

## **Central SoMa Draft Policy Document**

# **Production, Distribution, and Repair**

**November 2014**

### **Introduction**

The Land Use chapter (Chapter 2) of the draft Plan states that the Plan should “reinforce SoMa’s mixed-use character by permitting a diversity of land uses” (Principle 5). However, under current economic conditions, preserving a mixed-use character requires more than just permitting a diversity of uses. It requires proactive measures to protect and incentivize those uses that typically cannot compete economically with higher paying uses such as office and housing, such as Production, Distribution, and Repair (PDR). The discussion below seeks to convey how the Plan can ensure that PDR uses will continue to exist and thrive in the Plan Area.

### **Summary**

Ensure space for PDR through such means as maintaining some PDR-protective zoning, limiting conversion of PDR, incentivizing protection of existing PDR, and incentivizing and requiring the development of new space for PDR.

### **Background**

PDR is a term used to describe a whole range of non-residential uses that don’t fall into other categories, such as office, retail, and institutional. This includes the production or manufacture of things (such as clothing, food, and art), the distribution of people and things (as undertaken by wholesalers, UPS, MUNI, etc.), and the repair of things (the work of auto mechanics and plumbers, for example).

The PDR sector is important for a number of social and economic reasons. PDR provides services necessary to support the sectors that drive San Francisco’s economy: office work (whether “tech,” finance, law, or institutions) and tourism. PDR also provides services necessary to support the needs of residents, including many common but less frequent or predictable needs (like auto repair and upholsterers). PDR jobs pay well relative to education, particularly for people without a four-year college degree. PDR provides job and economic diversity that helps make the city more economically resilient through economic cycles – particularly the manufacturing sector, which is not as closely linked to the local economy as our distribution and repair sectors. Finally, PDR jobs help provide diversity in neighborhood character – particularly in SoMa, which has always been an eclectic and edgy mixed-use neighborhood.

Though PDR uses are very important to the city, they are also at risk in areas such as SoMa. This is because PDR uses tend not to be able to compete on rent compared to other uses seeking the same space. In fact, PDR uses tend to pay only 25%-50% per square foot of what office uses command in today’s economy. Despite their low ability to

pay, there is still a strong demand for PDR uses – vacancy rates in PDR areas are very low, rents in PDR buildings are two to three times higher than that of similar industrial areas elsewhere in the Bay Area, and PDR job growth is strong (especially in the renewing urban manufacturing sector).

Overall, there are approximately 60,000 PDR jobs in San Francisco – about 10% of the city’s workforce. The types of PDR jobs in the city are shown in Table 1. Note that this data is from 2012. The Department is working to update with more recent data that may be more reflective of the rapid changes occurring in SoMa.

**Table 1: PDR Jobs Sectors in San Francisco**

Production		Distribution		Repair	
Manufacturing	8,500	Wholesale	11,500	Contractors	8,400
Construction	6,500	Transportation	8,200	Auto Repair	2,600
Media, Printing and Publishing	5,500	Utilities	3,500	Other Repair	1,100
Audio, Film, and Video	2,400	Other Distribution	2,700		

Source: Dun & Bradstreet 2012

The number of PDR jobs in the city is down nearly 60% from our peak of 165,000 PDR jobs only 40 years ago when the city was home to several major manufacturing plants and a working waterfront. The decline in PDR jobs is due to a number of factors – including the pull of other locations with cheaper rents and labor costs (especially overseas) and changing infrastructure needs, but also the push from higher paying uses locally. Today’s PDR jobs are geographically dispersed in three main areas of the city – 33% in areas where the zoning protects PDR from other uses (e.g., the PDR-1, PDR-2, SLI, and SALI Districts), 33% in areas where PDR uses are not protected but have been able to compete for space to varying degrees (e.g., SoMa, other parts of the Eastern Neighborhoods), and 33% are in residential districts (e.g., all the contractors, artists, and construction workers who work or make calls out of their homes) where these uses are not protected but are not in jeopardy of being displaced since they are home-based jobs.

There are about 5,600 PDR jobs in the Central SoMa Plan Area, including 1,800 in areas that the draft Plan proposed to change from a protected area (SLI and SALI) to a zoning where office and housing are allowed. Table 2 contains a list of what those PDR jobs are – both inside and outside SLI/SALI. As with Table 1, this table is from 2012 and will need to be updated as new information becomes available.

**Table 2: PDR Jobs in Central SoMa.**

Field	Total Jobs in Central SoMa	Jobs in Areas already without PDR Protection	Jobs in Areas where PDR Protection Could be Removed	Jobs in Areas where PDR Protection is Remaining
Audio, Film, and Video	150	100	50	0
Auto Repair	240	90	90	60

Construction	680	250	400	30
Contractors	570	190	140	240
Manufacturing	320	60	240	20
Media, Printing, and Publishing	2,020	1,810	200	10
Transportation	510	310	90	110
Utilities	400	230	170	0
Wholesale	720	290	420	10
<b>Total</b>	<b>5,600</b>	<b>3,320</b>	<b>1,800</b>	<b>480</b>

Source: Dun & Bradstreet 2012

The 1,800 jobs for which the draft Plan considers removing protection represent about 3% of the PDR jobs in the city and 0.3% of the overall jobs in the city. The other 3,800 PDR jobs in the Plan area are in areas that historically have never protected PDR uses or had restrictions on conversion of PDR to other uses (e.g., the downtown C-3 districts, and the MUG, MUR, and MUO districts). However, [recently adopted legislation](#) sponsored by Supervisor Jane Kim has created a moratorium on any conversion of PDR space within the entire Plan Area until the adoption of the Plan.

