CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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Policy Analysis Report

To: Supervisor Yee
From: Budget and Legislative Analyst's Office
Re: Preventing and Filling Commercial Vacancies in San Francisco, 2018 Update
Date: January 16, 2018

Summary of Requested Action

Your office requested that the Budget and Legislative prepare a report on commercial vacancies in San Francisco, including an assessment of the City's database of vacant commercial properties and property owner compliance with the Building Code, which requires owners to register and maintain vacant commercial buildings and storefronts. This report also includes a review of strategies in other jurisdictions to prevent and address commercial vacancies.

For further information about this report, contact Fred Brousseau at the Budget and Legislative Analyst's Office.

Executive Summary

- The Board of Supervisors of the City and County of San Francisco (City) adopted a Vacant or Abandoned Building Registration Ordinance in 2009 to discourage vacant and abandoned buildings. The ordinance requires property owners to register vacant commercial and residential buildings with the Department of Building Inspection and pay a $711 registration fee once a year after the building has been vacant for over 30 days. Failure to register and pay the fee can result in a penalty fee of $6,399.
- A similar ordinance was adopted in 2014 applying to commercial storefronts that have been vacant for over 30 days. However, the $711 fee is not due in these cases until 270 days have elapsed since registration to allow the owner time to find a new tenant or buyer, make repairs and improvements, or otherwise take actions to have the space occupied again. If the storefront is occupied within the 270 day window, no fee is required. The Department of Building Inspection (DBI) is responsible for maintaining a separate registry for vacant commercial storefronts and for collecting required fees.
- The Budget and Legislative Analyst issued a report in 2011 on the Vacant or Abandoned Building Registration Ordinance (the Vacant or Abandoned Commercial Storefronts ordinance had not been adopted yet) and City strategies to address this issue.

- While the details have changed, many of the issues identified in the 2011 report remain valid today and now apply to the Vacant or Abandoned Commercial Storefronts ordinance adopted in 2014 as well as the original Vacant or Abandoned Building Registration Ordinance adopted in 2009.

Property owner compliance with the City's commercial vacancy ordinances appears low; City administration and enforcement of the ordinances could be improved.

- For 2016, DBI's registries reported only 28 vacant commercial buildings and 25 vacant commercial storefronts. Neither DBI nor other City agencies have a comprehensive listing of all commercial storefronts or commercial building and storefront vacancies against which DBI's registry listings can be compared. However, the information that is available and informal observation of vacant commercial buildings and storefronts in San Francisco indicates that the DBI registries are underreporting such vacancies and that property owner compliance with the ordinances is low. For example, for 2016, DBI did not record any vacant commercial storefronts in the Richmond or central Mission districts at all.
- DBI does not pro-actively identify vacant commercial properties. The Department reports that the buildings or storefronts recorded on its registries are mostly identified through citizen complaints. Self-reporting by the property owner, as required in the ordinances, and reporting of vacancies by DBI or other City department staff are the two other most common sources but they result in fewer registry entries than citizen complaints.
- DBI verifies reported vacancies after receiving complaints but does not does not monitor the status of the vacant properties after they have been added to a registry. DBI does not post its registries on line or provide a portal for the public to report vacant commercial properties.
- The City's Office of Economic and Workforce Development (OEWD) tracks the rate of commercial storefront vacancies in the City, but for 24 neighborhood commercial areas only. For FY 2015-16, OEWD reported a five percent average commercial storefront vacancy rate in the 24 commercial corridors it tracks. Applying OEWD's five percent rate to the 25 commercial storefronts listed as vacant on the DBI registry in 2016 would imply that there are only 500 commercial storefronts in all of San Francisco (25 = 5% of 500), clearly an understated amount based on observation of City commercial areas.
- For the fourth quarter of 2016, the U.S. Postal Service reported 3,448 vacant commercial addresses that had not been receiving mail for 90 days or more. These addresses include all business address so would include commercial properties not subject to the City's vacant building and storefront ordinances such as vacant office or retail suites on second floors and above in otherwise occupied buildings. However, the

U.S. Postal Service data and OEWD's vacant commercial storefront tracking both provide support to the apparent underreporting of commercial vacancies in the DBI registries.

- DBI reported collecting only $4,977 in fees for seven vacant commercial buildings in 2016 and $3,555 for five vacant commercial storefronts. Some buildings or storefronts that did not pay fees were neither closed nor abated.

Causes of commercial vacancies

- The following causes for commercial vacancies are suggested by OEWD staff and others in literature on the topic:
  - Normal turnover: Typically, these vacancies are filled in under a year.
  - Non-leasable buildings: The buildings may have Building Code compliance issues.
  - Lack of information about and tools to help find a new tenant.
  - Non-conforming uses.
  - Speculation to obtain higher rents or sale prices in the future: Owners that have paid off their mortgages, for example, would have less incentive to rent if they believe the market will be stronger in the future.
  - Absentee landlords: Property owners may live or operate outside of the local area and may not be motivated to fill the vacancy in a prompt timeframe.
  - Neighborhood conditions making property unattractive to a new tenant.
  - City regulations and zoning: Local regulations may contribute to vacancies by exacerbating the pressure on retail and services uses.
  - Disputes among partnership or family ownership: Lack of consensus about how much to invest in improving the property or what rent to charge.
  - Landlords not willing to improve the property to make it more marketable.
  - Landlords waiting for a particular type of tenant: Landlords may choose to wait for a tenant such as a national firm that is willing to pay higher rents and that would bring a particular image to the property.

There are a number of City programs aimed at preventing or reducing commercial vacancies but measurement of their results is limited.

- OEWD administers eight programs that it identified as having among their goals preventing commercial vacancies and three programs aimed at addressing existing commercial vacancies.

- OEWD does not have performance measures to report on the efficacy of their programs although it does report a reduction in the overall commercial storefront vacancy rate in the 24 neighborhood commercial areas it tracks, from nine percent in FY 2012-13 to five percent in FY 2015-2016. It cannot be determined how much the programs caused this reduction and how much was attributable to broader economic or other factors since declines in commercial vacancy rates are also reported in other neighborhoods where the OEWD programs are not in place.

Some jurisdictions have more stringent vacant property programs and approaches

- More than 1,900 U.S. cities have enacted vacant property registration fees. In some cities, the fees and penalties are more stringent than in San Francisco. Examples of registration fee programs and other vacant property programs in other cities include:

  - **Chicago:** The City of Chicago charges a vacant property registration fee every six months that a property is vacant, with higher fees charged if the property is reported by complaint rather than self-reported by the owner and if any violations have previously been cited on the property. The City of Chicago is also administering two pilot economic development programs that provide access to capital for businesses and property owners in eight economically challenged retail corridors. The Neighborhood Opportunity Fund and Retail Thrive Zones programs provide competitive grant funding from developer fees, reduced property taxes, grants, streamlined permit processing, and technical support to assist businesses and property owners and reduce commercial vacancies.

  - **Washington, D.C.:** Supplementary property taxes are imposed in Washington, D.C. on vacant properties, with a higher supplement charged for blighted buildings. A city agency is responsible for verifying that buildings are vacant or blighted every six months.

  - **Dallas and State of Michigan land banks:** Both the City of Dallas and the State of Michigan have implemented land bank programs in which the jurisdictions acquire, hold, manage, and develop vacant and abandoned properties, mostly obtained through the tax foreclosure process, then sell or transfer the properties based on local development priorities.

Commercial vacancy issues can potentially be addressed through zoning

- High rents and the rise of e-commerce are challenging traditional retailers in San Francisco and elsewhere and these factors could be contributing to commercial building and storefront vacancies in certain neighborhoods. At least one other city, Seattle, is addressing these issues through changes to its zoning code. The City and County of San Francisco has made or considered such changes for individual development projects, but has not made widespread changes as has occurred in Seattle.

- The City of Seattle began approving changes to its planning code in 2015 to reduce the size of some neighborhood commercial zones and, in some places, to limit the number of residential multi-story projects that required retail on the ground floor. Zoning previously restricted for ground floor retail only has expanded to include residential and office uses in some cases.

  - Subsequent development projects in San Francisco are likely to include proposals to convert sites zoned for retail to other uses. Further consideration of more flexibility in commercial zoning requirements, as is being implemented by the City of Seattle, may help address commercial vacancies in the current retail environment in San Francisco.

Policy Options

The following six policy options are presented for consideration by the Board of Supervisors. Further discussion of each option is presented at the end of this report.

1. The Board of Supervisors could enhance funding for the City's existing small business loan programs to assist property owners in leasing their vacant properties.
2. The Board of Supervisors could request that the Planning Department and Planning Commission consider and report back on possible Zoning and Planning Code changes that allow for more flexible use of commercial spaces or reducing the size of commercial spaces, especially on the ground floor including allowing such space to be used for housing
3. The Board of Supervisors could suggest that DBI improve outreach on the Vacant Building and Commercial Storefront registration requirements and reduce barriers to reporting vacant commercial properties by the public and City agencies such as through creation of online portals for the public to report vacant buildings and storefronts.
4. The Board of Supervisors could amend the Vacant or Abandoned Building Registration Ordinance and the Vacant or Abandoned Commercial Storefront Ordinance to raise fees and penalties, particularly for non-registrants or properties with extended vacancies to serve as an incentive for property owners to: 1) self-report their vacant properties as required by the subject ordinances, and 2) cause their properties to be occupied. Such fee and penalty increases would also generate more funding for DBI to cover the costs of enhanced enforcement efforts.
5. The Board of Supervisors could request that, in combination with improving identification, reporting, and monitoring of vacant properties, DBI leverage HUD data to identify areas that have high commercial vacancy rates and proactively track changes in those areas over time.

