Calle 24 Retail Study

Final Background Report

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STRATEGIC ECONOMICS

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I. INTRODUCTION

The City of San Francisco Office of Economic and Workforce Development (OEWD) is considering strategies for preserving the unique character of the Calle 24 retail corridor, while also supporting a sustainable economic environment for businesses. This background report is intended to support the City's efforts by providing an understanding of the existing ground floor character, business mix, and distinctive market niche of the Calle 24 retail corridor relative to other corridors in the Mission District, as well as an analysis of how changes in the consumer market are affecting the business environment. The analysis in this report draws on a variety of quantitative and qualitative data sources, including a survey of ground floor uses on Calle 24 that Strategic Economics conducted in March 2016, as well as over a dozen interviews with local business owners, representatives of cultural institutions, property owners, and real estate brokers. The findings from the analysis will help inform an exploration of potential strategies that the City could implement in order to preserve the corridor's distinct cultural identity, assist existing retailers in expanding their market, and attract new commercial uses that serve both community needs and visitors from around the city and the region.

The remainder of this introduction describes the Calle 24 study area, as well as the other geographies used throughout the report. Following the introduction, Chapter II of this report provides a summary of key findings from the analysis. Chapter III provides a detailed analysis of the changing characteristics of residents, workers, and visitors in the Calle 24 trade area, in order to provide context on how the market for goods and services has changed in recent years. Chapter IV analyzes the changing retail environment on Calle 24 in the context of national and regional retail trends and the Mission District's long history as the heart of San Francisco's Latino culture. Chapter IV includes a detailed analysis of the existing business mix on Calle 24, a discussion of business turnover and commercial real estate market trends, and findings from interviews with local businesses on the challenges they face in adapting to changing retail conditions.

STUDY AREA, TRADE AREA, AND COMPETITIVE CORRIDORS

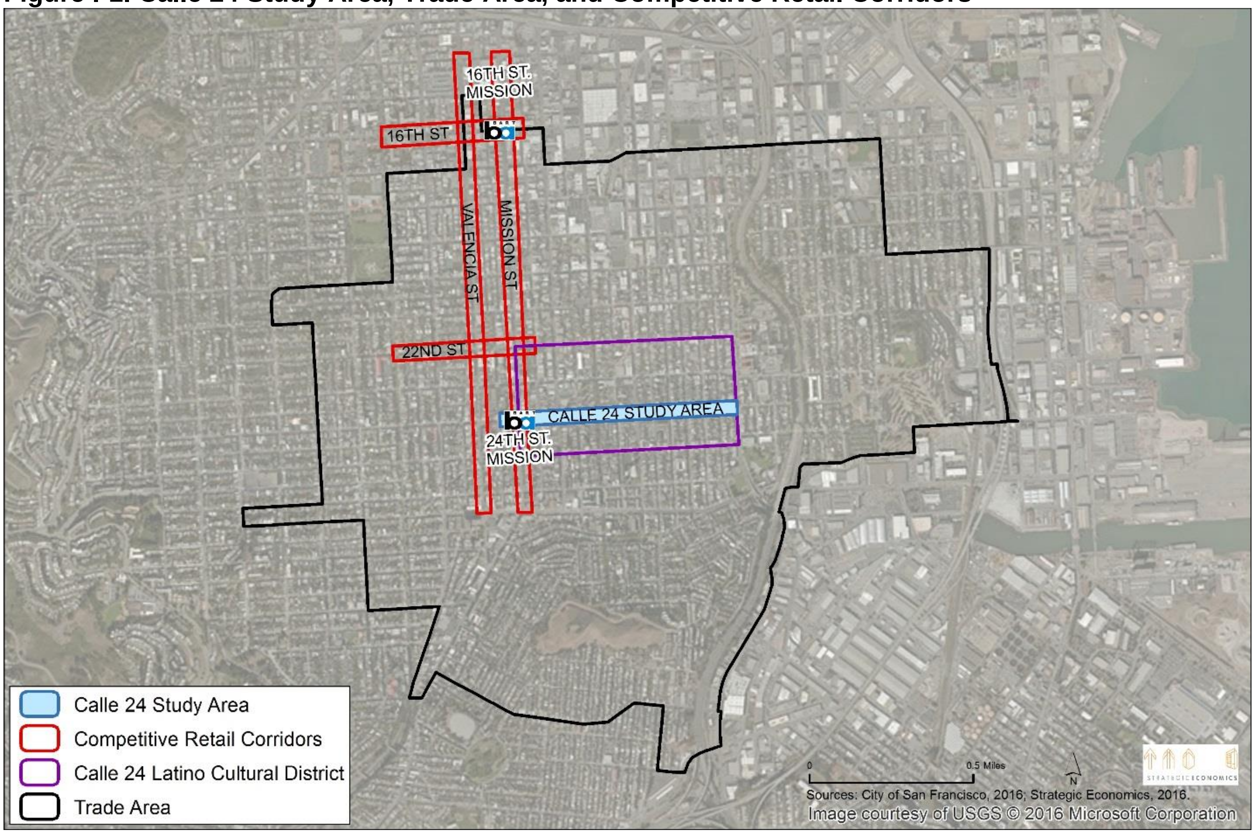
Figure I-1 provides a map of the geographies used throughout this analysis. These include:

- **Calle 24 Study Area:** The study area stretches along 24th Street from Bartlett Street on the west to Potrero Avenue on the east.
- **Calle 24 Latino Cultural District:** The Calle Latino Cultural District was formally designated by the San Francisco Board of Supervisors in May 2014. The District is centered around the Calle 24 commercial corridor, and bounded by Mission Street to the west, Potrero Street to the east, 22nd Street to the north, and Cesar Chavez Street to the south.
- **Trade Area:** The Calle 24 trade area is composed of the Census Block Groups that have a majority of their land area within a one-mile radius of the Calle 24 study area. The trade area is intended to capture the households who are likely to shop on the corridor on a daily basis, including residents of the Inner Mission neighborhood as well as some parts of adjacent neighborhoods, including the eastern part of Noe Valley and the northern section of Bernal Heights.
- **Competitive Corridors:** In addition to Calle 24, the Mission is served by four other key retail corridors: Mission Street, Valencia Street, 16th Street, and 22nd Street. For the purposes of this analysis, these competitive corridors were defined as follows:
    - Mission Street between 14th Street and Cesar Chavez Street
    - Valencia Street between 14th Street and Cesar Chavez Street
    - 16th Street between Dolores Street and Capp Street

- 22nd Street between Dolores Street and Capp Street

Note that in some cases, the competitive corridors extend outside of the trade area. This reflects the fact that many of the residents who live near 16th Street or the northernmost parts of Mission and Valencia Streets would need to walk more than one mile to reach Calle 24, and are therefore more likely to do their daily shopping in other retail districts.