As discussed above, an important component of PDR is that a high percentage of the jobs go to people without a four-year college degree (67% in San Francisco). By contrast, only 25% of San Francisco’s office jobs are for people without a four-year degree. The Central SoMa Plan would enable the growth of up to 50,000 office jobs in the Plan Area (about half of which could already be permitted under existing zoning). Therefore, it is reasonable to expect that the number of jobs in the Plan Area appropriate for people without a four-year degree will increase substantially with this Plan.

### **Concepts under Review**

The Department is considering a number of mechanisms, discussed below, to ensure ongoing PDR presence in Central SoMa. This proposal aims to maintain PDR in the Plan Area as an essential part of its neighborhood character. However, this proposal maintains the Plan’s goal of accommodating a substantial amount of employment and housing growth in this transit rich area, and thus presumes that the predominance of the city’s PDR needs will continue to be met outside of the Plan Area (such as in the PDR Districts of Bayview, Bayshore, the Mission, Showplace Square, and Central Waterfront).

It is important to note that many of the details of this proposal still need to be determined, and will be fleshed out over the coming months.

### Maintain Some PDR-Protective Zoning

The draft Plan calls for maintaining the SALI zoning on the blocks located between Harrison and Bryant, 4<sup>th</sup> and 6<sup>th</sup> Streets. The Department is also considering maintaining the SALI zoning on some parcels west of 4<sup>th</sup> Street (such as along Bryant Street and 6<sup>th</sup> Street) on smaller sites that contain PDR uses and are not critical for fulfilling the Plan’s goals to accommodate growth.

### Limit Conversion of Existing PDR Spaces

PDR conversion could take place in one of two ways – the replacement of PDR uses with other uses in existing buildings, and the demolition of buildings with PDR and replacement with new buildings not containing PDR. The Department is considering limiting the amount of conversion of existing PDR uses to other uses.

One strategy for limiting conversion comes from a proposal recently released by the TODCO group, a SoMa non-profit housing developer active in community issues. This proposal would not allow any conversion in areas currently zoned SALI, would allow 50% conversion in areas currently zoned SLI, would allow 75% conversion in SoMa's other mixed use districts (MUG, MUR, MUO, South Park), and 100% conversion in the C-3 (downtown) districts.

This strategy would ensure that PDR uses continue to exist throughout the Plan Area (except in the downtown, where there is already very little PDR). This strategy would also align with the City's efforts to maintain the Flower Mart on site (a necessity for the site to receive a change in zoning), but also facilitate additional development on this site (which helps fulfill the Plan's goals).

While this is an interesting proposal, the Planning Department needs additional time to analyze it and ensure there are no significant unintended consequences. Initial areas of concern involve the fairness of a policy that favors or rewards sites that had previously removed or converted PDR to other uses – particularly in those areas where PDR replacement had never been restricted before the recent moratorium. The Department also needs to consider how this strategy interacts with other aspects of this proposal, such as facilitating off-site construction and/or protection of PDR or paying into an in-lieu fee program.

### Incentivize and Facilitate Protection of Existing PDR Spaces

The Department is also considering the creation of incentives to protect PDR spaces. Such incentives could include:

- Development bonuses (e.g. FAR and/or height) for maintaining existing PDR on site.
- PDR conservation easements, aka "PDR TDR": the ability to protect PDR on a different property that would otherwise be at risk through mechanisms such as buying and/or deed-restricting the other property, and transferring this as a "credit" toward exceeding certain FAR thresholds in the same way that transferrable development rights are currently acquired from historic buildings).

### Require and/or Incentivize Development of New PDR

The same development bonus strategies used to protect existing PDR (described above) could be applied to all parcels – or at least those of a certain size – and not just those with existing PDR. For instance, all new development on properties larger than a certain

size would have to build one square foot of PDR for every three square feet of other uses up to a maximum requirement of one FAR.

The advantages of such a requirement are several:

- It would leverage the market demand for higher-paying uses (office) to create of new PDR space. This is known as “cross-subsidization.” Recent legislation was adopted to implement exactly such a program on a trial basis in PDR districts the Showplace Square and Mission area in order to create new PDR space.
- It would ensure that large sites are truly mixed use and exhibit the kind of fine grain and eclectic diversity of uses, activities, and buildings that is characteristic of SoMa, and would mitigate against homogenous office complexes.
- It would be applied fairly, equitably and predictably across all properties in the same zoning district, regardless of the happenstance of whether PDR was present on site already. It effectively shares the “burden” of ensuring a future for PDR amongst all major developers and opportunity sites.

Such a program could also include provision of other desirable and necessary community-building uses that cannot compete economically, such as offices/facilities for social services and childcare facilities. The program could also flexibly offer options for fulfillment of the requirement, including creation of off-site PDR or payment into a fund used to build new PDR space.

It is important to note that creating the overall community benefits program for the proposed rezoning will require a complex weighing of varying benefits (e.g., PDR, affordable housing, open space, transportation) against each other based on the finite value being conferred and the feasibility of development. The decision of how to move forward with this requirement will be informed by the economic analysis of the value created by the Plan that is currently being undertaken and is expected to be completed by early 2015.