Redevelopment in the Central Market and Tenderloin:

Displacement risks or new opportunities for nonprofits & small businesses?

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I. INTRODUCTION

The Central Market and Tenderloin neighborhoods of San Francisco have struggled with persistent vacancies, physical blight and underinvestment for decades. Two efforts have recently sought to address this: the Central Market Economic Strategy (CMES) and the Central Market Street and Tenderloin Area Payroll Expense Tax Exclusion Ordinance ("the ordinance"). The former is the product of a broad community-engagement process to articulate a framework for redevelopment in the area. The latter is a payroll tax break that was enacted in order to prevent technology company Twitter from leaving the city, and it currently applies to any large company located in the tax exclusion zone.

As in most many other cases, these redevelopment and revitalization efforts have created mixed feelings among residents, small businesses, nonprofits and other community stakeholders. On one hand, many regard the efforts as an opportunity to improve neighborhood conditions by anchoring technology companies and transforming the area into a hub for arts and cultural organizations. On the other hand, many have expressed concern about potential gentrification and displacement. Several years following the initiation of these redevelopment efforts, there is evidence to support both community hopes and fears. Indeed, companies, small businesses, art galleries, coffee shops, and restaurants have opened their doors; commercial vacancies have significantly decreased; and new construction and renovation are underway. However, evidence is emerging that some nonprofits and small businesses have been displaced or are at risk of it.

In response to this emerging evidence, the Tenderloin Neighborhood Development Corporation (TNDC) proposed a research project to students of Professor Karen Chapple's graduate-level course in Local Economic Development in the Department of City and Regional Planning at the University of California, Berkeley. Specifically, the proposal was to research how the small business and nonprofit landscape in the Central Market and Tenderloin has changed over time and to assess evidence of displacement in light of recent redevelopment efforts. This report begins with a discussion of our research questions and approach, which is then followed by background information, data analysis and key findings, and finally recommendations and areas for further consideration.

II. RESEARCH QUESTIONS AND APPROACH

We defined our research study area as the same one specified in the CMES, with the exception being that we only considered the portion north of Market Street. Thus our study area comprises the geographical triangle formed by Van Ness to the west and Geary to the north, with Market Street (between 6th and 11th) forming the hypotenuse. Using a mix of quantitative and qualitative approaches, we sought to answer the following research questions as they pertain to our study area: *How has the small business and nonprofit landscape changed over the last five years? Is there evidence of the displacement of small businesses and nonprofits? How are any changes in the landscape associated with recent redevelopment efforts?* Below we provide more details about each approach and comment on their strengths and limitations.

Quantitative Approach

We used data from the following sources: Dun & Bradstreet National Establishment Time Series (D&B), National Center for Charitable Statistics (NCCS), and CoStar. For our small business research we used D&B data from the years 1990 to 2010, and 2013. D&B licenses self-reported information on millions of companies worldwide and its databases offer details including business type, square footage, and sales volume. We used Standard Industrial Classification (SIC) codes to identify ground-floor retailers as a proxy for identifying small businesses; we used the same SIC codes that the Local Initiatives Support Corporation does to identify such retailers. For our nonprofit research we used NCCS data for the years 2008 and 2012. NCCS provides self-reported information about all "active organizations that have registered for tax-exempt status with the IRS [U.S. Internal Revenue Service]" (NCCS, 2014). Registered nonprofits include all public charities that filed IRS Form 990 or 990-EZ. We also used CoStar data from the years 2006 to 2013. CoStar provides information about commercial vacancies and leasing rates.

Qualitative Approach

Our qualitative methods included a combination of key informant interviews, observations, and document review. We did about 10 interviews, mainly comprising in-person conversations and phone calls ranging from 20 to 60 minutes, though we also gathered information by email correspondence. (See interviewee list in Appendix). We developed our initial list of interviewees based on recommendations from Hatty Lee, a community organizer with TNDC. Hatty provided us with the names of stakeholders who have been actively involved in the nonprofit and small business community in the area and we began by interviewing several of them. Then we identified additional interviewees through snowball sampling – the process of asking key informants for further leads. We loosely structured our interviews, beginning with a set of three to five open-ended questions and then allowing for free-form conversation.

In addition to interviews, we observed two meetings of the Citizens' Advisory Committee for the Central Market and Tenderloin Area (CAC), the group that reviews and provides input on the CBAs required as part of the abovementioned ordinance. We also attended the concluding meeting of the Working Group on Nonprofit Displacement, an ad hoc entity convened by the Mayor's Office of Housing and Community Development (MOHCD). Lastly, we reviewed many documents related to recent redevelopment efforts in the area, including the one-year evaluation results of the CMES, past CAC meeting minutes, final CBAs and progress reports, and relevant national and local media coverage.

Strengths and Limitations of Research Approach

In addition to the limitations described here, we discuss others in the findings section, as relevant. Our quantitative approach was limited by several factors. In the case of NCCS data, the most recent time for which we had data was 2012 and important changes could have occurred more recently than that, especially since redevelopment efforts only really began to take hold in 2011 and 2012. In addition, it was not possible to geocode all the data and we could not analyze such data, so our results do not reflect a complete picture. Also, our data sources are self-reported, which means they are likely incomplete. Self-reporting also contributes to the potential for inaccurate data – for example if respondents define their small business or nonprofit type in a manner that does not agree with that defined by the data source. One obvious limitation of our qualitative approach as it pertains to interviews is that we did not contact a large, representative sample of small businesses and nonprofits, such as might be accomplished with a survey. Our semester-long time constraint did not permit this. However, our focus on longer interviews with key informants produced rich data and allowed us to identify themes for further exploration.

III. BACKGROUND INFORMATION

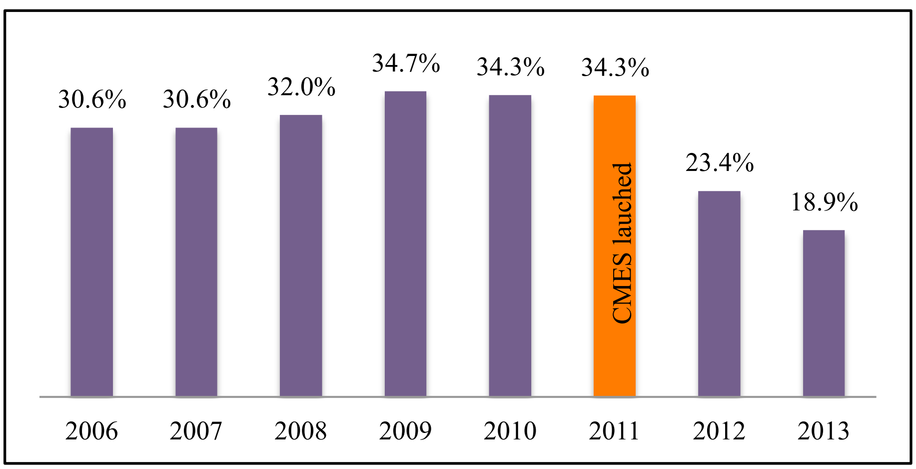
Leading up to the recent redevelopment efforts, the Central Market and Tenderloin area of San Francisco had struggled with persistent vacancies, physical blight, and underinvestment for decades. Further, the area was and is notable for housing and serving much of the city's low-income population. For example, as compared with the city average in 2011, it had three times the percentage of households with an income of less than $15,000 – and some parts had even higher concentrations of poverty (OEWD, p. 14). The Central Market and Tenderloin are also notable for quartering many of the city's nonprofit organizations (OEWD, 2011, p. 20-22).

