



5M Project Development Agreement: Economic Impact Report

Office of Economic Analysis
Items # 150787 and 150788
November 5, 2015

Introduction

- On July 21, 2015 Mayor Lee introduced legislation (#150788) to approve development agreement between the City, Forest City Enterprises and the Hearst Corporation (owner of The Chronicle) for 5M project located at Fifth Street between Mission and Howard Streets for 15 years vested right to develop the site.
- The project as proposed in the development agreement would require a change in current zoning for the site.
- The same day, the Mayor also introduced legislation (#150787), which amends the planning code to create the Fifth and Mission Special Use District (SUD) for the associated development agreement.

Project Description

- The project consists of approximately 4 acres of land, comprising 23 parcels, next to the Chronicle building at Mission Street and Fifth Street (see map on page 6).
- The site is currently occupied by eight buildings that have approximately 318,000 square feet of office and cultural uses, as well as several surface parking lots.
- The total development cost of the project is \$690 million, including about \$62 million in city impact fees, and \$11.8 million in community benefits for the South of Market area.
- The proposed project is a mixed-use development consisting of three new buildings (M2, N1, H1) and four renovated buildings, with building heights ranging from 200 feet to 470 feet.
- Upon completion, the project will have 821,300 square feet of residential uses (688 units), 825,600 square feet of offices uses as well as 74,800 square feet of other active ground floor uses.
- The project will have 630 on-site market rate units as well as 58 on-site permanently affordable units and will sponsor 154 off-site affordable units (83 Senior Units at 967 Mission St. and 71 units at 168-186 Eddy St.).