6. The Board of Supervisors could request that DBI make Vacant Building and Commercial Storefront registries publicly available.

Project staff: Fred Brousseau, Christina Malamut, and Jill Slater

This report is organized as follows.

Background

Commercial property is property (an entire building or space within a building) that is intended to be used solely for business purposes and includes uses such as retail, office, hotels, medical centers, commercial garages, offices, warehouses, and, by some definitions, multifamily residential and undeveloped land zoned for commercial purposes. In San Francisco, commercial property, often small retail spaces, are a critical piece of the economic and cultural health of the City's many neighborhood commercial corridors. While such properties become vacant from time to time due to normal business turnover, prolonged vacancies due to a depressed local economy, neglect, or other reasons lead to negative effects such as blight. Such vacancies can also contribute to the loss of community serving small businesses and weaken the economy of neighborhood commercial corridors.

Based on interviews with the Office of Economic Workforce Development (OEWD) staff and review of literature on the topic of commercial vacancies, the Budget and Legislative Analyst identified ten main factors that contribute to commercial vacancies in San Francisco. These factors are:

1. **Normal turnover**: Some properties in commercial corridors are vacant due to normal turnover of businesses. Typically, these vacancies are filled in under a year.
2. **Non-leasable buildings:** Property owners may not be able to lease their buildings due to Building Code compliance issues, such as compliance with the Americans with Disabilities Act.
3. **Lack of information**: Property owners may not be able to find appropriate tenants due to a lack of tools or resources to effectively market spaces and execute leases or a lack of the financial capacity to hire brokers and lawyers to assist with lease negotiations.
4. **Non-conforming uses**: Property owners may keep a retail space vacant in order to use it for a purpose not consistent with the Planning Code, such as storage.
5. **Speculation**: Property owners may purposely keep their retail spaces vacant until such time that they expect commercial rents or property values to increase significantly.
6. **Absentee landlords:** Property owners may live or operate outside of the local area and may not be motivated to fill the vacancy in a prompt timeframe.
7. **Neighborhood conditions:** Property owners may not be able to attract a tenant due to neighborhood conditions, such as public safety issues, or poor physical conditions, or negative sidewalk activity.
8. **City Regulations and Zoning**: Local regulations, such as formula retail regulations and requirements for employers to provide health care or other

benefits to employees, may contribute to vacancies by exacerbating the pressure on retail and services uses.

9. **Disputes among partnerships or family ownerships** that do not agree about how much to invest in improving a property or what rent to charge.
10. **Landlords not willing to improve a property** to make it more marketable.

Local Regulations for Vacant Commercial Properties

In 2009, San Francisco adopted a Vacant or Abandoned Building Registration Ordinance to discourage vacant and abandoned buildings. This ordinance amended the Building Code and requires the owners of vacant residential and commercial buildings to register with the City's Department of Building Inspection (DBI) after a building has been vacant for over 30 days and pay a $711 annual registration fee. In 2014, the City further amended the Building Code and extended these requirements to also include vacant or abandoned commercial storefronts in buildings that might be otherwise occupied, such as a multi-level mixed use building with occupied residential units and vacant ground floor commercial space.

2013 BLA Report Findings on Commercial Vacancies

Prior to the Board of Supervisors' adoption of amendments to the Building Code in 2014 that require the owners of vacant commercial *storefronts* to register and pay an annual fee to the Department of Building Inspection (DBI), the Budget and Legislative Analyst reviewed the Department of Building Inspection's Vacant or Abandoned Building Registry in effect and other City strategies aimed at preventing or filling commercial vacancies. At the time, the Building Code required that owners of vacant residential and commercial *buildings* only register with DBI and pay an annual fee. Vacant commercial *storefronts* did not have to register with DBI or pay an annual fee at the time.

According to the registry, there were 786 buildings—the vast majority of which were residential—listed as vacant or abandoned in 2012. Of the 786 buildings listed as vacant or abandoned, 288, or 37 percent, had owners that registered and paid the requisite fees in 2012. Of the 288 buildings on the registry, only 27 of these, or 9.4 percent, were commercial buildings, largely concentrated in the Tenderloin. This likely understated the number of commercial vacancies in 2012 because the DBI Registry relied primarily on owner self-reporting rather than proactive efforts by City staff to identify all commercial vacancies and because it only included fully vacant buildings rather than vacant commercial space in buildings that are otherwise occupied.

Purpose of this Report

This report provides an overview of changes to the Vacant or Abandoned Building Registry since the 2013 report, as well as details on how the 2014 Building Code amendments are being enforced in terms of vacant commercial storefront registration and fee collection, abatement, and occupancy.

Commercial Vacancy Rates in San Francisco

Although the City does not measure the vacancy rate of commercial properties Citywide, there are two City indices that provide partial commercial vacancy rates for certain neighborhoods. The Controller's Office of Economic Analysis reports on the downtown office vacancy rate in its Commercial Real Estate Economic Barometer, and OEWD tracks commercial storefront vacancy rates in twenty-four commercial corridors.

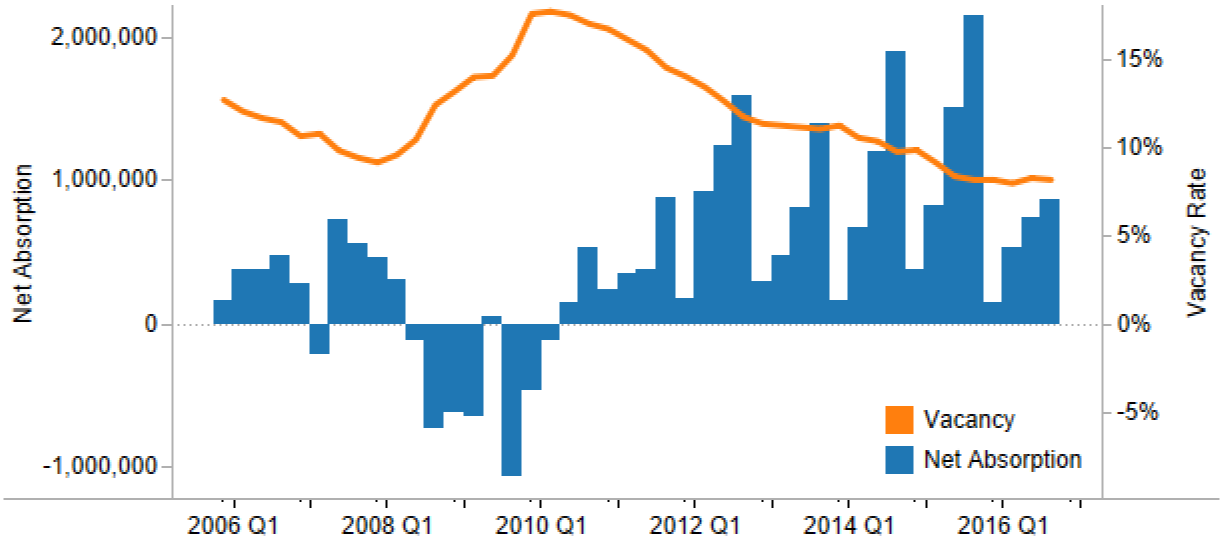
Additionally, the U.S. Postal Service (USPS) tracks vacancies for both residential and business properties. USPS shares vacancy data with the U.S. Department of Housing and Urban Development (HUD), which aggregates this data at the census tract level. This section includes the two City indices described above that show trends in specific neighborhoods as well as Citywide business vacancy rates and census tract level maps based on USPS data.

Controller: Downtown Office Vacancy Rate

The Controller's Office of Economic Analysis maintains and publishes a Commercial Real Estate Economic Barometer that tracks the net absorption[1] rate and vacancy rate but only for office real estate in downtown San Francisco. This barometer is based on quarterly reports produced by Jones Lang LaSalle, a financial and professional services firm specializing in real estate. In the fourth quarter of 2016, the downtown office vacancy rate was 8.2 percent, the same rate as the fourth quarter in the previous year, as shown in Exhibit 1 below. The downtown office vacancy rate reached its peak of nearly 18 percent in the first three quarters of 2010 when it began a downward trend that continued through the third quarter of 2015. The downtown office vacancy rate has been mostly flat (between 8.0 and 8.4 percent) since the third quarter of 2015.

[1] Net absorption is the square feet leased in a specific geographic area over a fixed period of time after deducting space vacated in the same area during the same period.

Exhibit 1: Net Absorption and Vacancy Rates in Downtown San Francisco



Source: Jones Lang LaSalle as reported by the Controller's Office of Economic Analysis

OEWD: Storefront Vacancy Rate in Commercial Corridors

OEWD biannually collects data to calculate the commercial storefront vacancy rate in selected commercial corridors. This rate is reported by the Controller's Office in the City Services Auditor Annual Performance Measure Report. For the commercial corridors it tracks, OEWD reports a commercial storefront vacancy rate of 5 percent for FY 2015-16, ranging from 1.0 to 16.9 percent, depending on the neighborhood. OEWD's rate measures storefront vacancies in twenty-four commercial corridors only and is calculated using data collected by OEWD staff. OEWD expanded their vacancy rate tracking from seven commercial corridors to twenty-five commercial corridors in FY 2012-13.[2] There are currently twenty-four commercial corridors because two corridors (Central Market Street and Larkin Street in the Tenderloin) were merged into one. Exhibit 2 below shows the commercial corridors included in OEWD's storefront vacancy rate.

