

# The Hidden Costs of the New Economy

## A Study of the Northeast Mission Industrial Zone

by the Mission Anti-Displacement Coalition

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### Summary

This Mission Anti-Displacement Coalition (MAC) study of the Northeast Mission Industrial Zone (NEMIZ) charts the radical transformation of this key part of the Mission District over the past decade. The NEMIZ has historically been a major source of employment for the predominantly Latino, working class Mission District community, employing 1,500 Mission residents in 1991.

This study shows that despite the official designation of the NEMIZ as an Industrial Protection Zone, blue collar jobs and arts spaces are rapidly being driven out by high-tech office and live/work development. Through a block-by-block investigation of land use changes, MAC volunteers uncovered a massive lack of enforcement of the city's planning policies.<sup>1</sup> The city's practice of encouraging office and live/work development in industrial areas has had a negative impact on jobs, housing, and the environment. Specifically, the study shows the following impacts:

- ◆ **Nearly one-fifth of the building lot square footage in the NEMIZ (over 937,000 square feet of terrain) is now devoted to live/work or office use — an increase of 330% since 1991.**
- ◆ **Since 1991, over 1.7 million square feet of building space devoted to production, distribution, and repair activities has been eliminated — a decline of 57%.**
- ◆ **More than 540 live/work units have been constructed in the NEMIZ, but with no affordable housing.**

This trend has serious cultural, economic, financial, and environmental costs for San Francisco:

- ◆ Office and live/work development in the NEMIZ has cost the city more than \$22.6 million in lost housing and childcare fees.
- ◆ The city has 57 fewer affordable housing units due to demolitions and failure to apply city housing policies.
- ◆ The 1.75 million square feet of office space added to the NEMIZ since 1991 translates into more than 8,000 people working in an area poorly served by public transit. The city projects that 68% of these people will drive to work, with serious impacts on air quality and pedestrian safety.
- ◆ The rapid loss of affordable industrial space threatens the city's ability to provide diverse work options for a diverse population.

MAC recommends an immediate ban on any further live/work or office development in the NEMIZ until a community-based rezoning of the NEMIZ is carried out.



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## A Brief History of the NEMIZ

The Northeast Mission has historically been a part of the city's industrial base, and a major source of employment for the Mission District community. The area developed originally as an industrial district because of the presence of the railroad link to San Jose along Harrison Street, which encouraged factories and warehouses to locate nearby.

During the 1970s and 1980s the NEMIZ lost many of its traditional manufacturing operations, punctuated by the closure of the Best Foods mayonnaise factory in 1990. This scenario was repeated in one city after another in the U.S. during that period, as manufacturers blamed competition from low-wage labor overseas for their decision to shutdown operations.

Despite perceptions of the area as a rust belt wasteland, the district was far from empty. During the 1980s, while some manufacturers were shutting down, many new businesses were moving in. One study showed that the number of service businesses south of 18th Street had increased from 13 in 1970 to 98 by 1988<sup>2</sup>. A study by the Mission Economic Development Association (MEDA) in 1991 showed a dramatic rise in a wide variety of service businesses and arts-related uses. Services (such as auto repair shops) accounted for 40% of the more than 7,500 jobs in the NEMIZ. Manufacturing accounted for 20%. **More than 70% of the jobs in the NEMIZ were held by San Francisco residents, and 20% of the job-holders were Mission District residents.**<sup>3</sup>

A new mix of businesses had emerged in the area, from printers, garment makers, and building contractors to makers of building fixtures and a wide variety of services and arts uses.

A common theme in the area's ability to attract this diversity of economic uses was its affordability. The history of the NEMIZ as an area devoted to industrial uses meant

that land prices and rents were lower than in more intensively developed commercial areas.

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## The Bio-Tech Proposal

By the early 1990s the misperception of the NEMIZ as a wasteland of shuttered factories had already become a political issue. At that time, city officials proposed that the NEMIZ be re-zoned to absorb a major expansion of UCSF. This was to be a magnet for attracting bio-technology firms.

The proposal was developed with virtually zero input from the Mission community. Not surprisingly, almost every segment of the community reacted negatively to the proposal. Community opposition was centered largely around displacement to existing businesses and jobs.

A community-based planning process began to unfold and challenge the blueprint coming from City Hall, with the participation of residents, artists, business owners and local nonprofits. The plan from the community was designed to save existing jobs, and to provide for the construction of below-market-rate housing. The protection of blue-collar industries and the arts community was mandated to maintain the economic vitality of the Mission.

The neighborhood-oriented plan was never adopted, but the city did eventually drop the idea of a bio-technology zone anchored by a UCSF campus in the NEMIZ. (That concept later became the centerpiece of Catellus Development Corp.'s Mission Bay plan).

