

Small and Mighty

How small businesses can reinvent
downtown San Francisco



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Executive Summary

Small businesses are treasured community assets and provide pathways to economic security for many Black, Indigenous, Latinx, and Asian entrepreneurs and their families. Today, small businesses in San Francisco face multiple challenges: a notoriously complex regulatory environment, rising costs, and a slow economic recovery from the COVID-19 pandemic. The challenges are even more acute for small businesses in downtown San Francisco, where foot traffic remains lower than before the pandemic. In the last three years, the city, civic leaders, and nonprofit organizations have taken steps to help small businesses succeed, but much more needs to be done.

SPUR explored the existing regulatory and economic environment in San Francisco to highlight policy solutions that could help small businesses succeed and grow in the downtown area. The research included a review of academic reports and literature related to small business recovery efforts in San Francisco, as well as interviews with city staff, small business owners and operators, business advocacy groups, and nonprofit organizations that assist small businesses. We identified seven interventions that would support the small business sector in San Francisco. They include expanding small business assistance programs and making them permanent, eliminating licensing fees and reducing registration fees for small businesses, providing more transparency and technical assistance for permitting, consolidating the activities of community benefit districts to maximize their impacts, expanding funding and staffing for programs that lease vacant spaces to entrepreneurs, and pursuing creative public financing strategies that enable the activation of ground-floor spaces by small businesses.

Introduction

San Francisco's small businesses are an essential part of the city's economy, providing pathways to economic security for many Black, Indigenous, Latinx, and Asian entrepreneurs. In addition to employing about 360,000 workers, San Francisco's small businesses also play a pivotal role as community anchors. Small businesses often serve as hubs for the community, activate street life, and form the backbone of the city's cultural districts.

While small businesses faced challenges before the COVID-19 pandemic, the disruptions caused by the shelter-in-place orders in 2020 — combined with a notoriously complex regulatory environment, the rising cost of labor and goods, and a slow economic recovery — have exacerbated conditions for entrepreneurs in San Francisco.

The challenges are even more acute for small businesses in downtown San Francisco. Downtown still has not recovered the office and visitor customer base that supported retail, restaurant, and personal service businesses. As a result, small businesses downtown are grappling with higher operating costs and shrinking revenues. At the same time, the increase in vacancies downtown could allow the city to incubate and grow small businesses.

SPUR explored the existing regulatory and economic environment in San Francisco to highlight policy solutions that could help small businesses succeed and grow in the downtown area. The research included a review of academic reports and literature related to small business recovery efforts in San Francisco in the wake of the COVID-19 pandemic. To round out the secondary research, SPUR interviewed city staff, small business owners and operators, business advocacy groups, and nonprofit organizations that assist small businesses. Through these research methods, SPUR identified critical challenges faced by small businesses and pinpointed the types of policies that would support and revive the small business sector in San Francisco.

The Pandemic's Toll on Small Businesses

The COVID-19 pandemic was a perfect storm for the financial health of small businesses, which were hit with increased costs due to inflation and workplace safety requirements.¹ In addition, many small businesses faced declines in sales due to sheltering in place and the rise of remote and hybrid work, which reduced foot traffic for brick-and-mortar shops.

The effect of hybrid work is more apparent in San Francisco than in most other cities; in January 2023, 30% of San Francisco job openings were partly or wholly remote, compared with a national average of less than 12%.² At the end of 2021, San Francisco had 6.5% fewer business establishments than it did in 2019, the steepest decline of any large American city.³

In response to a San Francisco Office of Small Business survey, 87% of small business operators reported a negative financial impact due to the pandemic. This impact compromises the economic security of entrepreneurs and their employees. In a survey, SF New Deal — a nonprofit that provides micro-grants to small businesses, primarily people of color, immigrants, women, and LGBTQ+ owners and operators of businesses with fewer than five employees — found that two-thirds of its grantees earned less than \$25,000 in 2020. Many entrepreneurs were forced to choose among keeping up with rent, paying workers, raising prices, facing personal bankruptcy, and closing the business.⁴

Studies have found grave disparities based on industry sector, location, and business owner race or ethnicity in the economic impacts on San Francisco's small businesses.

