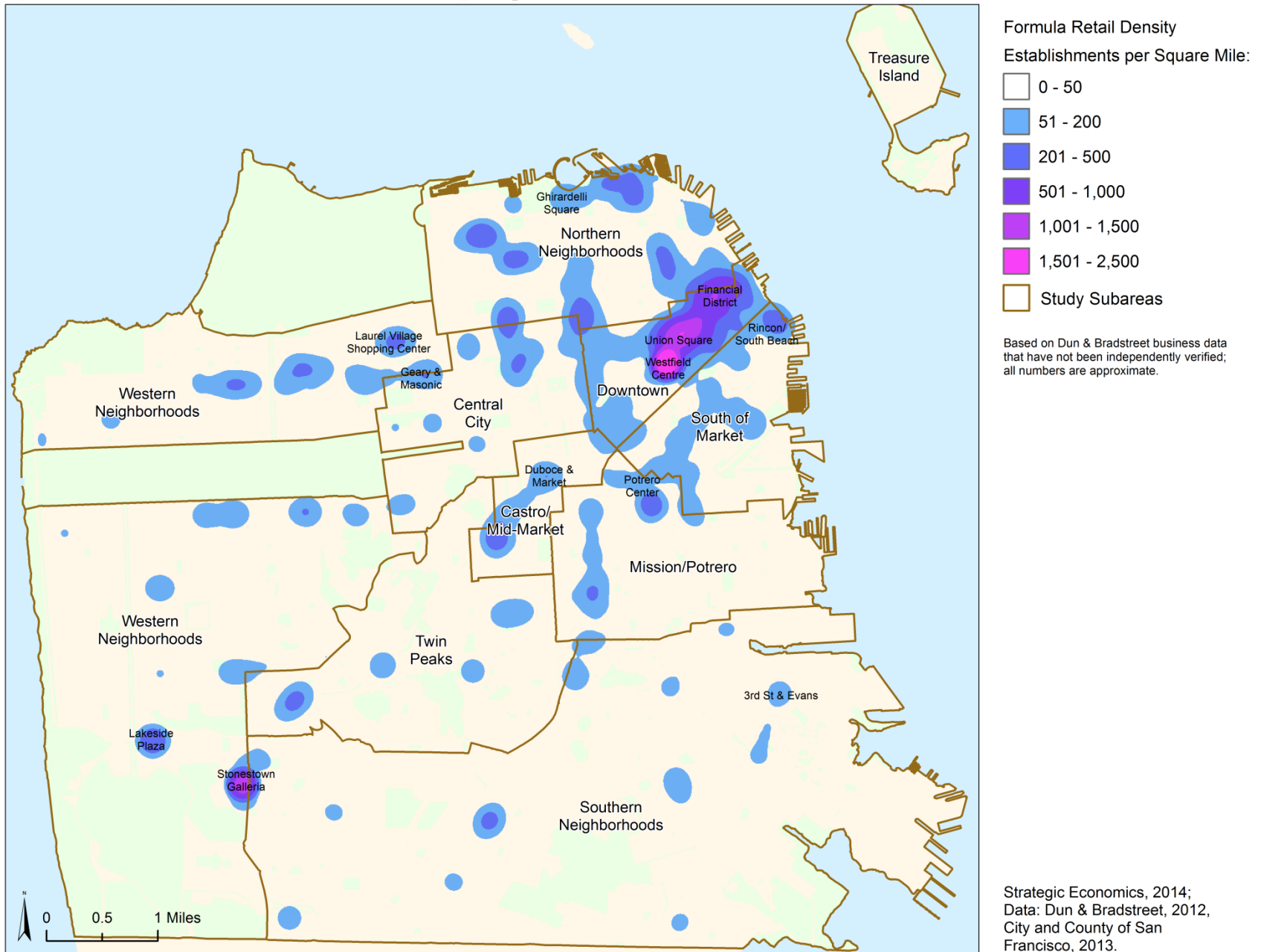


Figure D-3. Population Density by Census Tract, 2012

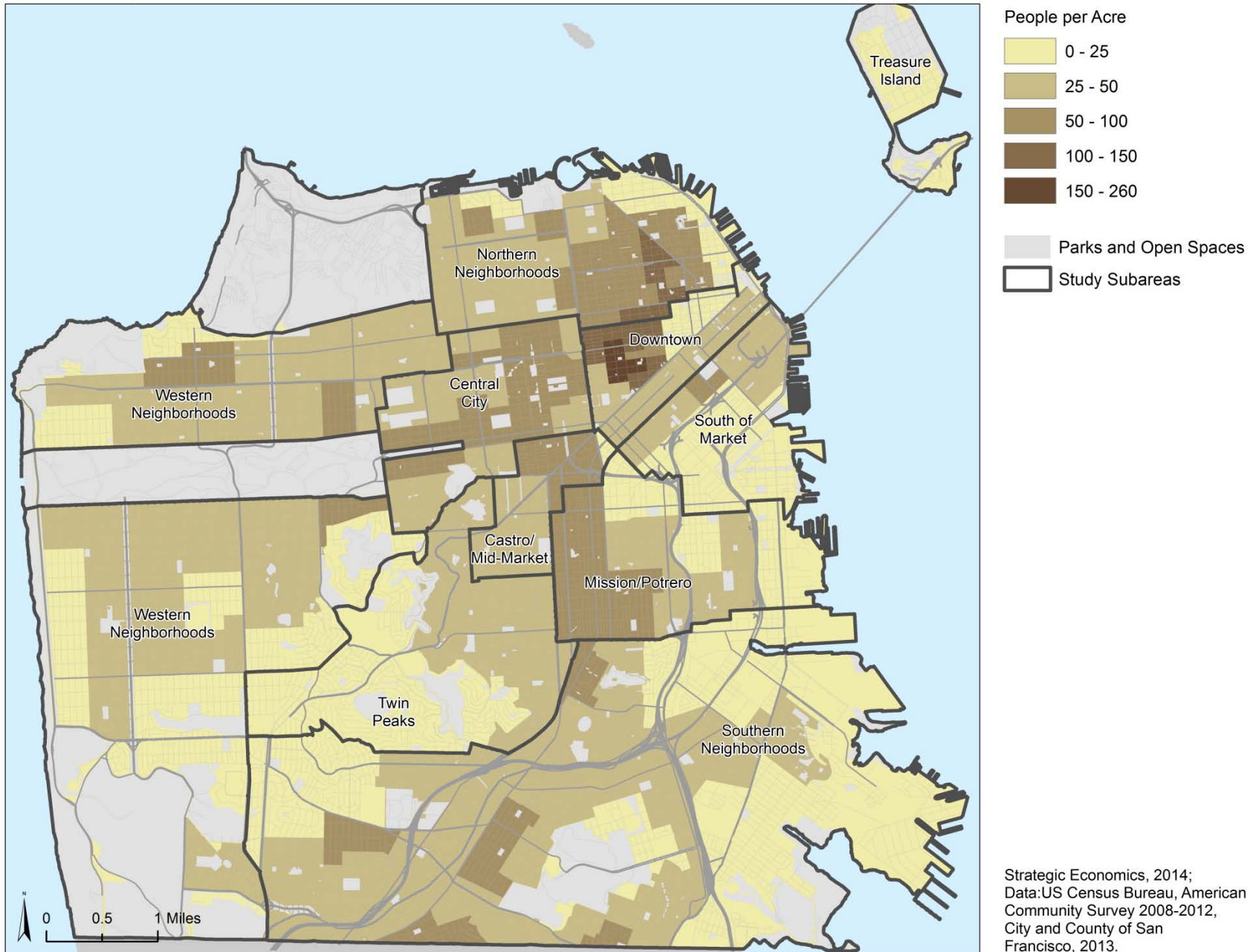


Figure D-4. Average Population and Household Density by Subarea, 2012

Subareas	Population	Percent of Total Population	Households	Percent of Total Households	Acres (a)	Population Density (Persons per Acre)	Household Density (Households per Acre)
Castro/Mid-Market	31,313	4%	15,975	5%	655	48	24
Central City	70,162	9%	34,983	10%	1,436	49	24
Downtown	41,009	5%	24,536	7%	606	68	40
Mission/Potrero	56,381	7%	22,583	7%	1,740	32	13
Northern Neighborhoods	106,816	13%	58,881	17%	2,185	49	27
South of Market	30,026	4%	15,579	5%	1,343	22	12
Southern Neighborhoods	199,097	25%	58,761	17%	8,055	25	7
Twin Peaks	58,680	7%	27,235	8%	2,465	24	11
Western Neighborhoods	184,950	23%	71,077	21%	5,543	33	13
Treasure Island (b)	22,692	3%	8,200	2%	1,475	15	6
Total	801,126	100%	337,810	100%	25,504	31.4	13.2

(a) Excluding major open spaces and parks.