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## The Rise of Live/Work

The "live/work" saga dates from the fight over the eviction of the artists from the Goodman Building in the early 1980s. The effort to find new space for the evicted artists led to a proposal to allow development of places that would enable artists to blend studio, performance and living spaces. This prompted the passage in 1988 of the ordinance creating a new planning code designation called

“live/work,” which blends commercial and residential building codes. The “live/work” ordinance was modeled on existing efforts to adapt industrial buildings, like Project Artaud in a former American Can factory.

The abuse of the live/work ordinance dates from the mid-1990s. A number of developers, associated with the Residential Builders Association, began using the live/work ordinance to produce housing that was not intended for artists...or even for work. In fact, lofts were produced that did not accommodate work, and in some cases work was actually prohibited in the units.

Once developers realized that the Planning Department (and later the Department of Building Inspection also) were not enforcing either the requirement that the units should be used by working artists or even that they should be used for work as well as residence, new construction of so-called “live/work” buildings exploded.

Under the live/work ordinance these luxury lofts were technically not housing. This meant that they were exempt from the requirement that 10% of the units should be affordable — a requirement that applies to all other housing built in San Francisco.

Because the live/work projects were lumped in with commercial space under the law, the live/work developers avoided the required contributions to the school district and were able to avoid compliance with the Americans with Disabilities Act (ADA).

These exemptions made live/work construction more profitable than other types of housing development, and more lucrative than use of the land by existing businesses in the northeast Mission. The result was that live/work development became a force for displacement of existing local businesses.

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### **Protecting the Industrial Zones?**

These trends in live/work development provoked an uproar that forced the Planning Commission to look at the impacts of live/work development on the city’s industrial sector.

The Planning Department’s study of the zoning options for industrial land in 1999 noted that the decline of the production, distribution and repair (PDR) sectors during the period of de-industrialization had been reversed and that by the 1990s they were “thriving”<sup>4</sup>. The department noted that the live/work boom posed a serious threat to these sectors by increasing the competition for scarce industrial real estate<sup>5</sup>. Although the advocates of live/work development argued that the jobs being displaced were not needed, the Planning Department report showed that these jobs were vital to the city’s economy because they provided services that other segments of the city’s economy rely upon.<sup>6</sup>

As a result, the city adopted a series of interim controls governing development in the Industrial Protection Zones, including the NEMIZ. The interim controls were intended to protect production, distribution, and repair activities as well as arts uses.

The resolution implementing the interim controls noted the threat that live/work development posed to PDR industries:

“Competition for land and building space in the City’s industrially zoned land greatly favors...live/work uses because they can afford higher rent and land costs than can production, distribution and repair businesses.”<sup>7</sup>

The resolution also noted that the land in industrial areas like the NEMIZ was not needed to meet the city’s housing shortage because

“The City has a supply of almost vacant or under-utilized land that is not zoned for industrial use which could accommodate...60,000 potential housing units under existing zoning.”<sup>8</sup>

In reality, the interim controls have failed to protect industrial areas like the NEMIZ for two reasons:

- ◆ The controls were not properly enforced.

The controls provided guidelines prohibiting developers from displacing PDR activities. In fact, the Planning Commission winked at the evictions and refused to acknowledge there was any displacement, once the buildings were emptied of tenants.

- ◆ The interim controls were directed only at limiting live/work development; they failed to address the potential impact of multi-media and high-tech office development. Office conversions in the industrial protection zones were approved (or in some cases just ignored).

Yet multi-media and high-tech office development poses an even greater threat to the survival of production, distribution, repair, and arts activities in the industrial zones. Multi-media and high-tech office space is an intensive, high-value use of the terrain. It exerts powerful upward pressure on land values and rents, leading to the displacement of existing businesses.

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### Assessing the Costs

The failure of the Planning Department to protect the NEMIZ as an environment where production, distribution, repair, and arts uses can flourish is shown most conclusively by the takeover of NEMIZ terrain by live/work and dot-com office development. The land-use survey recently conducted by MAC found that since 1991 the proportion of the terrain in the NEMIZ devoted to live/work and high-tech and multi-media office development has exploded — **18% of the building lot square footage (over 937,000 square feet of terrain) has been taken over for these uses. This represents an increase of 330% since 1991.** (The change is illustrated on the maps included with this report.)

In particular, **in the area of the NEMIZ south of 16th Street, the percentage of building lot square footage devoted to live/work and high-tech office developments has increased from 6% in 1991 to 27% this**

**year.**<sup>9</sup> One consequence of this has been the displacement of production, distribution, and repair businesses.