Businesses relatively reliant on in-person activity have been more severely impacted than businesses less reliant on in-person activity. The former include businesses in industry sectors such as administrative support, construction, and arts and entertainment.⁵

Impacts vary significantly by location, with the Financial District among the city's hardest-hit areas. A national study by JPMorgan Chase on the pandemic's effects on brick-and-mortar retail found that downtowns were more likely to experience business closures, whereas

¹ There is no universal definition of what qualifies as a small business. The Small Business Administration sets size standards for what qualifies as a small business based on industry sector, number of employees, and gross receipts. The City of San Francisco's Office of Small Business serves businesses with 100 or fewer full-time employees. The Office of the Treasurer & Tax Collector provides tax exemptions for small businesses, defined as establishments with combined taxable gross receipts of up to \$2.19 million.

² Adriana Rezal, "The New Normal Is Hybrid: How S.F. Compares with Other Cities in Offering Remote Work," *San Francisco Chronicle*, March 17, 2023, <https://www.sfchronicle.com/sf/article/remote-work-job-employer-17838890.php>.

³ Chris Wheat, James Duguid, Lindsay Relihan, and Bryan Kim, "Downtown Downturn: The COVID Shock to Brick-and-Mortar Retail," JPMorgan Chase Institute, January 2023, <https://www.jpmorganchase.com/institute/research/cities-local-communities/downtown-downturn-covid-shock-to-brick-and-mortar>.

⁴ SF New Deal, *Current and Future Challenges: The Small Business Landscape in San Francisco*, July 2022, <https://sfnewdeal.org/survey>.

⁵ San Francisco Office of Small Business, *Recovery Challenges of Small Businesses in SF: Results from the 2022 Survey*, February 27, 2023, <https://www.sf.gov/sites/default/files/2023-03/SF%20Small%20Business%20Recovery%20Survey%20Feb%2027%202023%20PDF.pdf>.

Downtown shopping areas like Union Square and Mid-Market have been harder-hit than other neighborhoods in the city, with vacancy rates estimated at 40% for ground-floor retail spaces.

Photo by Sujata Srivastava



residential neighborhoods with more people working from home experienced growth in business establishments.⁶ In other words, the spending employees used to do near their workplaces is now happening near their homes. Local data support these findings, showing that business closures and ground-floor vacancy rates for retail spaces are much higher downtown than in the city's other commercial districts.

The pandemic has financially impacted Black and Latinx business owners more than white business owners. Black-owned businesses had much higher revenue losses than white-owned businesses during the pandemic. Nationally, Black business owners' earnings dropped 11% to 28%, compared with 2% to 15% for white business owners.⁷ In San Francisco, one in five Black-owned businesses reported a potential permanent closure of their business during the pandemic.⁸ These disparities in impacts can be partly attributed to the fact that Black and Latinx entrepreneurs often lack ready access to capital. In a survey of small business owners in neighboring Oakland, the Greenlining Institute found that only 18% of Black and Latinx business owners have received bank loans and that Black entrepreneurs have about one-third of the start-up capital of white entrepreneurs.⁹

⁶ See note 3.

⁷ Robert Fairlie, *The Impacts of COVID-19 on Racial Disparities in Small Business Earnings*, U.S. Small Business Administration Office of Advocacy, August 2022, https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary_COVID-and-Racial-Disparities_508c.pdf.

⁸ Anoshua Chaudhuri, Cynthia Huie, Manpreet Kaur, and Adam Young, *Impact of COVID-19 on Small Businesses in San Francisco*, May 28, 2021, https://sfosb.org/sites/default/files/documents/SBC/Covid%20Impact%20Final%20Report%20with%20Survey_May%2028%202021.pdf.

⁹ Mercedes Gibson and Julia McCotter, *The People of Color Small Business Network: 2021 Impact Report*, Greenlining Institute, November 2022, <https://greenlining.org/publications/people-of-color-small-business-network-impact-report-2021/>.

Small Business Challenges

Some obstacles that small businesses face, such as staffing challenges and supply chain disruptions, are mostly beyond the control of city government. Based on a literature review and interviews with San Francisco's small business owners and operators, SPUR identified three significant roadblocks that could be addressed in the short term through public policy solutions.

Lower sales due to high vacancies and declining foot traffic

The reduced number of people working in offices has ripple effects on suppliers, retail stores, and restaurants now serving a much smaller daytime population. Many small businesses have closed, creating high vacancies on the ground floor of buildings in the downtown area. According to business associations and retail brokers, the ground-floor vacancy rate in January 2024 was 30% in the Financial District and 40% in the Union Square and Mid-Market areas.

After operating for 32 years in SoMa, Alexander Book Company closed its doors, citing insufficient foot traffic from office workers to support sales.

