SAN FRANCISCO
PLANNING DEPARTMENT

Memo to the Planning Commission

HEARING DATE: FEBRUARY 27, 2014

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Project Address:	**Formula Retail Controls Today and Tomorrow**
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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. Preliminary data included a citywide analysis of existing formula retail controls and formula retail establishments as well as the prevalence of formula retailers throughout the city.

TODAY'S HEARING

Today's hearing is an opportunity for public comment on the draft Phase 1 report of the economic study. The Phase 1 report includes preliminary data presented on January 23, 2014 with revisions responding to the Commissions comments and four draft Issue Briefs. The four Issue Brief topics, identified at the January 23 hearing, are as follows: Understanding San Francisco's Formula Retail; Employment and Formula Retail; Formula Retail and the Real Estate Market; and, Changing the Definition of Formula Retail. Staff is seeking Commission and public comment on the preliminary drafts of these four Issue Briefs. Staff presentation will conclude with a discussion of the framework for selection of the neighborhood case study areas for Phase 2 of the economic study.

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 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 – Neighborhood Case Studies: Initial Findings Related to Phase 2's Neighborhood Case Studies
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 or later:	Planning Commission Hearing – Policy Recommendations: Consideration of Policy Recommendations from the Planning Department.

REQUIRED COMMISSION ACTION

No action is required at this time. This is an informational hearing to provide an update to the Commission about the economic study, commissioned by the Planning Department, currently underway.

RECOMMENDATION:	**Informational only; no action required**

San Francisco Formula Retail Economic Analysis

Phase I Report (DRAFT)

February 18, 2014

prepared for:
San Francisco Planning Department

Table of Contents

I. INTRODUCTION

The City & County of San Francisco (CCSF) has contracted with Strategic Economics to provide data and analysis of San Francisco's formula retail establishments and controls. The results of the analysis will inform policy recommendations that City staff will be making to the Planning Commission. This report describes the results and methodology of the first phase of the study, which included identifying and mapping existing formula and independent retail establishments in San Francisco, presenting the initial results to two focus groups of stakeholders, and researching and writing four issue briefs on topics selected by City staff with stakeholder input. This Phase I report consolidates new and updated materials with information that was previously presented to the Planning Commission and stakeholder focus groups.

The second phase of this study will include three neighborhood case studies and a subarea analysis assessing the prevalence of formula retail by zoning district or geography within San Francisco. Phase II will also include two additional focus groups, during which stakeholders will have an opportunity to provide additional feedback, including on the results contained in this report. Therefore, all results discussed in this report should be considered interim and subject to change.

Following this introduction, Chapter II reviews the City's existing and proposed formula retail controls. Chapter III provides key findings from the citywide analysis of San Francisco's established formula retail establishments. Chapters IV through VII consist of the issue briefs, which cover the following topics in more detail:

- The characteristics of San Francisco's existing formula retail establishments (Chapter IV).
- Differences in employment between formula and independent retail in terms of number of workers employed, wages, and benefits (Chapter V).
- The relationship between formula retail controls, formula retail businesses, and the retail market, focusing on rent and vacancy trends in selected neighborhoods that have attracted multiple applications for formula retail conditional use authorizations (Chapter VI).
- The potential effect of changing the definition of "formula retail" in the Planning Code, as proposed in various ordinances under consideration before the Board of Supervisors (Chapter VII).

Chapter VIII concludes with a discussion of next steps. The appendix discusses in detail the methodology used to identify and characterize established formula retail establishments.

II. SAN FRANCISCO'S FORMULA RETAIL CONTROLS

The Board of Supervisors adopted San Francisco's first formula retail (FR) use controls in 2004. Since that time, the City's formula retail controls have been expanded by successive ordinances and a voter-approved ballot initiative, so that today new formula retail is prohibited or requires conditional use (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 to neighborhood character caused by larger formula retail stores. Figure 1 shows the locations where formula retail controls are currently in place; Figure 2 summarizes specific controls that are applicable in individual zoning districts (marked in dark orange on Figure 1).

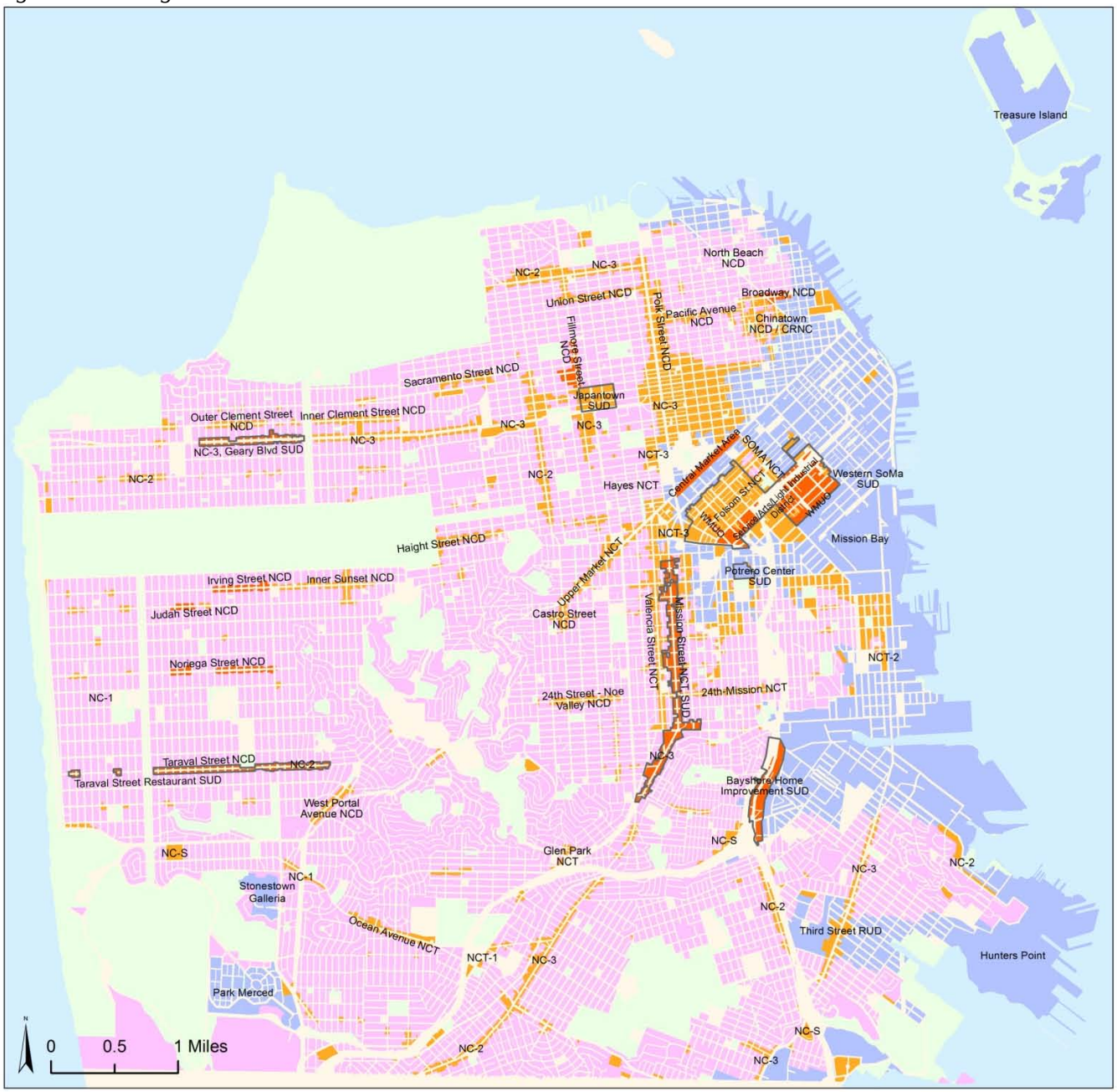
Under the current Planning Code, "formula retail" is defined as "a type of retail sales activity or retail sales establishment which, along with eleven or more other [i.e., 12 total, including the proposed establishment] retail sales establishments located in the United States, maintains two or more 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."[1] Use types subject to this definition generally include restaurants, bars, liquor stores, retail stores and service establishments, banks, and movie theaters.[2] 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 San Francisco's formula retail controls. The controls apply only to uses that have sought entitlements since the formula retail controls were enacted; existing formula retail establishments are not subject to new restrictions enacted after a property is entitled.

In 2013, a number of additional legislative and policy changes were proposed or adopted, including proposed ordinances that would modify the definition of formula retail and expand the areas in which controls apply. Figures 3 and 4, respectively, provide a map and summary of these proposals.

Between 2004, when the first formula retail controls were adopted, and June 2013, the City has received 95 formula retail CU applications. Of these, 64 percent were approved, 11 percent were disapproved, 12 percent were withdrawn, and 13 percent are still pending. Figure 5 shows the location of these CUs.

[1] San Francisco Planning Code, Sections 303(i)(1), 703.3, and 803.6(c).
[2] 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.

Figure 1. Existing Formula Retail Controls in San Francisco



New FR Not Permitted
Specific FR Controls
New FR Requires CU
New FR Permitted
Public or Unknown
FR-Related Special Use District

FR: Formula Retail
CU: Conditional Use authorization

P-zoned districts at times defer to the controls of the nearest Neighborhood Commercial district; see Planning Code Section 234.

See Figure 2 for explanation of specific restrictions in individual zoning districts.

Interim Draft

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

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

Zoning District	Underlying FR Control	Specific Restriction
Upper Fillmore NCD	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	FR permitted	CU required for formula retail fronting on Market Street between 6th and Van Ness (18-month interim control)
Bayshore Boulevard Home Improvement SUD	FR permitted	FR over 10,000 square feet requires CU
Third Street Formula Retail RUD	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 2.
Acronyms:
FR: Formula retail
CU: Conditional use authorization
NCD: Neighborhood Commercial District
NCT: Neighborhood Commercial Transit District
SUD: Special Use District
Source: City and County of San Francisco, 2013.