Figure I-1. Calle 24 Study Area, Trade Area, and Competitive Retail Corridors



II. SUMMARY OF KEY FINDINGS

This chapter summarizes key findings from the analysis, including the current characteristics of the corridor, recent changes in consumer demand, and the challenges that continue to face retailers on Calle 24. Each of the findings summarized below is discussed in more detail in the following chapters.

CHARACTERISTICS OF THE EXISTING RETAIL ENVIRONMENT

The Calle 24 corridor has a lively, vibrant pedestrian atmosphere that is highly attractive for shoppers. Although the street itself is narrow, with relatively narrow sidewalks, Calle 24 attracts significant pedestrian activity due to the proximity of the 24th Street BART station and San Francisco General Hospital, as well as the important function that the street plays in linking the Mission with Noe Valley, Potrero Hill/the Dogpatch, and other neighborhoods. There are also significant outdoor dining opportunities, and almost all the commercial uses on the corridor have display windows. Moreover, local business owners report that the corridor's appearance and the perception of security have improved in recent years, further enhancing Calle 24's retail environment.

Calle 24's unique concentration of cultural institutions and murals, as well as the corridor's diverse mix of retailers and restaurants, contribute to its reputation as the cultural heart of the Mission. Although Calle 24 has experienced significant business turnover and other changes over the years, the corridor has retained much of its character. In addition to the arts and cultural institutions, the diverse mix of retail, restaurants, and services – including many Latino businesses – help create a distinctive retail environment.

The corridor's food and dining establishments, combined with the cultural institutions, serve as anchors that help create an attractive retail destination and draw customers. Restaurants, cafés, and bars accounts for a third of all the businesses on Calle 24, while specialty food, grocery, and other food and liquor stores account for another 15 percent. In general, a concentration of similar businesses that offer variety and selection can help create a destination that attracts more shoppers. In the case of Calle 24, the large number of food and dining establishments acts as an anchor for the corridor, while the other retail uses and cultural institutions on the corridor both help to draw more customers to the corridor, and benefit from the clientele who are attracted by the restaurants. The business owners interviewed for this study tended to see their activities as mutually reinforcing, rather than competing against each other.

In addition to drawing customers from outside the neighborhood, the mix of businesses on the corridor continues to serve the daily needs of local residents. Many restaurants, cafés, grocery stores, and other businesses are relatively affordable and serve locals and visitors alike.

Calle 24's small, narrow storefronts help shape the type of businesses that the corridor attracts. Calle 24 has narrower, smaller retail spaces than other corridors in the Mission, particularly compared to Mission Street. According to brokers, smaller spaces are usually easier to rent, as they are more affordable overall than larger spaces and can serve both new, independent businesses with lower profit margins as well as more established businesses that do not require much space. At the same time, the small storefronts that are generally available on Calle 24 make the corridor a less attractive location for retailers and restaurants that require larger spaces to display their inventory or provide seating for diners.

CHANGES IN THE CONSUMER MARKET

While the trade area continues to serve a significant Latino customer base, the area has experienced a significant decline in the Latino population and an increase in higher-income households. The Calle 24 trade area continues to serve a large Latino customer base; as of 2014, 33 percent of residents and 25 percent of workers employed in the trade area were Latino.[1] However, the trade area has experienced a significant decline in Latino residents since 1990, accompanied by an increase in non-Latino white residents and in higher-income, more educated residents, with fewer families with children and smaller households.

The trade area is attracting a growing stream of visitors. Many visitors are drawn by the Mission's distinctive Latino heritage, including the neighborhood's cultural institutions, public art, and many Latino stores and restaurants. Special events in the Mission also help draw customers from around the Bay Area, although some retailers and restaurant owners report temporary declines in business during special events. According to business owners, former residents also return to the area to find specific goods and services. Other visitors come to the Mission for high-end and trendy restaurants, bars, and nightlife.

The changing consumer market has affected some long-standing businesses on Calle 24 negatively, while creating opportunities for other businesses to expand. Changes in the trade area's demographic base, and the influx of visitors from outside of the neighborhood, suggest that customer demand is increasingly diverse in terms of both price points and the types of goods and services for which there may be a market. Some long-standing retailers have experienced a decline in business, and have either closed or attempted to adjust to attract new customers by offering new goods and services and expanding marketing efforts. Grocery stores, specialty food stores, and some arts and artesanía stores appear to have been particularly successful at expanding their products to take advantage of the trade area's demographic changes, and/or cater to tourists and other visitors.

Shifts in the trade area's consumer base have also attracted new businesses to the corridor. Many of the newer businesses on the corridor are in the food and dining sector, and some serve a clientele with a higher disposable income.

CHALLENGES FACING RETAILERS ON CALLE 24

While acknowledging the strengths of Calle 24 as a retail destination, business owners also identified a number of continuing challenges on the corridor. These include:

- **Changing customer base:** As discussed above, some businesses are struggling to adapt to changes in consumer demand, while others are finding opportunities to expand.
- **Concerns about displacement as a result of rising rents:** Some existing businesses pay monthly rents that are at a much lower level than current asking rents. Businesses with leases ending in the coming months or years are worried about being priced out of the corridor.
- **Perceived safety challenges:** While acknowledging recent improvements, business owners noted that perceived concerns around safety, cleanliness, and disorder continue to deter some customers. For example, business owners cited challenges involving the presence of homeless persons, the mentally ill, and those with substance use disorders

[1] Note that the U.S. Census uses the category "Hispanic" to refer to a person of "Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race" and does not use the term Latino, which is used throughout this report.

- **A need for additional lighting and other public improvements:** For example, increased lighting could help create a more welcoming environment at night. This could partly be attained by trimming down street trees, which obscure some of the light. Business owners also stressed the need for increased traffic security, more garbage cans to reduce litter, more frequent power-washing of the sidewalk, and better access to street parking for customers driving to the corridor.
- **Challenges recruiting and retaining employees:** Some business owners expressed concerns that, as living costs escalate in San Francisco and in the Bay Area, many of their current or prospective workers require higher wages. Wage increases can be challenging to afford, leading to challenges with recruitment and retention.
- **A lack of access to capital for investing in tenant and façade improvements:** Many interviewees expressed a desire to undertake capital improvements, but lack the funds. Some have benefitted from small grants or loan programs from the City of San Francisco, while others are in the process of obtaining funds to help carry out improvements.
- **Challenges in expanding marketing to reach new customers**: Fewer than half of businesses on the corridor currently have hours of operation clearly posted either on the storefront or online. While a number of business owners are already advertising actively on websites such as Yelp, Facebook, and Trip Advisor, many business owners recognize a need for marketing assistance in order to keep their business visible both on- and off-line. Many business owners said they were not involved with the Calle 24 Latino Cultural District Community Council; in the future, this organization has the potential to play a larger role in helping brand the corridor and respond to the businesses' marketing needs.