Photo by Sujata Srivastava



Between March 2020 and February 2023, the Financial District had nearly twice as many closures as openings, with 4,317 businesses shuttering and 2,245 businesses opening.¹⁰ By comparison, the Bayview–Hunters Point neighborhood had a gain in businesses, with 1,400 business openings and 947 closures.¹¹

Commercial property owners and small business advocacy groups expressed a need for more special events to activate downtown and bolster foot traffic for their businesses. Other stakeholders called for an increase in residents downtown to support small businesses. Office-to-residential conversions and new ground-up housing development could meet this need.

GCS opened a pop-up gallery in Jackson Square to occupy a previously vacant storefront as part of the city's Vacant to Vibrant program.

Photo by Sujata Srivastava



¹⁰ Kevin Truong, "SF Businesses Are Bouncing Back—At Least in Some Neighborhoods," *The San Francisco Standard*, March 16, 2023, <https://sfstandard.com/2023/03/16/sf-businesses-are-coming-back-to-life-at-least-in-some-neighborhoods/>.

¹¹ Ibid.

Small businesses and nonprofits assisting entrepreneurs also shared that although commercial office and retail vacancies are increasing, many property owners have been unwilling to negotiate favorable lease terms, demanding rents nearly equivalent to pre-pandemic values. Similarly, property owners and brokers have indicated that, given current construction costs, it has become infeasible to finance tenant improvements and other upgrades required to lease their spaces.

To help address the growing problem of ground-floor vacancies, the Office of Economic and Workforce Development, in partnership with SF New Deal, launched the Vacant to Vibrant program in 2023 to temporarily bring small businesses, arts, and nonprofits into unleased spaces. SF New Deal matches property owners with tenants, providing small grants and technical assistance to the tenants and property owners to help cover the expense of improving the spaces. However, the grants are modest, at up to \$8,000 for tenants and up to \$5,000 for property owners, and they do not cover the cost of significant improvements, code compliance, utilities, and other needs.

Inadequate street cleanliness and public safety

In local surveys, small business owners have expressed concerns about cleanliness and safety in the city, reporting frequent incidents of vandalism, shoplifting, and disruptive street behavior. In its 2022 survey, the San Francisco Office of Small Business found that 39% of businesses had experienced public safety concerns due to street behavior, 34% had experienced graffiti or vandalism, and 20% had experienced shoplifting or retail crime (see Exhibit 1).¹² These crime and safety concerns raise business costs because business owners must spend more money on maintaining security, repairing damage, and replacing inventory lost to theft. In addition, 32% identified “dirty and smelly streets” as their biggest challenge.¹³

EXHIBIT 1

Public Safety and Other Challenges Faced by San Francisco’s Small Businesses

In the survey, small businesses reported frequent incidents of vandalism, shoplifting, and disruptive street behavior.

Source: San Francisco Office of Small Business, 2022 *Small Business Survey on Economic Recovery*, May 4, 2023, <https://www.sf.gov/reports/may-2023/2022-small-business-survey-economic-recovery>.

	NUMBER OF RESPONSES	PERCENT
Increased public safety concerns as a result of disruptive street behavior	315	39%
.....		
Graffiti/vandalism	274	34%
.....		
Shoplifting/retail crime	161	20%
.....		
None of the above	109	14%
.....		
Regulatory or licensing/permitting challenges	81	10%
.....		
Legal challenges/lawsuits related to the Americans with Disabilities Act	49	6%

¹² San Francisco Office of Small Business, 2022 *Small Business Survey on Economic Recovery*, May 4, 2023, <https://www.sf.gov/reports/may-2023/2022-small-business-survey-economic-recovery>.

¹³ Ibid.

The city has limited resources available for street cleanup and graffiti removal downtown. The pilot graffiti abatement program, which allows businesses in neighborhood commercial districts to request that the Department of Public Works remove graffiti, is not available for downtown properties. However, four downtown areas have established community benefit districts (CBDs), city-sponsored organizations funded by assessments from business and property owners, that have successfully deployed their resources to provide “clean and safe” programs, which include street cleaning, graffiti abatement, and public safety ambassadors. Areas of the downtown core, including the Theater District and portions of SoMa, have no designated CBD and lack these services.

In May 2024, the San Francisco Planning Department invited the Urban Land Institute Advisory Services Panel to develop policy solutions to revitalize the downtown core. One of the key recommendations was for the four existing CBDs to coordinate or consolidate to increase their funding capacity and optimize service delivery for the downtown area. Combining resources could enable the CBDs to access new financing sources to make bigger investments downtown.