(b) Not included in subarea analysis.

Source: U.S. Census Bureau, 2008-2012 American Community Survey; Strategic Economics, 2014.

Figure D-5. Employment Density by Census Block, 2012

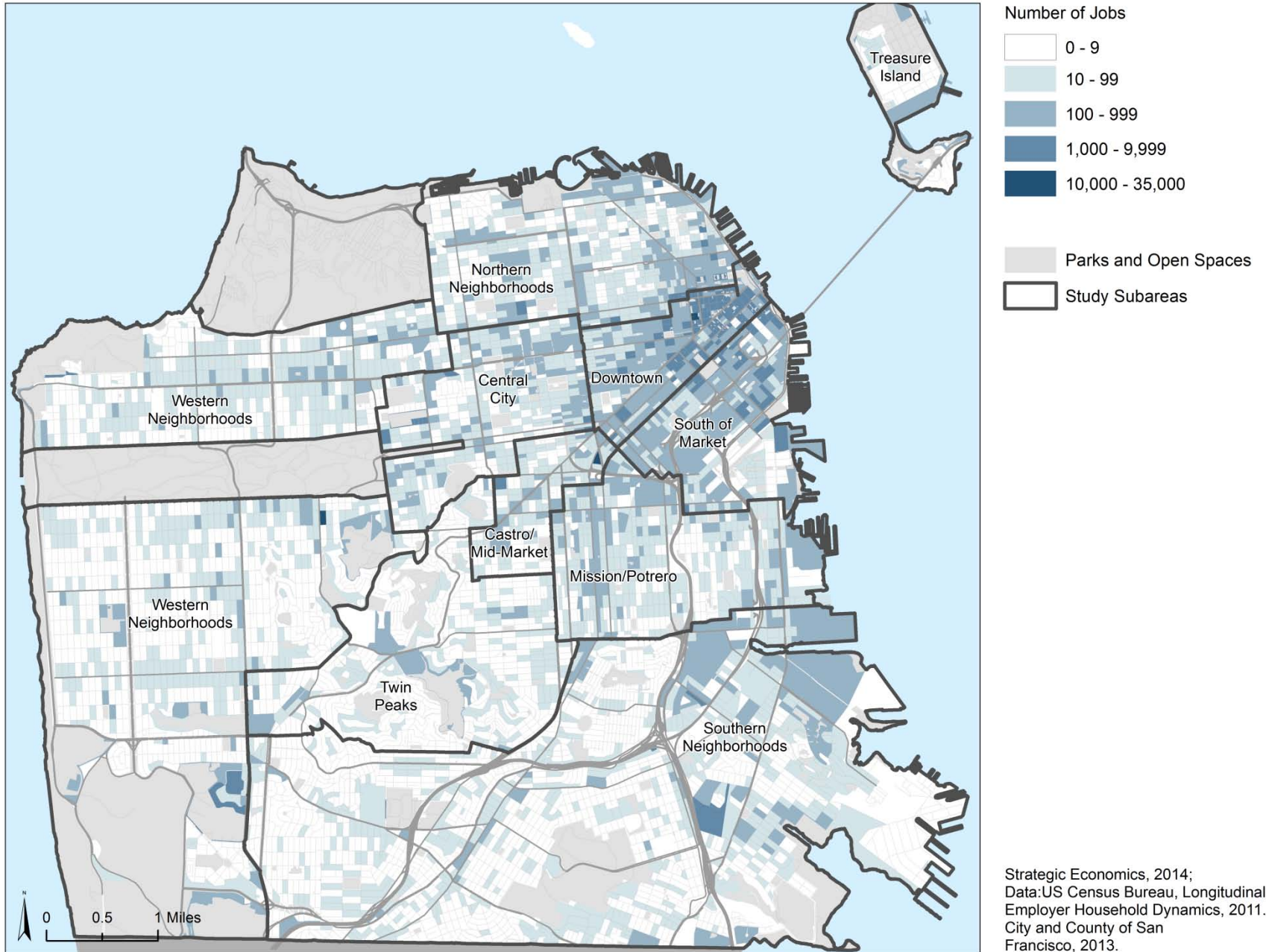


Figure D-6. Employment Density by Subarea, 2012

Subarea	Jobs	% of Total Employment	Acres (a)	Employment Density (Jobs per Acre)
Castro/Mid-Market	44,669	8%	655	68
Central City	47,934	8%	1,436	33
Downtown	194,443	33%	606	321
Mission/Potrero	28,698	5%	1,740	16
Northern Neighborhoods	86,531	15%	2,185	40
South of Market	71,516	12%	1,343	53
Southern Neighborhoods	38,992	7%	8,055	5
Twin Peaks	6,591	1%	2,465	3
Western Neighborhoods	61,109	10%	5,543	11
Treasure Island (b)	5,346	1%	1,475	4
Total	585,829	100%	25,504	23

(a) Excluding major open spaces and parks.

(b) Not included in subarea analysis.

Source: U.S. Census Bureau, Longitudinal Employer-Household Dynamics Program, 2011; Strategic Economics, 2014.