These challenges, and the changes that the corridor has experienced in recent years, reflect changing national and regional retail trends as well as more local dynamics. For example, businesses all over San Francisco are struggling with rising rents and facing difficulties in employee recruitment and retention. Demand for new retail space across the country is increasingly driven by uses that do not compete directly with online sales, such as restaurants, personal services (for example, hair and nail salons), grocery stores, and specialty retailers that provide goods and services that cannot be obtained online. Nationally and regionally, the strongest growth in retail is being experienced by retailers that offer either expensive, high-end goods and services, or discount products. Finally, the overall growth of the Latino consumer market throughout the Bay Area and the U.S. as a whole has increased the availability of products catering to this community, which could mean that Latinos do not necessarily need to visit Calle 24 to find specific products. Any strategy for maintaining and strengthening the retail on Calle 24 will need to consider the effects of these broader trends.

III. CONSUMER MARKET CHARACTERISTICS

This chapter analyzes characteristics of residents, workers, and visitors in the Calle 24 trade area (as defined in Chapter I) in order to understand the changing market for goods and services. The chapter covers the following topics:

- Trade area demographics;
- Trade area employment;
- Commute patterns of trade area workers and residents; and
- Other sources of consumer demand, among which visitors and tourists.

The findings presented below are based on data from the U.S. Census, the Longitudinal Employer-Household Dynamics (LEHD) dataset, and interviews conducted by Strategic Economics with local stakeholders.

TRADE AREA DEMOGRAPHICS

This section provides an overview of current (2014) demographics in the trade area, and describes the demographic changes that the trade area has experienced since 1990.

POPULATION AND HOUSEHOLDS

The trade area's population has been growing more slowly than that of San Francisco as a whole, and actually declined slightly between 2000 and 2014. The trade area increased in population by 4.6 percent between 1990 and 2000, compared to a 7.3 percent increase for San Francisco during the same time period. Between 2000 and 2014, the trade area population decreased by 1.6 percent, even as the city's population expanded by another 6.7 percent (Figure III-1).

Household sizes in the trade area have historically been larger than the average for San Francisco, but have recently declined and are approaching the citywide average. In 1990 and 2000, the average household size in the trade area was 2.6 persons per household, compared to 2.3 in the city as a whole (Figure III-1). However, the trade area's average household size decreased to 2.4 by 2014, approaching San Francisco's average household size of 2.3. This change reflects the fact that while the trade area's population declined between 2000 and 2014, the number of households increased by 5.8 percent during the same period.

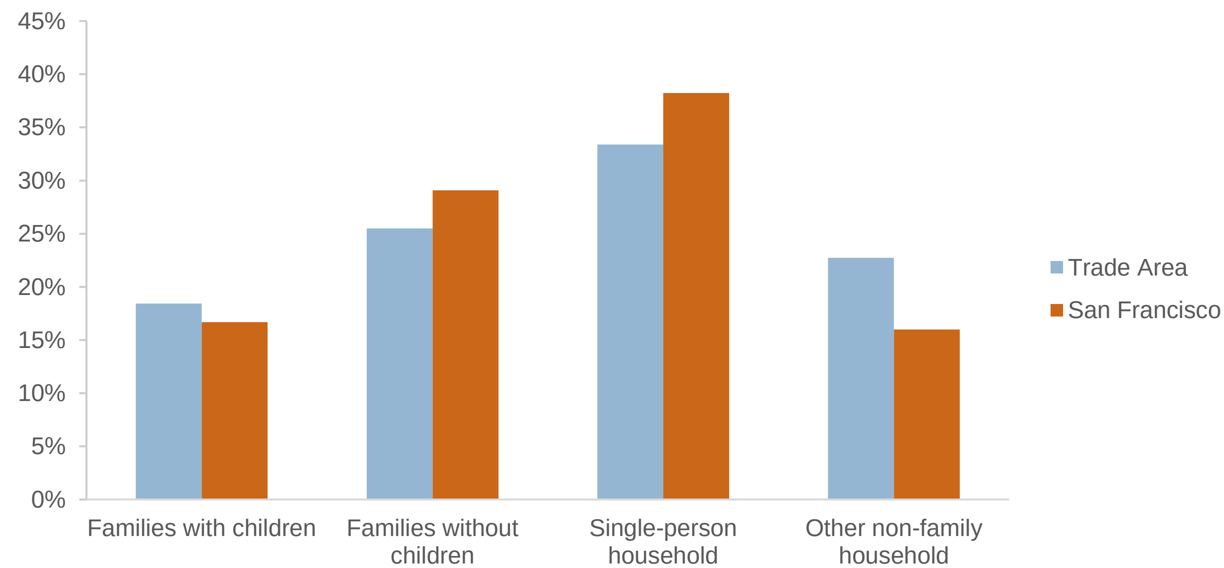
Figure III-1. Population, Households and Household Size: Trade Area and San Francisco, 1990, 2000, 2014

				Percent Change		
	1990	2000	2014	1990-2000	2000-2014	1990-2014
Trade Area						
Total Population	73,258	76,602	75,398	4.6%	-1.6%	2.9%
Total Households	27,302	28,923	30,611	5.9%	5.8%	12.1%
Population in Households	71,686	75,336	74,037	5.1%	-1.7%	3.3%
Average Household Size	2.6	2.6	2.4	-0.8%	-7.1%	-7.9%
San Francisco						
Total Population	723,959	776,733	829,072	7.3%	6.7%	14.5%
Total Households	305,584	329,700	348,832	7.9%	5.8%	14.2%
Population in Households	699,680	756,991	809,575	8.2%	6.9%	15.7%
Average Household Size	2.3	2.3	2.3	0.3%	1.1%	1.4%

Note: For 1990 and 2000, households taken from SF1 tables (100% counts). 1990 and 2000 population in households taken from SF3 table (sample counts).
Source: U.S. Decennial Census 1990, 2000 and American Community Survey 5-Year Estimates, 2010-2014, prepared by Social Explorer; Strategic Economics, 2016.