OEWD's vacancy rate focuses specifically on vacant commercial storefronts. OEWD defines a commercial vacancy as a storefront commercial space that is vacant with no active use; it may or may not be advertised for lease or sale, and it may be undergoing renovations but without a clearly identified tenant.

[2] Nineteen commercial corridors were added and one (Divisadero Street in the Western Addition) was removed.

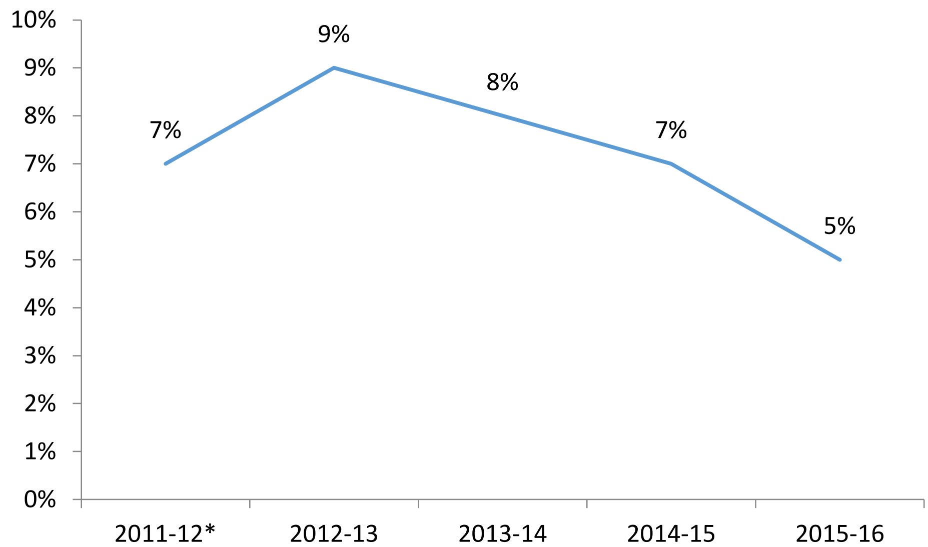
Exhibit 2: OEWD's 24 Targeted Commercial Corridors

1. 24th Street in Noe Valley
2. Broad Street in Oceanview/Merced/Ingleside
3. Central Market Street/Tenderloin**
4. Chinatown
5. Geary Boulevard in the Richmond District
6. Japantown
7. Leland Avenue in Visitacion Valley*
8. Lombard Street in Cow Hollow
9. Mission District***
10. Lower Fillmore Street in the Western Addition
11. Lower Polk Street*
12. Middle Polk Street
13. Mission Street between Cesar Chavez and Bosworth
14. Mission Street in the Excelsior*
15. Noriega Street in the Sunset District
16. North Beach
17. Ocean Avenue in Oceanview/Merced/Ingleside*
18. Outer Irving Street in the Sunset District
19. San Bruno Avenue in Portola*
20. Taraval Street in the Sunset District
21. Third Street in the Bayview District*
22. Union Street in Cow Hollow
23. Upper Market and Castro Street in the Castro District
24. West Portal

Source: Office of Economic and Workforce Development
*Original commercial corridors included in average storefront vacancy rate; all others were included in the average storefront vacancy rate starting in FY 2012-13
**Central Market Street and Larkin Street in the Tenderloin were merged into one corridor
***Mission District includes: Calle 24 and Mission Street

Exhibit 3 below shows the average commercial storefront vacancy rate in the commercial corridors identified above for each of the last five fiscal years. The average vacancy rate was 7 percent in FY 2011-12 and increased to 9 percent in FY 2012-13 when OEWD expanded their vacancy rate tracking from seven to twenty-five commercial corridors. The vacancy rates reported by OEWD declined in each subsequent year.

Exhibit 3: Average Commercial Storefront Vacancy Rate in OEWD Targeted Commercial Corridors



Source: City Services Auditor Annual Year-End Performance Measure Reports (FY 2011-12, FY 2014-15, and FY 2015-16)
*The vacancy rate in FY 2011-12 was calculated in seven commercial corridors; vacancy rates in all subsequent years were calculated in twenty-five commercial corridors

Exhibit 4 below shows the commercial storefront vacancy rate in each of the commercial corridors in FY 2015-16. Two corridors have vacancy rates that are more than ten percent: Leland Avenue in Visitacion Valley (16.9 percent) and Third Street in the Bayview District (12.6 percent).

Exhibit 4: Commercial Storefront Vacancy Rates for OEWD Targeted Commercial Corridors, FY 15-16

Commercial Corridor	Commercial storefront vacancy rate
24th Street in Noe Valley	3.4%
Broad Street in Oceanview/Merced/Ingleside	9.8%
Central Market Street/Tenderloin	6.6%
Chinatown	5.4%
Geary Boulevard in the Richmond District	1.0%
Japantown	4.4%
Leland Avenue in Visitacion Valley	16.9%
Lombard Street in Cow Hollow	4.5%
Lower Fillmore Street in the Western Addition	7.7%
Lower Polk Street	6.5%
Mission District	7.7%
Mission Street between Cesar Chavez and Bosworth	7.1%
Mission Street in the Excelsior	5.9%
Noriega Street in the Sunset District	1.6%
North Beach	7.3%
Ocean Avenue in Oceanview/Merced/Ingleside	6.3%
Outer Irving Street in the Sunset District	3.4%
San Bruno Avenue in Portola	3.9%
Taraval Street in the Sunset District	3.4%
Third Street in the Bayview District	12.6%
Union Street in Cow Hollow	4.2%
Upper Market and Castro Street in the Castro District	2.8%
West Portal	1.3%

Source: OEWD

U.S. Postal Service Tracks Citywide Vacancy Rates

The U.S. Postal Service (USPS) records information, including occupancy status, on addresses that are likely to be undeliverable.[3] USPS records when an address that was occupied in the past is vacant for 90 days or more and not receiving mail.[4]

[3] United States Postal Service. “Postal Terms.” Accessed on April 6, 2013. <https://about.usps.com/publications/pub32/pub32_terms.htm>

[4] Addresses recorded as vacant by USPS do not include businesses or homes under construction, demolished, or blighted. These addresses are separately recorded as “no-stat” addresses.

According to USPS data, there were 3,448 vacant business addresses in San Francisco in the fourth quarter of 2016, and these addresses represent 7.4 percent of all business addresses in the City, as shown below, indicating that there were 46,954 total business addresses in the City at that time.[5] The number of vacant business addresses decreased by 649, or 16 percent, in 2015 compared to 2014 and increased by 106, or 3 percent, in 2016 compared to 2015. It should be noted that the USPS data includes commercial storefronts but also other types of business with vacant locations such as vacant offices in highrises that do not face the street.

Exhibit 5: U.S. Postal Service Reported Business Addresses Vacant for 90+ Days, in San Francisco, 2014-2016

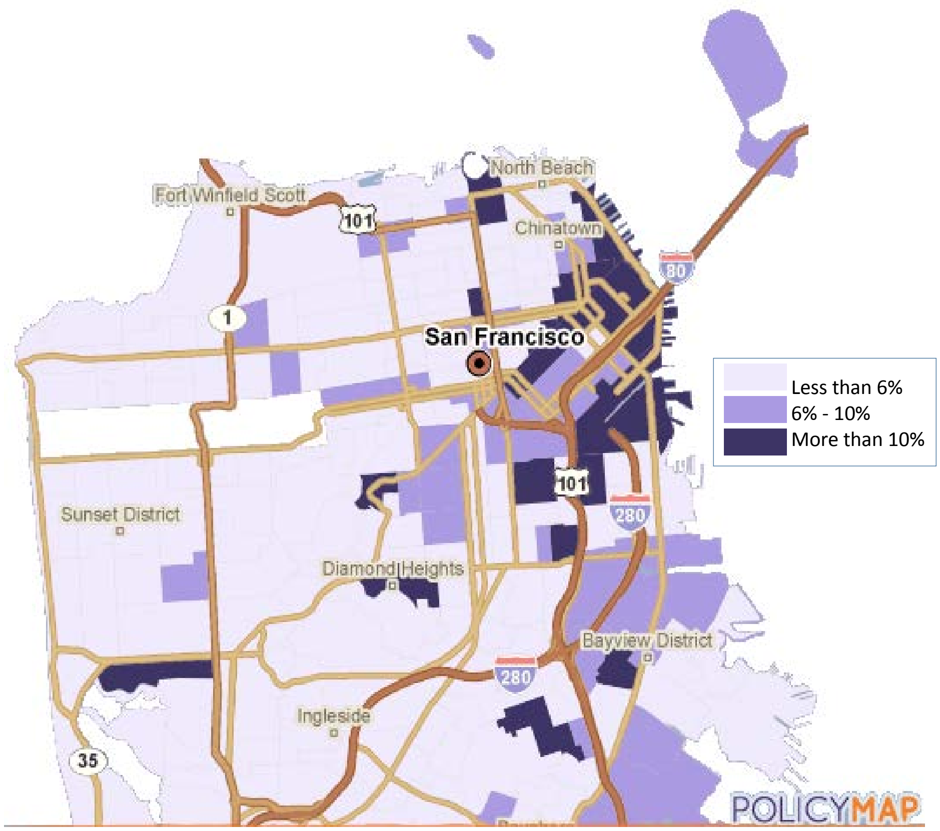
	2014	2015	2016
Vacant Business Addresses	3,991	3,342	3,448
Percent of Business Addresses	8.7%	7.2%	7.4%

Source: Valassis Lists. *Number of Business Addresses Vacant in 2016, fourth quarter*; *Percent of All Business Addresses Vacant in 2016, fourth quarter.* Policy Map. www.policymap.com Accessed April 5, 2017.