Figure 3. Geographically Specific Recent, Proposed, and Interim Formula Retail Controls in San Francisco

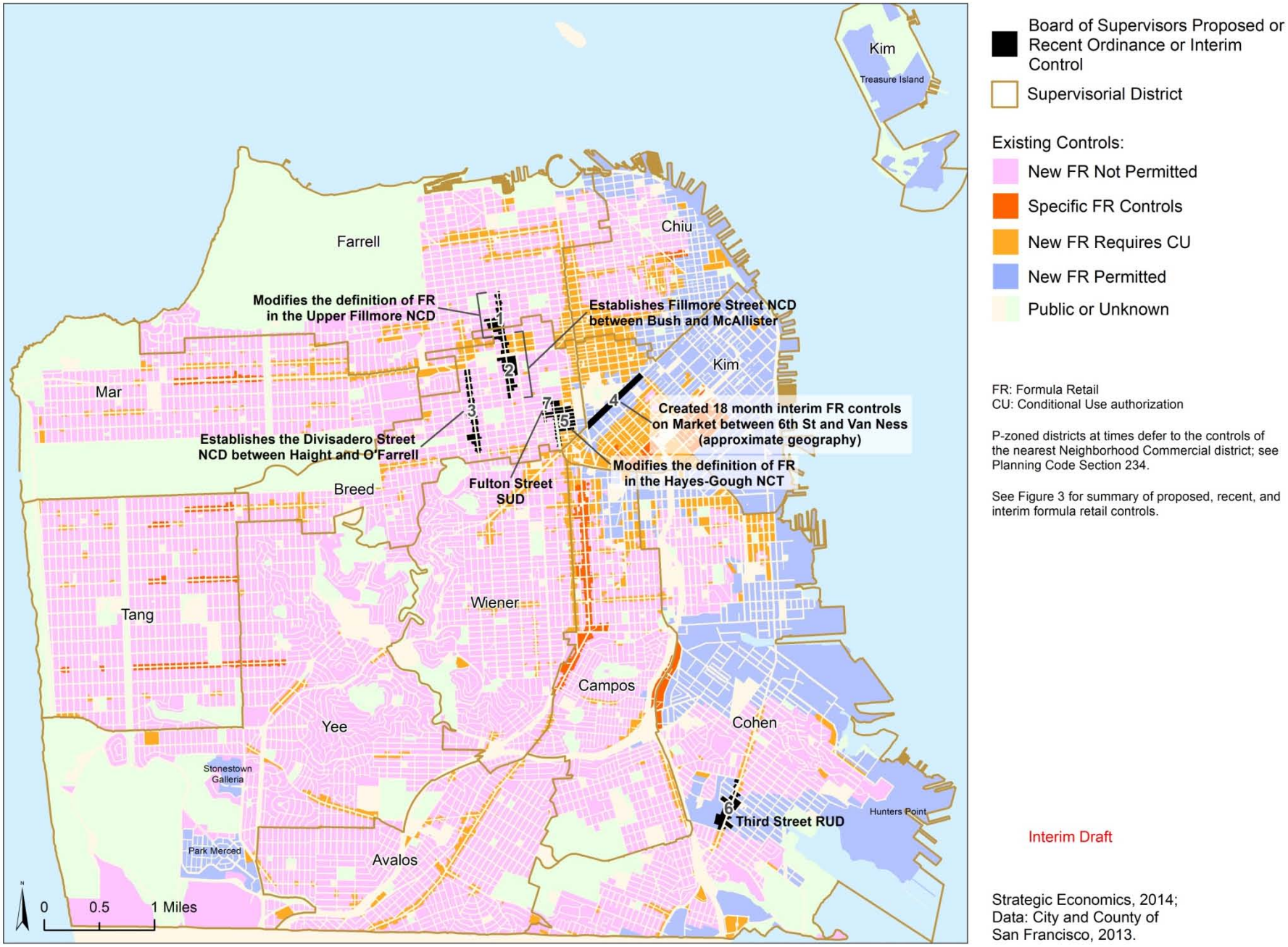


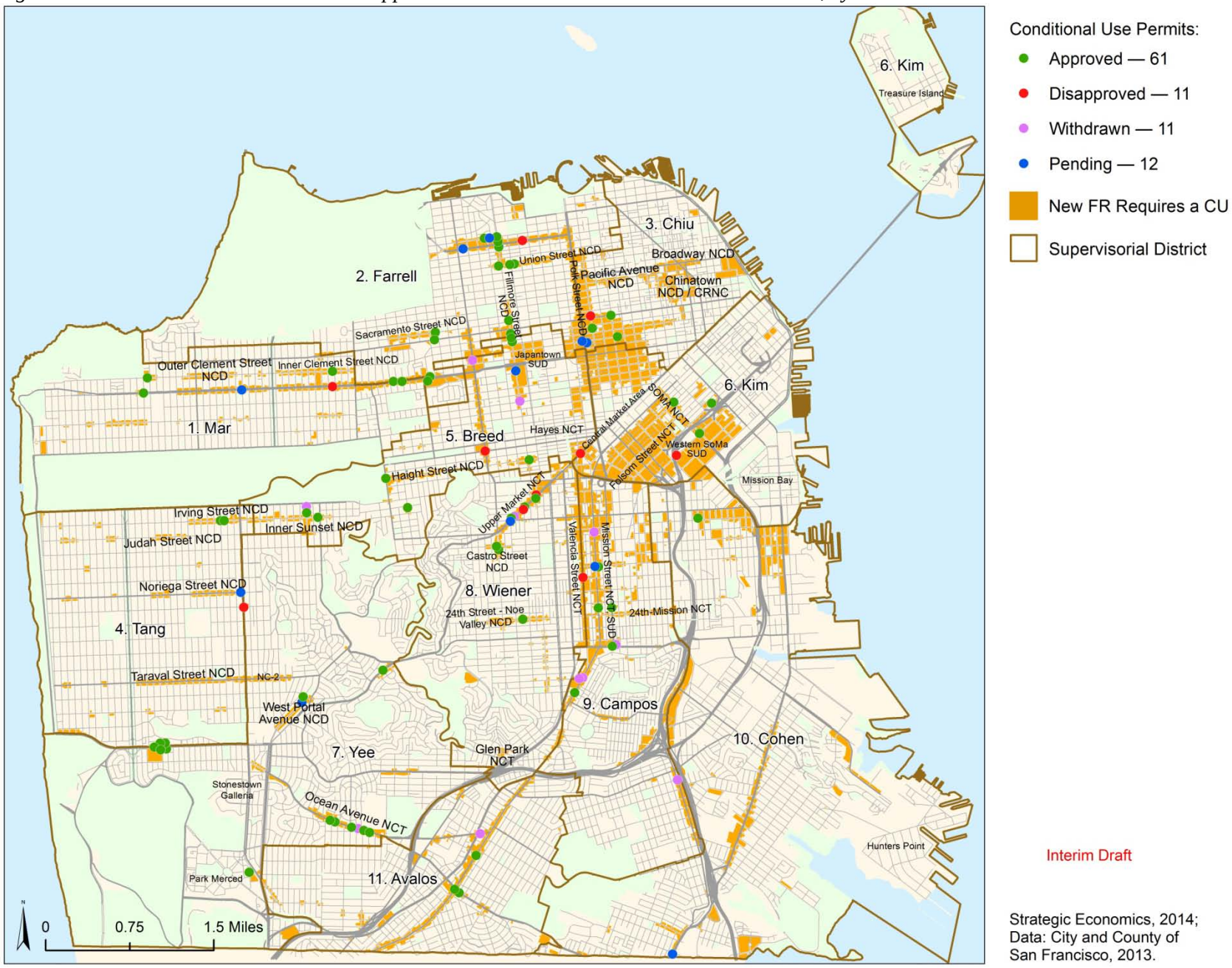
Figure 4. Summary of Recent, Proposed, and Interim Changes to San Francisco's Formula Retail Controls

Map Key (a)	Legislative or Policy Change	Type of Action	Status
1	**Modifies the definition of formula retail in the Upper Fillmore Neighborhood Commercial District** 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	**Establishes the Fillmore Street Neighborhood Commercial District 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	**Establishes the Divisadero Street Neighborhood Commercial District 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	**Created 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 Feb 2015
5	**Modifies the definition of formula retail in the Hayes-Gough Neighborhood Commercial Transit District** 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	**Third Street Formula Retail Restricted Use District (RUD) modifies the zoning controls on Third Street and expands the applicability of Formula Retail controls citywide.** This mixed-use district had some parcels where CU was not required for FR. Now all parcels in this RUD require CU for the establishment of CU. Certain changes to existing entitled FR locations citywide now trigger the need for a new CU hearing.	BOS Ordinance (Cohen)	Enacted
7	**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 FR change
N/A	**Expands 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	**Creates 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 towards the 11 establishments needed to be considered formula retail.	Board of Appeals ruling	
N/A	**Amended the Department of 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 3.
Acronyms:
BOS: Board of Supervisors
CU: Conditional use authorization
N/A: Not applicable
Source: City and County of San Francisco, 2013.

Figure 5. Formula Retail Conditional Use Applications Received between 2004 and June 2013, by Action Taken



III. RESULTS OF THE INITIAL CITYWIDE ANALYSIS

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. (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 entitled outlets.)

This chapter describes key findings from this citywide analysis,[3] which provided a broad look at the prevalence of formula retail in San Francisco, including the most common types and geographic distribution of formula retail throughout the city. Note that the results described in this chapter differ slightly from the findings presented to the Planning Commission in January 2014, because the dataset has been updated to identify franchise establishments as formula retail.[4] Chapter IV provides a more in-depth look at factors such as the prevalence of formula retail by zoning district, size of formula retail establishments, headquarters location of formula retailers, and the number of outlets in formula retail chains.

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 memorandum have been aggregated in order to ensure that the results are robust.[5] 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 codes[6] 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.

[3] The appendix provides a complete description of the methodology used to conduct the analysis.
[4] Dun & Bradstreet sells a separate dataset that identifies franchises, which was obtained and incorporated into the study after the initial round of analysis.
[5] For example, findings based on fewer than 20 establishments were considered unreliable and are not shown.
[6] The North American Industry Classification System (NAICS) is the standard code system used by federal statistical agencies for classifying business 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.

This analysis will be refined and expanded in the second phase of the project based on the results of future tasks and feedback from City staff and stakeholders. Therefore, all results should be considered interim and subject to change.