Since 1991, **over 1.7 million square feet of building space devoted to production, distribution, and repair activities has been eliminated — a decline of 57%.** About one-sixth of the businesses present in the NEMIZ in 1991 (more than five dozen businesses) are now gone. Irrespective of the reasons for the disappearance of each business, the point is that the PDR **sector** has been displaced. In general, the sites formerly occupied by these businesses are now devoted to live/work housing or dot-com offices. For example, the sites of the Homestead ravioli factory on Folsom and the sweater factory evicted at 19th and Bryant are now being converted to dot-com office use. The city has allowed over 1.75 million square feet of multi-media and high-tech office space to be added in the NEMIZ since 1991.<sup>11</sup>

Because live/work developments are exempt from the requirement to provide affordable units, **the construction of 540 “live/work” units in the NEMIZ means the city has 45 fewer affordable housing units.**<sup>10</sup> Twelve existing affordable housing units on Harrison Street were also demolished for live/work construction. **The replacement cost for the 57 lost affordable housing units would be more than \$13 million.**

The school fees exemption for live/work has also cost the city more than \$950,000 in lost revenue.

In addition to the displacement pressures against PDR and arts activities, this development has had additional costs to the city.

In particular, the financial impact to the city includes approximately the following losses:

- ◆ \$7.8 million lost in affordable housing fees. (This would have provided sufficient seed money to enable non-profit housing developers to build more than 100 affordable housing units.)

◆ \$700,000 in lost childcare fees

**The total financial cost to the city from both live/work and high-tech office development in the NEMIZ is over \$22.6 million.<sup>12</sup>**

Moreover, office developers in downtown San Francisco are required to pay a transit impact fee, which they can avoid by building in the NEMIZ. Office development in the NEMIZ thus cost the city more than \$5.5 million in lost transit impact fees for Muni.

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### **A Diverse Economy for a Diverse Community?**

The takeover of the land in the NEMIZ for multi-media and high-tech industry, and the displacement of production, distribution, and repair businesses, means that the NEMIZ is diminished as a site for blue-collar work and arts uses for community residents. San Francisco only has a thousand acres of industrially zoned land. This scarce resource is important to maintaining a diverse economy and diverse employment options to fit with a population that is diverse in its interests, skills, education, and experience.

For the NEMIZ to continue to be a source of work for Mission residents, the types of businesses and jobs existing in the NEMIZ need to have a good fit with the work interests, experience, skills and education of the community.

The Mission District is a predominantly working class community — only about one in four employed community residents hold professional or managerial jobs.<sup>13</sup> The US Department of Housing and Urban Development defines a household as “low-income” if its annual income is under \$32,200. About half of Mission District households are low-income by this definition.<sup>14</sup>

The Mission is home to about a third of the Latino residents of San Francisco and has been the main commercial and cultural center of the Latino community in the city for many years. A large proportion of Mission community residents are

immigrants, from Asia as well as Latin America. English is not the language spoken at home in about half the households in the Mission.

Less than half the Mission adult (25 years or older) population has had any college education, and about half the adult Latino population of the Mission have not graduated from high school.<sup>13</sup>

Multi-media and high-tech industries have requirements for credentials or job backgrounds that are not a good fit for many residents of the Mission community. According to one study, half of the firms in this sector require college degrees for entry-level employment.<sup>15</sup> About three-fourths of the people working in this sector in San Francisco have college degrees.<sup>16</sup>

The poor representation of Latino (and African-American) residents in the high-tech sector is part of the so-called the “Digital Divide,” which has been written about extensively. Efforts to bridge the divide through enhanced educational, job placement, and apprenticeship programs are important, given the high growth of the multi-media and Internet-related industries, especially here in the Bay Area.

Significant inroads are not yet visible, however, and the situation is not likely to change dramatically in the short run. In the meantime, if a welder or sewing machine operator loses their job, they are not likely to be hired as a Java programmer or website developer next week.

Besides, why should high-tech employment be the only option? Why should it be permitted to drive out all other economic uses? A diverse economy needs to provide room for welders and painters, woodworkers and mechanics. The NEMIZ is a part of the Mission that has supported this economic diversity.

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### **More Cars Flood Our Streets**

The emergence of the NEMIZ as a major dot-com office center also has adverse environmental impacts. The conversion of the NEMIZ from industry to

office use greatly increases the employment density. The 1.2 million square feet of office space in the NEMIZ translates into more than 6,000 people commuting to these office sites.<sup>17</sup>

The transit infrastructure does not exist to support a clone of downtown in the NEMIZ. Muni does not have a dense network of transit lines focused on the NEMIZ and linked to residential areas in other parts of the city. Yet, offices in this area are close to freeway ramps that funnel traffic down Potrero Avenue.