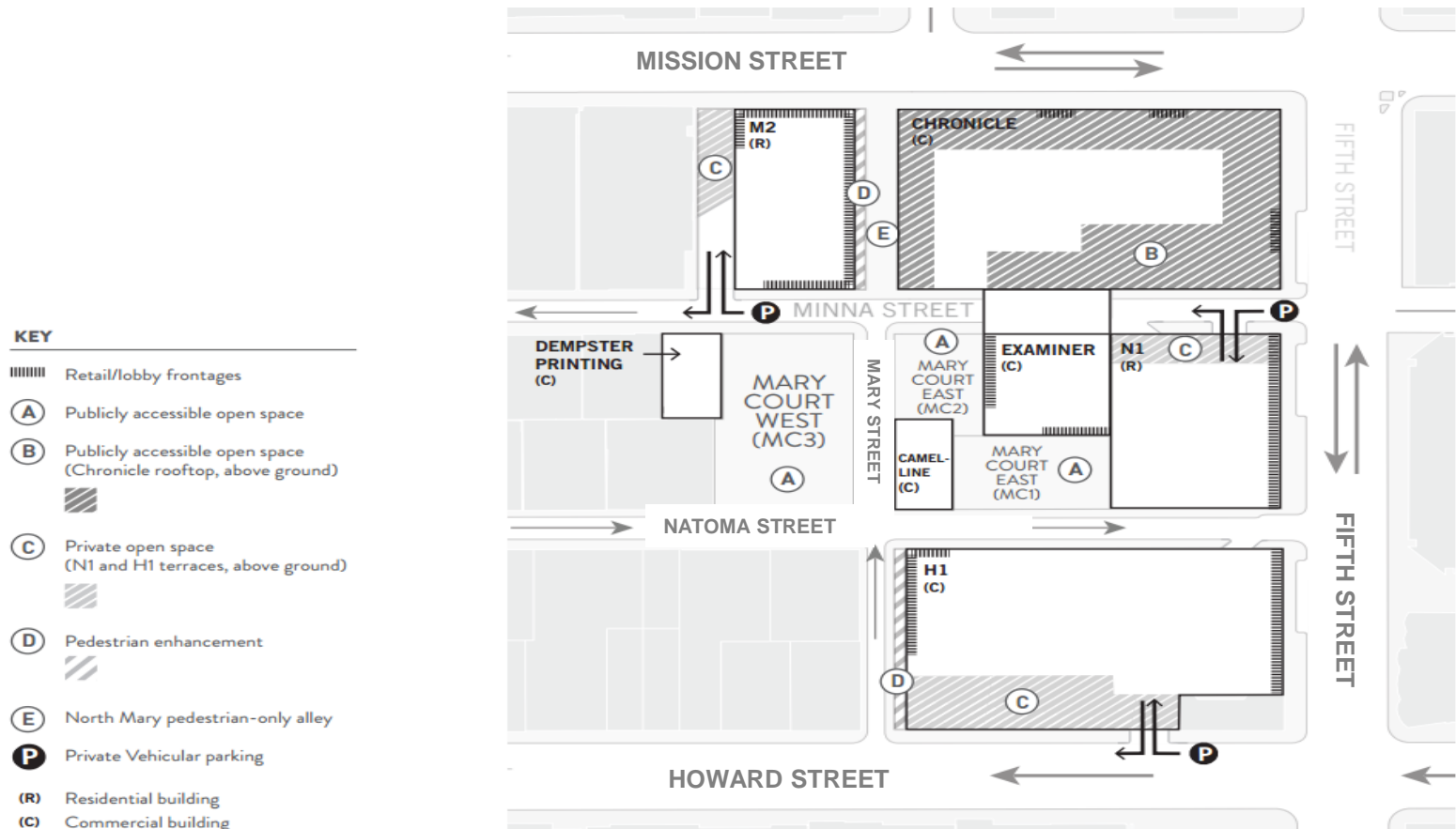
Project Description: Continued

- The 212 affordable units in total (58 on-site and 154-offsite) leads to an affordable housing ratio of 33%.
- At build out, the project will also have 59,500 square feet of open space, and approximately 463 vehicle parking spaces, 429 Class 1 bicycle spaces and 66 class 2 bicycle spaces.
- The project will also rehabilitate the Chronicle building, retain part of the Examiner building, restore the Dempster Printing building, retain of the Camelline building.
- The project would demolish surface parking lots and several other existing buildings.

South of Market Community Benefits

- Under the development agreement, 5M project is committed to provide \$11.8 million in additional community benefits for South of Market area. The detailed breakdown of those community benefits is as follows:
 - \$3.4 million in transportation fee revenue, in addition to what the project is responsible for paying in Transit Development Impact Fee.
 - \$1.5 million for a Workforce Development program that includes funding for barrier removal, job-seeking resources for disadvantaged adults, and internship, training, and certification programs.
 - \$3.5 million for a Youth Development program that includes Department of Children, Youth, and Their Families funding for SOMA youth, non-profit capital funds, and Department of Recreation and Parks Department funding for the Gene Friend Recreation Center.
 - \$1.0 million for the rehabilitation of the Old Mint.
 - \$1.8 million in gap funding for Senior housing development.
 - \$600,000 for non-profit arts facilities.

Map of the 5M Project Area



Source: Development Agreement

Current and Proposed Zoning of the Land Parcels Affected by the Development Agreement

No	Block	Lot	Current Zoning	Current Height & Bulk Limits	Proposed Tower	Proposed Zoning	Proposed Height & Bulk Limits
1	3725	005	RSD	40-X/85-B	H-1	C-3-S	420-X
2	3725	006	RSD	40-X/85-B	H-1	C-3-S	420-X
3	3725	008	RSD	40-X/85-B	H-1	C-3-S	420-X
4	3725	009	RSD	40-X/85-B	H-1	C-3-S	420-X
5	3725	012	RSD	40-X/85-B	H-1	C-3-S	420-X
6	3725	042	C-3-S	160-F	N-2	C-3-S	160-F
7	3725	043	C-3-S	160-F	Open Space	C-3-S	160-F
8	3725	044	C-3-S	160-F	Open Space	C-3-S	160-F
9	3725	045	C-3-S	160-F	Open Space	C-3-S	160-F
10	3725	046	C-3-S	160-F	Open Space	C-3-S	160-F
11	3725	047	C-3-S	160-F	Open Space	C-3-S	160-F
12	3725	076	C-3-S	160-F	N-3	C-3-S	160-F
13	3725	077	C-3-S	160-F	Open Space	C-3-S	160-F
14	3725	086	C-3-S	160-F	Open Space	C-3-S	160-F
15	3725	089	C-3-S	160-F	M-2	C-3-S	200-S
16	3725	090	C-3-S	160-F	M-2	C-3-S	200-S
17	3725	091	C-3-S	90-X and 160-F	M-2	C-3-S	200-S
18	3725	093	C-3-S	90-X and 160-F	M-1	C-3-S	85-X, 90-X
19	3725	097	C-3-S	160-F	N-1	C-3-S	160-F, 455-S
20	3725	098	RSD	40-X/85-B	H-1	C-3-S	420-X