Findings

Key findings from the initial 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 estimated11.2 million square feet of building area, accounting for 31 percent of San Francisco's retail square footage. Figure 6 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.[7] 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 6). The remaining two percent are retail services, a category that includes copy centers, pet care (excluding veterinary) services, Laundromats, and dry cleaners. In comparison, just over 60 percent of San Francisco's independent retail establishments are stores, 30 percent are restaurants, 6 percent are retail services, and 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 6).

[7] 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).

Figure 6. Formula and Independent Retail by Use Type: Number of Establishments and Square Feet

Use Type	Formula Retail	% of Formula Retail	Independent Retail	% of 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%**

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Acronyms:
S&L: Savings and loans
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.

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 7 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 7. Most Common Types of Formula and Independent Retail Stores in San Francisco

	Most Common Types of Formula Retail Stores	Establish-ments	% of All Stores in Category	Square Feet	% of all Sq. Ft. 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	**Establish-ments**	**% of All Stores in Category**	**Square Feet**	**% of all Sq. Ft. 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%

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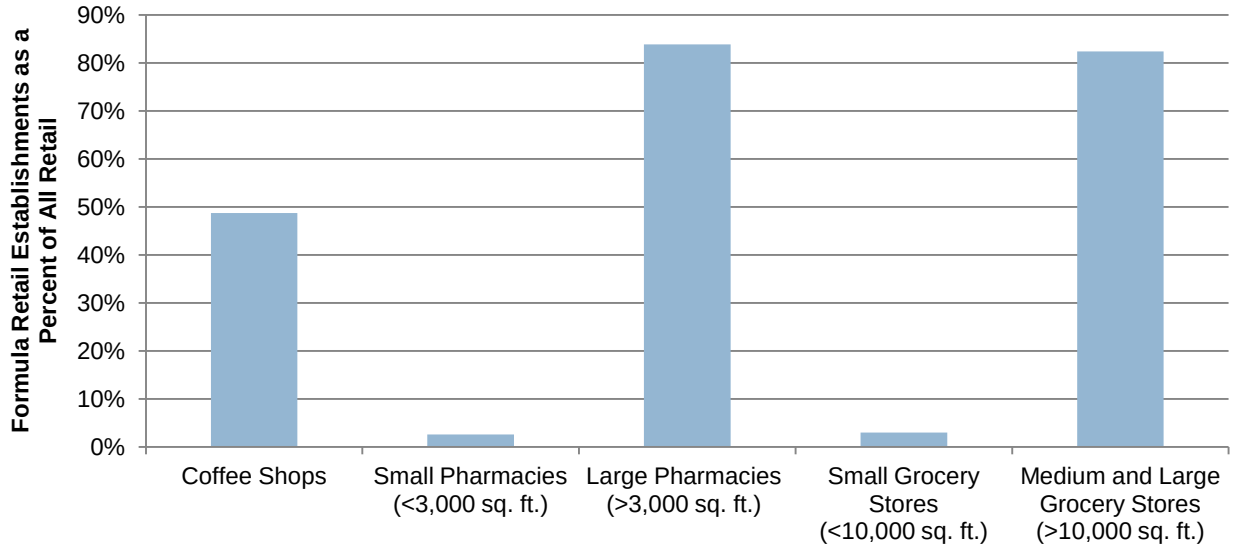
"Other specialized retail stores" include produce, auto parts, pet supply, office supply, gift stores, florists, and others.

"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 8 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 (Figure 6), 49 percent of all coffee shops are formula. 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 8. Formula Retail as a Percent of All Retail in Category: Coffee Shops, Pharmacies, and Grocery Stores



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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.

Formula retail is distributed across the city but tends to be concentrated in certain locations. Figures 9 through 11, respectively, show concentrations of all existing retail establishments (formula and independent) across San Francisco; concentrations of formula retail establishments; and formula retail establishments as a percent of total retail establishments. As shown, formula retail tends to be most highly concentrated in the northeastern part of the city (e.g., in locations such as the Financial District, Rincon/South Beach, Union Square, the Westfield Centre, and Ghirardelli Square) where it is less regulated. Throughout the rest of the city, formula retail tends to be concentrated in malls, shopping centers, and at major intersections, such as Stonestown Galleria, Lakeshore Plaza, the Laurel Village Shopping Center, and Geary and Masonic.

Chapter IV discusses how formula retail is distributed by zoning district.

Figure 9. Total Existing Retail Establishments (Formula and Independent) per Square Mile, 2012