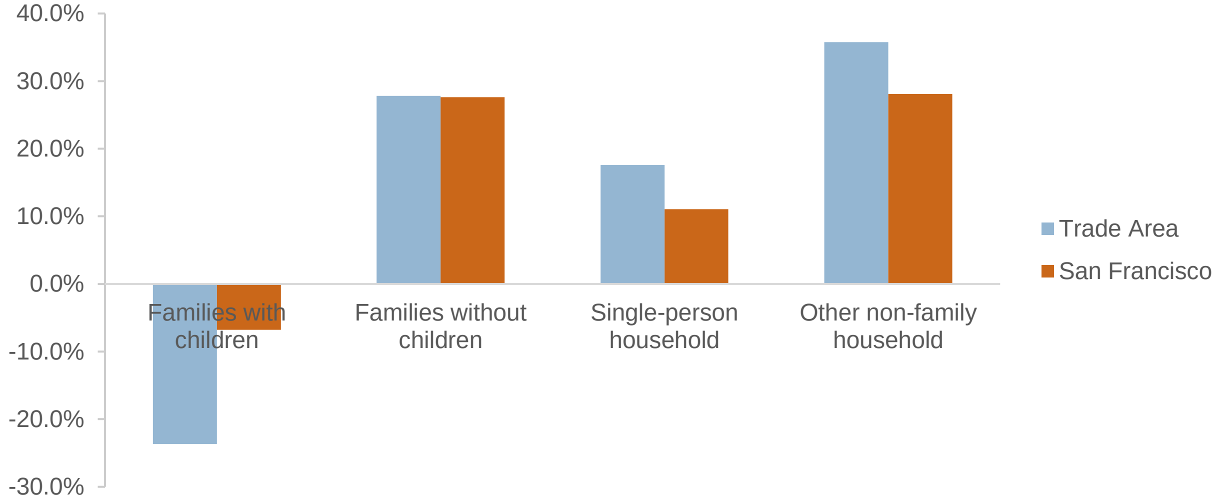
The number of families with children living in the trade area has decreased significantly since 1990. Families with children represented 18 percent of households in the trade area in 2014 (Figure III-2). While this figure was similar to San Francisco's average of 17 percent, it represented a 23 percent decline from the proportion of families with children in the trade area in 1990 (Figure III-3). Meanwhile, the number of single-person and other non-family households (i.e., roommates) in the trade area increased rapidly between 1990 and 2014 (Figure III-3).

Figure III-2. Share of Households by Type: Trade Area and San Francisco, 2014



Source: American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

Figure III-3. Percent Change in Households by Type: Trade Area and San Francisco, 1990-2014



Source: U.S. Decennial Census 1990, and American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

While a majority of households in the trade area rent, the number of homeowners has increased significantly since 1990. The trade area remains a heavily renter-occupied area, but has added approximately 3,400 homeowners since 1990 (Figure III-4). As a result, the share of households who rent declined from 72 percent in 1990 to 64 percent in 2014.

Figure III-4. Households by Tenure: Trade Area, 1990, 2000, 2014

Source: U.S. Decennial Census 1990, 2000 and American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

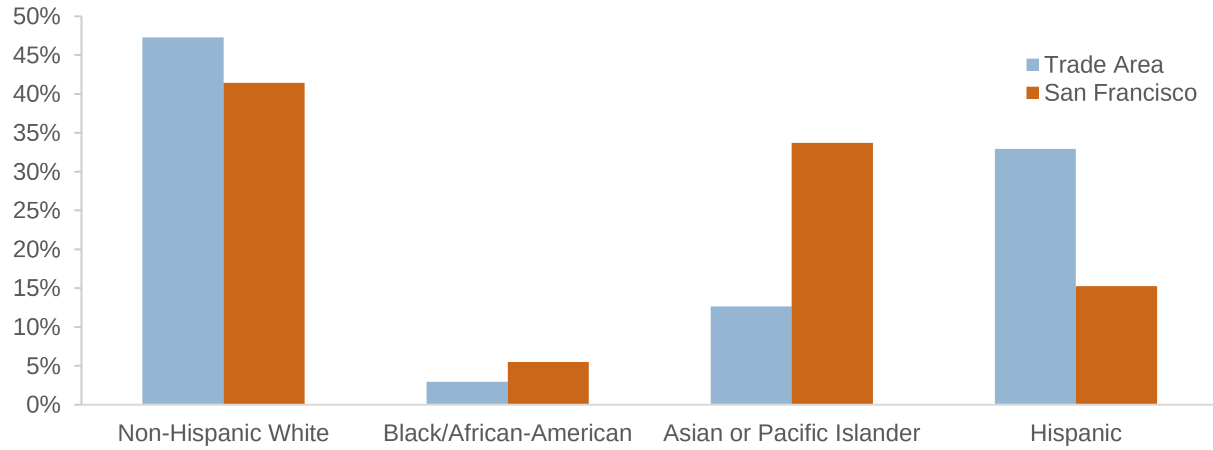
RACE AND ETHNICITY

The number of Hispanic residents living in the Calle 24 trade area declined by 23 percent between 1990 and 2014, while the number of non-Hispanic white residents increased by 29 percent over the same period.[2] In 2014, the trade area had higher shares of Hispanic and non-Hispanic residents, and fewer Asian and Pacific Islander residents, compared to the rest of San Francisco (Figure III-5). However, the neighborhood has experienced significant demographic changes in recent decades, including a significant decline in the Hispanic population and an increase in the non-Hispanic white and Asian-Pacific Islander population (Figure III-6).

In contrast, San Francisco gained Hispanic residents between 1990 and 2014. The city as a whole saw a significant increase in Hispanic residents between 1990 and 2014 (Figure III-6).

Despite recent changes in the trade area's demographics, the Mission District continues to be home to one of the largest concentrations of Hispanics in the city. Figures III-7 and III-8 show the number of Hispanic residents by Census Tract in San Francisco in 1990 and 2014, respectively. The Hispanic population grew in many parts of the city during this time, but particularly in the southern and eastern neighborhoods. Despite the declining number of Hispanic residents in the trade area, the trade area still includes some of the Census Tracts with the highest concentration of Hispanic residents.

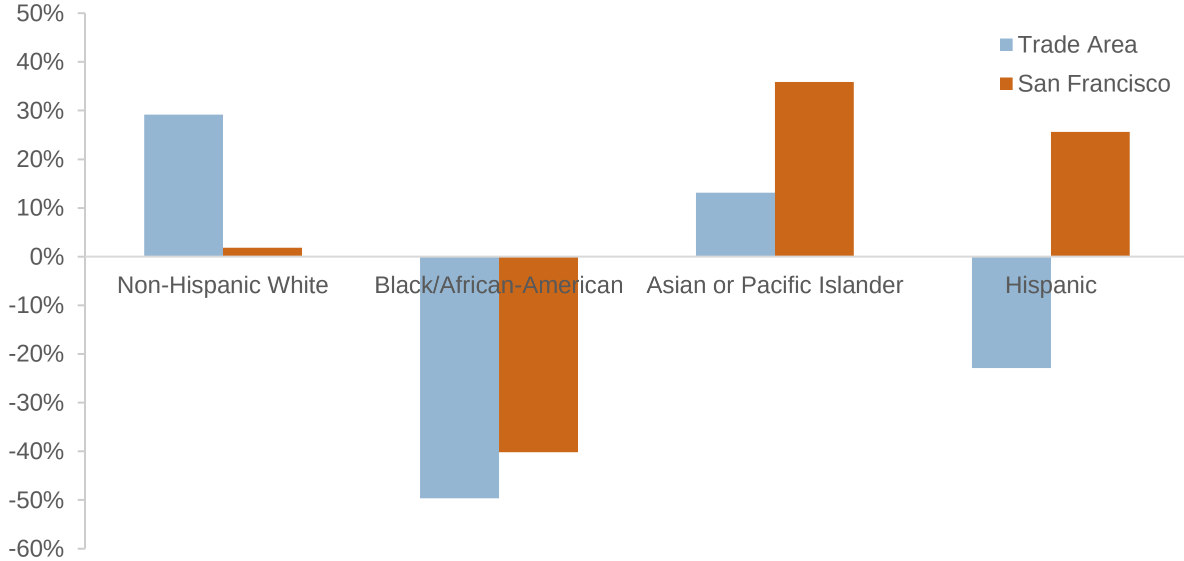
Figure III-5. Share of Population by Race and Ethnicity: Trade Area and San Francisco, 2014