In an attempt to revitalize the area, Mayors Newsom and Lee have supported two key efforts. The first effort is the Central Market Economic Strategy (CMES), spearheaded by the San Francisco Office of Economic and Workforce Development (OEWD) in 2010. The CMES is a public initiative that began by engaging community members in articulating a framework to guide area redevelopment. The CMES comprises a set of specific objectives and strategies that illuminate stakeholder concerns and desires, but not a concrete path forward. Indeed, the CMES describes itself as an "aspirational document" and notes that at the time of its printing "most of the strategies lack[ed] a specific source of funding or implementation plan" (OEWD, 2011, p. 29).

The second effort – arguably the one with the highest financial stakes and biggest impact – is the Central Market Street and Tenderloin Area Payroll Expense Tax Exclusion Ordinance ("the ordinance"). San Francisco enacted it in April 2011 in response to technology company Twitter's threat to leave the city due to the higher taxes associated with staying – namely the one-and-a-half percent payroll tax which at the time San Francisco was the only city in California to levy (Kopytoff, 2011). The ordinance established a zone in the area in which any company with payroll exceeding a quarter million dollars may exclude new payroll from the tax for a six-year period. As a condition of receiving the tax break, each company must enter into a Community Benefit Agreement (CBA) that outlines "commitments to engage in community activities...and workforce development opportunities" in the area [San Francisco Business and Tax Regulation Code, Article 12-A, Section 906.3].

As anticipated, economic activity in the Central Market and Tenderloin area has increased. As of January 2013, the area was home to 13 new small businesses, six new art venues, and 17 new companies, with sales tax revenues increasing by 21 percent between the end of 2010 and the end of 2012 (OEWD, 2013, p. 10-12). This influx has contributed to the dramatic decrease in commercial vacancies and the attendant increase in commercial rents that have been reported by several sources (OEWD, 2013, p. 10; Budget and Legislative Analyst, 2014, p. 2). Our own research agrees with these findings. As shown in Figure 1, there has been a significant decrease in commercial vacancy rates in the study area in the last few years. From 2006 to 2011 the rate was consistently about 30 percent, as compared to the city-wide average of 13 percent (The Space Place, 2013). Yet from 2011 to 2013 it dropped to 19 percent, while the city-wide average dropped to 10.5 percent.

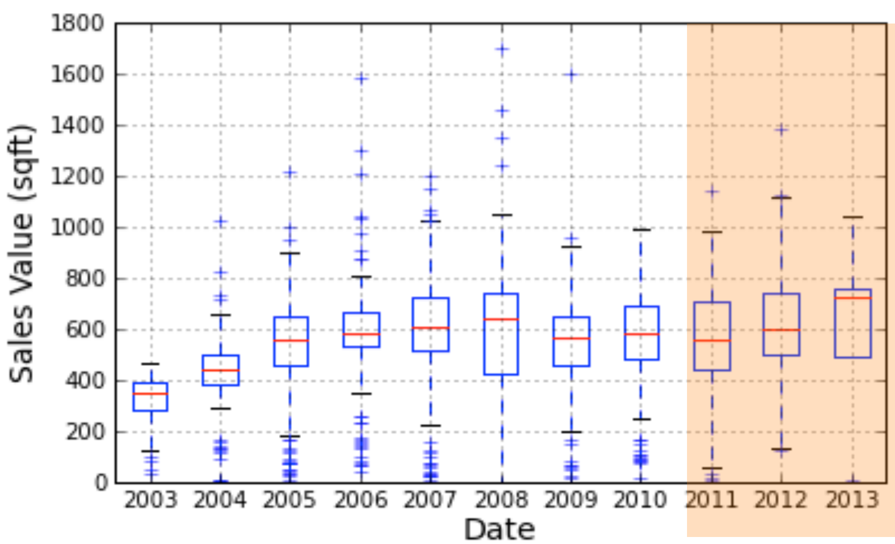
Figure 1. Vacancy rates of commercial real estate in the Payroll Tax Exclusion Zone



Source: CoStar, 2013

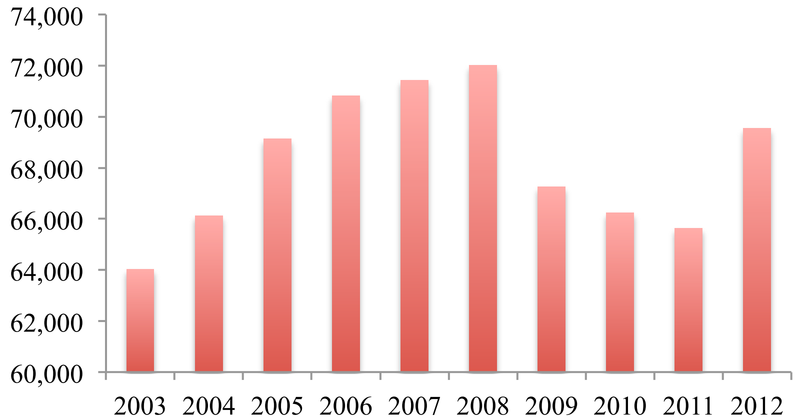
Not surprisingly, the increase in demand for commercial real estate in the study area led to an increase in the real value of commercial property sales. As shown in Figure 2, the median sales value (by total square feet) increased from 2003 to 2008, then decreased with the economic downturn, and finally increased again after 2011. While these fluctuations coincide with economic trends for the San Francisco metropolitan area as a whole (see Figure 3), sales in the study area seem to be surpassing historical trends. Sales in 2013 reached a real median value of 725 dollars per square foot, exceeding all median values since 2003. The box plots in Figure 2 show that while the median sales value increased since 2011, the variability of the data did not, indicating the increase is *not* the result of a few outliers but rather reflects a trend. However, this finding is limited by the fact that our 2013 data only includes information for six commercial establishments. This highlights the need for more robust data and analysis in order to understand changes in the study area.

Figure 2. Box plot with median value of sales per square foot (sqft) in the Payroll Tax Exclusion Zone (chained 2013 dollars)*



Source: Dun & Bradstreet, 2013
*The red lines indicate the median sales value. The blue boxes contain 50 percent of the data points and indicate data variability.

Figure 3. Per capita real Gross Domestic Product by metropolitan area for San Francisco-Oakland-Hayward (chained 2005 dollars)*



Source: BEA, 2013

Our assessment of changes in the Central Market and Tenderloin area support and add to the findings offered by others demonstrating that commercial vacancy rates have decreased and commercial property sales values have increased in recent years. Such changes have accompanied – and are no doubt to some extent attributable to – the recent redevelopment efforts in the study area. What do these changes mean for small businesses and nonprofits in the area? Do they lead to displacement or other challenges? Do they create new opportunities? In the remainder of our report we investigate these questions further.