Exhibit 6 below shows the business address vacancy rate by census tract according to USPS data. The census tracts with the highest vacancy rates between 2014 and 2016 were located in the following neighborhoods: the Financial District, Russian Hill, Embarcadero, South of Market (SOMA), Downtown/Civic Center, the Mission, the Castro, Excelsior, Bayview, Diamond Heights, and Lake Shore.

[5] Valassis Lists. *Number of Business Addresses Vacant in 2016, fourth quarter*; *Percent of All Business Addresses Vacant in 2016, fourth quarter.* Policy Map. www.policymap.com Accessed April 5, 2017

Exhibit 6: Locations of business addresses vacant for 90 or more days, 2016 fourth quarter



Source: Valassis Lists. *Percent of All Business Addresses Vacant in 2016, fourth quarter.* Policy Map. www.policymap.com Accessed April 5, 2017.

All three commercial vacancy indicators discussed in this section measure vacancy rates for different types of commercial properties in different parts of the City. However, the USPS business vacancy rate is the only Citywide indicator, and the census tract level detail allows for the comparison of vacancy rates across neighborhoods.

Commercial vacancy rates in other cities

Though commercial building and commercial storefront vacancies are not counted in a standardized way across all U.S. cities, many other cities are reported to also have commercial vacancy issues. Competition from online sales, rising rents and other costs, are reported to be factors affecting other cities as well. And similar to San Francisco, vacancy rates vary by neighborhood.

The New York Times reported in March 2017 that vacancy rates ranged from five to 20 percent in different retail corridors in New York City, with higher rates found in a number of high-rent destination commercial areas such as Madison Avenue, SoHo, and Columbus Avenue, all in Manhattan.[6] High rents and a limited supply of national retailers and businesses able to pay the rents that many small businesses cannot afford were cited as some of the reasons for the higher vacancy rates. Competition from online sales was also cited as a factor discouraging retailers from expanding or opening new stores.

An August 2017 report stated that the retail vacancy rate in the Chicago area was 10 percent as of the second quarter of 2017, ranging from 3.8 percent to 14.3 percent in different neighborhoods. Rising costs were cited as a factor affecting the ability of independent businesses to remain in certain areas.[7]

City Strategies to Address Commercial Vacancies

OEWD Programs

The City's Office of Economic and Workforce Development (OEWD) manages the most extensive programs in the City focused directly on preventing or reducing commercial vacancies under its Invest in Neighborhoods initiative. In the Fall of 2012, OEWD launched *Invest in Neighborhoods*, an initiative to provide targeted assistance to select neighborhood commercial districts in the City through a variety of programs. Under this initiative, OEWD works with other City agencies and community partners to leverage existing resources that respond to the specific needs and opportunities in each commercial district. The initiative is being piloted in 24 neighborhood commercial districts around the City.

The following programs are deployed in each neighborhood based on need and community objectives. Programs can be complementary and assist in achieving multiple objectives in helping retain and attract businesses.

<u>OEWD Programs Aimed at Preventing Commercial Vacancies</u>

Using the Invest in Neighborhoods framework, OEWD manages the following programs whose aims include preventing commercial vacancies:

1. **Jobs Squad**: The Jobs Squad program assists small businesses by: (1) providing information on existing City resources and programs that directly benefit small businesses; (2) providing technical assistance to help businesses navigate the City's permitting processes; and, (3) providing information on baseline services and customized services to small businesses in the 25 Invest in Neighborhoods commercial corridors.

[6] "A Sign of the Times: More For-Rent Notices in Manhattan". <u>New York Times</u>, March 7, 2017
[7] "As More Stores Close, Retail Vacancies Rise Again". <u>Crain's Chicago Business</u>, August 7, 2017

2. **Business Retention and Relocation:** This Program provides a one-stop shop for small businesses in danger of displacement, and businesses looking to expand and grow within the City. Services include real estate assistance, financing assistance, access to grants and incentives program, and help navigating City Department processes.

3. **ADA Outreach**: The goals of the program are to increase ADA compliance and to reduce the risk of small businesses facing costly lawsuits over ADA access issues. The program consists of: (1) multilingual workshops, the first of which was held in the first quarter of 2013; (2) discounted or free ADA assessments; and, (3) grants for ADA-related design and construction costs for select businesses. Since the program launched in 2012, 638 businesses across the City have been approved and assigned Certified Access Specialist inspectors for surveys. Additionally, ten grants ranging in size from $15,000 to $20,000 have been provided to small businesses for ADA upgrades.

4. **Small Business Technical Assistance**: The City provides funding to a number of small business technical assistance providers to provide targeted direct assistance to small businesses to help them open, stay, and grow in San Francisco.

5. **Business Corridor Management**: OEWD provides funding to a number of community based nonprofit organizations to hire a Corridor Manager whose responsibilities include the identification of vacancies, determination of community business and service needs and priorities, and coordination with property owners and brokers to facilitate vacancy filling depending on commercial corridor priorities.

6. **Small Business Revolving Loan Fund**: OEWD contracts with TMC Working Solutions to administer a revolving loan fund that provides up to $50,000 to start-up businesses and existing small businesses that are seeking capital to expand operations. The loans are funded through a combination of Community Development Block Grants, the General Fund, and other federal and private sources. As of April 2017, the small business revolving loan fund had 134 outstanding loans with $3,384,000 disbursed.

7. **Emerging Business Loan Fund**: This program was initiated to help address a drop in federal Small Business Administration (SBA) lending. OEWD contracts with Main Street Launch, a community development financial institution, to provide loans ranging from $50,000 to $1 million. This program is funded through a variety of sources including Main Street Launch's banks and foundation partners, the federal Community Development Financial Institution fund administered by the U.S. Department of the Treasury, and the Section 108 loan guarantee program

administered by the U.S. Department of Housing and Urban Development. As of April 2017, 98 loans have been executed from the fund with a total of $13,095,300 disbursed.

8. **SF Shines**: This program provides grant funds to small businesses for investments in facade improvements in commercial corridors. Since December 2009, SF Shines has provided approximately $2,000,000 to 55 businesses across the City, or an average loan of $36,363 per business. Although funding for this program has varied and included federal Community Development Block Grant and Redevelopment Agency funds, the current source of funding for this program is an allocation from the City's General Fund.

OEWD Programs Aimed at Existing Commercial Vacancies

In addition to the eight programs described above which include efforts to reduce commercial vacancies in targeted corridors, OEWD facilitates the leasing of vacant commercial spaces through a variety of direct interventions through its own staff and grantee organizations. These efforts include outreach to property owners to enhance the marketing of their space; recruitment of existing business operators to expand to a new location; bundling of financing programs such as loans, tax credits, and grants; facilitation of lease negotiations; and, assistance with the permitting and licensing processes. These efforts are described in more detail below, but programs listed above can also be customized to facilitate leasing.

1. **Targeted Business Attraction**: The aim of this program is to attract key businesses to a particular neighborhood. Based on the type of vacancies, leakage studies, community desires and a range of other factors, businesses are targeted to move into particular neighborhoods.

2. **The Small Business Acceleration Program:** The Small Business Acceleration Program (aka Open in SF) offers free services to people opening small brick and mortar food-based businesses in San Francisco. The pilot program provides a dedicated case manager to assist entrepreneurs with permits and licenses needed to start a food-based business.

3. **Non-Retail Activation of Vacant Storefronts**: OEWD and its partners can help improve the conditions of vacant storefronts through creative uses such as 'Art in Storefronts' and temporary pop-up activities in order to generate interest and foot traffic and mitigate the negative impacts of commercial vacancies in commercial districts.

Exhibit 7 below shows OEWD's performance measures related to its programs that address commercial vacancies. As mentioned previously, OEWD calculates commercial vacancy rates in targeted commercial corridors. However, the relationship between OEWD programs and the decline in the commercial vacancy rate cannot be determined because: (1) changes in economic conditions have resulted in similar declines in commercial vacancy rates in the downtown area; and (2) OEWD does not currently have data that can show the effectiveness of individual programs. The two other performance measures reported by OEWD are broad measures of their services and may or may not include work that addressed reducing commercial vacancies.