Difference in Development Capacity (in Gross Square Feet): Current Zoning versus Development Agreement under Proposed Zoning

Use	Current Zoning	Development Agreement under Proposed Zoning	Difference
Office	670,490	825,600	155,110
Retail / Other Ground-Floor Uses	155,750	74,800	-80,950*
Residential	173,272	821,300	648,028
Total Square Footage	999,512	1,721,700	722,188

*We project a decline in retail space because, under current zoning, surface parking lots could be re-developed as buildings supporting retail uses on the ground floor. In the development agreement, these would not be redeveloped.

Economic Impact Factors

The proposed development is expected to affect the local economy in two major ways:

1. The re-zoning will expand the development capacity on the site, leading to an increase in housing and office space in the city. This will place downward pressure on prices and rents for residential and commercial real estate.
2. The construction associated with the development agreement and rezoning will generate economic activity, above-and-beyond what would have spent were development ever to take place under existing zoning.
3. The Community Benefits Agreement provides for \$11.8 million in spending, above and beyond what impact fees require.

Impact of New Housing

- Increasing the housing supply will put downward pressure on residential rents and home prices in San Francisco.
- In particular, increasing the number of affordable housing units will benefit low-income households, who currently experience the highest housing burdens in the city.
- The proposed re-zoning would expand the city's housing development capacity by approximately 669 units.
- 191 of these units would be affordable to low-income households, based on the difference between what the development agreement requires, and what would have to be built under current zoning, given existing inclusionary housing requirements.
- We project that the expanded market-rate development capacity created by the re-zoning would lead to housing prices being 0.2% lower than they otherwise would be.
- Additionally, we estimate the 191 affordable units will create a direct subsidy of \$1.3 million annually to the low-income households that receive them.
- Furthermore, the new affordable units will reduce demand among low-income households for housing in the private housing market. The effect of that reduced demand will place further downward prices at the low-end of the private market, by 0.4%. This is an additional, indirect, benefit of the new affordable units.

Impact of New Office Space

- Increasing office development will put downward pressure on commercial rents paid by businesses in the city.
- The development agreement and re-zoning would increase the city's stock of office space by about 155,000 square feet, approximately 0.2% of the city total.
- However, the development and re-zoning would also reduce the potential amount of retail space in the city by 81,000 sf.
- Commercial office rent is projected to decline by approximately 0.4% as a result of the development agreement and re-zoning.
- On the other hand, retail rents are projected to increase by approximately 0.6%.

Construction Spending

- According to San Francisco housing construction costs published by RSMeans, residential construction costs (excluding land) are currently \$202 per square foot.
- RSMeans also reports that non-residential construction costs, again excluding land, are \$219 per square foot.
- Given these costs, and the anticipated increase in construction permitted by the development agreement, construction spending in the city is projected to increase by \$259 million.

REMI Model Assumptions

- The REMI model is a system of mathematical equations that represent important relationships in the local economy.
- The OEA uses REMI to estimate the impact of City policy changes on the local economy, including this proposed re-zoning and development agreement.
- Important assumptions of this analysis include:
 - Impacts will occur over a twenty-year forecast period, from 2016-2035.
 - Construction spending will take place over 5 years, during the 2016-2020 period.
 - Community benefit spending will occur during the same period.
 - The value of the direct affordable housing subsidy, and the price reductions caused by expanding supply, will phase-in during the construction period and remain in place until the end of the forecast period.
 - In the absence of this proposed development agreement and re-zoning, the site would still develop to its maximum capacity, under current zoning, during the same time frame. This may be a conservative assumption. If development under current zoning would not occur until later in the future, the results of this analysis would under-state the true economic impact of the development agreement and re-zoning.

Economic Impact Assessment and Conclusions

- By expanding development in the city, the proposed development agreement and rezoning will cause housing prices and commercial rents to lower than what they will otherwise be. Both will encourage businesses to expand within the city.
- As a result, according to the output of the REMI model, the city's economy is expected to grow by \$70 million, and add 550 jobs, on average, over the 20 year forecast period.

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