Complex and costly regulatory system

San Francisco has long been known for its lengthy and complex business permitting, licensing, and approvals process. A 2022 Arizona State University study that scored North American cities on the ease of operating small and medium-sized businesses ranked San Francisco 78 out of 83.¹⁴

Starting a business in San Francisco involves navigating complex bureaucratic processes that often stretch far beyond public health and safety concerns. Compliance with local rules consumes capital and time, which are precious resources for any entrepreneur. Moreover, San Francisco has more than 200 business license categories, making it confusing for entrepreneurs to understand what is required.¹⁵

Certain categories of businesses require multiple licenses and permits (see Exhibit 2). Opening a barbershop requires 45 steps involving nine government agencies.¹⁶ A new restaurant must go through 61 steps involving 11 local agencies.¹⁷ Although the process should be relatively easy for businesses with a low barrier to entry, such as home-based businesses and food trucks, zoning regulations are often very restrictive. Many aspiring entrepreneurs get lost in this convoluted mesh of regulations and cannot afford to hire permit expeditors to speed up the process.

¹⁴ Arizona State University Center for the Study of Economic Liberty, *Doing Business North America—2019 Report*, 1st edition, page 12, <https://dbna.asu.edu/reports/2019>.

¹⁵ Andrew Meleta and Alex Montgomery, *Barriers to Business: How Cities Can Pave a Cheaper, Faster, and Simpler Path to Entrepreneurship*, Institute for Justice, February 2022, <https://ij.org/wp-content/uploads/2021/12/Barriers-to-Business-WEB-FINAL.pdf>.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

EXHIBIT 2

The Cost of Starting Up a Business in San Francisco
Starting a business is more complex and expensive in San Francisco than in any other large U.S. city. Restaurants incur the largest fees and most hassles. Even a food truck operator must take 44 steps to obtain all the required permits and licenses.

Source: Andrew Meleta and Alex Montgomery, *Barriers to Business: How Cities Can Pave a Cheaper, Faster, and Simpler Path to Entrepreneurship*, Institute for Justice, February 2022, <https://ij.org/wp-content/uploads/2021/12/Barriers-to-Business-WEB-FINAL.pdf>.

BUSINESS TYPE	START-UP COST	NUMBER OF FEES	NUMBER OF AGENCIES INVOLVED	MINIMUM IN-PERSON ACTIVITIES	NUMBER OF FORMS	NUMBER OF STEPS
Restaurant	\$22,648	17	11	9	12	61
Bookstore	\$12,049	9	5	3	7	34
Food truck	\$3,207	13	7	6	16	44
Barbershop	\$14,305	16	9	5	9	45
Home-based tutoring	\$164	2	4	0	3	7

In the last four years, San Francisco has passed new legislation and initiatives to help small businesses. In 2020, voters approved Proposition H, which expedited permit reviews for many types of businesses. That same year, the city opened its One-Stop Permit Center to provide a more customer-oriented experience for business owners. In 2022, the Office of Small Business hired two specialists to staff the Permit Center. The specialists provide technical assistance and direct business owners to available resources. The Department of Building Inspection launched a team of ambassadors dedicated to assisting small businesses with permitting and inspections. In January 2024, the city updated its planning code to remove even more barriers to approvals and permitting for small businesses. Although these reforms have made process improvements, permitting and licensing remain complex and cumbersome, mainly due to the number of steps required and a lack of coordination among agencies.¹⁸

Burdensome regulations can impose a substantial financial penalty on small businesses, especially startups. The city has a progressive business tax structure that exempts 85% of small businesses.¹⁹ However, the city's registration and licensing fees disproportionately burden small businesses. In a study comparing 20 cities, San Francisco ranked as the most expensive place to launch a new business.²⁰ The average permitting cost to open a business in San Francisco in 2022 was estimated at more than \$10,000.²¹ Start-up costs were highest for restaurants, estimated at approximately \$23,000 in 2022. If business owners are late paying their fees, the city imposes penalties that can increase the bill by 25%.²²

To assist new entrepreneurs in San Francisco, the city established the First Year Free program, which waived certain license, registration, and permit fees for new and expanding businesses with

¹⁸ City and County of San Francisco 2022-2023 Civil Grand Jury, *Taking Care of Business: San Francisco's Plan to Save Its Small Businesses*, June 21, 2023, https://civilgrandjury.sfgov.org/2022_2023/2023%20CGJ%20Report_Taking%20Care%20of%20Business%20-%20San%20Francisco's%20Plan%20to%20Save%20its%20Small%20Businesses_062123.pdf.