Exhibit 7: OEWD Performance Measures Relating to Programs that Address Commercial Vacancies, FYs 2012-13 through 2016-17

Measure	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Target
Commercial vacancy rate in twenty-five targeted commercial corridors	9%	8%	7%	5%	6%
Number of businesses receiving one-on-one technical assistance	1,596	786	790	775	780
Number of businesses that benefited from OEWD programs[8]	383	332	335	706	725

Sources: Commercial vacancy rates from City Services Auditor FY 2014-15 Annual Year-End Performance Measure Report, and Performance Scorecards Update and FY 2015-16 Performance Measures. All other measures from OEWD.

Upcoming Neighborhood Commercial District Retail Trends Study

According to OEWD's Director of Policy and Planning, OEWD will be contracting with Strategic Economics, Inc. in FY 2017-18 to prepare three issue briefs that are intended to assist the City in understanding the policy implications of the current and changing conditions impacting commercial districts in San Francisco. The study will explore: (1) how the restructuring of the local and national retail industry affects neighborhood-based retail demand; (2) costs and challenges for retail businesses in San Francisco, including real estate trends, recruitment, regulations, and retention challenges; and (3) what constitutes a "successful" San Francisco retail district.

[8] As identified through business surveys of Community Development Block Grant grantees.

Vacant Building and Commercial Storefront Registration Ordinances

The purpose of San Francisco's Vacant or Abandoned Building Registration Ordinance adopted in 2009 is to discourage vacant and abandoned buildings.[9] The ordinance requires owners of residential and nonresidential buildings to complete an application and submit annual registration fees, currently $711[10], to the Department of Building Inspection (DBI) 30 days after their property becomes vacant or abandoned. Failure to comply with these and other requirements can initiate enforcement proceedings, which may result in the property owner being assessed a penalty of $6,399, or nine times the $711 annual registration fee. However, DBI reports that these penalties are rarely charged.

The City's Vacant or Abandoned Commercial Storefronts and Registration Fee Ordinance, which was adopted in 2014 and further amended the Building Code, targets vacant or abandoned commercial storefronts in buildings that might be otherwise occupied, such as a multi-level mixed use building with occupied residential units and vacant ground floor commercial space. Similar to the requirements for vacant buildings, the owner is required to register with DBI 30 days after the commercial storefront becomes vacant or abandoned, but the annual registration fee is not due until 270 days, or nine months, after the commercial storefront becomes vacant or abandoned. This nine month window is to allow time for building owners to find a new tenant, make repairs or improvements to the storefront, or attend to other matters that account for the space being temporarily vacant, without the owner having to pay the annual registration fee. If the owner finds a new tenant within the 270-day window, the owner is not required to pay the fee.

There were only 28 vacant total *buildings* and 25 vacant commercial *storefronts* recorded by DBI in 2016, in both cases substantially fewer than the 3,448 commercial addresses listed as vacant by the U. S. Postal Service (USPS) discussed above. DBI's registry records and processes for tracking vacant commercial properties is discussed further below.

[9] Ordinance 194-09 defines a building as vacant or abandoned if it (1) is unoccupied and unsecured; or (2) is unoccupied and secured by boarding or other similar means; or (3) is unoccupied and unsafe as defined in Section 102 of the Building Code; or (4) is unoccupied and has multiple code violations; or (5) has been unoccupied for over 30 days. A building that is partially unoccupied and has been cited for blight under Chapter 80 of the San Francisco Administrative Code shall also be deemed a vacant or abandoned building. The ordinance further states that a building shall not be considered vacant or abandoned if: (1) there is a valid building permit for repair, rehabilitation, or construction of a building on the parcel and the owner completes the repair, rehabilitation, or construction within one year from the date the initial permit was issued; or (2) the building complies with all codes, does not contribute to blight as defined by Chapter 80 of the San Francisco Administrative Code, is ready for occupancy, and is actively being offered for sale, lease, or rent.

[10] The fee was previously $765 and was reduced by $54 (7 percent) to $711 by order of the Controller.

DBI Registries

DBI maintains two registries: (1) the Vacant Building Registry; and (2) the Vacant Commercial Storefront Registry. Property owners must pay the annual registration fee when they register a vacant building, but, as mentioned above, property owners do not have to pay the annual registration fee when they register a vacant commercial storefront because the ordinance gives them 270 days to pay the fee after their storefront becomes vacant. Therefore, DBI must track which commercial storefronts are only "partially registered"—the property is recorded on the DBI registry but the owner has not paid the annual fee—and which commercial storefronts are fully registered—the property owner has paid the annual registration fee. Aside from this difference, DBI's maintenance process is the same for both registries and is described jointly below.

DBI learns of vacant properties through three main sources: (1) owners self-reporting vacancies in compliance with the Building Code; (2) complaints from residents and other community members; and, (3) referrals from other City departments, primarily the Fire Department. Complaints are the source of the majority of new additions to the registries. According to DBI, individual homeowners are responsible for many of the complaints for neighboring vacant residential properties, and neighborhood associations or merchant organizations are responsible for many of the complaints for vacant commercial storefronts. Because there is no penalty for failure to self-report, there is little incentive for property-owners to do so.

Most complaints that generate additions to the DBI registries are made by phone or e-mail to DBI's Code Enforcement Services, but occasionally complaints are referred to DBI through the City's 311 customer service center. If a community member calls 311 in regards to a vacant property, a 311 operator will refer to the Blight Issue Matrix shown below to determine the department to which the issue should be referred. If a caller wishes to report structural defects or paint issues for a vacant or abandoned property, the issue will be referred to DBI, and the property may be added to the registry. However, there is currently no applicable issue listed in the referral matrix for reporting a vacant or abandoned building without any other issue.

Exhibit 8: 311 Blight Issue Referral Matrix

Blight Issue	Department
Structural Defects	Department of Building Inspection
Debris/Garbage	DPW: Bureau of Street Environmental Services*
Tree Maintenance	DPH: Environmental Health Services
Vegetation	DPH: Environmental Health Services
Paint	Department of Building Inspection
Abandoned Vehicle	DPH: Environmental Health Services
Graffiti	DPW: Bureau of Street Environmental Services

Source: 311 Customer Service Center
*Referred to Department of Building Inspection if blight is not visible to the public

The registries are not currently publicly available, but are provided upon request. According to the Manager of Legislative and Public Affairs at DBI, the Police Department advised DBI not to make the registries publicly available to deter individuals looking for break-in opportunities. DBI provides the registries on a quarterly basis to OEWD.

Vacant Commercial Properties on DBI Registries

There were 220 commercial and residential properties on the vacant or abandoned *building* registry for at least one quarter in 2016 and, of these, 28 (13 percent) were commercial properties. There were 25 vacant commercial storefronts on the vacant or abandoned commercial *storefront* registry for at least one quarter in 2016, as shown in Exhibit 9 below. As mentioned previously, there were 3,448 vacant business addresses in San Francisco in the fourth quarter of 2016 according to USPS data. Although this number includes addresses that would not be required to register as vacant according to the Building Code, such as vacant office space in otherwise occupied buildings, it does indicate that the registries only capture a small subset of vacant commercial properties in the City.

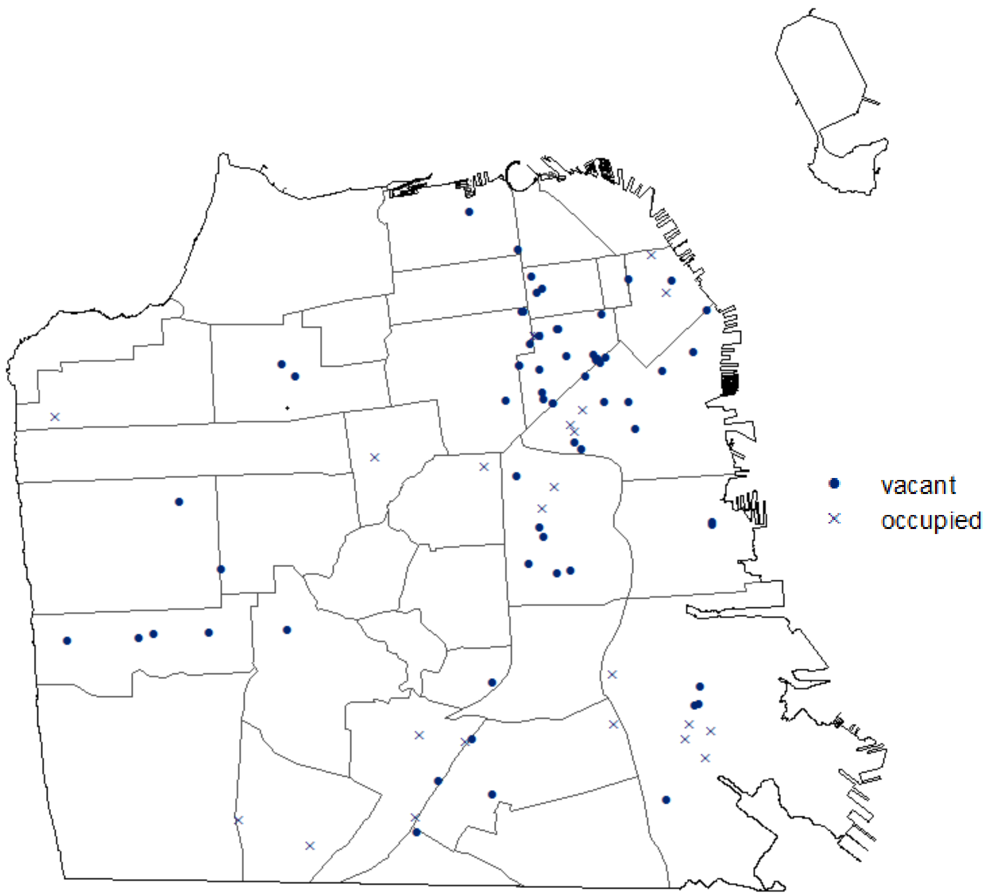
Exhibit 9: Vacant or Abandoned Buildings and Storefronts on DBI Registries, 2013-2016

Type	2013	2014	2015	2016
Total Buildings (residential & commercial)	224	267	243	220
Commercial Buildings	38	32	30	28
Commercial Storefronts	-	-	38	25

Source: Vacant Building Registry, Vacant Commercial Storefront Registry

Exhibit 10 below shows the location of entire commercial buildings that were vacant and on the DBI registry between 2013 and 2016. Buildings marked with an "X" are no longer vacant. The map shows the greatest concentration in the downtown/Civic Center neighborhood, followed by SOMA, the Mission, and Bayview.