IV. FINDINGS – SMALL BUSINESSES (SB)

Findings from Quantitative Approach

For our quantitative approach we relied on data from the Dun & Bradstreet National Establishment Time Series (D&B) from the years 1990 to 2010, and 2013, and we used CoStar data from the years 2006 to 2013. We used Standard Industrial Classification (SIC) codes to identify ground-floor retailers as a proxy for identifying small businesses, and below we present data on key business categories in the study area.

SB Key Finding #1: Compared to 2010, in 2013 the aggregate number of businesses in the study area had increased by 26%.

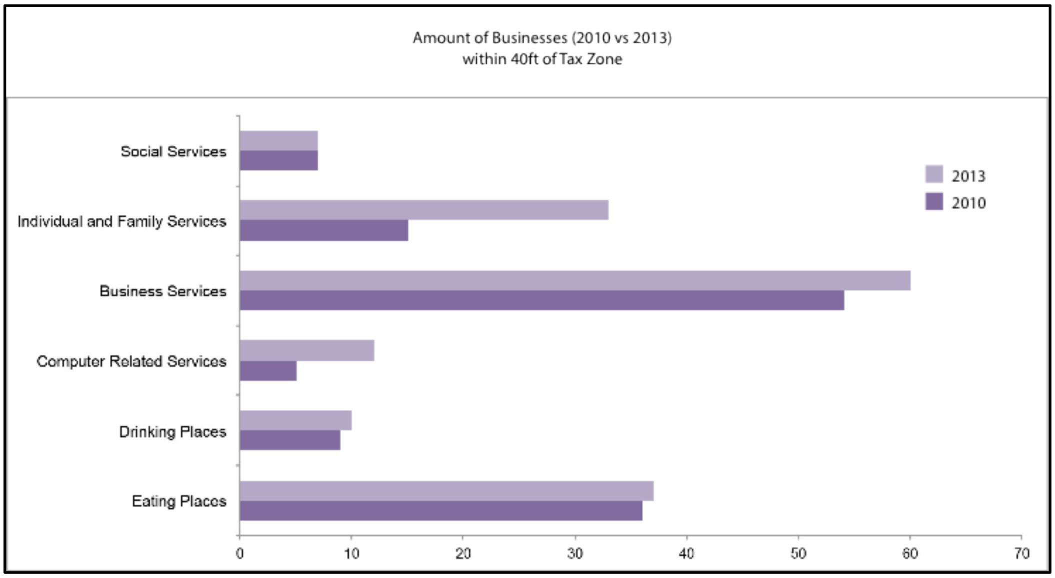
SB Key Finding #2: Compared to 2010, in 2013 the 2 business categories that increased by the greatest percent were Individual/Family Services and Computer-Related Businesses.

First, we found that as compared to 2010, in 2013 the aggregate number of businesses in the study area had increased by 26 percent (see Figure 4). We then further analyzed changes by business category. As shown in Figure 5, the two business categories that increased by the greatest percent from 2010 to 2013 were Individual/Family Services and Computer-Related Businesses. The former went from 15 to 33, representing a 120 percent increase. The latter went from five to 12, representing a 140 percent increase. While Computer-Related Businesses showed the greatest increase by percent, the increase in the actual number was relatively small. Additionally, in 2010 Computer-Related Businesses comprised four percent of the categories shown here; this rose to seven percent in 2013.

Before moving on, certain aspects of the D&B data warrant a brief note. First, we provide more detail about what each of the D&B business-type categories entails. Computer-Related Businesses includes computer hardware, software, programming, and other services. Social Services range from church ministries to youth groups to human rights organizations. Business Services is a catch-all category in which we found establishments like restaurants and athletic clubs. Individual and Family Services includes businesses that could exist in Social or Business

Services but that are aimed at individuals and families. Drinking Places mainly refers to alcohol-serving venues like bars, and Eating Places encompasses restaurants, cafes, and fast food.

Figure 4. Number of businesses (2010 and 2013).



Source: Dun & Bradstreet

Figure 5. Percent increase for select businesses (2010 and 2013).

Percent Increase for Select Business in Area

Type	Percent Increase
Social Services	0%
Individual and Family Services	120%
Business Services	11%
Computer-Related Services	140%
Drinking Places	11%
Eating Places	3%

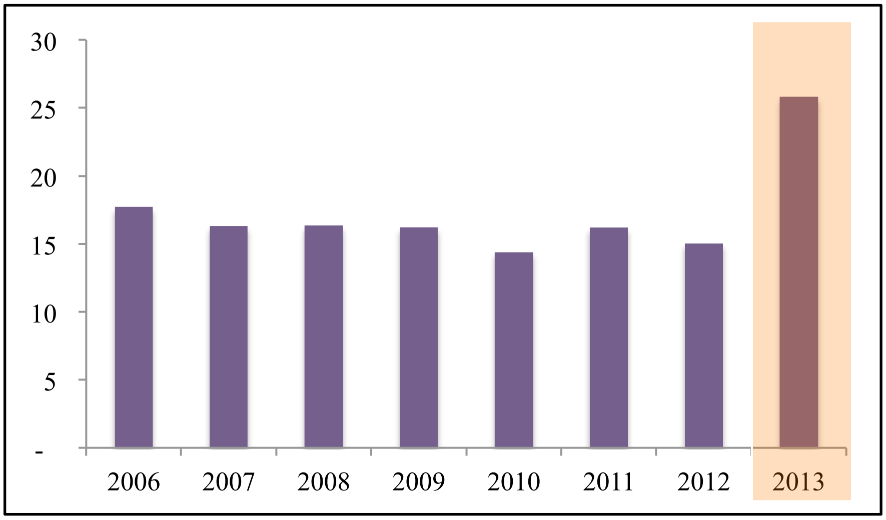
Source: Dun & Bradstreet

While the categories above seem reasonably useful, there are obvious flaws in how the categorization of businesses actually occurs. For example, in addition to discrepancies noted above (such as restaurants in Business Services), we observed that Social Services also includes nonprofits, and that sometimes one business actually represents several. While these caveats somewhat weaken the validity and precision of the data and therefore of our analysis, our findings are nonetheless useful for describing general trends in the study area. Finally, these data limit our ability to assess displacement because they do not indicate whether the increase in businesses is due simply to new ones coming in, or if some businesses have had to close their doors in response to displacing forces.

SB Key Finding #3: Compared to 2012, in 2013 non-office commercial rents increased dramatically – from $15 to $26 per square foot.