Note: For consistency with the following chart, the "Other" category (including: some other race alone, two or more races, American Indian and Alaska Native alone) has not been included. In both the Trade Area and San Francisco, 4.1 of residents fell into the "Other" category in 2014.
Source: American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

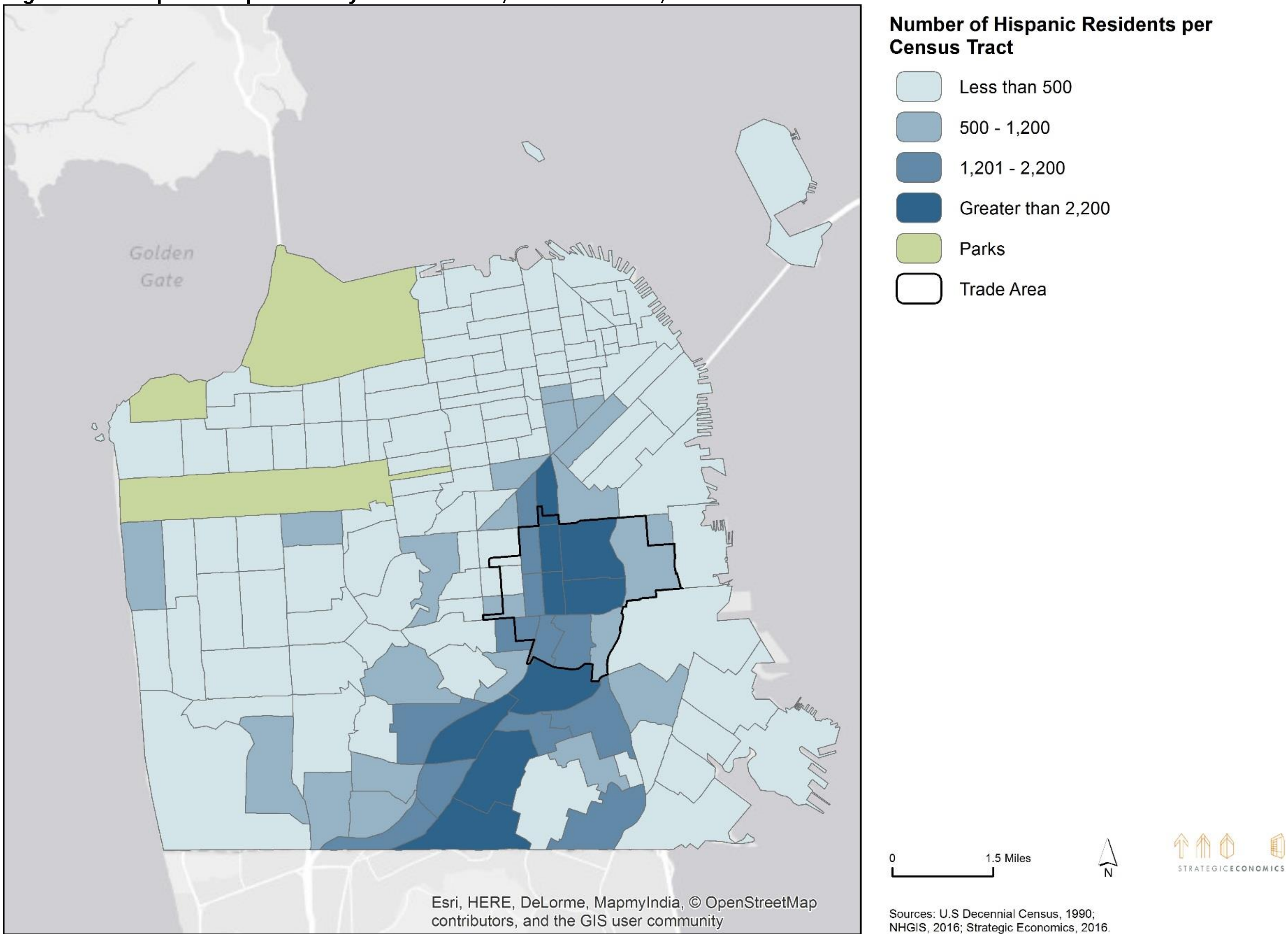
[2] Note that the U.S. Census uses the category "Hispanic" to refer to a person of "Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race" and does not use the term Latino, which is otherwise used throughout this report. The Census includes two separate questions about (1) race and (2) Hispanic .. In 1990, respondents were asked first about race and secondly about whether they were Hispanic; in 2000,the order of the questions was reversed. Placing the question about Hispanic identity before the one on race is believed to have improved the response rate to the former question. Source: "Changing The Way U.S. Hispanics Are Counted", Carl Haub, Population Reference Bureau, November 2012, http://www.prb.org/Publications/Articles/2012/us-census-and-hispanics.aspx

Figure III-6. Change in Population by Race and Ethnicity: Trade Area and San Francisco, 1990-2014



Note: Changes in the "Other" category (which includes: some other race alone, two or more races, American Indian and Alaska Native alone) have not been included in this chart because of their order of magnitude, much larger than the change in other racial and ethnic categories. The trade area and San Francisco have seen an increase in residents identifying as "Other" of 453 percent and 731 percent, respectively, between 1990 and 2014.
Source: U.S. Decennial Census 1990, and American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

Figure III-7. Hispanic Population by Census Tract, San Francisco, 1990



Note: Census tract boundaries changed between 1990 and 2014.