¹⁹ The City of San Francisco exempts establishments with gross receipts of less than \$2.19 million from the gross receipts tax.

²⁰ See note 15.

²¹ See note 15.

²² See note 15.

ground-floor storefronts and gross receipts of up to \$2 million. According to the Office of Small Business, more than 5,700 firms have enrolled in the program, which has saved small businesses \$2.38 million in fees.²³ The program began in 2021 and was recently expanded to all new businesses with gross receipts of up to \$5 million and extended to June 30, 2024. The city also launched the Dream Keeper Initiative. Led by the Human Rights Commission, the initiative provides grants to community-based organizations that advance Black entrepreneurship.²⁴

In February 2024, the Office of the Treasurer & Tax Collector and the Office of the Controller released a report recommending the elimination of \$10 million in licensing fees, which are disproportionately paid by small businesses, especially restaurants and bars.²⁵ In addition, the report recommended reducing business registration fees and expanding the small business exemption to firms with gross receipts of up to \$2.5 million.²⁶

Small business owners, especially people of color, are much less likely to have access to working capital for their day-to-day operations. Most banks and community development financial institutions will provide low-interest loans only for equipment and capital expenses. To address this gap, in 2023, the Office of the Treasurer & Tax Collector and the City Administrator's Office established a new partnership with lenders to create more flexible loan products for established business owners needing affordable loans for working capital. Many of these lenders seek to serve businesses owned by generally underserved populations in the banking industry: women, Black, Latinx, Indigenous, LGBTQ, and military veteran entrepreneurs.

²³ San Francisco Office of Small Business, *Annual Report: FY 2022-23*, https://www.sf.gov/sites/default/files/2024-01/OSB%20FY22-23%20Annual%20Report_0.pdf.

²⁴ HR&A Advisors, *The Impact of San Francisco's Dream Keeper Initiative: Two Years of Progress*, May 10, 2023, <https://static1.squarespace.com/static/60de9be61948f62b49a57ef5/t/6501fa3700873e1b5fd6daed/1694628408891/DK+Progress+and+Impact+in+the+First+Two+Years+2023+%28%29.pdf>.

²⁵ San Francisco City and County Office of the Treasurer & Tax Collector and Office of the Controller, *Recommended Reforms to the Business Tax System*, February 5, 2024, <https://www.sf.gov/sites/default/files/2024-02/Recommended%20Reforms%20to%20the%20Business%20Tax%20System%202.5.24.pdf>.

²⁶ Ibid.

Scaling Solutions for Small Businesses

Many strategies that the city and its partners have pursued to support small businesses through the pandemic have been effective and should be expanded. The city could further assist small businesses to succeed downtown through seven additional interventions:

- 1. Make the First Year Free program permanent for businesses located downtown.**
- 2. Adopt the recommendations from the Office of the Controller and the Office of the Treasurer & Tax Collector to eliminate licensing fees and reduce registration fees for small businesses.**
- 3. Continue to annually evaluate regulations and fees on small businesses to identify potential barriers and change the planning code as needed.**
- 4. Create more transparent application processes for new businesses to improve the permitting process.** Entrepreneurs often need clarification on what is required to obtain permits because the materials provided by city departments can be confusing. Staff at the Permit Center should be empowered to “triage” applications to make it easier for entrepreneurs to obtain permits. In addition, staff should be directed to help business owners find solutions when problems arise and to route applications through the complex process, enabling small businesses to navigate the system without hiring professional expeditors.
- 5. Enhance coordination of CBDs to maximize their resources, thereby extending their efforts beyond clean and safe programs to event programming and marketing.**
- 6. Expand funding and staffing for efforts like the Vacant to Vibrant program.** These efforts should involve city departments, CBDs, property owners, and brokers in matching spaces to potential tenants.
- 7. Pursue creative public financing strategies that enable adaptive reuse of ground-floor spaces by small businesses.** The crisis downtown requires stronger collaborations between the public and private sectors to fill vacant spaces. The city should explore the creation of new financing tools to acquire vacant buildings and lease them to small business incubators. The city could leverage its own properties, such as parking lots and underused buildings, to create low-cost spaces for artists and entrepreneurs of color — a strategy exemplified by Kapwa Gardens in SoMa and the Bayview Makers Kitchen on the Third Street corridor.

SPUR continues to conduct policy research to advance implementation of these strategies in partnership with the city, small businesses, and stakeholders.



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