Figure D-7. Average Household Income by Census Tract, 2012

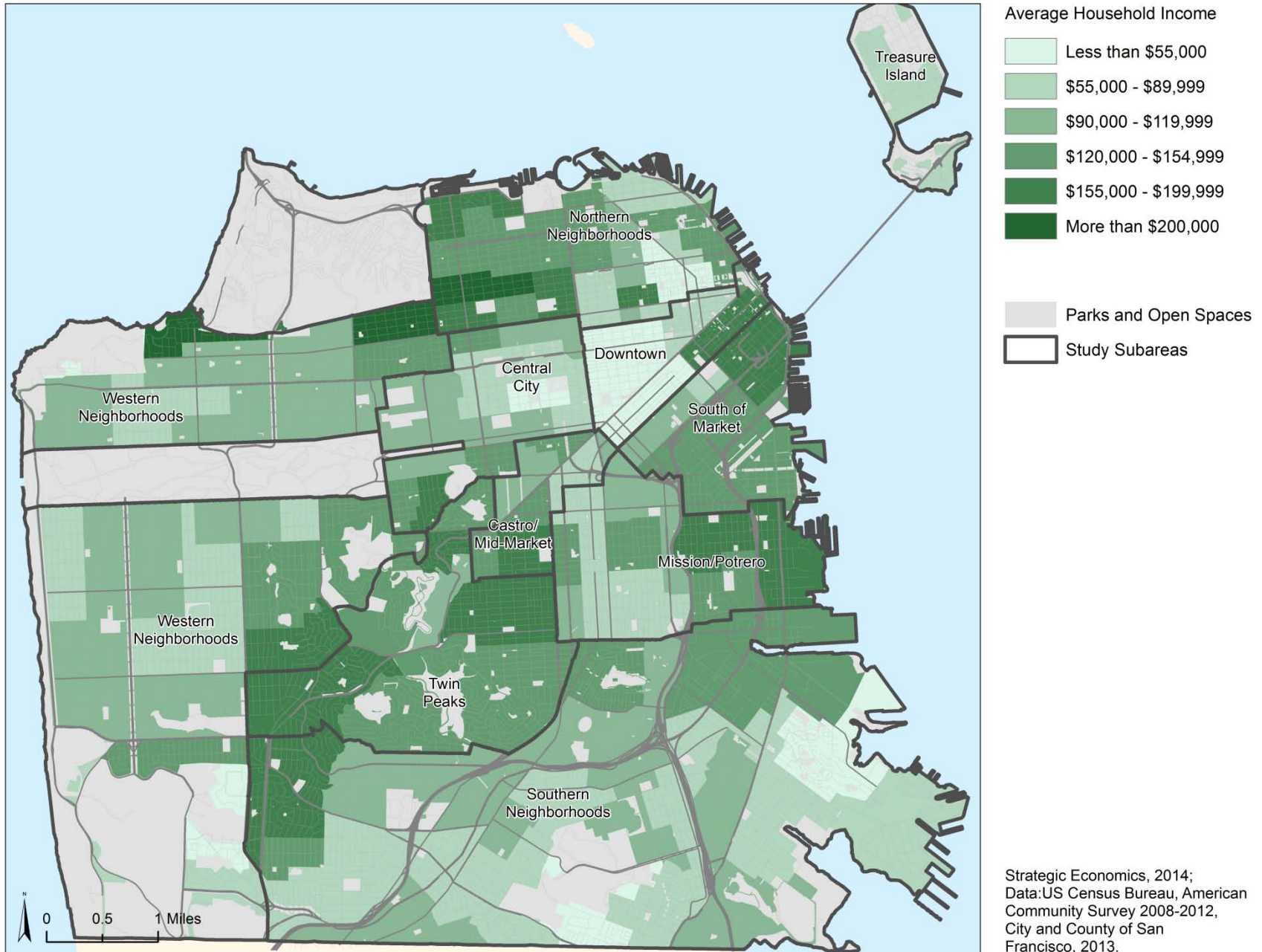


Figure D-8. Percent of Households with Household Incomes Below \$20,000 by Census Tract, 2012