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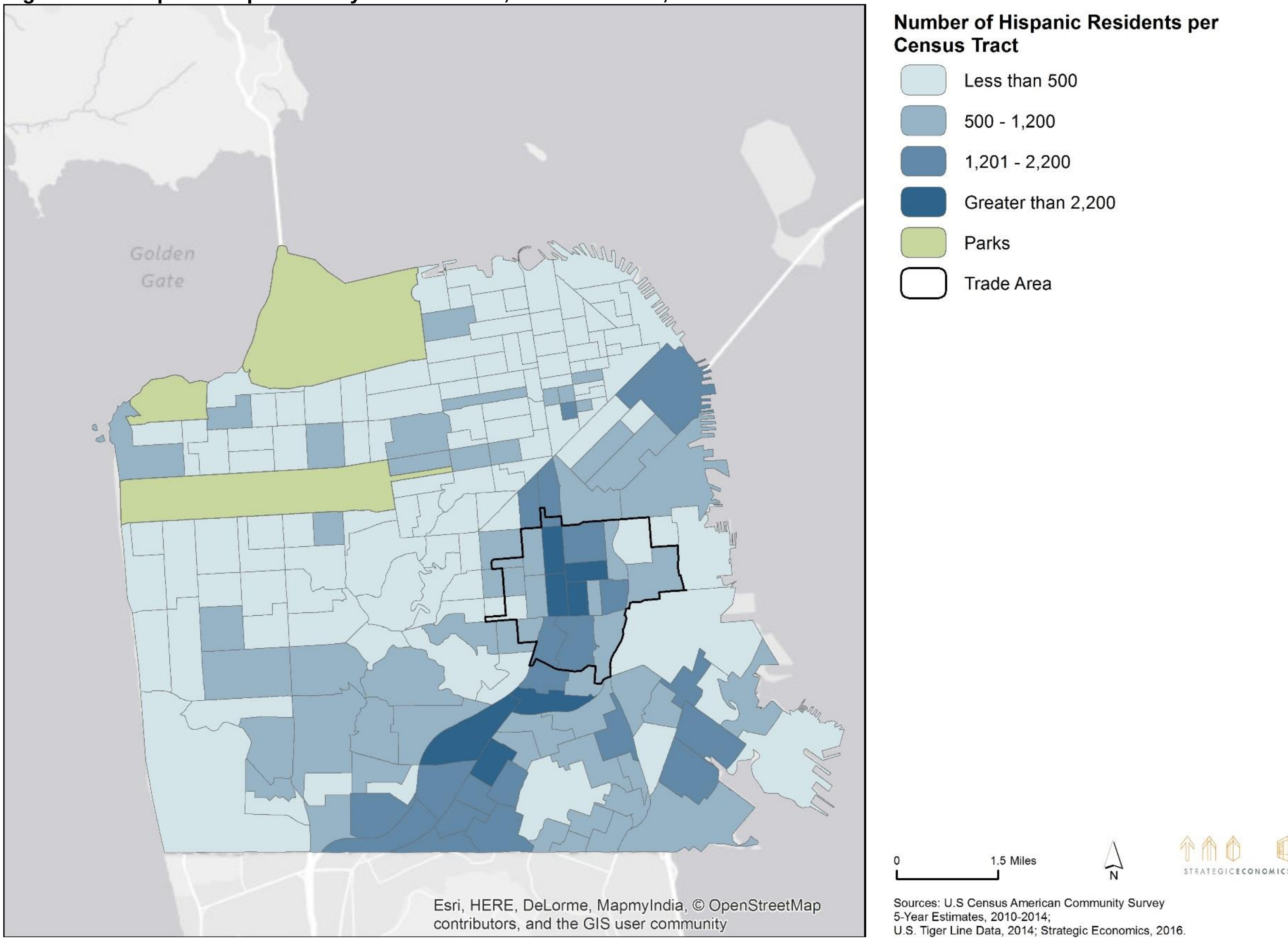
Figure III-8. Hispanic Population by Census Tract, San Francisco, 2014



Note: Census tract boundaries changed between 1990 and 2014.

EDUCATION, INCOME AND EMPLOYMENT

The share of the trade area population with a college degree or higher increased significantly between 1990 and 2014. In 1990, the educational attainment of trade area residents was generally lower compared to San Francisco as a whole. For instance, 30 percent of residents did not hold a high school degree in 1990, compared to 22 percent in the city overall. Between 1990 and 2014, the share of trade area residents with a college degree or higher increased from 29 percent to 58 percent, and is now higher than the citywide average of 53 percent (Figure III-9).

Since 1990, the trade area has also seen a significant increase in the number of higher-income households and a decrease in the number of lower-income households, mirroring citywide trends. In both the trade area and San Francisco as a whole, the number of households earning more than $150,000 a year increased by approximately 270 percent between 1990 and 2014 (Figure III-10). Meanwhile, the number of households in the trade area earning less than $50,000 declined, although not as much as the decrease in low-income households citywide. Note that the income levels shown in Figure II-10 are not adjusted for inflation.

Almost 60 percent of employed residents in the trade area work in professional and managerial occupations, up from 45 percent in 2000. Professional and managerial jobs represent the two largest occupation groups of residents of the trade area, and grew significantly between 2000 and 2014 (Figure III-11). The third largest occupation category, office and administrative support, declined by over 40 percent between 2000 and 2014. Over the same period, the number of residents in other occupation categories declined slightly or remained stable.

Figure III-9. Educational Attainment for Population of 25 and Over: Trade Area and San Francisco, 1990, 2014

	1990	2014	Percent of Total 1990	Percent of Total 2014	Change Over Time 1990-2014
Trade Area					
Less than high school	15,109	7,274	30%	12%	-51.9%
High school graduate (includes equivalency)	9,416	6,949	18%	12%	-26.2%
Some college	11,790	11,198	23%	19%	-5.0%
Bachelor's degree	9,333	20,208	18%	34%	116.5%
Graduate degree or higher*	5,281	14,226	10%	24%	169.4%
Total	**50,929**	**59,855**	**100%**	**100%**	**17.5%**
San Francisco					
Less than high school	117,834	86,302	22%	13%	-26.8%
High school graduate (includes equivalency)	97,583	84,501	18%	13%	-13.4%
Some college	132,763	133,971	25%	21%	0.9%
Bachelor's degree	118,360	208,286	22%	32%	76.0%
Graduate degree or higher*	69,475	134,277	13%	21%	93.3%
Total	**536,015**	**647,337**	**100%**	**100%**	**20.8%**