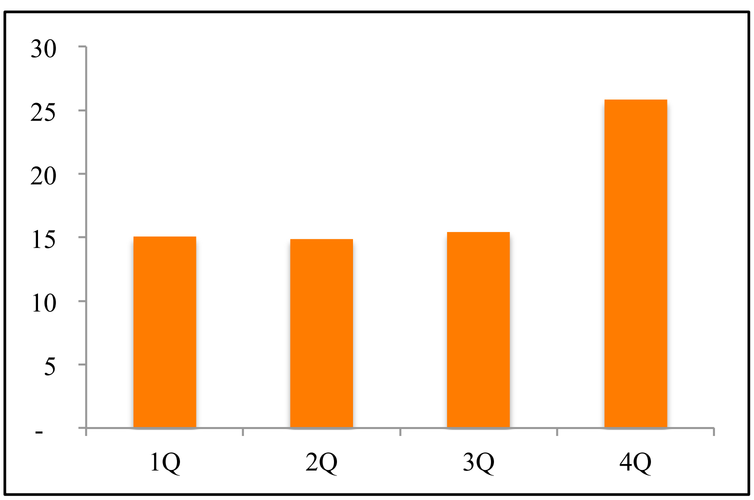
To better understand whether or not small businesses might be experiencing or at risk of displacement, we evaluated changes in average non-office commercial rents from 2006 to 2013. "Non-office" indicates ground-floor establishments, which is a good proxy for small businesses. As Figure 6 shows, non-office commercial rents were fairly stable from 2006 to 2012. Then rents nearly doubled – from 15 dollars per square foot in 2012 to 26 dollars per square foot in 2013. This represents a 71 percent increase in one year. In addition, Figure 7 shows that most of this increase occurred in the last quarter (October through December) of 2013. It is possible that the increase in the last quarter is due to random variation and that rents will decrease to the previous levels; however, it is also possible that the increases in 2013 represent a new trend that will affect small businesses. The findings from our qualitative approach add to and help clarify some of the challenges and opportunities faced by small businesses in the study area.

Figure 6. Non-office commercial average rents 2006-2013 (dollar amount/square foot/year).



Source: CoStar, 2013

Figure 7. Non-office commercial average rents by quarters in 2013 (dollar amount/square foot/year).



Source: CoStar, 2013

Findings from Qualitative Approach

For our qualitative approach we interviewed three small business owners in the study area – the owner of an ethnic jewelry and home decorations store, a Mexican restaurant, and a vintage clothing store. We have kept them anonymous in order to protect their identities and businesses; we refer to them as "O.E." (owner of ethnic store), "O.M." (owner of Mexican restaurant), and "O.C." (owner of clothing store), and we use the pronoun "they." We also interviewed Executive Director Ahn Nguyen of the Tenderloin Economic Development Project (TEDP), a nonprofit that supports small-businesses and equitable development in the area.

SB Key Finding #4: Many small businesses in the Tenderloin portion of the study area have month-to-month or short-term leases, making them more vulnerable to displacement.

SB Key Finding #5: Small businesses feel they are at risk of losing their space due to the possibility of non-renewal of their leases and/or major rent increases.

According to Ahn Nguyen of TEDP, many small businesses in the Tenderloin have month-to-month or short-term leases. Our interviewees are therefore exceptional in that they have had multi-year contract leases (some for as many as six years) in which they have been satisfied with gradual and consistent rent increases of about three to five percent every one to two years. However, two owners (O.E. and O.C.) recently had (or will soon have) their lease expire and losing their space is a real concern. In fact, this already happened for O.E., whose lease expired and was not renewed in October 2013; O.E. said the property owner plans to renovate the building and rent out the space at a higher rate.

Meanwhile, O.C.'s lease expires next year and they are very worried the property owner either will not renew the lease or will hike up the rent. O.C.'s fear stems from the fact that the landlord is difficult to contact and has been very unresponsive during the last two years. For example, it took the landlord six months to address a maintenance request about water leaking into O.C.'s store from the upstairs unit. O.M. will also have their lease expire next year, but they are confident the lease will be renewed because the property owner has given no indication of doing otherwise. (Notably, four years ago O.M. had to move out of their 15-year location in the study area because the property owner wanted to renovate the building and double the rent; this was before the recent redevelopment efforts had really set it and highlights that dislocation is always a risk for renters).

In addition to the individual experiences of O.E., O.M., and O.C, each interviewee also said they know people who lost their business within the last year or two due to rents doubling or leases not being renewed. Each was able to name two to four businesses that used to operate within a couple of blocks of their location. O.M. emphasized that such dislocation is also due to too few customers and the generally higher costs associated with running a business. Despite all this, O.C. said they still encourage others – especially young entrepreneurs – to open businesses in the neighborhood because the location and the emerging arts and music scene are advantageous. Finally, O.C. also said that relatively affordable storefronts initially attracted them to the Tenderloin, but that they expected to see climbing rents in the coming years.

Additional Findings

In our interviews with small business owners and with Ahn Nguyen of TEDC, other topics and points arose that are not directly related to our research questions but that may be of interest to TNDC. We discuss some of these below.

Additional Finding #1: The perception of safety is a key issue impacting small business viability; the concentrated presence of the homeless population and the open use of drugs contribute to the perception that the area is not safe.

Business owners O.C. and O.E. said they believe the Tenderloin is no more dangerous or violent than other parts of San Francisco and that certain features of the neighborhood actually make it quite attractive to residents and visitors alike – such as ethnic diversity, the youth population, a mix of small businesses, and the emerging arts and cultural scene. However, all the interviewees also felt the concentrated presence of the homeless population and the open use of drugs in the Tenderloin hurt the business climate because they deterred would-be customers. O.M. thought visitors to the area were often shocked by things like public defecation and yelling and that such occurrences contribute to the perception of the area as unsafe. O.E. claimed some hotels caution guests to avoid the neighborhood, which reduces foot traffic.

Additional Finding #2: Interviewees perceived business-friendly changes in association with redevelopment efforts in the area; however, they were not aware of the Community Benefit Agreements, and certain barriers exist that hinder small-business organizing.

Each of the interviewees generally felt positive about changes in the neighborhood and they attributed them to redevelopment. In particular they cited a decrease in vacant storefronts and an increase in customers. O.E. thought the flow of tourists along Market Street had improved and O.M. noted that the opening of a renovated building in UN Plaza for federal workers had brought both those employees and construction workers to their restaurant. O.C. believed the arts and music scene was helping to make the area a destination for tourists and others and said this was good for business. O.E. and O.M. also thought that cleanliness and safety had gotten better, with the latter due in part to a heavier police presence that has focused on removing loiterers and drug-users from sight. They thought such changes improved the image of the area and made people feel more comfortable visiting.

Despite this favorable view of the effect of redevelopment, the interviewees also expressed skepticism about what Twitter and other technology companies were actually providing to the local community; O.C. also argued that redevelopment needs to be done responsibly in order to prevent massive displacement. Interestingly, none of the business owners knew anything about the Community Benefit Agreements (CBAs) that companies must enter into as a condition of receiving the payroll tax break, which perhaps raises questions about the extent of CBA-related outreach to businesses. Yet it should be noted that Ahn Nguyen has been working with one of the companies (Zendesk) as part of the CBA process to upgrade point-of-sale technologies for some neighborhood restaurants. Lastly, the interviews shed light on other barriers faced by small businesses to collectively engage in community policy decisions – namely the absence of a merchants' association and the reality of linguistic differences.