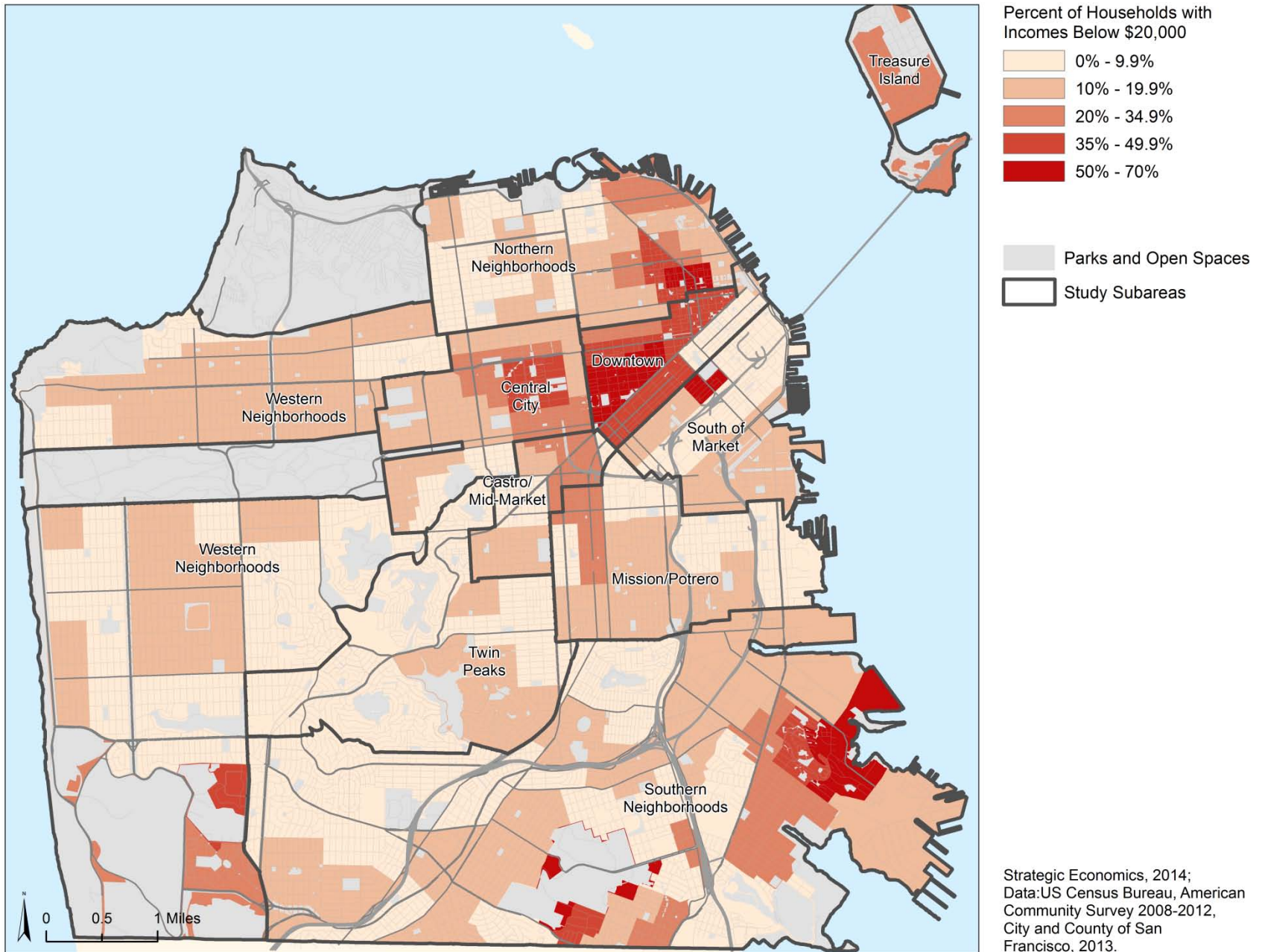


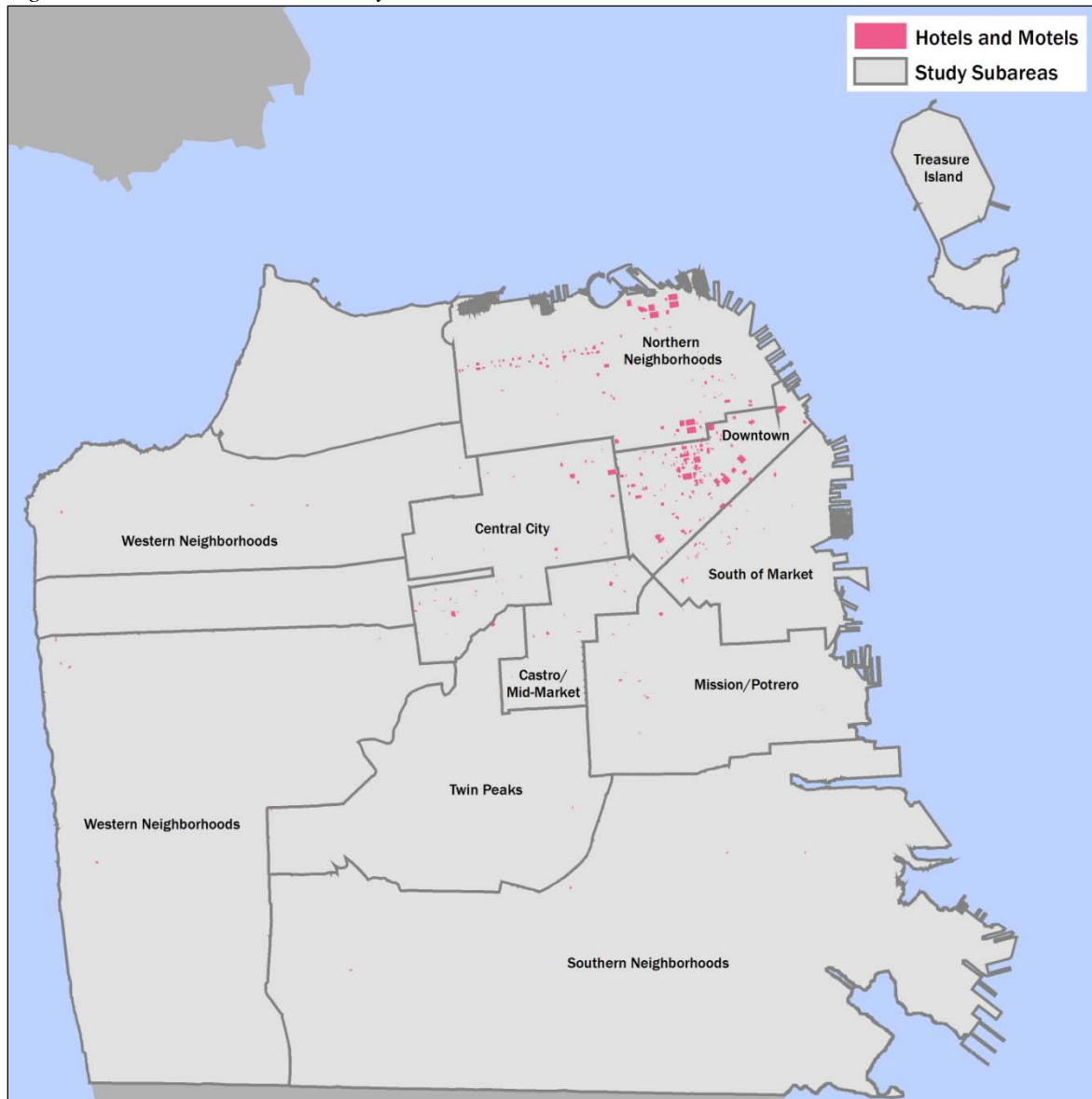
Figure D-9. Household Incomes by Subarea, 2012