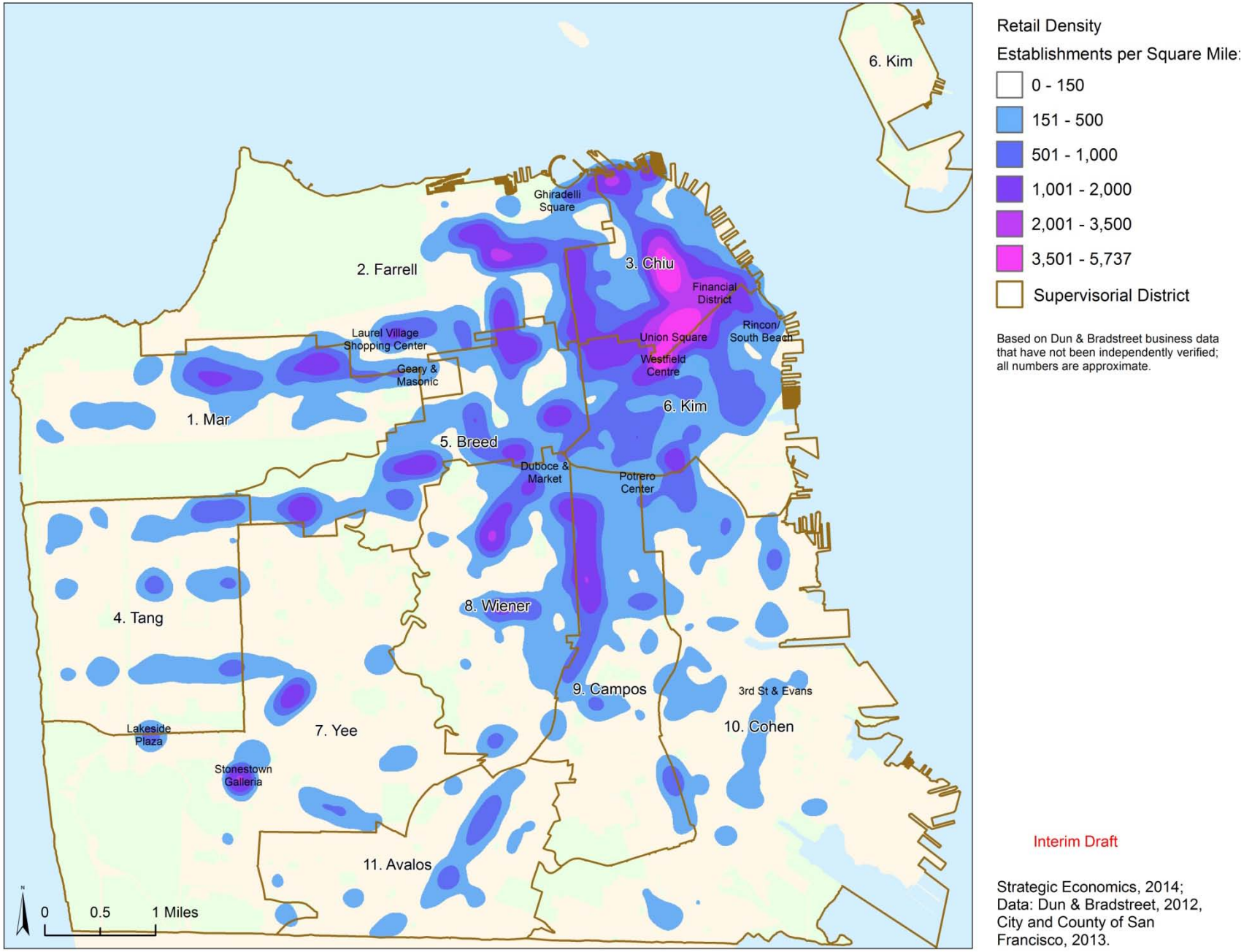


Figure 10. Existing Formula Retail Establishments per Square Mile, 2012

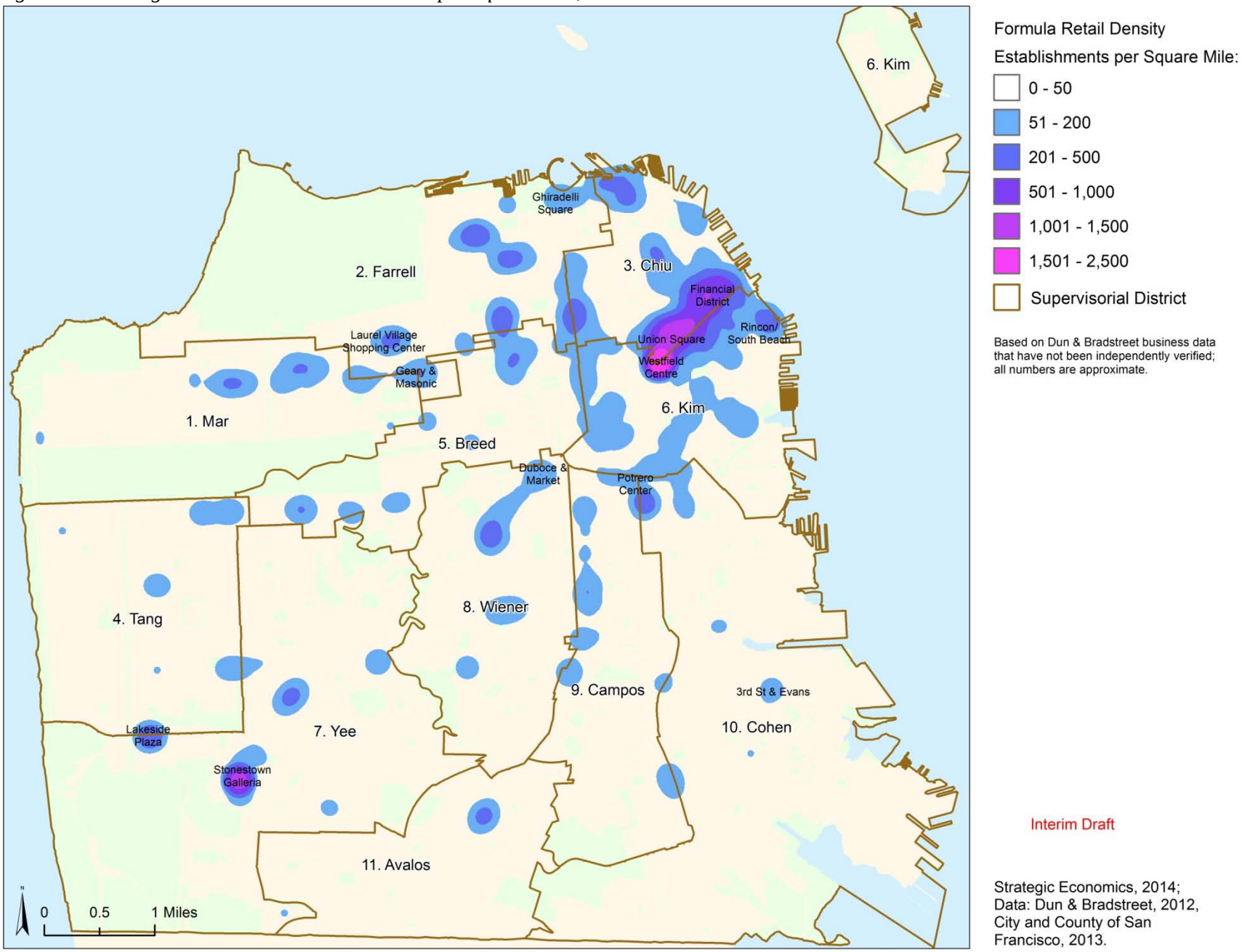
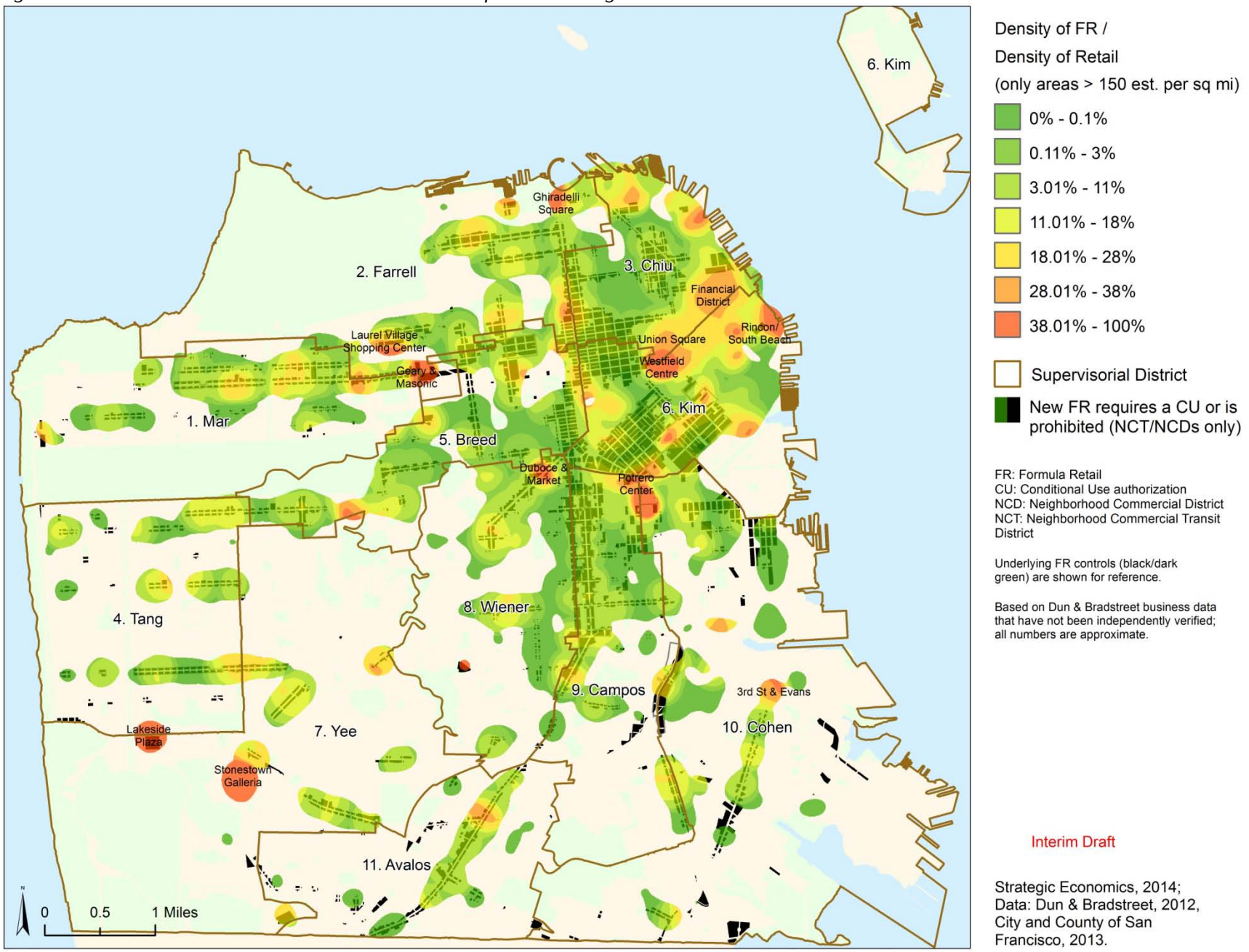


Figure 11. Formula Retail Establishments as a Percent of Total Existing Retail Establishments



IV. ISSUE BRIEF: UNDERSTANDING SAN FRANCISCO'S FORMULA RETAIL

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

- Prevalence of formula retail by zoning district;
- 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.

Background and Methodology

The analysis in this issue brief is based on the 2012 Dun & Bradstreet dataset (and is therefore subject to the limitations of the data described in Chapter III). For the purposes of the analysis, Strategic Economics worked with City staff to group San Francisco's zoning districts into four categories:

- **Commercial/mixed-use (MU) zoning districts with formula retail (FR) controls:** Includes all of the City's neighborhood commercial districts (NCDs), as well as other predominantly commercial or mixed-use districts where formula retail is either not permitted or requires a conditional use authorization.[8]
- **Commercial/mixed-use 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.[9] 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.[10] 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.[11] Formula retail is not permitted in these districts.

Most of the analysis below is focused on comparing the commercial/mixed-use districts with formula retail controls to those commercial/mixed-use districts without controls. Although all four zoning district

[8] 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.
[9] 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.
[10] With the exception of that part of the PDR-2 district that falls within the Bayshore Boulevard Improvement SUD.
[11] Includes RH-1, RH-2, RH-3, RM-1, RM-2, RM-3, RM-4, RTO, RED, and RTO-M districts.

categories were used for the analysis, the industrial and residential categories have too few formula retail establishments to produce robust results for some of the more detailed factors discussed below.[12]

Findings

Prevalence of Formula Retail by Zoning Category

Figure 12 shows formula and independent retail – including number of establishments and total square feet – by zoning district category. Key findings about the prevalence of formula retail by zoning category are described below.

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 12).

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 12).

Figure 12. Formula and Independent Retail by Zoning District: Number of Establishments and Square Feet

Zoning Categories	Formula Retail	% of Formula Retail	Independent Retail	% of 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%**

INTERIM DRAFT
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.

[12] 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.

Likewise, commercial/mixed-use zoning districts with controls in place have many more independent retailers than districts without controls. As shown in Figure 12, 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 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.

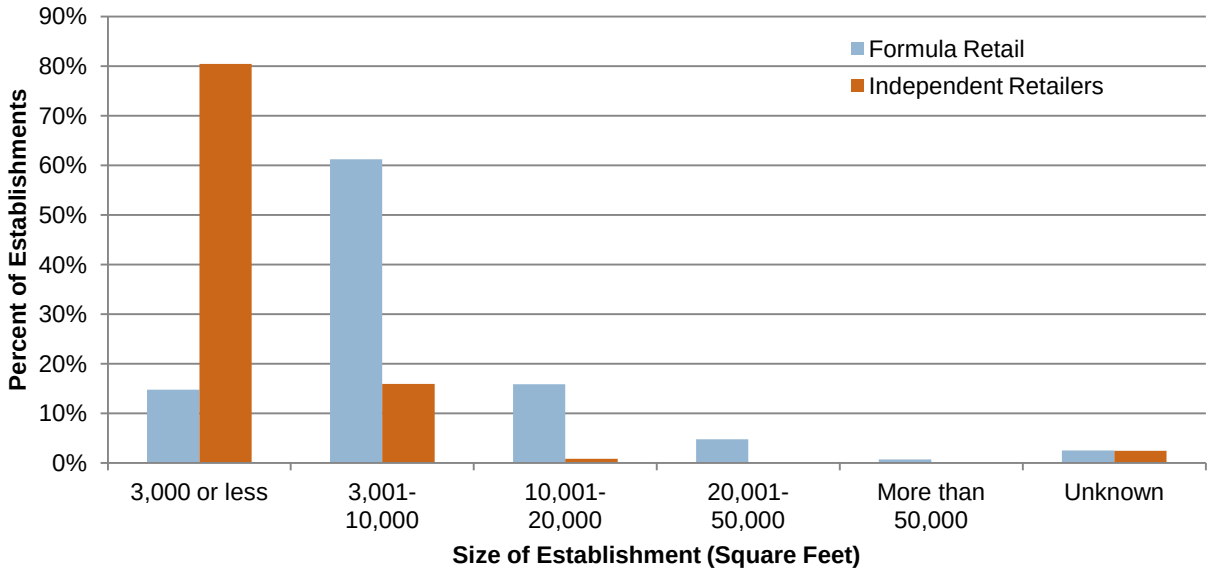
The relatively low concentration of formula retail in zoning districts with controls may reflect the influence of the City's formula retail controls, as well as other factors. Other factors that could affect the concentration of formula retail in different zoning districts include the prevalence of formula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

Size of Establishments

Figure 13 compares the distribution of store sizes for formula and independent retail establishments. Figure 14 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 in 6,500 square feet, compared to 2,200 square feet for independent retailers. Overall, 60 percent of formula retailers are between 3,000 and 10,000 square feet, while 80 percent of independent retailers occupy 3,000 square feet or less (Figure 13).