V. FINDINGS – NONPROFITS (NP)

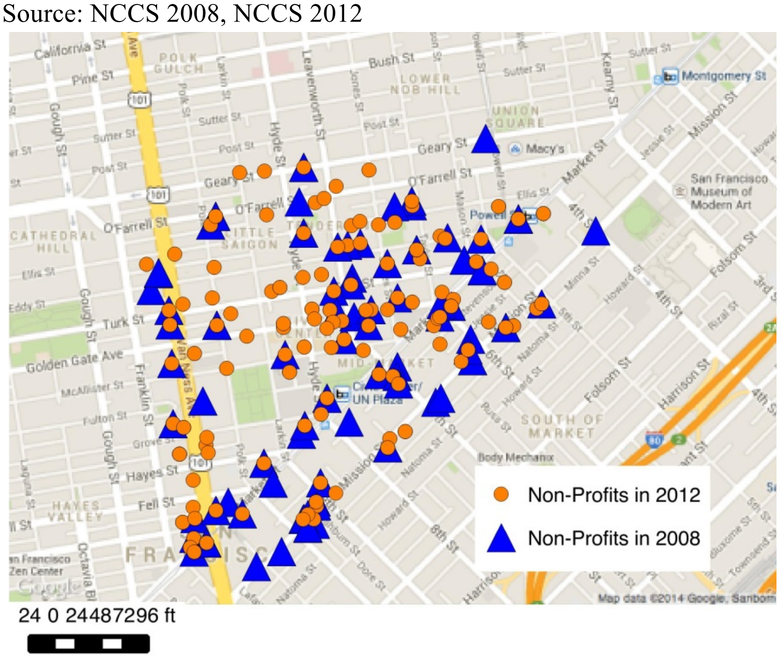
Findings from Quantitative Approach

For our quantitative approach we relied on data from the National Center for Charitable Statistics (NCCS) for the years 2008 and 2012, and we used CoStar data from the years 2006 to 2013. As described above, a noteworthy caveat about the NCCS data is that the most recent information is from 2012, which is very soon after the redevelopment efforts started in 2010 and 2011. Thus 2012 data almost certainly gives an incomplete picture of what is happening for nonprofits in the study area now, in 2014, and what may be just around the corner.

NP Key Finding #1: From 2008 to 2012, there was a net increase of 107% in the number of nonprofits in the study area – from 159 to 329; the exit rate of nonprofits in the study area was higher than the national average, but the entry rate was also higher.

The NCCS data show that in 2008 there were 159 registered nonprofits in the study area and that in 2012 there were 329, an increase of 107 percent. The data also show that during this time period, 70 nonprofits moved out and 240 moved in (see Figure 8). The exit rate is thus 44 percent over a four-year period or 11 percent annually, assuming a uniform exit rate, while the entry rate is 66 percent or about 16 percent annually. This exit rate is higher than the estimated national annual rate for nonprofits of about two percent for the years 1990 to 1998 (Harrison and Laincz, 2008), while the entry rate is also higher than the estimated six percent. Factors contributing to the higher turnover likely include the economic downturn of 2008, and perhaps the increasing real estate prices associated with redevelopment efforts. Nonprofit circulation into and out of the study area is something we explore further in the qualitative section.

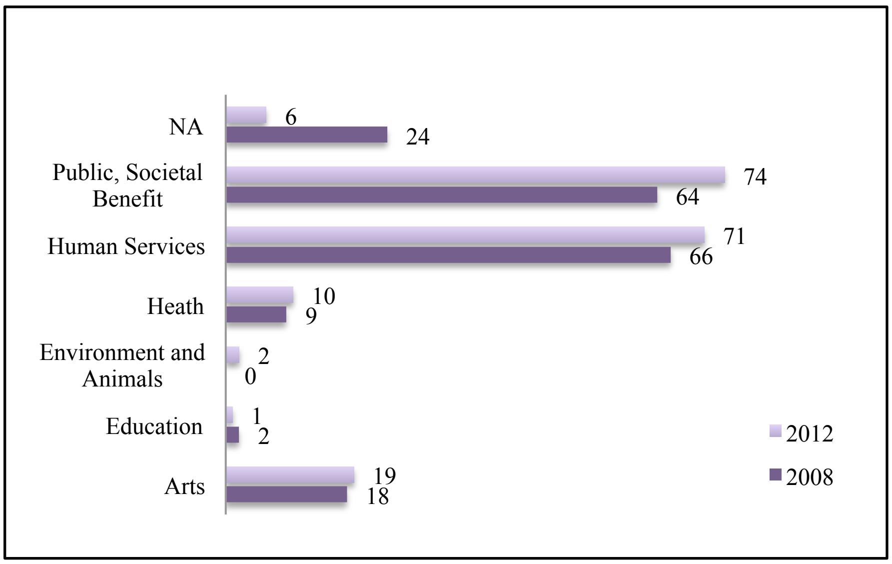
Figure 8. Nonprofits in the study area in 2008 and 2012.
Source: NCCS 2008, NCCS 2012



NP Key Finding #2: While the number of nonprofits in the study area changed from 2008 to 2012, the composition of the types of nonprofits stayed approximately the same.

Using the classification of nonprofits articulated by the National Taxonomy of Exempt Entities, we were able to determine that the composition of nonprofit types did not vary significantly in the study area from 2008 to 2012. As shown in Figure 9, the "Public/Societal Benefit" and "Human Services" categories continued to predominate, followed by "Arts."

Figure 9. Nonprofits in the study area, by type, in 2008 and 2012.



Source: NCCS 2008, NCCS 2012
Note: Nonprofit type is based on the classification articulated by the National Taxonomy of Exempt Entities.

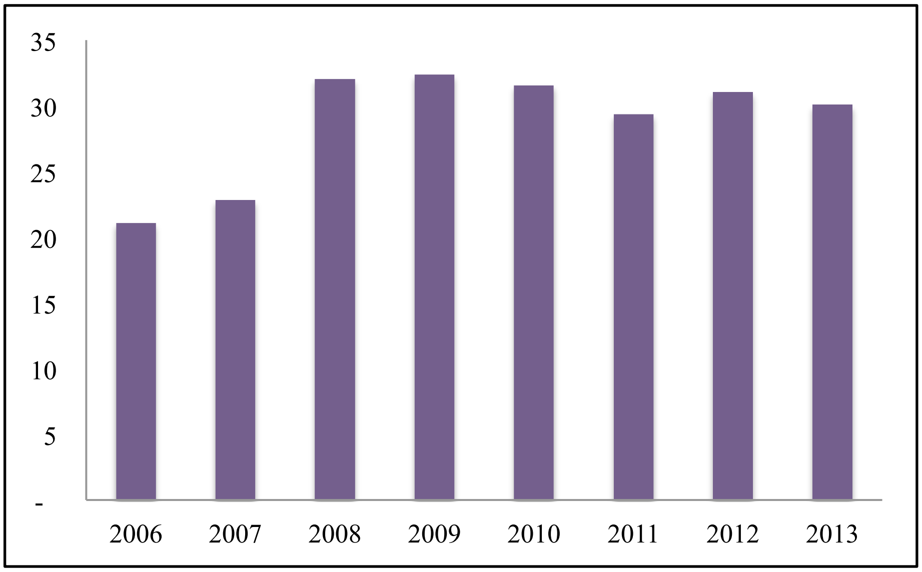
NP Key Finding #3: As compared to 2008, in 2012 the average real value of assets reported by nonprofits in the study area had increased 127%. Furthermore, the average real value of assets for the nonprofits that moved in was 420% higher than those which moved out.