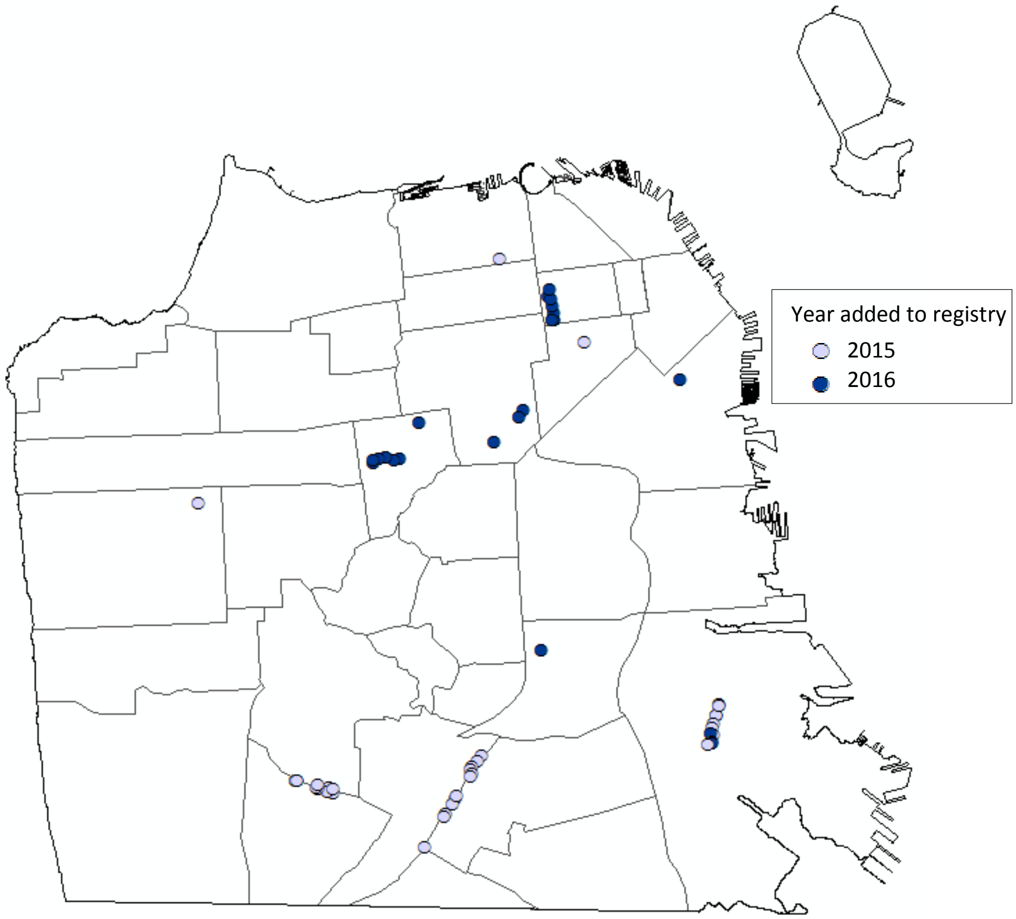
Exhibit 10: Vacant Commercial Buildings on Registry 2013-2016, by Current Occupancy Status



Source: Department of Building Inspection: Vacant Building Registry

Exhibit 11 below shows the location of vacant commercial storefronts on the DBI registry in 2015—the first year the registry was implemented—and 2016. Most of the storefronts are concentrated along five streets. Of the 38 commercial storefronts on the registry in 2015, 33, or 87 percent, were located on just three streets: 3rd Street, Mission Street, and Ocean Avenue. Of the 25 commercial storefronts on the registry in 2016, sixteen, or 64 percent, were located on two streets: Haight Street and Polk Street. According to DBI, a neighborhood association may do a sweep of a particular commercial corridor and report eight to ten vacant commercial storefronts at once.

Exhibit 11: Vacant Commercial Storefront Registry Additions in 2015 and 2016



Source: Department of Building Inspection: Vacant Commercial Storefront Registry

Because the registries are largely complaint driven, they do not appear to accurately reflect the number or distribution of vacant commercial properties across the City. Certain neighborhoods with less neighborhood watchdog presence or less knowledge about City processes may be underrepresented. The registry does not list any vacant commercial storefronts in the Mission, Financial District, Chinatown, or the Castro although these areas have a relatively high level of vacant business addresses according to USPS data. Similarly, the registry does not list any vacant commercial buildings in Chinatown and few in the Financial District and the Castro.

A recent analysis by Hoodline, a blog focusing on neighborhood news and analysis, further indicates that the registries do not accurately reflect commercial vacancies in the Castro. Hoodline analyzed vacant storefronts in the Castro/Upper Market

Community Benefit District[11] in March 2017.[12] They defined storefronts as vacant if they could not enter the property and purchase a good, service, or experience. This definition is more broad than what is stipulated in the Ordinance and includes storefronts that may not be required to register with DBI, such as those with active building permits or those that are actively being offered for sale or lease. Hoodline identified 53 vacant commercial storefronts in the area's retail district[13], including 15 that have been vacant since at least 2015. Only one of the 53 commercial properties identified as vacant appeared on either DBI registry although some may not be required to register.

Enforcement

Of the 28 vacant commercial buildings on the registry for at least one quarter in 2016, only seven (25 percent) registered and paid the annual fee that year. Of the 25 commercial storefronts on the registry in 2016, five (20 percent) paid the annual fee that year; an additional eight registered but did not pay the annual fee in 2016. Exhibit 12 below shows fee collection for both registries for the last four years.

Exhibit 12: Number of Properties for which Fees were Paid to City for Vacant or Abandoned Buildings or Vacant Commercial Storefronts, 2013-2016

	2013		2014		2015*		2016	
Type	**Number**	**Fees**	**Number**	**Fees**	**Number**	**Fees**	**Number**	**Fees**
Total Buildings (residential and commercial)	158	$120,870	101	$76,995	103	$77,013	58	$41,238
Commercial Buildings	32	$24,480	20	$15,300	17	$12,465	7	$4,977
Commercial Storefronts	-	-	-	-	5	$3,555	5	$3,555

Source: Vacant Building Registry, Vacant Commercial Storefront Registry
*The annual fee was reduced in 2015 from $765 to $711.

A case is considered abated if all code violations have been corrected and all fees have been paid.[14] Properties on the registry are also considered to be abated if

[11] A community benefit district is a non-profit, community-based organization funded by a special property tax assessment fee on properties within the district boundaries.
[12] Hoodline. "It's a fact: the Castro's retail vacancy problem has gotten even worse." March 20, 2016. Available at: http://hoodline.com/2017/03/castro-retail-vacancy-rising
[13] The retail district contains a subset of properties within the community benefit district, primarily located along Market Street and a portion of Castro Street.
[14] Commercial storefront abatement totals include properties that have partially registered and have not paid annual fees.

the property has active building permits for repair or if the property owner has provided proof that the property is actively being offered for sale or lease.

Though abated, properties are not removed from the registries until property owners submit proof of occupancy, including recent copies of a gas/electric statement, garbage statement, and water statement, as well as a copy of the current lease agreement if the property is not owner occupied.

Of the 28 vacant commercial buildings on the registry in 2016, seven were removed due to occupancy and an additional four were abated but not removed from the registry by the end of 2016. Of the 25 commercial storefronts on the registry in 2016, three were removed due to occupancy and an additional 11 were abated but not removed from the registry by the end of 2016, as shown below.

Exhibit 13: Cases Closed or Abated, Vacant or Abandoned Buildings and Storefronts, 2013-2016

Commercial Buildings	**2013**	**2014**	**2015**	**2016**
Closed or abated	20	24	14	11
Closed	*5*	*8*	*5*	*7*
Abated, not closed	*15*	*16*	*9*	*4*
Not closed or abated	18	8	16	17
Registry Total	**38**	**32**	**30**	**28**
Commercial Storefronts	**2013**	**2014**	**2015**	**2016**
Closed or abated	-	-	18	14
Closed	-	-	*10*	*3*
Abated, not closed	-	-	*8*	*11*
Not closed or abated	-	-	20	11
Registry Total	-	-	**38**	**25**

Source: Vacant Building Registry, Vacant Commercial Storefront Registry

While there are no performance measures that track the Department's enforcement of the Vacant or Abandoned Building Registration Ordinance, a review of the vacant or abandoned building registry and interviews with DBI staff found that improvements could be made in enforcement and administration of the ordinance. Specifically, the lack of a proactive effort to identify vacant or abandoned buildings likely results in an undercount of vacant buildings on the registry, a shortfall in fee and penalty revenues that could potentially be collected and used to enhance DBI's enforcement efforts, and more prolonged periods of building and commercial storefront vacancies, causing blight in certain commercial areas. Additionally, the registries are manually maintained by DBI in Excel spreadsheets, which makes them prone to human error and may result in some properties, especially long-time vacant properties, not being properly monitored.