Figure 13. Formula and Independent Retail Establishments by Store Size



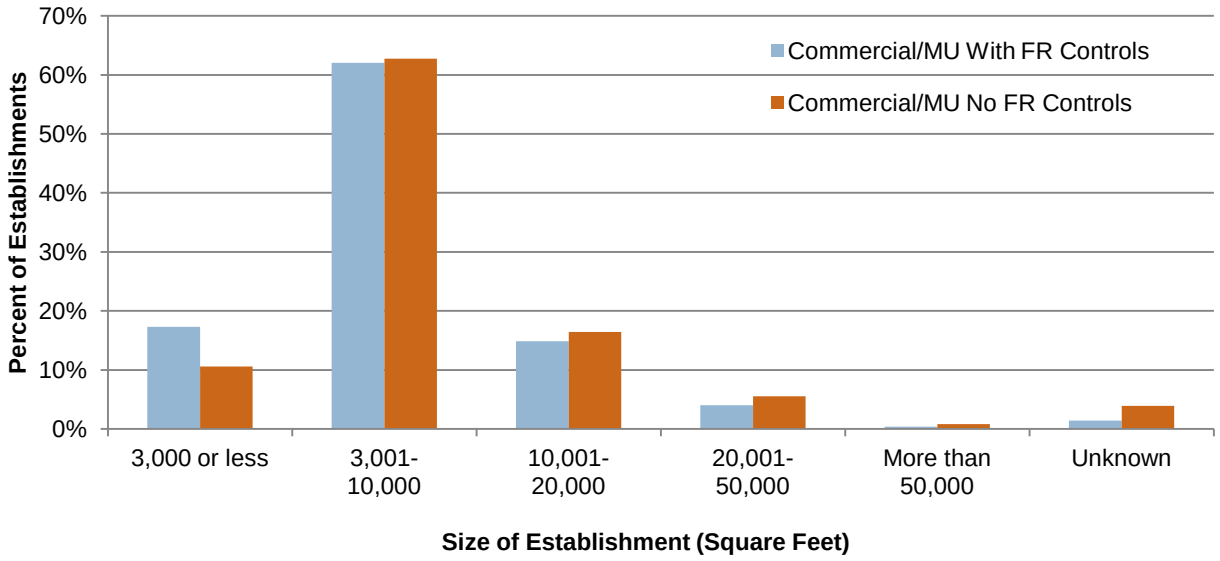
INTERIM DRAFT

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

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.[13] Less than one percent of existing formula retail establishments exceed the 50,000-square-foot threshold.

Formula retail establishments in commercial/MU districts with controls tend to be slightly smaller than in commercial/MU districts without controls. The median formula retail 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 14).

Figure 14. Formula Retail Establishments by Store Size: Commercial/MU Districts with and without Formula Retail Controls



INTERIM DRAFT
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 15 compares formula retail use types in commercial/MU districts with and without controls. Figure 16 and 17 show the most common types of formula and independent stores (i.e., businesses that sell goods to the public) in commercial/MU districts with controls (Figure 16) and without controls (Figure 17). Key findings about types of formula retail are described below.

Compared to commercial/MU districts without controls, commercial/MU districts with controls have fewer formula retail stores and more formula retail banks (Figure 15). There are approximately 290 formula retail stores in commercial/MU districts with controls, accounting for 51 percent of formula

[13] San Francisco Planning Code, Section 121.6.

retail establishments and 8 percent of all stores in those districts. 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).[14] On a square-footage basis, the distribution of formula retail use types is more similar; in both types of commercial/MU zoning 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 15. Formula Retail Establishments by Use Type: Commercial/MU Districts with and without Formula Retail Controls

	Commercial/MU With FR Controls			Commercial/MU Without FR Controls		
Use Type	**Formula Retail**	**% of Formula Retail**	**Formula Retail as a % of All Retail**	**Formula Retail**	**% of 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%**

INTERIM DRAFT
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.

In commercial/MU 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 (Figure 16). 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. These store types, particularly the prevalence of supermarkets and pharmacies, reflect the neighborhood-serving function of many of the City's NCDs.

Stores in commercial/MU districts without controls are less diverse, with apparel stores accounting for the majority of formula retailers (**Figure 17**). Other health and personal care stores (i.e., cosmetic

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

and beauty stores, eyeglass stores, and health food/supplement stores) are the second most common type of formula retail store. Apparel stores are also the most common type of independent retail establishments in these districts, followed closely by specialized retail stores.

Figure 16. Most Common Types of Formula and Independent Retail Stores in Commercial/MU Zoning Districts with Formula Retail Controls

Most Common Types of Formula Retail Stores	Establish-ments	% 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	**Establish-ments**	**% 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%

INTERIM DRAFT
"Other specialized retail stores" include produce, auto parts, pet supply, office supply, gift stores, florists, and others.
Acronyms:
MU: mixed-use
Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

Figure 17. Most Common Types of Formula and Independent Retail Stores in Commercial/MU Zoning Districts without Formula Retail Controls

Most Common Types of Formula Retail Stores	Establish-ments	% 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	**Establish-ments**	**% 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%

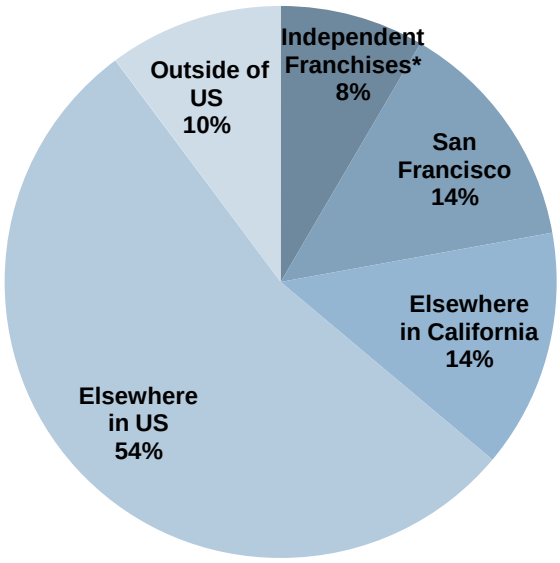
INTERIM DRAFT
"Other specialized retail stores" include produce, auto parts, pet supply, office supply, gift stores, florists, and others.
"Other health and personal care stores" include cosmetic and beauty stores, eyeglass stores, and health food/supplement stores.
Acronyms:
MU: Mixed-use
Sources: Dun & 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 18 shows the distribution of formula retail establishments by the location of their headquarters. Figure 19 compares headquarter locations in commercial/MU districts with and without formula retail controls. Figure 20 shows formula retail establishments by the number of associated corporate family members (branches and subsidiaries. Findings are discussed below.

Approximately 28 percent of formula retailers are headquartered in California, with half of those headquartered in San Francisco (Figure 18). 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 ultimately headquartered outside the United States.[15]

Figure 18. Formula Retail Establishments by Location of Headquarters

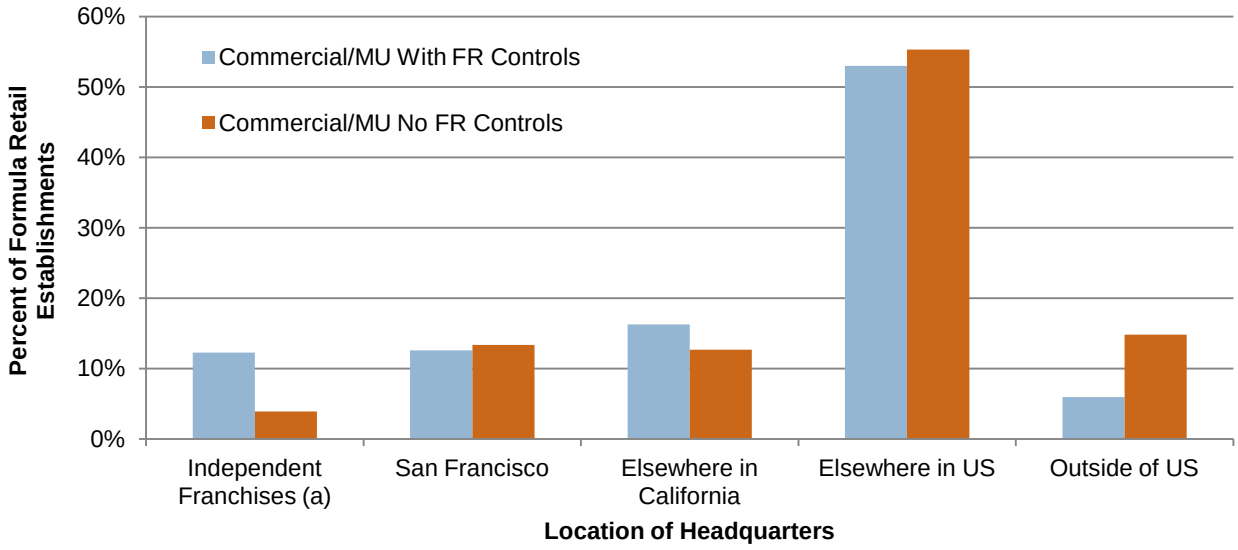


INTERIM DRAFT
*Franchises that are not owned by or legally linked to the parent company; headquarters location unknown.
Sources: Dun & Bradstreet, 2012; Strategic Economics, 2014. Based on Dun & Bradstreet business data that have not been independently verified; all numbers are approximate.

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

Commercial/MU districts with formula retail controls are home to more independently owned franchises and California-based companies than districts without controls. Figure 19 compares the headquarters locations of formula retail establishments located in commercial/MU zoning districts with and without controls.

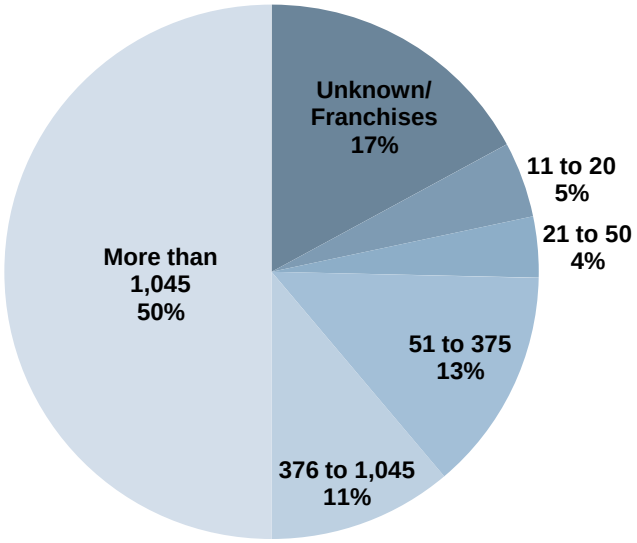
Figure 19. Formula Retail Establishments by Location of Headquarters: Commercial/MU Districts with and without Formula Retail Controls



INTERIM DRAFT
(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.