An analysis of changes in the average real value of assets (ARVA) reported by nonprofits in the study area in 2008 versus 2012 reveals noteworthy shifts. As compared to 2008, in 2012 the ARVA reported by nonprofits had increased 127 percent, or from about 2.1 to 4.8 million dollars. In addition, the ARVA reported by nonprofits that moved in was 420 percent more than that which was reported by nonprofits that moved out, or about one versus 5.2 million dollars. Such changes suggest there is a transition process that has happened in the study area, characterized by the exit of nonprofits with relatively fewer assets and the entry of nonprofits with significantly more assets. One possible explanation for this could be due to a shift in the composition of nonprofit types – however, as shown in Figure 9, this is not the case. Lastly, one limitation of our ARVA analysis is that the NCCS does not provide ARVA data for all nonprofits that registered for tax-exempt status with the IRS.

NP Key Finding #4: From 2011 to 2013 there appeared to be little to no increase in office commercial rents in the study area.

Analyzing commercial office space is an acceptable method for gauging rents for nonprofits even though this type of space is also rented to for-profits. Data from CoStar suggest that commercial office rents increased significantly from 2006 to 2008, but that from 2011 to 2013 (which would capture any changes beginning to take place as a result of redevelopment efforts), there appeared to be little to no increase. However, this data is contradicted to some extent by our qualitative findings. Perhaps one explanation for this is that commercial rents are going up but only began to do so very recently, in which case the CoStar data would not have captured it yet. Several of our nonprofit interviewees or other sources indicate their lease expired very recently or was about to expire and that the new rents much higher. If this represents a growing trend, then there is cause for concern, since a recent survey conducted by the San Francisco Budget and Legislative Analyst and reported on in draft form by the MOHCD's Working Group on Nonprofit Displacement indicates that two-thirds of the 91 non-residential leased properties represented in the survey either have no lease or have one that will expire in the next few years (MOHCD, 2014, p. 10).

Figure 10: Office rents 2006-2013 (dollar amount/square foot/year).



Source: CoStar, 2013

Findings from Qualitative Approach

Our qualitative methods included a combination of key informant interviews, observations, and document review. We did about a half-dozen interviews, mainly comprising in-person conversations and phone calls ranging from 20 to 60 minutes, though we also gathered information by email. We also observed two meetings of the CAC meetings and one of the MOHCD's Working Group on Nonprofit Displacement. The anonymity of interviewees and other sources is preserved except in those cases where information is publicly available.

NP Key Finding #5: Nonprofit movement in the study area is nuanced: some are being displaced from it; others are being displaced within it; and still others are moving into it from some other location in the city. This signals hardship for nonprofits and opportunity for others.

Our qualitative research revealed a nuanced picture of nonprofit movement in relation to the study area – one that is compatible with our quantitative findings. In short, some nonprofits report being displaced from the study area; others are being displaced within it; and still others are moving into it from some other location in San Francisco. Three nonprofits report being displaced, including the Tenderloin Outpatient Clinic (a mental health service provider) and the Tenderloin Community Benefits District (TCBD) office – both of which are located in suites at 134 Golden Gate. In the public comments portion of the March CAC meeting, a staff member of the Outpatient Clinic said their lease was expiring in September 2014 and the landlord was significantly increasing the rent; furthermore, the staff person shared they were having a difficult time finding an alternative affordable space.

Another nonprofit, Mental Health Clients' Rights Advocates (MHCRA), has reported having to move twice as a result of leases not being renewed. The first move was from the Grant Building at 1095 Market, when several nonprofit tenants were evicted when the building was sold to an investor. Not long after, MHCRA had to leave their location at 944 Market, when the lease expired and the landlord wanted to make several more floors of the building – including the one occupied by MHRCA – available to a technology company tenant. MHRCA is currently a tenant at 1663 Mission, which is just outside the study area. The experience of these three nonprofits aligns with the story told in the year-one evaluation of the CMES, which describes that some nonprofits have been forced to move in association with the redevelopment boom and that some have had to lease substandard facilities to be able to afford to stay in the area (Noyola & Imbault, 2013, p. 10).

While some nonprofits report having to move out of the study area, others have moved around within it, and still others have moved into it from elsewhere. Lutheran Social Services

(LSS) is an example of a nonprofit that had to move within the study area. A form filed with the city indicates LSS had to move from its previous in-study-area location in South of Market (at 290 8th Street) to a site in the Tenderloin (191 Golden Gate). The stated reason is that LSS' lease expired in April 2014 and the landlord found a new tenant willing to pay double the rent (San Francisco Public Health Department [SFPHD], 2014). This indicates that while commercial rents in the Tenderloin are becoming too high for some nonprofits, as the experiences of the Outpatient Clinic and TCBD attest to, they are still feasible for others.

An example of a nonprofit moving into the area comes from an organization, which we will call ORG 1, that we communicated with via email. ORG 1 has offered continuum-of-care services for about 30 years. As of 2013, it operated multiple programs from multiple sites in the city and had an annual budget of over 14 million dollars. ORG 1 recently signed a lease to move two of their sites to a single location in the Tenderloin. ORG 1 reported several reasons for the move. One reason is that their leases "were nearing their end and large rent increases would be forthcoming;" and furthermore ORG 1 said the sites have not been refurbished in over a decade and are "no longer working for service delivery." Another reason is that ORG 1 *wants* to combine the two sites – in other words it is not a hardship but rather a programmatic objective. In addition, while ORG 1 will be paying more per square foot in the Tenderloin as compared to the old rent at the old site, it is not worried about dramatic rent increases at the new site because it was able to sign a long-term lease (15 years with two five-year options). Yet another example of how recent redevelopment efforts are creating opportunities for some nonprofits is the 950 Center for Arts and Education being planned for 950 Market Street, as part of a mixed-use development. According to the website the Center will comprise 75,000 square feet of space featuring "permanently affordable new performing arts space, spaces for educational programming, and nonprofit office space" (950 Center for Arts and Education, n.d.).

NP Key Finding #6: There is concern in the nonprofit community that displacement will negatively impact service provision and neighborhood stability.

Two of the nonprofits that reported having to move also reported concern about the disruption in service provision to clients. At the March CAC meeting, MHRCA said they perceive that some of their neediest clients have not been able to access their new location. The Outpatient Clinic has not had to move yet but expressed the same fear. This concern is echoed in the most recent draft report from the MOHCD's Working Group on Nonprofit Displacement, which includes information on the results from a survey distributed to a sample of citywide nonprofits that have contracts with the city. The results show that of the 91 non-residential leased properties reported on in the survey, 64 of them either have no lease or one that will expire in the next few years, and that more than two-thirds of those said it "is essential for them to be located in their current neighborhood [to fulfill their mission]" (MOHCD, 2014, p. 10). Another expression of this concern was poignantly stated at the March CAC meeting by the Chair, Peter Masiak. In response to a fellow committee member's concern about crime and safety in the neighborhood, Mr. Masiak emphasized that the bigger picture underlying these issues is that of nonprofit displacement, since "given the [low-income] housing stock [in the area], services in the neighborhood need to stay in place – otherwise the community will be in crisis 10 years from now [with more crime and safety problems than now]."

