

# Updating the San Francisco Economic Strategy

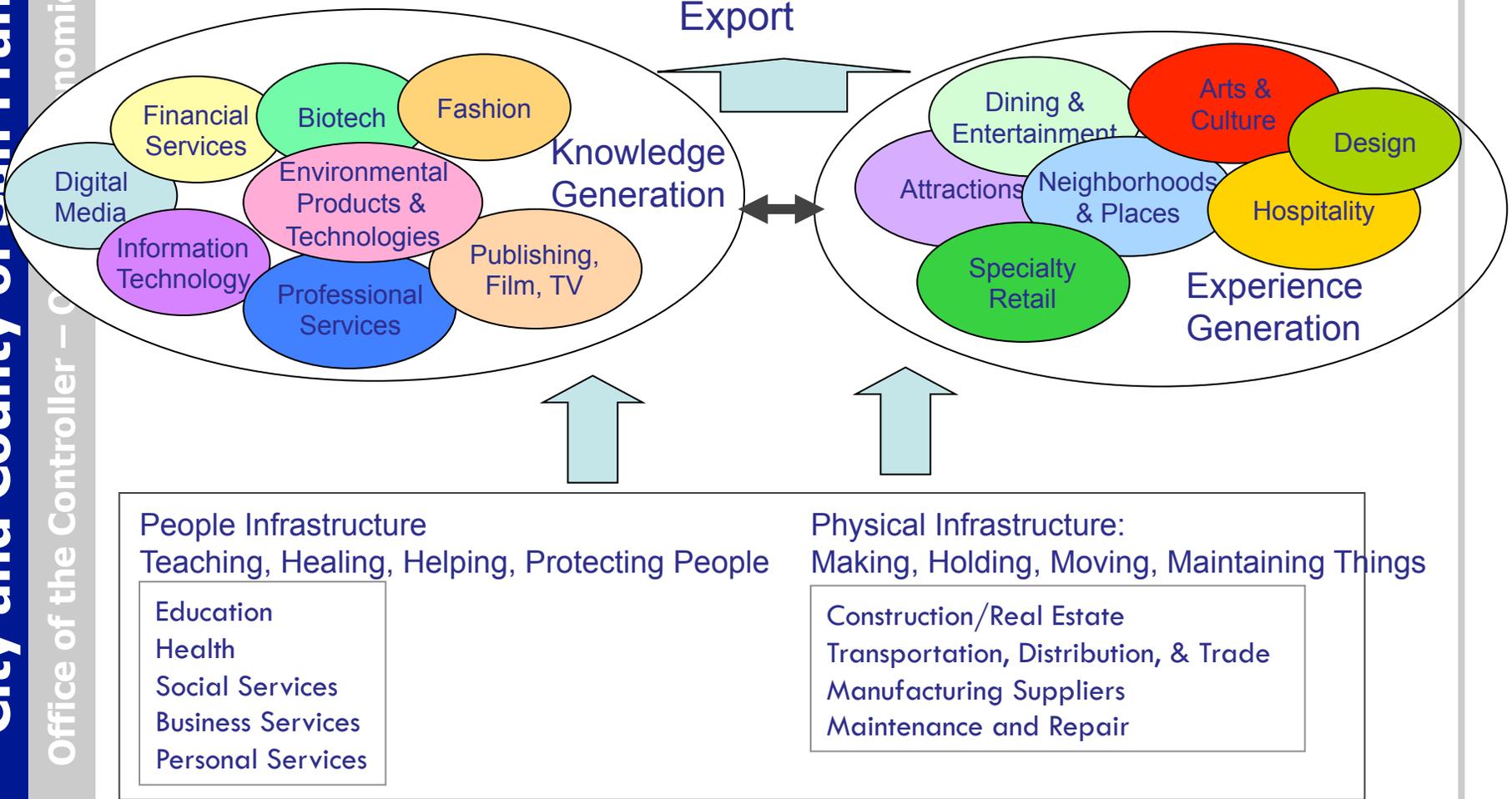
Ted Egan, Chief Economist  
Office of Economic Analysis  
May 17, 2011



## Background

- Authorized by the voters with Proposition I in 2004.
- Provide a comprehensive analysis and way forward for the San Francisco economy – "a general plan for the economy".
- Research conducted by a team of consultants in 2006 and early 2007.
- Final report released by the Mayor's Office in November, 2007.

# Economic Drivers: An Economy Driven by Knowledge and Experience



## Focus on Economic Foundations

- Align workforce and strategic industries
- Getting the local business tax right
- Supporting entrepreneurs and the city's small business economy
- Make land use decisions that promote the strategy objectives
- Use quality of life, procurement, infrastructure, and technology investments strategically.

The Strategy includes both broad goals, and detailed recommendations, for moving these economic foundations in the right direction.