Half of San Francisco's formula retail establishments are associated with companies that have more than 1,045 branches and subsidiaries (Figure 20). The breakdown of formula retail by number of family members is similar in commercial/MU districts with and without controls, except that, as discussed above, districts with controls have more franchises.

Figure 20. Formula Retail Establishments by Number of Corporate Family Members (Branches and Subsidiaries)



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

Conclusion

Formula retail is most concentrated in commercial/mixed-use zoning districts, but commercial/MU districts differ significantly depending on whether or not formula retail controls are in place. Formula retail is much less concentrated in 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 neighborhood 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. ISSUE BRIEF: 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 issue brief examines differences in employment between formula and independent retail in terms of number of workers employed, wages, and benefits.[16]

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, few if any sources provide detailed information on the demographics of workers or differentiate between part- and full-time workers.[17] In addition, 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 v. electronics retailers, or supercenters v. traditional grocery stores), or on assessing the wages and economic impact of Walmart and other "supercenters,"[18] rather than the broader employment practices of chain versus independent retailers.

This issue brief 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.[19] 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.

[16] 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.

[17] For example, detailed data on the demographics of employees by industry or firm size are only available at the national level, through the Current Population Survey. 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 of number of outlets.

[18] 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.)

[19] 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.[20] Figure 21 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.[21]

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).[22]

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. [23] Walmart is the classic example; workers there earn approximately 12 percent less than other

[20] 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.
[21] Ibid., chap. 5.
[22] 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.
[23] Carré, Tilly, and Denham, "Explaining Variation in the Quality of U.S. Retail Jobs."

retail workers and 14.5 percent less than workers at large retailers, and rely heavily on public programs for health care and other needs.[24] 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.[25]

Figure 21. 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
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.

Studies have also 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

[24] 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.
[25] Carré, Tilly, and Denham, "Explaining Variation in the Quality of U.S. Retail Jobs."

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. [26] A 2001 national survey of employers and households found that larger firm size was associated with hiring significantly more African-Americans.[27] 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. [28]

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.

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. 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 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" 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 22 through 24. 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 (7,000 workers), clothing (6,900), department (4,500), and health and personal care stores (4,100).[29] 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

[26] 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/.
[27] Philip Moss and Chris Tilly, *Stories Employers Tell: Race, Skill, and Hiring in America* (Russell Sage Foundation, 2001).
[28] 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).
[29] The health and personal care stores category includes pharmacies and drug stores, cosmetics stores, optical goods stores, and other health and personal care stores.

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 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 firms 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.[30] 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,[31] 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 v. low-paying occupations within each industry.[32]

[30] All wages assume a 50-week work year.
[31] Note that automobile dealers are not currently covered by San Francisco's formula retail controls.
[32] State of California Employment Development Department, Quarterly Census of Employment and Wages, 2012; Strategic Economics, 2014.

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 $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 22. Total Workforce by Industry (Retail, Restaurant, and Finance) and Single- v. Multiple-Site Firms: San Francisco, 2012

		Total Workforce (a)			
NAICS Code	Industry	Single 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 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 23. Average Workers per Establishment by Industry (Retail, Restaurant, and Finance) and Single- v. Multiple-Site Firms: San Francisco, 2012

NAICS Code	Industry	Average Workers per Establishment: Single 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 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
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 24. Average Weekly Pay per Employee by Industry (Retail, Restaurant, and Finance) and Single- v. Multiple-Site Firms: San Francisco, 2012

		Average Weekly Pay per Employee (a)				
NAICS Code	Industry	Single 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 firms.
(c) Use not subject to San Francisco's formula retail controls.
*Suppressed to preserve confidentiality
"Single 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
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.[33] 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 25 and 26 show the percent of surveyed firms that offered insurance and the deductible of the most popular plans by firm size and location. Figure 27 shows the percent of surveyed firms that offered paid sick leave by firm size and industry.

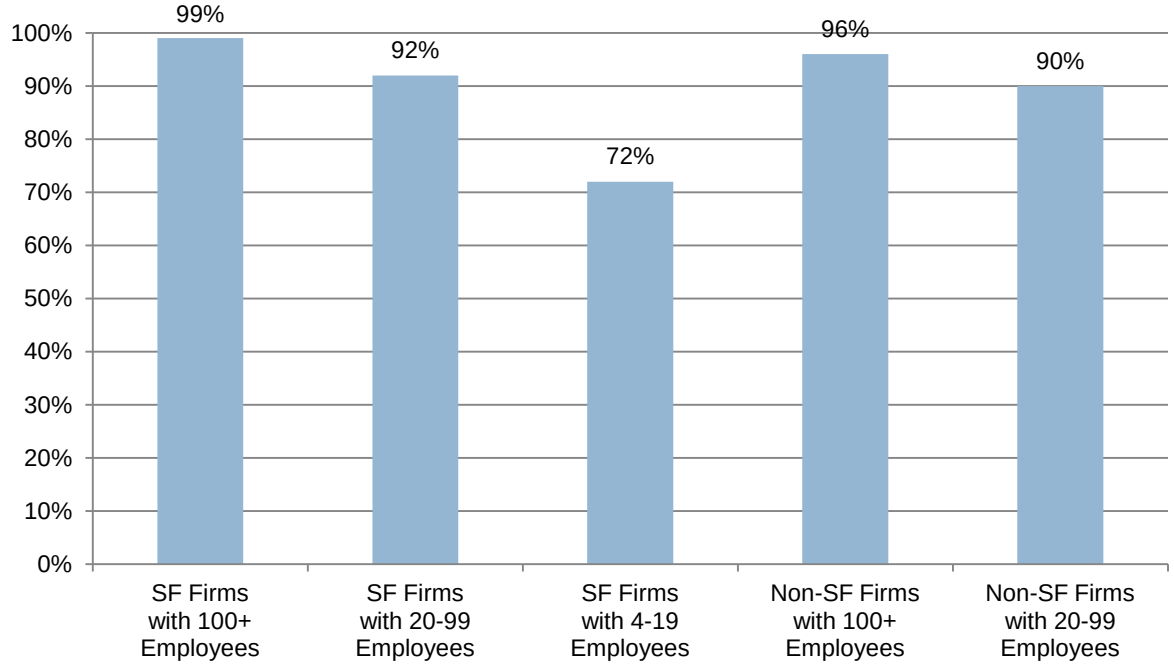
Firms in San Francisco were more likely to offer health insurance than firms elsewhere in the Bay Area in 2009 (Figure 25). In San Francisco, 99 percent of large firms (100 or more employees) and 92 percent of medium firms (20 to 99 employees) offered health insurance in 2009, compared to 96 percent of large firms and 90 percent of medium firms elsewhere in the Bay Area.

Small firms were less likely to offer health insurance than large firms (Figure 25), and more likely to offer policies with higher deductibles (Figure 26). Just over 70 percent of small firms (4 to 19 employees) offered insurance in 2009. 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. 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.[34]

[33] 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.irle.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.

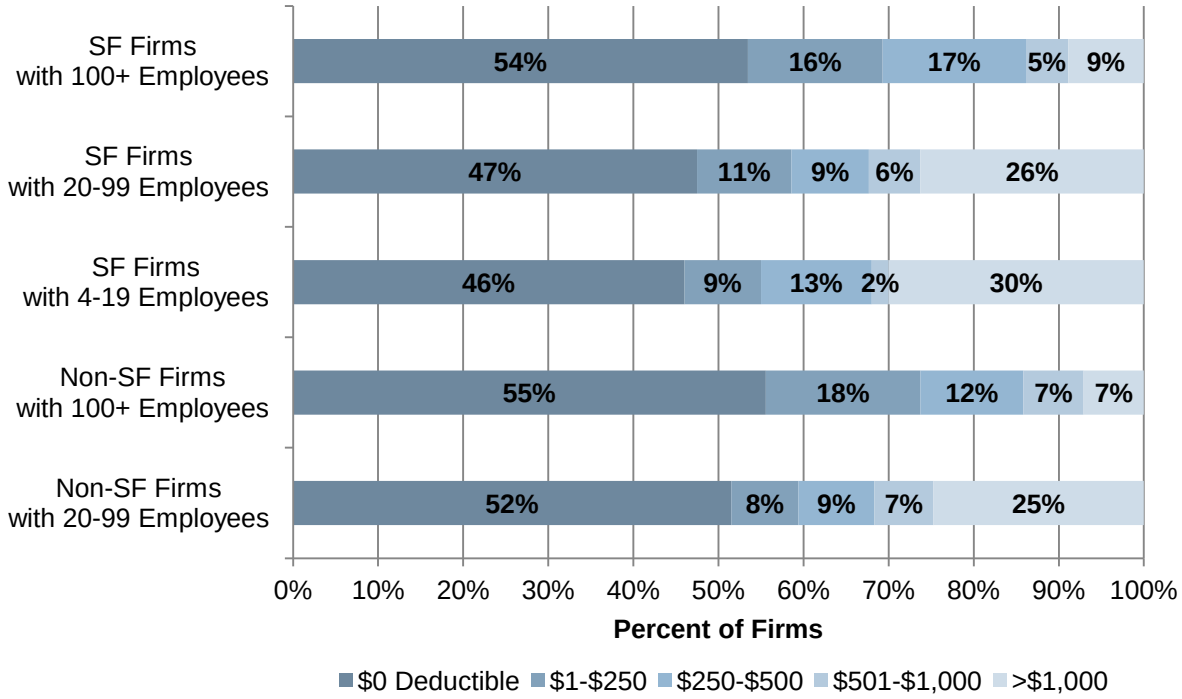
[34] Panchal, Rae, and Claxton, *Snapshots*.