VI. SUMMARY AND DISCUSSION

Using a mix of quantitative and qualitative research approaches, we were able to enlarge the body of knowledge about the study area as it pertains to our research questions. Related to the first research question – *How has the small business and nonprofit landscape changed over the last five years?* – we found that significant changes have occurred, although they look somewhat different for small businesses and nonprofits. What is true for the study area as a whole is that there has been a significant decrease in commercial vacancy rates from 2011 to 2013, during which time it dropped from 30 to 19 percent. Correspondingly, there was an increase in the real value of commercial property sales from 2011 to 2013, as compared to 2003 to 2008 (the period before the economic downturn).

For small businesses, we found that the non-office commercial rental market has also changed significantly, with rents increasing dramatically from 2012 to 2013 – from 15 to 26 dollars per square foot. Through our qualitative research, we found evidence that this is having a negative impact on many small businesses in the Tenderloin portion of the study area; two of our three small business interviewees either lost or feel they are at risk of losing their space due to the non-renewal of leases and/or major rent increases. Further, all interviewees said they know people who recently lost their rental space for these reasons. Many more small businesses may be similarly vulnerable considering a large amount have month-to-month or short-term leases. Other changes pertain to the number and composition of small businesses: compared to 2010, in 2013 the aggregate number increased by 26 percent, and the categories that underwent the greatest growth increase were Individual/Family Services and Computer-Related Businesses.

The nonprofit landscape has also changed in the last five years but in a somewhat different manner. One unexpected difference is that the office commercial rental market (which approximates nonprofit rents) did not increase in price nearly as much as did the non-office commercial rental market (which approximates small business rents). The quantitative data showed that from 2011 to 2013 there was little to no increase in office commercial rents in the study area. In addition, from 2008 to 2012 there was a 107 percent net increase in the number of nonprofits in the study area, with both the exit and entry rates being higher than the national averages. Despite this shift, the composition of the types of nonprofits remained nearly the same. Another unexpected finding is that nonprofit movement in the study area is nuanced: some nonprofits are being displaced from it; others are being displaced within it; and still others are moving into it from some other location in the city. This finding is compatible with the observed net increase in nonprofits. Adding to the complexity of the picture, we found that as compared to 2008, in 2012 the ARVA reported by nonprofits in the study area had increased 127 percent and that the ARVA for the nonprofits that moved in was 420% higher than those which moved out.

The next research question – *Is there evidence of the displacement of small businesses and nonprofits?* – is mainly answered by our findings related to the first question. For small businesses, while their number has increased, so too has the price per square foot of non-office commercial rentals. It is very plausible that the dramatic increase in rent has been and will continue to be more than many small businesses can bear, and that businesses able to serve a new and more affluent clientele have been and will continue to move in. Our interviews with small business owners and with the Director of TEDP align with this understanding of displacement. For nonprofits, there is evidence of displacement but also of new opportunities. It appears that nonprofits with fewer assets have been more likely to move out of the study area than into it in recent years and that the reverse is true for nonprofits with relatively more assets. While the data show that non-office commercial rents have not significantly increased, qualitative evidence suggests that displacement as a result of the non renewal of leases and big jumps in rent is a reality for some.

Next we turn to the last research question – *How are any changes in the landscape associated with recent redevelopment efforts?* The changes we describe above are indeed associated with the recent development efforts, which were initiated in 2010 but which arguably took more visible effect in 2011 and 2012, when Twitter signed the lease for its current Mid Market location and then moved in. In our quantitative approach, we compared data pre-2011 and post-2011 to try to understand changes in association with redevelopment; while correlation does not indicate causality, it is very reasonable to assume that redevelopment has driven the change, for example, in non-office commercial rents and in the increase in the real value of commercial property sales. Indeed, increasing property values was an anticipated outcome of the Payroll Tax Exclusion ordinance (San Francisco Office of Economic Analysis, 2011). But, to support this claim further research is needed to control for other influencing factors like the strength in the overall economy and the increase in the real GDP after 2011.

VII. RECOMMENDATIONS

Recommendation #1: Advocate for and/or assist with the systematic gathering of more data about the leasing and other physical space-related experiences of nonprofits in the study area and citywide; this would also be helpful for small businesses.

There is clearly a need for more information about what nonprofits are experiencing in terms of leasing and other physical space-related issues – both in the study area and city-wide. For one, information should be gathered from a sample that is representative of all nonprofits and not just those that are city contractors, as was the case in the survey conducted by the MOHCD's

Working Group on Nonprofit Displacement (MOHCD, 2014, p. 5-7). Less than one in six San Francisco nonprofits receives funding from the city, so the survey omitted a wide swath of organizations. On the one hand it is logical for the city to want to focus on nonprofits to which it gives funding, as the city has a more direct vested interest in their financial health (for which one indicator is the amount of money channeled to programming as opposed to overhead like rent). But on the other hand it seems prudent and feasible to solicit information from a broader sample. On a related note, the issue of the social value of city contracted versus non-city contracted nonprofits arose at the March meeting of the Working Group. In a discussion about how 2.5 million dollars of the nonprofit rent stabilization fund should be distributed among non-arts and culture organizations (which have a separate fund), one person suggested that being a city contractor should be a prerequisite for applying for funds, since this was a proxy for being a healthy, viable nonprofit. However, another person quickly argued there are many nonprofits "doing good work" that are *not* city funded.

In addition to surveying a sample of all nonprofits, it would be helpful for data gathering to include more granular questions and/or to report them in a more granular manner than the ones asked on the Working Group Survey. For example, the report indicates that "of the 64 properties with no leases or leases expiring within the next five years, more than two-thirds indicated that is essential for them to be located in their current neighborhood" (MOCHD, 2014, p. 10). This is useful, but it would also be helpful to know, for example, if those same nonprofits anticipate rents going up and if they think they will be able to afford it or not. It would also be useful to know the reasons for nonprofit relocations. This information is currently required for some nonprofits that receive city funding, such as Lutheran Social Services, mentioned above. Finally, a survey of nonprofits might also help to shed light on an issue that was raised in several or our interviews – that of the over-conentration of services in the study area. We were not able to assess this with our quantitative data, but it is an interesting perspective that seems worth considering during a time when resources are stretched thin.

Data that would be helpful to have about small businesses includes more refined information about business category type, business owner demographics, lease expiration dates, and a clear way to distinguish for-profit and nonprofit corporations. These are shortcomings in the Dun & Bradstreet data, as described above. Information from a larger sample of businesses would also be ideal. Lastly, for both nonprofits and small businesses, there ought to be an entity charged with collecting, analyzing and disseminating this information to the public in a timely manner. A minimum set of data should be collected from organizations annually or bi-annually, but this should not preclude conducting more detailed surveys from time to time.

Recommendation #2: Advocate for and/or assist with the provision of greater support for small businesses, helping to ensure they benefit from redevelopment efforts.