If a property owner still fails to comply after DBI has exhausted enforcement proceedings, DBI may refer the case to the City Attorney's Office. Legal enforcement options include the City seeking a warrant to board up unsecured vacant property at the owner's expense, or the City filing a full civil lawsuit. The City Attorney's Office typically sends a letter to the property owner to demand compliance, and to notify the owner of the potential for legal enforcement. According to the Chief Attorney of the Neighborhood and Residential Safety Division at the City Attorney's Office, most property owners comply after a letter or additional communications, short of going to court. The City Attorney's Office has filed lawsuits against property owners who are violating the Vacant or Abandoned Property ordinances; all of those suits, however, have also involved additional code violations that often go along with a building being vacant or abandoned, such as disrepair, unpermitted construction, or an unpermitted change of use.

Fix-it Initiative

The Mayor's Office launched the Fix-it Initiative in 2016 to address quality of life issues in San Francisco neighborhoods. In 2016, the program focused on five neighborhoods: Chinatown, Market/Castro, Mission/Geneva, Inner Sunset and the Civic Center/UN Plaza. The program is expanding and will target 20 communities in 2017 including communities in the Sunset District, the Mission, Bayview and the Tenderloin. The Fix-It Director works closely with those living and working in the area to identify community priorities and concerns, such as blighted billboards, broken streetlights, crime, and cleanliness concerns. To address these concerns, the Fix-it Director coordinates with multiple agencies, including the Department of Public Works, the Public Utilities Commission, the Municipal Transportation Agency, the Recreation and Park Department, the Department of Public Health, and the Homeless Outreach Team.

Although the Fix-It Initiative has not tackled vacant commercial property in any of the targeted communities to date, the Director expects to address vacant properties in the Richmond District and the Mission District in the second half of 2017. These properties are located at 6th Avenue and Balboa Street and on Mission Street between 14th Street and 15th Street, and they are not currently on DBI's vacant building or storefront registries.

Zoning and Planning Changes to Address Commercial Vacancies

Commercial rents have become increasingly unaffordable for some retailers due to rising rents in the San Francisco real estate market and the rise of e-commerce which is challenging traditional brick and mortar retailers. In response to these challenges in the retail market, there have been recent discussions by the City's Planning Commission about converting retail space to other use types or reducing the size of retail spaces. Such changes could help reduce vacant commercial space.

The Planning Department and the Planning Commission continue to debate ceding retail uses to office use in Union Square's Downtown Retail (C-3-R) district.[15] The Planning Code permits non-retail uses in C-3-R districts only with a conditional use permit and only above the ground floor.

In April 2017, the Planning Commission considered but ultimately did not approve issuance of a conditional use permit to convert 12,000 square feet of retail space located on the third floor of 222 Sutter Street into office space. The Planning Department recommended against issuance of the permit in light of an OEWD report that found the City’s retail sector to be healthy and highlighted the need to support public-serving, as opposed to business-serving, uses in the district. Although conversions of retail to office space above the ground floor may decrease the amount of vacant retail space in San Francisco, such changes would not impact DBI’s registries because vacant commercial space above the ground floor in buildings that are otherwise occupied are not captured on the DBI registries.

In some neighborhoods there have been efforts to expand the definition of Neighborhood Commercial (NC) districts. The Planning Commission recently approved new Planning Code amendments to make it easier to open childcare facilities Citywide (including on the ground floor) without conditional use permits or notifications otherwise required in NC districts.[16] This legislation was approved by the Board of Supervisors in July 2017.

There have also been efforts related to the permitted size of ground floor retail in order to maintain a healthy size range of available spaces. Section 145.4 of the Planning Code currently limits total street frontage of a single use to 75 linear feet, and requires that the rest of the frontage be reserved for smaller commercial uses. There are multiple references in the Code limiting lot mergers and requiring conditional use authorization for commercial uses above certain sizes. The Planning Commission recently proposed zoning changes in Central SoMa that would require new development on large sites to include at least one retail space less than 1,000 square feet for every 20,000 square feet of lot area.[17] A mismatch between the inventory of available commercial properties and the space needs of

[15] San Francisco Planning Department Memo to the Planning Commission on March 30, 2017, regarding Case No. 2015-009997CUA
[16] Planning Commission Resolution No. 19920
[17] San Francisco Planning Department. “Central SoMa Plan & Implementation Strategy.” August 2016. Available at: http://default.sfplanning.org/Citywide/Central_Corridor/Central_SoMa_Plan_full_report_FINAL.pdf

businesses can contribute to commercial vacancies. Requiring micro-retail spaces could reduce the level of commercial vacancies if there is a shortage of small spaces relative to the needs of businesses.

The City of Seattle has made changes to its planning and zoning regulations, discussed further below, to attempt to stem commercial vacancies. Specifically, the City is now allowing uses other than retail in certain areas where previously retails was the only use allowed.

Peer City Approaches to Commercial Vacancies

The Budget and Legislative Analyst collected information about how other municipalities are attempting to prevent and address commercial vacancies. Economic development programs, zoning code changes, vacant property registration, taxes on vacant buildings, and government acquisition of vacant properties in other jurisdictions are discussed below.

Zoning Code Changes: City of Seattle

As mentioned above, over the past few years the City of Seattle determined that it had too much property zoned exclusively for retail and, in response, began to pare it down. In May 2015, the City Council approved changes in its planning code that reduced the size of neighborhood commercial zones and, in some places, limited the number of residential multi-story projects that required retail on the ground floor.[18] Zoning for ground floor non-residential spaces was expanded to include additional uses such as residential and office. Many of the units in the more flexible ground floor spaces are zoned for live/work, encouraging an active use beyond pure residential.

As mentioned above, there have been efforts in San Francisco to convert retail space to other use types such as amendments to the Planning Code approved by the Board of Supervisors that make it easier to open childcare Citywide, including on the ground floor of multi-story buildings. However, these efforts have not been as far reaching in San Francisco compared to Seattle.

Economic Development Programs: City of Chicago

Chicago's Retail Thrive Zones and Neighborhood Opportunity Fund were rolled out in February 2017, after a year of planning. These are two three-year pilot economic development projects that provide access to capital for eight economically challenged retail corridors. The Neighborhood Opportunity Fund is

[18] Ordinance 124770

funded by voluntary contributions from downtown developers who receive density bonuses on their projects in exchange for their contributions to the Fund. In the past, developers built various local amenities in exchange for a density bonus. Now the money they pay for their density bonus goes directly towards the resuscitation of neighborhoods that have been persistently disadvantaged for decades. Funds are distributed to businesses in the eight designated neighborhoods through a competitive grant process for land acquisition and assembly, new construction, repair and improvements of existing buildings, financing fees, and other project-related costs.

The Retail Thrive Zone program was launched after and built on the Neighborhood Opportunity Fund program. It provides an array of services and funding to businesses in the eight neighborhoods including reduced property taxes, additional grants, streamlined permit processing, technical support services, and other services and assistance. The Retail Thrive Zones program appears to be similar in some respects to the Invest in Neighborhoods initiative administered by OEWD in San Francisco, described earlier in this report.

Vacant Property Registration: City of Chicago

More than 1,900 U.S. cities, including Chicago, Illinois, and San Francisco, have enacted vacant property registration laws.[19] As previously described, vacant property registration laws such as San Francisco's require owners to register a property after it has been vacant for a certain number of days. The owner must also pay annual registration fees, which typically increase the longer the property is vacant, although this is not the case in San Francisco where a flat fee of $711 is due every year the property is vacant.

The City of Chicago requires owners to pay registration fees every six months, and the fee varies depending on: (a) whether or not the property owner self-reported the vacancy, and (b) whether or not the property has been cited for repeated building code violations. As shown below, fees are twice as high for property owners if City employees identify the property as vacant than if property owners self-report their property as vacant, and fees increase every six months to a maximum of $2,000 if the property has repeated code violations.

[19] Safeguard Properties. "Property Registration." Accessed on May 24, 2017. Available at: <http://www.safeguardproperties.com/Resources/Vacant_Property_Registration.aspx>

Exhibit 14: Chicago Vacant Building Registration Fee Structure

Months Vacant	No Repeated Violations*		Repeated violations	
	Self-Reported	Reported by complaint	Self-Reported	Reported by complaint
0 months	$250	$500	$250	$500
6 months	$250	$500	$500	$1,000
12 months	$250	$500	$750	$1,500
18 months	$250	$500	$1,000	$2,000
Subsequent six month intervals	$250	$500	$1,000	$2,000

Source: City of Chicago. "Vacant Registration Fee Structure." Accessed on May 23, 2017.
*No Repeated Violations includes: (a) Self-Reported properties with no code violations, and (b) properties registered as a result of a violation with no subsequent violations.