Figure 25. Percent of Firms that Offered Health Insurance by Firm Size and Location (San Francisco v. Elsewhere in the Bay Area), 2009



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

Figure 26. Deductible of Most Popular Health Plan, by Firm Size and Location (San Francisco v. 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. As shown above in Figure 21, 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 27). 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.[35]

Figure 27. Percent of San Francisco Firms Providing Paid Sick Leave, 2009

Number of Workers at Firm (All Industries)	
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.

Conclusion

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).

[35] 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. ISSUE BRIEF: FORMULA RETAIL AND THE REAL ESTATE MARKET

This issue brief explores the relationships between the commercial real estate market in San Francisco's neighborhood districts, formula retail controls, and formula retail establishments. In addition to qualitatively assessing the role 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 CU applications is correlated with either increases or decreases in area rental rates and vacancies in selected neighborhood districts.

Background and Methodology

Isolating the impact of either formula retail controls or formula retail businesses on the commercial real estate market is extremely challenging. The performance of neighborhood commercial districts is constantly shifting due to broader economic trends and other factors, and each of the San Francisco's individual shopping districts have their own unique character and serve different markets, making them 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 issue brief 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;[36] published broker reports;[37] 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 issue brief 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 include the Mission Street Neighborhood Commercial Transit District (NCT), the Ocean Avenue NCT, Lombard and Chestnut Streets between Fillmore and Divisadero Streets, and Geary Boulevard

[36] Including Ross Portugeis (Senior Vice President, Colliers International) and Julie Taylor (Senior Vice President, Cornish & Carey Commercial Newmark Knight Frank). The results will also be reviewed by additional brokers and other stakeholders during the Phase II focus groups.

[37] 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 Street and Masonic Avenue.[38] For comparison, data were also collected on the broader submarkets in which the neighborhood commercial districts are located.[39]

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. Fundamentally, retail real estate markets are driven by demand for goods and services, which 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. In addition to providing critical mass, 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.

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, national retailers typically seek large, prominent storefronts, while mom-and-pop retailers are often better suited for (and can better afford) smaller, shallower spaces. Restaurants require specific utility connections and ventilation improvements.

The expectations and resources of individual landlords and tenants will also affect the terms of any given transaction. For instance, landlords often perceive a benefit in renting to national or regional 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.

Land use regulations can affect the real estate market by constraining the supply or viability of retail space. For example, zoning regulations can effectively limit the supply of retail space by restricting the location, amount, or type of retail development that can occur. Zoning regulations can also 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. Regulations that limit supply would typically be expected to increase rents and decrease vacancy rates; 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. 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.

[38] 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.

[39] 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 and north of 16th Street.

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 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 (NNN[40]) in some outlying areas, to between $50 and $60 in the heart of the financial district and $100 to $200 at Union Square.[41] These rents reflect the sales volume that stores can expect to generate in different locations within the city.

The formula retail controls affect formula retailers, independent retailers, and property owners in different ways depending on the location, size of space, and other factors. According to brokers who work with chain retailers, obtaining a formula retail CU authorization typically takes 6-12 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.

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., the 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. Start-ups and other independent retailers often find it difficult to meet these requirements.

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. Brokers report that large, deep spaces may sit empty for extended periods of time if a formula retail CU is disapproved or withdrawn, and that these vacant spaces can act as a drag on the vibrancy and overall performance of the surrounding district.[42]

Different formula retailers likely have different effects on neighboring retailers and the local real estate market. 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.[43] 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

[40] 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.
[41] Terranomics, 2013.
[42] The Planning Commission considers neighborhood vacancy rates in deciding whether to issue formula retail CUs.
[43] For 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): 174–183, doi:10.1162/0034653053327568.

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 28 through 31 show formula retail conditional use activity (approved, disapproved, and withdrawn applications) compared to average rents and vacancy rates in selected neighborhood commercial districts.[44] 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 conditional use 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, possibly 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 CUs that were approved in 2008 or 2009 were generally followed by a decrease in rents; CUs 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 30) 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.

Conclusions

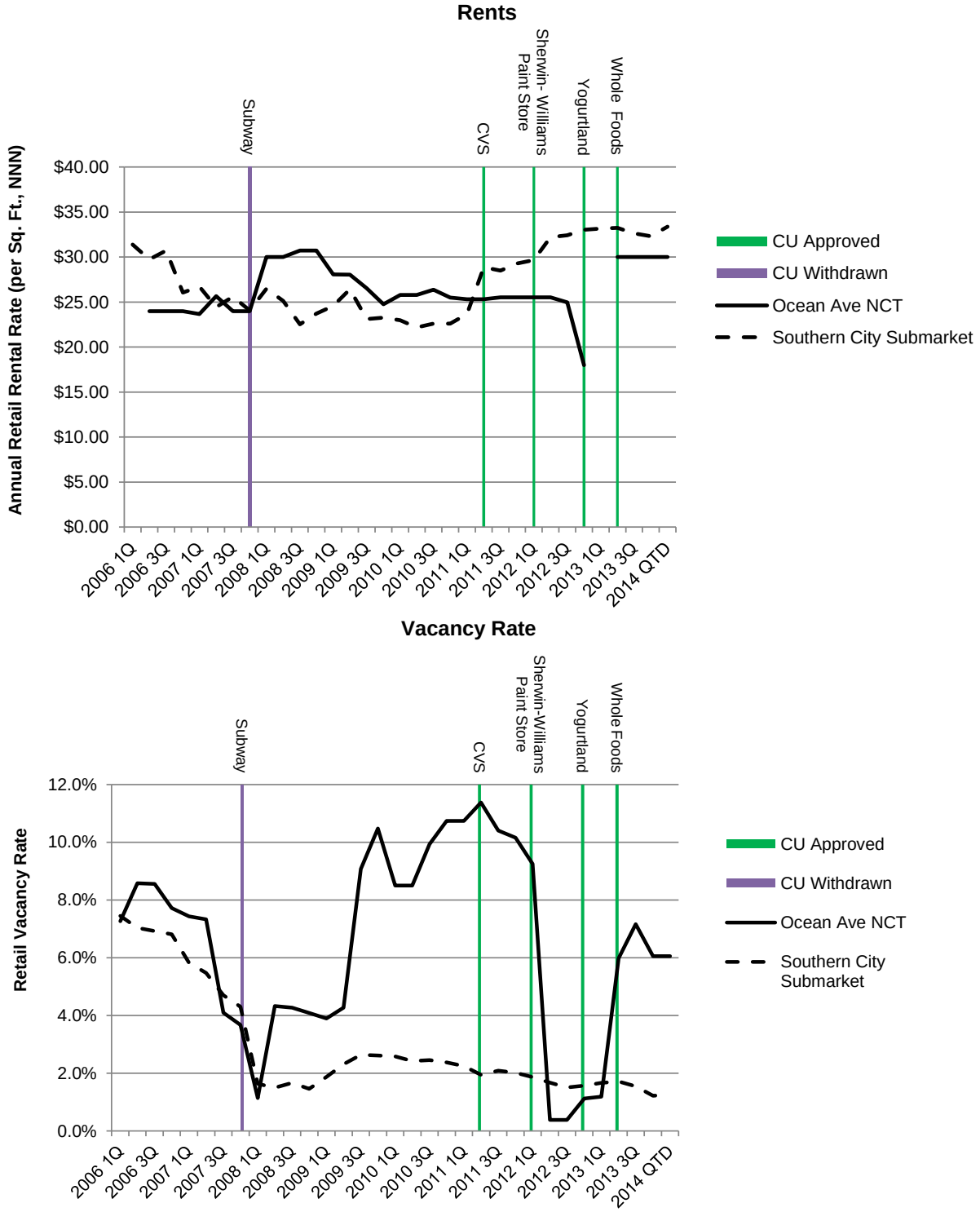
The impact of formula retail and formula retail controls on the real estate market in San Francisco's neighborhood commercial districts is as complex and varied as the districts themselves. Based on the selected neighborhoods for which data were available, there does not appear to be a consistent relationship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

[44] Note 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.

Figure 28. Rents, Vacancies, and Formula Retail CU Activity in the Mission Street NCT, 2006-Jan. 2014

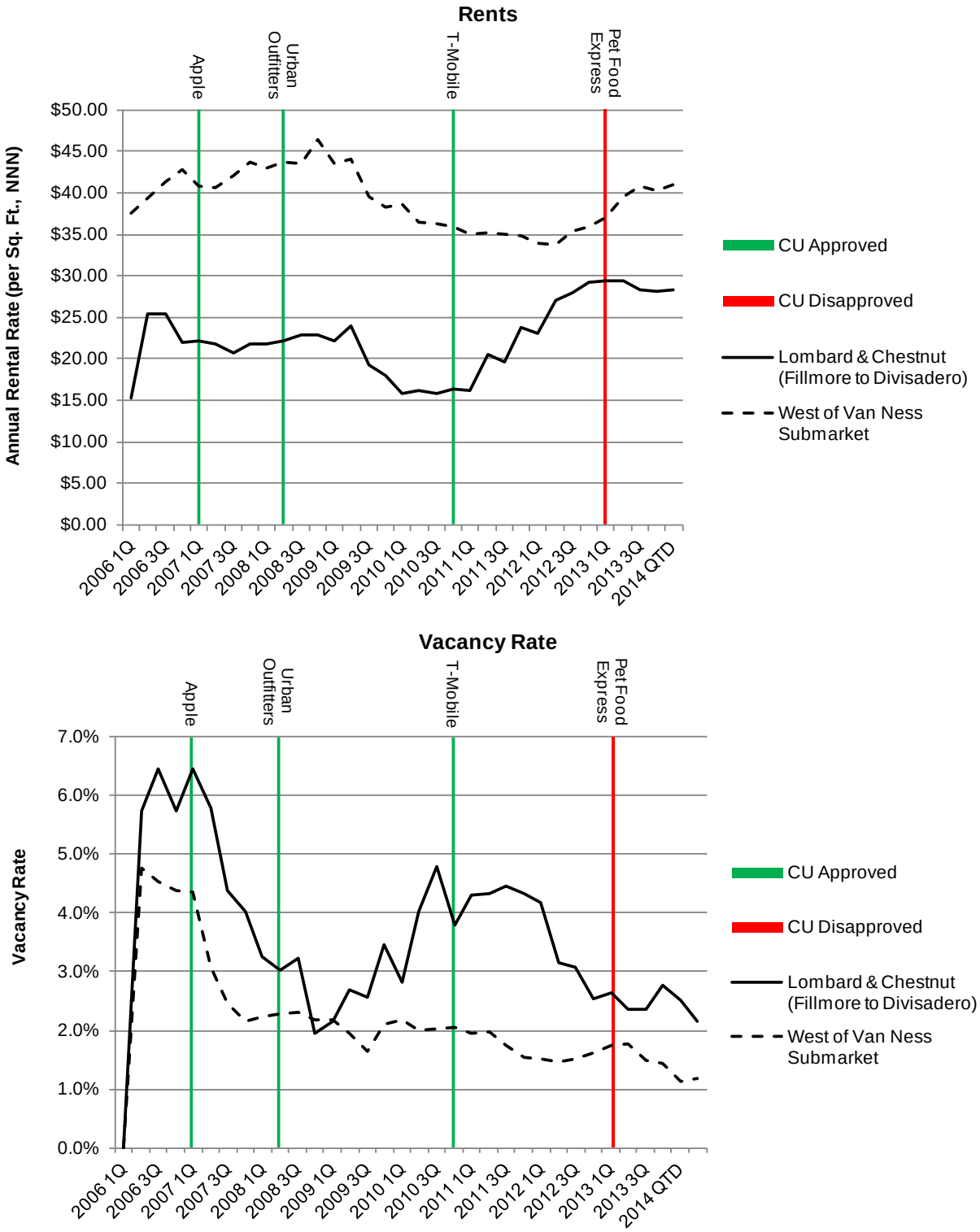
The Southern City Submarket stretches south of 16th Street to the Daly City border, and west of Highway 101 to the shoreline.
Acronyms:
CU: Conditional use application
NCT: Neighborhood commercial transit district
NNN: Triple net
Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.
Rents and vacancies based on CoStar data that have not been independently verified.