## Impact of the First Strategy

- The 2007 Strategy filled a void in City government:
  - First City document to focus on the real structure of San Francisco's economy, growth drivers, and barriers.
  - Used across the City as a reference for economic policy.
- On the other hand:
  - Document was never acted on by the Board of Supervisors.
  - Recommendations were high-level, not translated into departmental policy in most cases.
  - No cost-benefit or prioritization of initiatives.

## Goals for the Strategy Update

- More prescriptive
- More focused on impacts City government can have
- Better linked to existing city strategies
- Better tied to policy debates across a range of issues.

## The City's Economic Context

- San Francisco's private sector economic performance – measured by GDP, payroll, or jobs—has not matched the Bay Area pace.
- *This is particularly true* for those activities that the City's economic policy prioritizes – those that pay a middle-income, living wage.
- Thus, the competitiveness of San Francisco, as a business location, relative to other Bay Area locations, is a vital concern for the City's economic policy.

## An Illustration

- The City's employment at its 2008 peak was less than its employment in 1981.
- Since 1980, San Francisco has declined from 40% to 23% of the Bay Area's office-using employment base.
- Nevertheless, even if San Francisco had only maintained its share of the office-using employment that could locate anywhere in the Bay Area, the City would have nearly 130,000 more jobs today.

## “Value-Added Factors” Drive the Bay Area’s Global Competitiveness

- The Bay Area offers businesses an extraordinary set of value-added advantages that other regions cannot match.
  - Educated workers
  - Academic and Private R&D
  - Venture and Angel capital
  - Global talent center
  - Support for start-ups
  - Quality of life
- But:
  - Local governments didn’t build these advantages
  - Businesses can tap them from any city in the Bay Area.

# Cost Factors in San Francisco's Regional Competitiveness

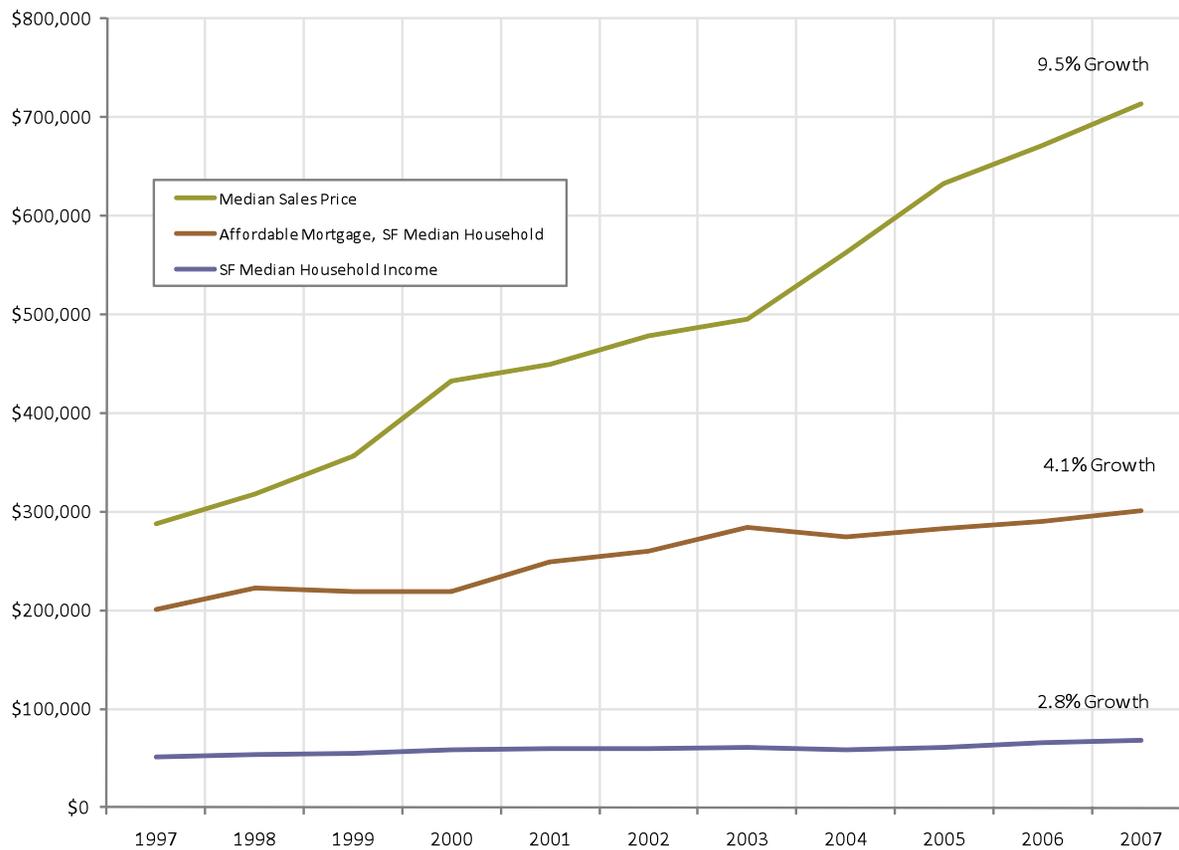
- Business costs in San Francisco seem to be higher for:
  - Labor
  - Commercial rent
  - Local taxes and fees
- Higher costs likely explain San Francisco's weak economic performance relative to its neighbors – despite the value advantages.
- The City can do little to build the "value added" advantages and grow the economy that way.
- But it can do more to reduce the cost differentials of a San Francisco location – and capture a greater share of the Bay Area's growth in that way.