In an effort to improve compliance with vacant building registration requirements, the City of Chicago may impose a fine of up to $1,000 per day for unregistered vacant buildings beginning on the 31st day the building is vacant. As mentioned previously, San Francisco's DBI may charge a fee of nine times the current $711 registration fee, or $6,399, in instances when building owners are not compliant with the City's Vacant or Abandoned Building Registration Ordinance. However, DBI reports that this fee enhancement has rarely been charged.

As of 2013, Chicago has an online interactive database in which the public can report a vacant property, register their own vacant properties (and pay fees online), or review existing vacant properties on a map. The online vacant building database serves as a tracking tool for the public, including information about pending enforcement actions. Another database, updated daily, includes a list of every vacant building as identified through 311 calls received since 2010. Unfortunately, there is no indication whether the building is residential or commercial and it does not appear to include buildings that were voluntarily registered as vacant.

As mentioned previously, there is no publicly available list of vacant properties in San Francisco, and there is no option in the Blight Issue Matrix that would allow a 311 caller to report vacant or abandoned properties and generate a referral to DBI.

Vacant Building Tax: Washington, D.C.

Washington, D.C. imposes a supplemental property tax on vacant commercial and residential buildings. The property tax rate for vacant non-blighted buildings in Washington, D.C. is five percent of assessed value and the rate for vacant blighted buildings is 10 percent of assessed value. Vacant properties are identified by the Department of Consumer and Regulatory Affairs by responding to complaints from citizens, the City Council, and other City agencies. The imposition of a vacant building tax added to property tax would not be permissible under current California state law as the California Constitution defines the maximum ad valorem (based on value) tax on real property as one percent of assessed value, not including supplementary property taxes for any voter-approved bonded indebtedness.

As of 2016, Washington D.C. closed a problematic loophole with new legislation[20] that limits the period an owner can claim an exemption from higher taxes on derelict buildings because of construction to two years for commercial properties. It also increased the maximum fine for failing to comply by $4,000, from $1,000 to $5,000. The legislation also mandates the Department of Consumer and Regulatory Affairs to maintain and make public a list of neglected properties. Current law requires that the Department verify that buildings are vacant or blighted every six months.

Government Acquisition of Vacant Properties

The State of Michigan and the City of Dallas, Texas have created land banks, which are public authorities or non-profit entities created to efficiently acquire, hold, manage and develop vacant and abandoned properties. Most land banks fill their inventory with properties obtained through the tax foreclosure process and then sell or transfer the properties based on locally developed priorities. As a result, laws that establish or authorize land banks typically also reform tax foreclosure sale laws to allow foreclosed properties to be transferred to the land bank rather than sold at a tax sale[21] to the highest bidder. Land banks are typically authorized to transfer properties without the need for extensive sign-offs from elected officials, such as a Treasurer or Tax Collector, in order to get properties quickly back on the market.

Due to changes in State law,[22] as of 2016 the City of Dallas may take over any property with at least five years of delinquent property taxes, to develop as a commercial use. In San Francisco, the Treasurer and Tax Collector has the right under State law to sell properties that are delinquent on property taxes after five years. However, the foreclosure process is strictly governed by State law, which gives the City very little flexibility to experiment with the processing and disposition of tax delinquent properties.

[20] Bill 21-0598, the "Vacant Property Enforcement Amendment Act of 2016"

[21] A tax sale is the sale of property by a taxing authority after a period of nonpayment of taxes. In most states, including California, the defaulting party has a redemption period during which he/she may pay the unpaid taxes, interest, and court costs to redeem the property.

[22] Texas House Bill 1289 (2015)

Other Approaches

Many other cities have implemented programs and policies such as those discussed above to stem prolonged commercial vacancies. Some other approaches identified in our review of practices elsewhere include creating incentives for property owners to rent their spaces for temporary uses such as pop-ups, incubator spaces, or community-oriented uses, additional support for property owners in navigating municipal permitting and other requirements, and placing vacant property databases online, along with a portal for the public to report new vacancies.

Policy Options

The Board of Supervisors could consider the following options to address commercial vacancies.

1. **The Board of Supervisors could enhance funding for the City's existing small business loan programs to assist property owners in leasing their vacant properties.**

   One of the components of OEWD's upcoming Neighborhood Commercial District Retail Trends Study will be an analysis of the costs and challenges for retail businesses in the City. The Board of Supervisors could consider enhancing funding for existing small business loan programs, such as OEWD's Small Business Revolving Loan Fund and Emerging Business Loan Fund, or other related City programs depending on the findings of the study and particularly target services and solutions to prolonged vacancies for owners of existing vacant properties and/or those at risk of becoming vacant.

2. **The Board of Supervisors could request that the Planning Department and Planning Commission consider and report back on possible Zoning and Planning Code changes that allow for more flexible use of commercial spaces or reducing the size of commercial spaces, especially on the ground floor, including allowing such space to be used for housing.**

   The Planning Commission recently approved new Planning Code legislation to make it easier to open childcare Citywide such as on the ground floor of commercial buildings without conditional use permits or notifications otherwise required in neighborhood commercial districts. The Board of Supervisors approved these changes in July 2017 and may want to continue supporting further changes to allow for other uses.

3. **The Board of Supervisors could suggest that DBI improve outreach on the Vacant Building and Commercial Storefront registration requirements and reduce barriers to reporting vacant commercial properties by the public and**

City agencies such as through creation of online portals for the public to report vacant buildings and storefronts.

The Board of Supervisors could request that DBI conduct outreach on the Vacant Building and Commercial Storefront registration and fee requirements as well as ways to report vacant or abandoned properties to neighborhood and merchant organizations, particularly in areas that currently have few reported properties on the DBI registries such as the Mission and Chinatown.

The Board could also request that OEWD incorporate outreach on registration requirements for vacant or abandoned properties and reporting as part of its work with commercial corridors in the Invest in Neighborhoods Initiative. Additionally, the Board could request that OEWD report vacant commercial storefront spaces to DBI when department staff survey commercial corridors to calculate vacancy rates. According to the Director of Policy and Planning at OEWD, referring vacant properties to DBI could strain relationships with property owners in commercial corridors, and the Department relies on good relationships with property owners to accept assistance from OEWD in their efforts to attract businesses to the corridors.

The Board could consider amending the fee structure (as discussed below) to charge property owners who self-report their vacant property a lower annual fee compared to property owners whose vacant properties are referred to the registry by complaint. This would allow OEWD to inform property owners that they are required to register their properties with DBI under the ordinance, and OEWD could provide the list of vacant properties to DBI 30 days after the staff survey to give property owners a chance to self-report.

Finally, the Board may want to consider requesting that 311 Customer Services Center add an option to the Blight Issue matrix that would allow a 311 caller to report vacant or abandoned properties and generate a referral to DBI.

4. **The Board of Supervisors could amend the Vacant or Abandoned Building Registration Ordinance and the Vacant or Abandoned Commercial Storefront Ordinance to raise fees and penalties, particularly for non-registrants or properties with extended vacancies to serve as an incentive for property owners to: 1) self-report their vacant properties as required by the subject ordinances, and 2) cause their properties to be occupied. Such fee and penalty increases would also generate more funding for DBI to cover the costs of enhanced enforcement efforts.**

   The Board of Supervisors could consider strengthening the penalty for non-compliance with the City's Vacant or Abandoned Building/Storefront Ordinances to be consistent with the City of Chicago's penalty fee of up to

$1,000 per day for every day that the building owner fails to comply with registration enforcement proceedings.

The Board of Supervisors could also consider changing the fee structure to encourage property owners to self-report. The City of Chicago charges property owners who self-report a lower annual fee compared to property owners whose properties are referred to the registry by complaint.

5. **The Board of Supervisors could request that, in combination with improving identification, reporting, and monitoring of vacant properties, DBI leverage HUD data to identify areas that have high commercial vacancy rates and proactively track changes in those areas over time.**

DBI could request USPS vacant address data from the U.S. Department of Housing and Urban Development (HUD) to be used as a tool in combination with improved identification, reporting, and monitoring of vacant properties. USPS shares vacancy data with HUD on a quarterly basis, and HUD provides census tract level vacancy data to governmental and non-profit organizations for free. The dataset includes the number of vacant residential addresses as well as the number of vacant business addresses, which include individual offices as well as retail, in each census tract. DBI could use this data to identify areas that have high commercial vacancy rates and track changes in these areas over time.

6. **The Board of Supervisors could request that DBI make Vacant Building and Commercial Storefront registries publicly available.**

DBI reports that it does not currently make its vacant building and commercial storefront registries publicly available to deter individuals looking for break-in opportunities based on advice from the Police Department. However, Washington, D.C. publishes its registry of blighted and vacant buildings on a biannual basis, and the City of Chicago publishes a list of vacant and abandoned buildings reported via 311 (but not the full registry). The Board of Supervisors could request that DBI similarly make the vacant or abandoned building and storefront registries publicly available or publish a list of abandoned building complaints through the City's Open Data platform. However, this may require that DBI maintain the registries in a database rather than manually via Excel spreadsheets.

The Board of Supervisors could also request that DBI provide a portal on its website to allow the public to submit vacant property information to the Department online.