Subarea	Total Households	Percent of Households in Income Bracket						Average Household Income
		Less than \$20K	\$20K - \$39.9K	\$40K - \$59.9K	\$60K - \$99.9K	\$100K - \$199.9K	More than \$200K	
Castro/Mid-Market	15,975	17%	14%	12%	18%	26%	14%	\$110,208
Central City	34,983	20%	13%	12%	19%	25%	11%	\$99,307
Downtown	24,536	46%	22%	11%	11%	8%	2%	\$40,221
Mission/Potrero	22,583	11%	14%	13%	18%	27%	17%	\$117,086
Northern Neighborhoods	58,881	18%	13%	10%	17%	26%	16%	\$124,152
South of Market	15,579	18%	9%	10%	13%	28%	22%	\$139,886
Southern Neighborhoods	58,761	13%	16%	14%	22%	26%	9%	\$92,449
Twin Peaks	27,235	8%	9%	10%	18%	31%	25%	\$145,412
Western Neighborhoods	71,077	13%	13%	13%	22%	27%	12%	\$107,416
Treasure Island (a)	10,568	13%	17%	12%	22%	24%	13%	\$114,167
Total	340,178	17%	14%	12%	19%	25%	13%	\$107,559

(a) Not included in subarea analysis.

Source: U.S. Census Bureau, Longitudinal Employer-Household Dynamics Program, 2011; Strategic Economics, 2014.

Figure D-10. Hotels and Motels by Subarea, 2012



Source: City and County of San Francisco, 2014.

APPENDIX E. FOCUS GROUP PARTICIPANTS AND INTERVIEWEES

At key points throughout the study, the analysis was presented to focus groups of stakeholders. Strategic Economics also interviewed several local stakeholders to supplement the comments provided at the focus group meetings. Figure E-1 provides a list of participants from the first round of focus groups in January. Figure E-2 lists additional stakeholders who were interviewed for the analysis.

Figure E-1. January Focus Group Participants

Name	Affiliation
DeeDee Workman	SF Chamber
Ben Lazzareschi	CBRE (Commercial Realtors)
Margo Schaub	Gap
Amy Cohen	OEWD
Jordan Klein	OEWD
Nick Pagoulatos	Supervisor Mar's Office
Vinny Eng	Tartine Bakery
Evette Davis	CVS/BergDavis Public Affairs
Roy Chan	CCDC
Tracy Everwine	Central Market CBD
Hut Landon	SF LOMA
Christin Evans	Haight Ashbury Merchant Group
President Fong	Planning Commission
Commissioner Borden	Planning Commission
Commissioner Moore	Planning Commission
Regina Dick-Endrizzi	Small Business Commission Staff
Pamela Mendelsohn	Colliers
Debbie Kartiganer	Safeway
Tom Rocca	7 Hills Development
Lesley Lionhardt	Union Street Merchants
Danny Yadegar	DTNA
Commissioner Dooley	Small Business Commission
Paul Wermer	Paul Wermer
Christian Murdock	Small Business Commission Staff
Ilene Dick	BOMA

Figure E-2. Additional Interviewees

Name	Affiliation
David Blatteis	Blatteis Realty Co., Inc.
David Fishbein	Runyon Group
David Heller	Greater Geary Merchants Association
Ben Lazzareschi	CBRE
Ross Portugeis	Colliers International
Thomas Reynolds	Fillmore Merchants Association
Julie Taylor	Cornish & Carey Commercial Newmark Knight Frank
Dan Weaver	Ocean Avenue Association
Chris Wright	Planning Association for the Richmond