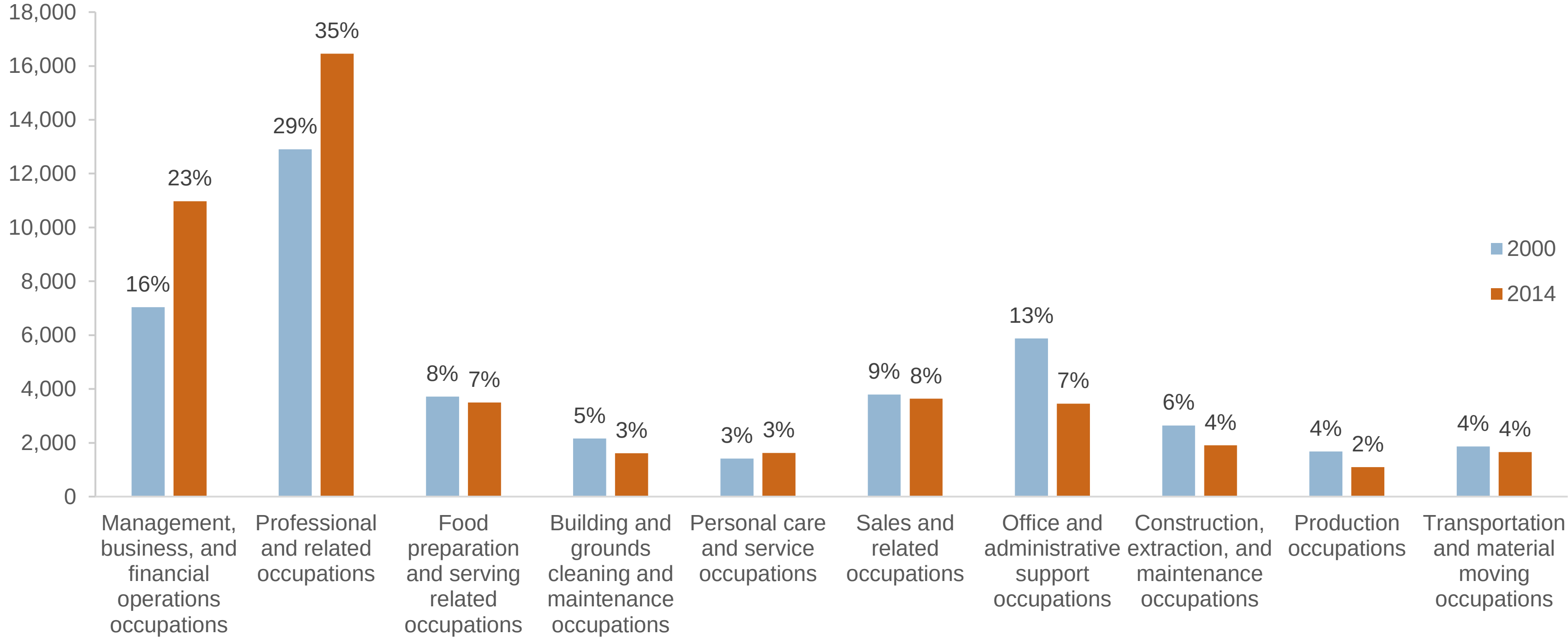
*Includes master's degree, professional school degree and doctorate degree.
Note: For 1990, educational attainment data taken from SF3 tables (sample counts).
Source: U.S. Decennial Census 1990 and American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics.

Figure III-10. Households by Income Category: Trade Area and San Francisco, 1990, 2014 (In Nominal Dollars)

	1990	2014	Percent of Total 1990	Percent of Total 2014	Change Over Time 1990-2014
Trade Area					
Less than $25,000	5,501	4,674	20%	15%	-15.0%
$25,000 to $49,999	6,322	4,607	23%	15%	-27.1%
$50,000 to $74,999	5,450	3,893	20%	13%	-28.6%
$75,000 to $99,999	3,877	2,933	14%	10%	-24.3%
$100,000 to $124,999	2,163	2,820	8%	9%	30.4%
$125,000 to $149,999	1,528	2,170	6%	7%	42.0%
$150,000 or more	2,552	9,514	9%	31%	272.8%
Total	**27,393**	**30,611**	**100%**	**100%**	**11.7%**
San Francisco					
Less than $25,000	112,946	71,173	37%	24%	-37.0%
$25,000 to $49,999	98,612	52,078	32%	18%	-47.2%
$50,000 to $74,999	50,536	45,683	17%	15%	-9.6%
$75,000 to $99,999	21,165	36,924	7%	12%	74.5%
$100,000 to $124,999	9,384	33,524	3%	11%	257.2%
$125,000 to $149,999	4,404	24,087	1%	8%	446.9%
$150,000 or more	8,937	32,934	3%	11%	268.5%
Total	**305,984**	**296,403**	**100%**	**100%**	**-3.1%**

Note: For 1990, household income data taken from SF3 tables (sample counts). Values presented in this table are not inflation-adjusted.
Source: U.S. Decennial Census 1990 and American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

Figure III-11. Employed Residents by Occupation: Trade Area, 2000, 2014



Note: This chart only includes occupation categories with 1,000 or more workers.
Source: U.S. Decennial Census, 2000, and American Community Survey 5-Year Estimates, 2010-2014; Strategic Economics, 2016.

TRADE AREA EMPLOYMENT

This section describes the characteristics of workers who are employed in the trade area.

In 2014, about a quarter of the jobs in the trade area were in accommodation and food services, while another 16 percent of jobs were in health care, largely due to the presence of San Francisco General Hospital and St. Luke's Hospital. The trade area's third largest job category was retail, which represented 10 percent of the area's jobs (Figure III-12). The fact that 8 percent of jobs were in educational services may reflect the presence of several San Francisco Unified School District and private schools in the trade area. In contrast, the largest employment category in San Francisco as a whole was professional, scientific, and technical services, representing 16 percent of employment in 2014.

About a quarter (24 percent) of workers employed in the trade area in 2014 were Hispanic. Hispanics also accounted for about a quarter (23 percent) of the employed residents who lived in the trade area in 2014.[3]

Sixty-one percent of local workers made less than $40,000 a year in 2014. In comparison, 42 percent of all San Francisco workers made less than $40,000 (Figure III-12). The low wages in the trade area likely reflect the concentration of accommodation and food services jobs, which tend to be relatively low-paying.

[3] As discussed above, about a third of all trade area residents (including children and other unemployed residents) in 2014 were Hispanic.

Figure III-12. Worker Characteristics: Trade Area and San Francisco, 2014

	Trade Area		San Francisco	
	Number	**Share**	**Number**	**Share**
Jobs by Industry Sector				
Accommodation and Food Services	6,193	26%	78,889	12%
Health Care and Social Assistance	3,792	16%	75,880	11%
Professional, Scientific, Technical Services, and Management	2,872	12%	130,398	20%
Retail Trade	2,458	10%	45,438	7%
Educational Services	1,827	8%	54,353	8%
Manufacturing	1,298	5%	9,760	1%
Other Services (excluding Public Administration)	1,236	5%	28,512	4%
Administration & Support, Waste Management, Remediation	1,122	5%	58,937	9%
Information	907	4%	28,665	4%
Finance, Insurance, Real Estate	832	3%	52,883	8%
Construction	806	3%	16,703	2%
Transportation, Warehousing and Wholesale Trade	573	2%	31,197	5%
Arts, Entertainment, and Recreation	258	1%	16,099	2%
Agriculture, Mining and Utilities	51	0%	9,749	1%
Public Administration	23	0%	30,807	5%
Total	**24,248**	**100%**	**668,270**	**100%**
Jobs by Worker Ethnicity				
Not Hispanic or Latino	18,490	76%	555,572	83%
Hispanic or Latino	5,758	24%	112,698	17%
Total	**24,248**	**100%**	**668,270**	**100%**
Jobs by Annual Earnings				
$15,000 per year or less	6,205	26%	121,295	18%
$15,001 to $40,000 per year	8,403	35%	161,290	24%
More than $40,000 per year	9,640	40%	385,685	58%
Total	**24,248**	**100%**	**668,270**	**100%**

Columns may not add due to rounding.
Source: U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics, 2014; Strategic Economics, 2016.