Redevelopment in the study area presents a unique opportunity to help small businesses in the Central Market and Tenderloin tap into new markets and thrive. There are several things our qualitative research suggest could be done to help achieve this. One is to help support merchant engagement in collective organizing to obtain support and resources from the city and through the CBAs. This might include outreach efforts informing merchants about ways to get involved. Support requests from the city could include targeted services and trainings to improve business skills and access to existing resources. Requests of the CBAs could include a number of things, such as the tax exclusion recipients hosting networking and training events, and providing technical assistance and equipment to improve productivity. A plan could also be created for more small businesses to benefit from the local purchasing objectives in the current CBAs, which would help businesses expand into new markets. Lastly, businesses might benefit from receiving support in diversifying the types of good and services they offer to cater to the newer and more affluent customers as well as those who are lower income.

Recommendation #3: Advocate for and/or assist with performing more research about the most efficacious, cost-effective, equitable and politically feasible policies and programs to mitigate nonprofit displacement now and in the future.

Currently the city appears to have pursued one primary strategy to mitigate nonprofit displacement, which was the creation of an ad hoc nonprofit rent stabilization fund in the amount of 2.5 million dollars for service organizations and another 2 million dollars for arts and culture organizations (MOHCD, 2014, p. 3). Through the Working Group on Nonprofit Displacement, the city has also helped provide leadership in beginning to research ways to support nonprofits in securing the physical space they need to fulfill their missions (MOHCD, 2014). The report identifies best practices that include the Community Arts Stabilization Trust (CAST), which provides loans and technical assistance to support the acquisition and renovation of property by nonprofit arts and cultural organizations that either occupy the space and/or lease it out to other nonprofit tenants. One of the partners of CAST is the Northern California Community Loan Fund (NCCLF), which is based in San Francisco and which serves many types of nonprofits – not just those in the arts. Through this work, NCCLF helps create permanently affordable space for nonprofits. Another best practice the report highlights is that of Denver Shared Spaces, a public-private collaborative that provides technical assistance and other incentives to nonprofits to promote resourceful space-sharing. This strategy could be explored for the study area and would require leadership and coordination. The approach may have the added benefit of enhancing service provision through economies of scale and other synergies created when nonprofits serving similar populations share space.

Most importantly, it seems important for advocates such as TNDC to press the city to do something that will have long-term implications for nonprofits in the study area and citywide. The recent past offers an example of what might happen if no intervention is made. In the late 1990's, the dot-com tech bubble in San Francisco led to soaring prices for both residential and commercial real estate – especially in the South of Market area. With documented evidence of nonprofit displacement, the city approved three ordinances that provided emergency rent subsidies to arts and services organizations; it also created a $2.5 million fund for property acquisition and rehabilitation (MOHCD, 2014, p. 12). However, this proved to be too little too late, as many nonprofits had already been displaced and "never came back," as San Francisco Supervisor John Avalos has noted (San Francisco Board of Supervisors meeting, 2011). Also, although a city working group on nonprofit displacement was formed during the first tech boom, many of the strategies it floated were dropped when the tech bubble busted and commercial rents consequently went back down (San Francisco Board of Supervisors – Budget and Finance Committee Hearing, 2013). This all suggests that the current development boom will put nonprofits at risk of displacement both now and in the future if a *sustained* effort is not made to stabilize them.

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IX. APPENDIX

Abbreviations

ARVA……….Average real value of assets
CAC…………Citizens' Advisory Committee for the Central Market and Tenderloin Area
CAST………..Community Arts Stabilization Trust
CBA…………Community Benefit Agreement
CMES……….Central Market Economic Strategy
D&B………...Dun & Bradstreet
MOHCD…….Mayor's Office of Housing and Community Development
NCCLF……...Northern California Community Loan Fun
NCCS……….National Center for Charitable Statistics
OEWD………Office of Economic and Workforce Development (of San Francisco)
TCBD……….North of Market-Tenderloin Community Benefit District
TEDP………..Tenderloin Economic Development Project
TNDC……….Tenderloin Neighborhood Development Corporation

List of Interviewees

Ahn Nguyen, Executive Director, Tenderloin Economic Development Project
Debbi Lerman, Administrator, San Francisco Human Services Network
Dina Hillard, Executive Director, North of Market/Tenderloin Community Benefit District
Michael Anderer-McClelland, VP for Mission Advancement, De Marillac Academy
O.C., Owner of a clothing store
O.E., Owner of an ethnic jewelry and home decoration store
O.M., Owner of a Mexican restaurant
Peter Masiak, Chair, CAC
Robert Marquez, Director, Mental Health Client Rights Advocates (and Vice Chair, CAC)
Staff Member, ORG 1 (via email)

List of Key Findings

SB Key Finding #1: Compared to 2010, in 2013 the aggregate number of businesses in the study area had increased by 26%.

SB Key Finding #2: Compared to 2010, in 2013 the 2 business categories that increased by the greatest percent were Individual/Family Services and Computer-Related Businesses.

SB Key Finding #3: Compared to 2012, in 2013 non-office commercial rents increased dramatically – from $15 to $26 per square foot.

SB Key Finding #4: Many small businesses in the Tenderloin portion of the study area have month-to-month or short-term leases, making them more vulnerable to displacement.

SB Key Finding #5: 2 of our 3 small business interviewees either lost or feel they are at risk of losing their space due to the non-renewal of leases and/or major rent increases. Further, all interviewees said they know people who recently lost their business for these reasons.

Additional Finding #1: The perception of safety is a key issue impacting small business viability; the concentrated presence of the homeless population and the open use of drugs contribute to the perception that the area is not safe.

Additional Finding #2: Interviewees perceived business-friendly changes in association with redevelopment efforts in the area; however, they were not aware of the Community Benefit Agreements, and certain barriers exist that hinder small-business organizing.

NP Key Finding #1: From 2008 to 2012, there was a net increase of 107% in the number of nonprofits in the study area – from 159 to 329; the exit rate of nonprofits in the study area was higher than the national average, but the entry rate was also higher.

NP Key Finding #2: While the number of nonprofits in the study area changed from 2008 to 2012, the composition of the types of nonprofits stayed approximately the same.

NP Key Finding #3: As compared to 2008, in 2012 the average real value of assets reported by nonprofits in the study area had increased 127%. Furthermore, the average real value of assets for the nonprofits that moved in was 420% higher than those which moved out.

NP Key Finding #4: From 2011 to 2013 there appeared to be little to no increase in office commercial rents in the study area.

NP Key Finding #5: Nonprofit movement in relation to the study area is nuanced: some nonprofits are being displaced from it; others are being displaced within it; and still others are moving into it from some other location in the city. This signals hardship for some and opportunity for others.

NP Key Finding #6: There is concern in the nonprofit community that displacement will negatively impact service provision and neighborhood stability.

List of Recommendations

Recommendation #1: Advocate for and/or assist with the systematic gathering of more data about the leasing and other physical space-related experiences of nonprofits in the study area and citywide; this would also be helpful for small businesses.

Recommendation #2: Advocate for and/or assist with the provision of greater small business support, helping to ensure they benefit from redevelopment efforts.

Recommendation #3: Advocate for and/or assist with performing more research about the most efficacious, cost-effective, equitable and politically feasible policies and programs to mitigate nonprofit displacement now and in the future.