Figure 29. Rents, Vacancies, and Formula Retail CU Activity in the Ocean Avenue NCT, 2006-Jan. 2014



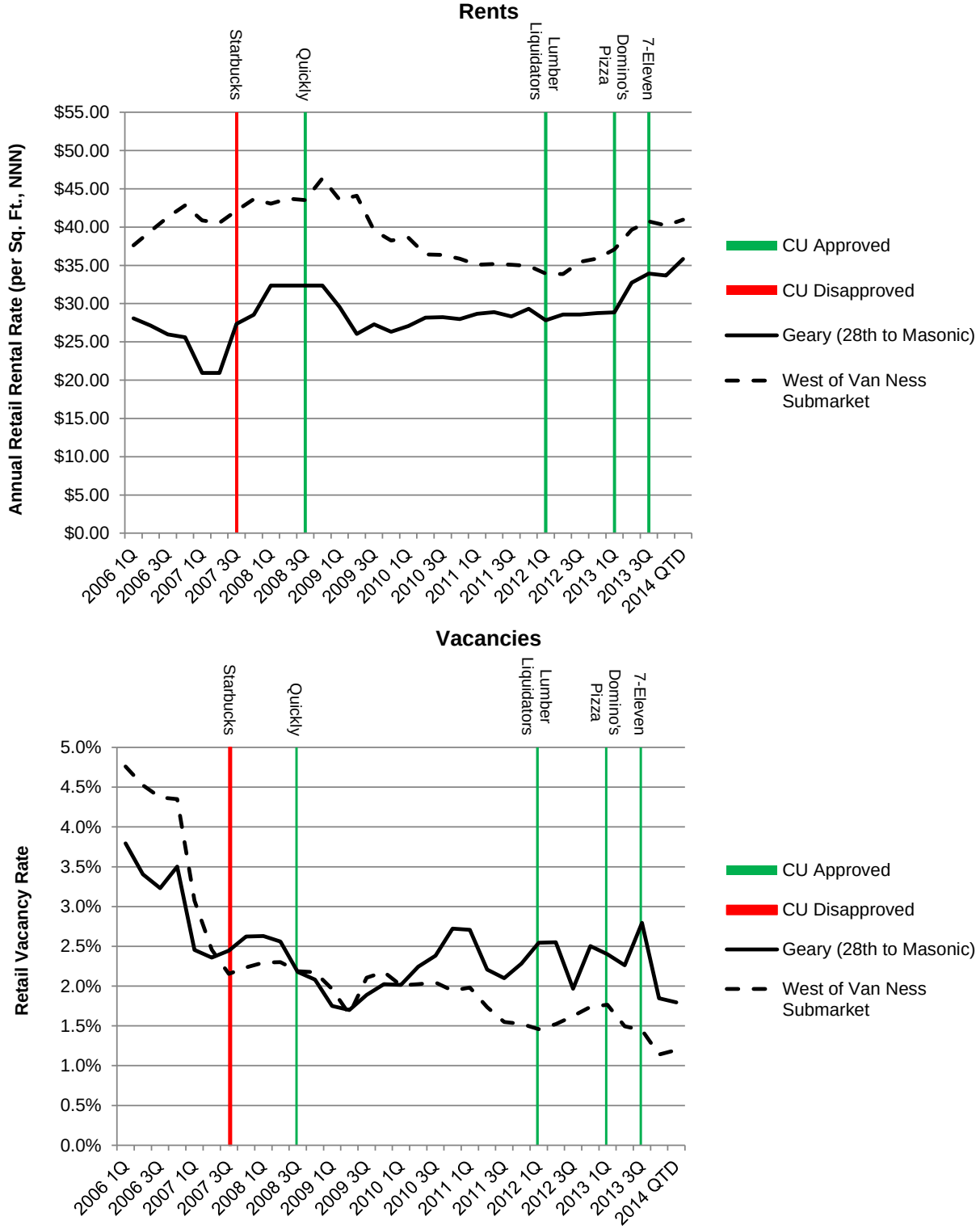
The Southern City Submarket stretches south of 16th Street to the Daly City border, and west of Highway 101 to the shoreline.
Acronyms:
CU: Conditional use application
NCT: Neighborhood commercial transit district
NNN: Triple net
Sources: CoStar, 2014; City and County of San Francisco, 2014; Strategic Economics, 2014.
Rents and vacancies based on CoStar data that have not been independently verified.

Figure 30. Rents, Vacancies, and Formula Retail CU Activity on Lombard and Chestnut Streets (Fillmore Street to Divisadero Street), 2006-Jan. 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 and vacancies based on CoStar data that have not been independently verified.

Figure 31. Rents, Vacancies, and Formula Retail CU Activity on Geary Boulevard (28th Street to Masonic Avenue), 2006-Jan. 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 and vacancies based on CoStar data that have not been independently verified.

VII. ISSUE BRIEF: CHANGING THE DEFINITION OF FORMULA RETAIL

This issue brief assesses the potential effect of changing the definition of "formula retail" in the 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 [i.e., 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."[45] 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 eleven 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 and defined in Figure 33.

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 are not subject to the formula retail controls. 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 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

[45] San Francisco Planning Code, Sections 303(i)(1).

formula retail under the current Planning Code.[46] 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).[47] 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 owned by formula retail businesses is also likely to affect a small number of potential new businesses. This policy could have affected Jack Spade, which did not meet the definition of a formula retailer when it proposed establishing a location in the Mission, but was owned by a company that did. However, based on the businesses that are already located in San Francisco, 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 code, because they have 12 or more locations of the same trade name in the U.S.[48]

Expanding the application of formula retail controls to other types of land uses could affect a more significant number of potential applicants. Figure 32 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. Figure 33 provides definitions for the land uses, as 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 (NAICS) codes recorded in the D&B dataset, an estimated 20,600 existing businesses in San Francisco most likely fall into one of these land use categories. Of these 840 (4 percent) could potentially be considered formula retail based on the number of corporate family members recorded in the D&B database (Figure 32).

[46] 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.

[47] 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.

[48] 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.

Conclusion

Changing the definition of formula retail to include subsidiaries of formula retailers or international chains with fewer than 12 establishments in the U.S. is unlikely to have a wide-reaching effect, although some potential applicants would be impacted. 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.

Figure 32. Land Uses Included in Supervisor Mar's Proposed Legislation: Potential Formula Establishments

Land Use	Potential Formula Establishments (a)	Estimated Total Establishments	Potential Formula 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%**

INTERIM DRAFT

(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 excluded (light manufacturing, limited service financial, adult entertainment, neighborhood agriculture, large-scale agriculture) from analysis because no corresponding NAICS codes were identified; remaining land uses (tobacco paraphernalia establishments, gift store tourist oriented, jewelry store) excluded because 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.

Figure 33. Land Uses Included in Supervisor Mar's Proposed Legislation: Definitions

Land Use	Definition (Excerpted from 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....
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.

Land Use	Definition (Excerpted from Planning Code)
Service, Personal and Massage Establishment	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. From interpretations A health spa, steam room, bathhouse, aerobics and nautilus exercise gyms are included in the personal services designation rather than in the recreation building designation. 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.
Storage	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.
Tobacco 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.

VIII. NEXT STEPS

This report presents the results of Phase I of the San Francisco Formula Retail Economic Analysis. In Phase II of the study, Strategic Economics will build on the results described in this report to conduct an analysis of formula retail at the subarea level, as well as three neighborhood case studies. The subarea analysis will assess the prevalence of formula retail by zoning district or geography within the city and evaluate how the presence of formula retail may correlate with other neighborhood and economic factors. The three neighborhood case studies will provide a more in-depth study of how formula retail and formula retail controls affect different neighborhoods, and will include an analysis of both qualitative and quantitative indicators (e.g., storefront vacancy rates, lease rates, retail sales, and urban design characteristics, as data permits). The results from these additional analytical tasks will be combined with the findings reported in this report to form a final, Phase II report.

APPENDIX. 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) codes[49] 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.[50] Figure 34 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.[51] 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."[52]

[49] NAICS is the standard code system used by federal statistical agencies for classifying business establishments.
[50] As stated in Section 303(i)(2) of the Planning Code, the following uses (as defined in Article 7 and Article 8 of the 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 NCD, Noriega Street NCD, and Irving Street NCDs, "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.
[51] 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.
[52] 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 establishments[53]). 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.

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

Figure 34. NAICS 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
453930	Manufactured (Mobile) Home Dealers	Stores

NAICS Code	Description	Use Type
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