Not surprisingly, the Environmental Impact Report for the Bryant Square development projected that 68% of the people working at that major office site will drive to work.<sup>18</sup> This is a rate of automobile commuting that is more than 40% higher than the city-wide average of employed residents driving to work.<sup>19</sup> The daily tidal action of thousands of people driving to and from NEMIZ sites pumps higher levels of automobile traffic onto Mission District streets.

The Mission District is a compact neighborhood of mostly two-lane streets. The Mission community relies heavily on walking and using public transit. Sixty-one percent of employed Mission residents get to work by walking, bicycling, or taking public transit. About four out of ten Mission households do not own a motor vehicle.<sup>20</sup>

This reflects the neighborhood's compact design, high population density, modest income levels, relative lack of offstreet parking, and the availability of a diverse mix of services and venues in close proximity to where people live. An effect of allowing high-tech office development in the NEMIZ is to inject a daily flood of cars into one of the most pedestrian-oriented communities in California, generating higher levels of emissions and making the streets less safe for pedestrians and bicyclists.

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## Conclusions

The costs of this office incursion into the NEMIZ highlight the importance of steering office development away from the industrial zones, to locations such as downtown. Downtown has the transportation infrastructure that limits the adverse environmental effects of office expansion. Keeping dot-com office development out of the industrial zones enables the city to maintain a diverse range of economic activities and a diversity of employment opportunities that fit a diverse population.

Commercial office developments are a particular concern because they are so heavily favored by capital markets. This means that their expansion has the potential to drive out other important but financially less favored industries which offer jobs and ownership opportunities for many San Franciscans. These trends in financial circles are not only vulnerable to collapses and market shifts, but threaten the ability of the city to maintain social, cultural, and economic diversity.

If we are to preserve the city's economic, cultural, and social diversity, and to protect the NEMIZ as a source of livelihoods for Mission residents, we need to ensure that a variety of economic activities, not just dot-coms, can survive in the NEMIZ.

**MAC recommends that the interim controls for the NEMIZ be strengthened considerably. We propose that no live/work or office development be allowed to take place until a rezoning is carried out, based on community input about the future of this community resource.**

We are not opposed to change or development, but we insist that the community have a voice in shaping the nature of that change. ♦

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**The Mission Anti-Displacement Coalition (MAC) is a consortium of Mission community residents, small businesses, representatives of non-profits and civic organizations, and other individuals. MAC works to**

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**prevent the displacement of working class people, predominantly Latinos and other people of color, tenants, artists, and community serving businesses and nonprofits. For information call 431-4210 or 436-9707.**

## Notes

1. The area studied by MAC is bounded by Folsom, the Central Freeway, Potrero, 18th, York, and 20th. The 2000 data for this report was collected in October, 2000 by members of MAC and People Organizing to Demand Environmental and Economic Rights (PODER!), students, and employees of community nonprofits. Volunteers walked the blocks after an orientation by a member of the MAC Land Use and Zoning Committee. The 1991 benchmark data was culled from Peter Cohen's masters thesis, "Transformation in an Industrial Landscape: San Francisco's Northeast Mission," 1998.

2. Robert Dobruskin, "Northeast Mission Area Re-Zoning Study: Analysis of Southern Sub-Area," M.A. professional report, UC Berkeley, 1988, cited in Peter Cohen, op cit.

3. Northeast Mission Industrial Zone Study, Mission Economic Development Association, 1991

4. Zoning Options for Industrial Land: Citywide Land Use Study, San Francisco Planning Department, April 8, 1999, p. 10. The PDR sector includes food and beverage wholesalers, garment design and manufacturing, delivery services, catering and event production, building contractors, equipment sale and repair, printing and publishing, vehicle and appliance repair, storage facilities, specialty manufacturers of fixtures.

5. "[I]f live-work development in the industrial districts continues at the pace established in recent years, increasing land use conflicts would become inevitable between the higher-end housing and existing businesses that expect to operate in an environment more tolerant of the hubbub of industry. Moreover, property values would continue to increase, and most PDR businesses would have to look for more affordable locations." *ibid*, p. 13

6. *ibid*, pp. 7-13

7. San Francisco City Planning Commission, Resolution No. 14861, 1999

8. *ibid*

9. This figure is for the area bounded by 16th, Folsom, Potrero, 18th, York, and 20th.

10. The 540 live/work units does not include the real live/work spaces used by working artists, such as the Project Artaud building.