## An Example: Labor Costs and Housing

- Labor costs drive the city's competitiveness as a business location in the Bay Area.
  - Two-thirds of a typical business's expense is labor costs.
- Housing drives labor costs.
  - Housing costs are 38% of consumer spending in the Bay Area.
  - SF housing prices are the highest in the region.
- Consequently:
  - Average wages are 8% higher in San Francisco than the rest of the Bay Area
  - San Francisco is the slowest-growing job center in the Bay Area.

# Despite High Rates of Housing Development, Things Got Worse During the Bubble...

Anatomy of a Bubble:  
Household Income, Borrowing Capacity, and Housing Prices, 1997-2007

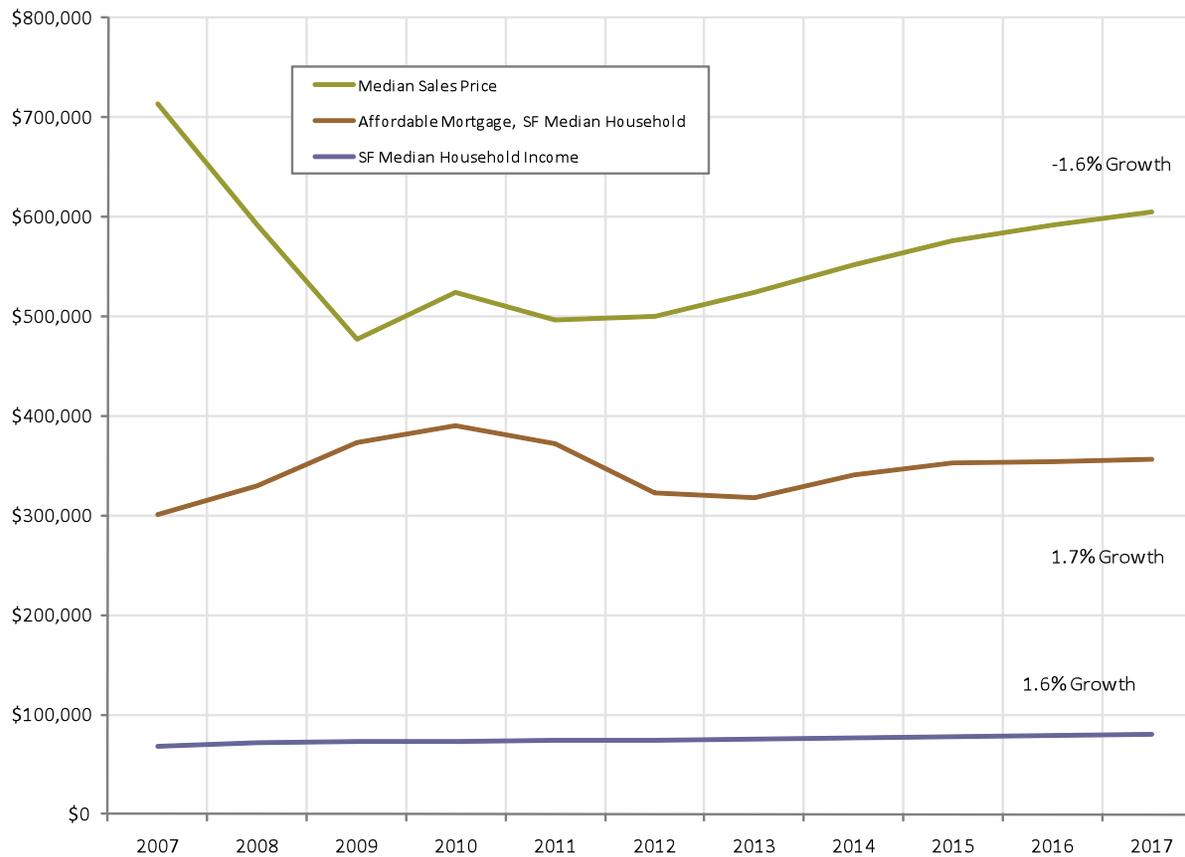


Source: Moody's Analytics



# ... Prices Alone are Unlikely to Generate a Return to Robust Development Soon...

The Aftermath:  
Projections, 2007-2017

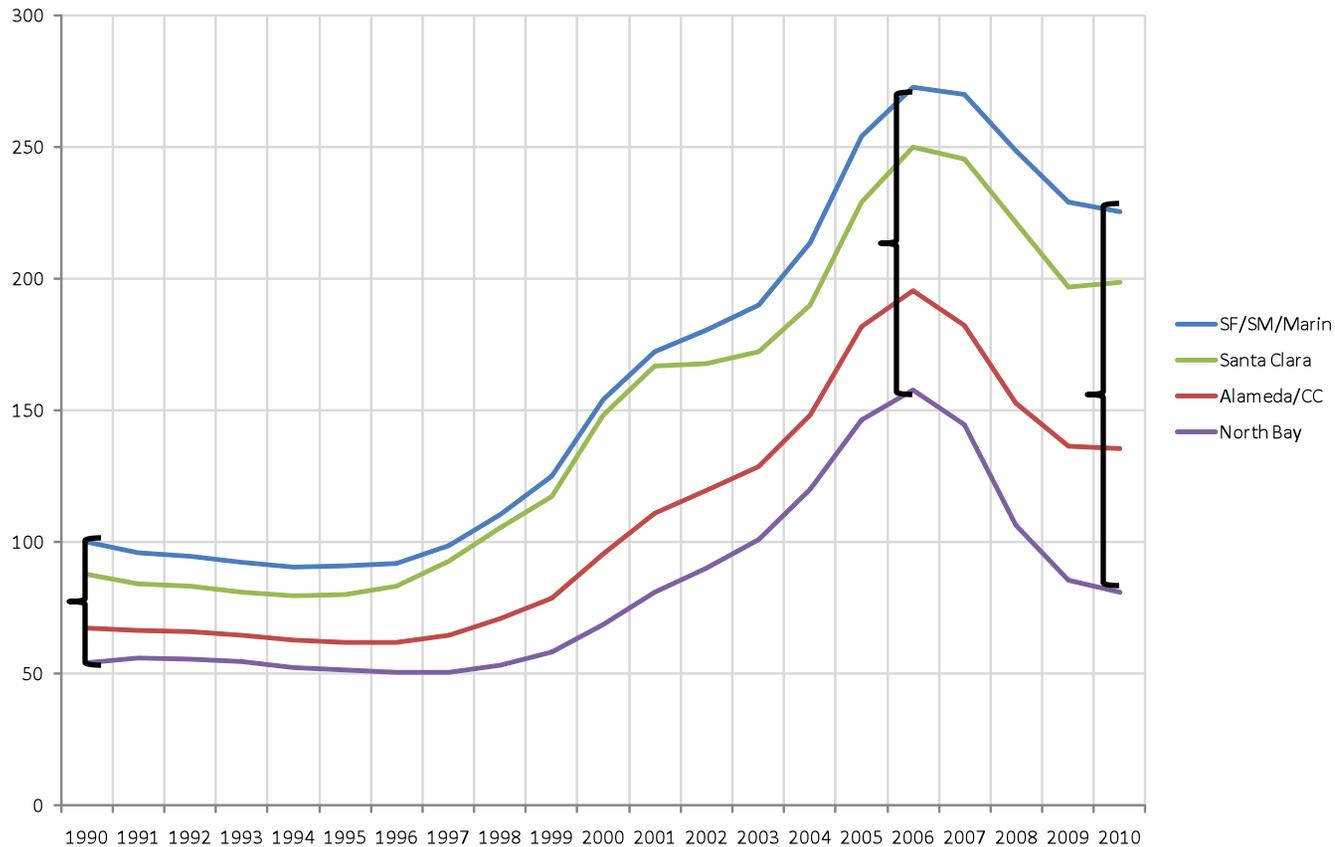


Source: Moody's Analytics



# ...Yet the Gap Within the Region Has Widened and Will Likely Get Worse

OFHEO Housing Price Indices - Bay Area MSAs, 1990-2010  
(SF/SM/Marin 1990 = 100)



Source: Federal Housing Finance Agency



## Implications

- Despite today's "affordable" housing – San Francisco's labor cost premium is likely getting worse, because housing has become even cheaper in suburban areas.
- Unfortunately, given depressed prices for the foreseeable future, private construction is unlikely to increase any time soon.
- This means the way the City has chosen to regulate housing production will have ongoing implications for wages, labor costs, and San Francisco's competitiveness as a business location.
- Housing is just one example – albeit a very important one – of how the City's actions in a specific policy area have broader economic implications.
- The strategy update will look to inform policy debates in each of these areas.