11. 1,271,812 square feet of this total was contributed by office developments of 25,000 square feet or more. The office square footage statistics are based on several sources including Planning Department data.

12. The law requires developers of 25,000 or more square feet of office space to pay \$7.05 per square foot for affordable housing. Developers of 50,000 or more square feet are required to pay \$1 per square foot for city childcare programs. In downtown developers are required to also pay \$5 per square foot for public transit.

13. According to the 1990 Census of Population and Housing, US Census Bureau

14. "High Tech, Low Income: Closing the Gap in the Mission," Mission Digital Collaborative, 2000, p. 10

15. *ibid*

16. According to an industry trade group cited in the San Francisco Chronicle.

17. 6,000 workers if we assume the conventional rule of thumb of 200 square feet per worker. Recent trends in the high-tech sector, driven by high office rents, suggest that the average may now be closer to 100 square feet per worker. The use of cubicles and built-in furniture systems gives firms the flexibility to squeeze allotted space.




18. Bryant Square Draft Environmental Impact Report, San Francisco Planning Department, November 20, 1999

19. According to the 1990 census, 39% of employed San Francisco residents drive alone to work.

20. According to the 1990 Census of Population and Housing

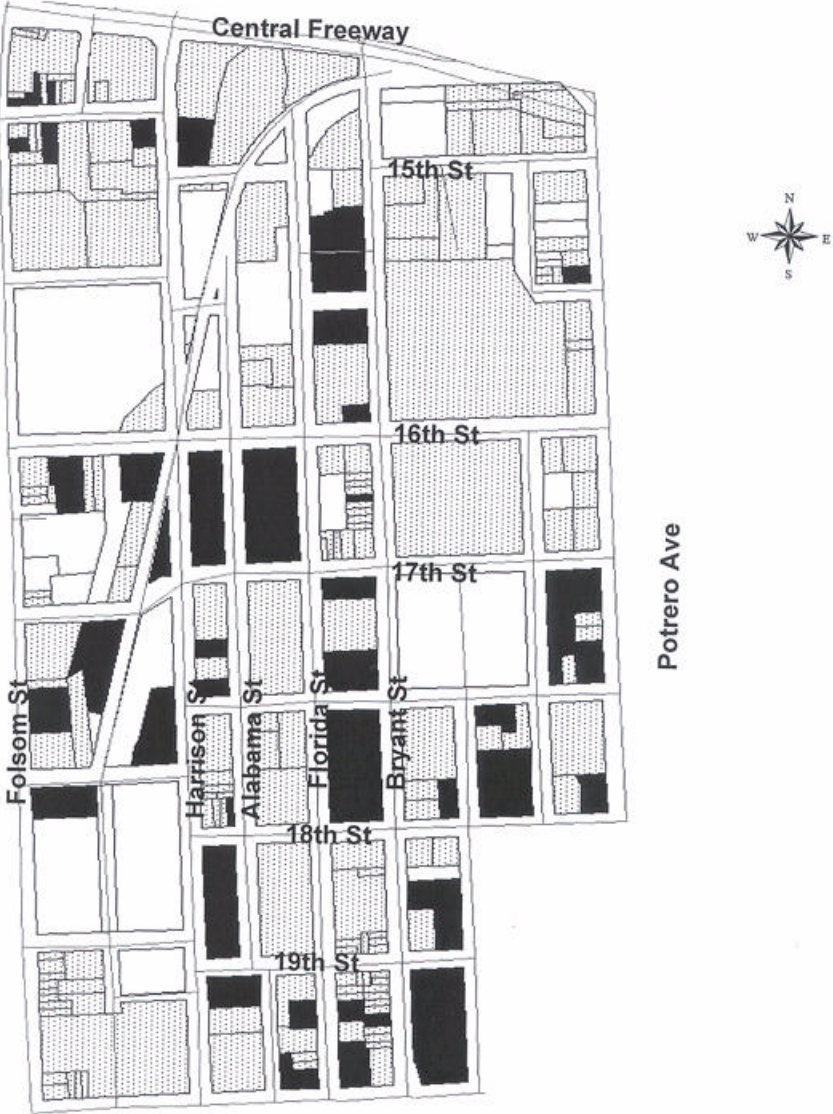
# Northeast Mission 1991






-  Production, Distribution and Repair/Residential/Arts/Public Institutions/Other Commercial
-  Multimedia/Office/Loft
-  Vacant/Public Utilities/Parking



# Northeast Mission 2000



-  Production, Distribution and Repair/Residential/Arts/Public Institutions/Other Commercial
-  Multimedia/Office/Loft
-  Vacant/Public Utilities/Parking