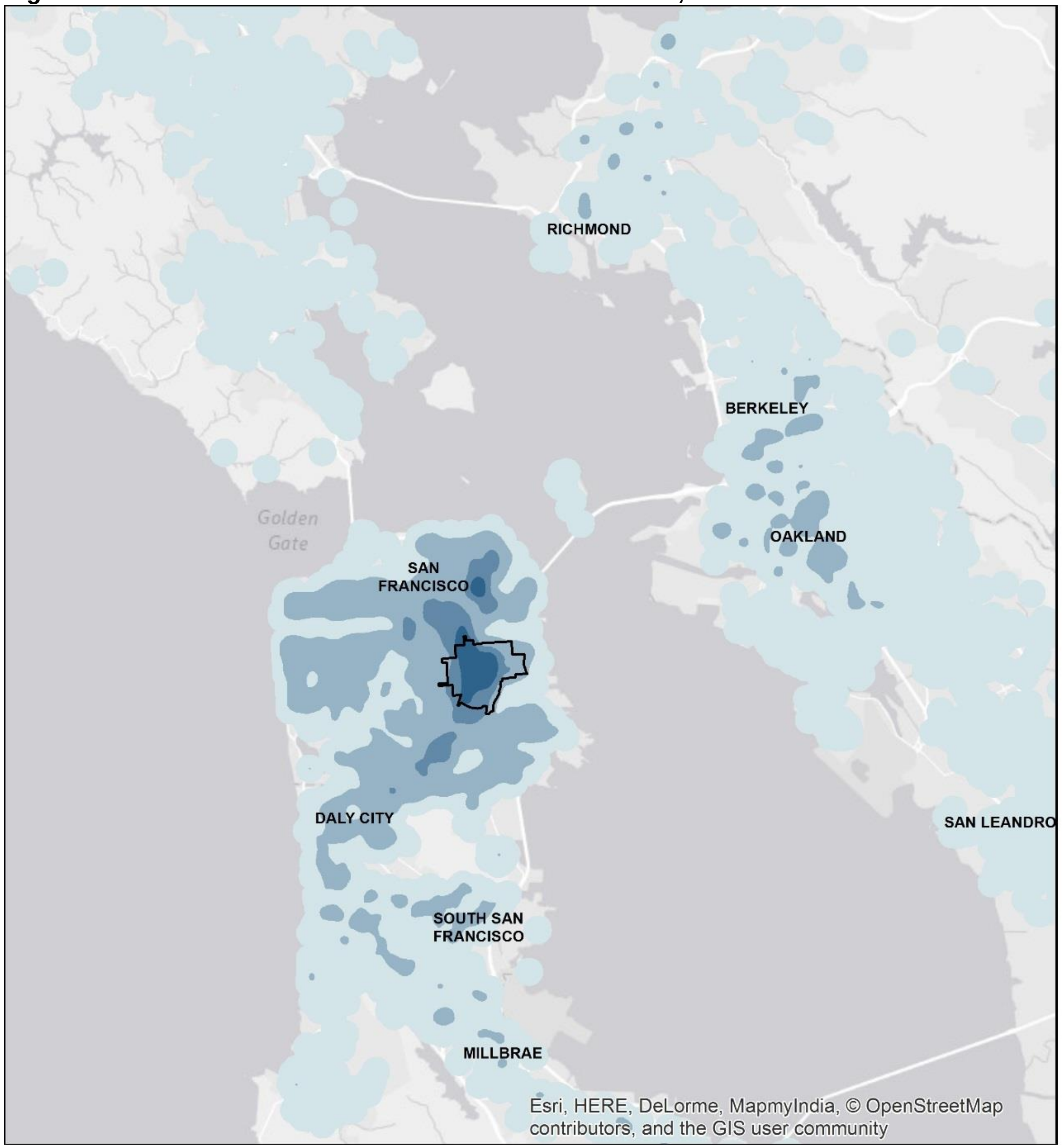
COMMUTE PATTERNS

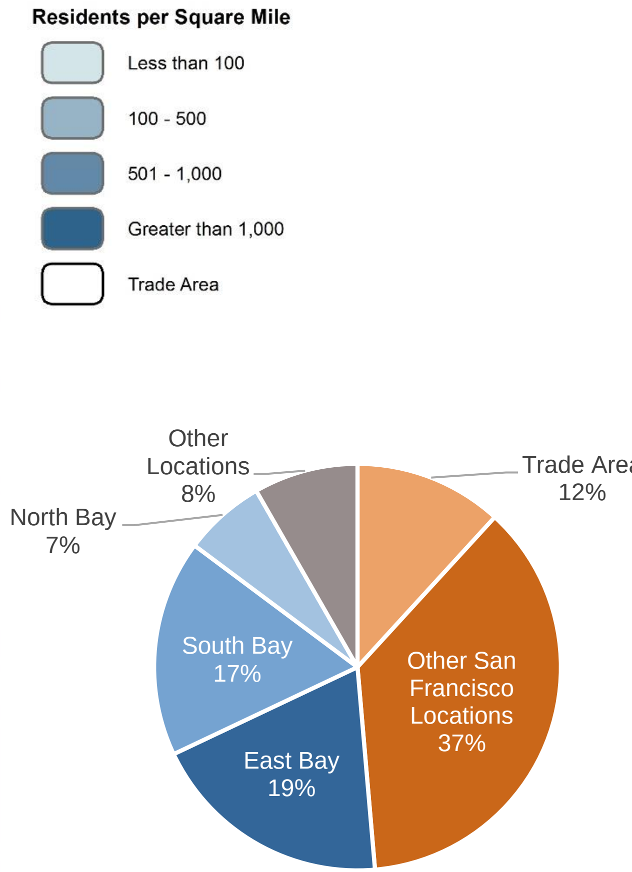
Approximately 2,680 workers both live and work in the trade area. These workers account for 12 percent of all workers employed in the trade area, and 8 percent of all employed residents of the trade area.

Nearly half of workers employed in the trade area work somewhere in San Francisco. Figure III-13 show where the approximately 24,200 workers employed in the trade area live**.**

About two-thirds of the trade area's employed residents work in San Francisco. Figure III-14 shows where the 37,600 employed residents who live in the trade area work.

Figure III-13. Place of Residence for Trade Area Workers, 2014





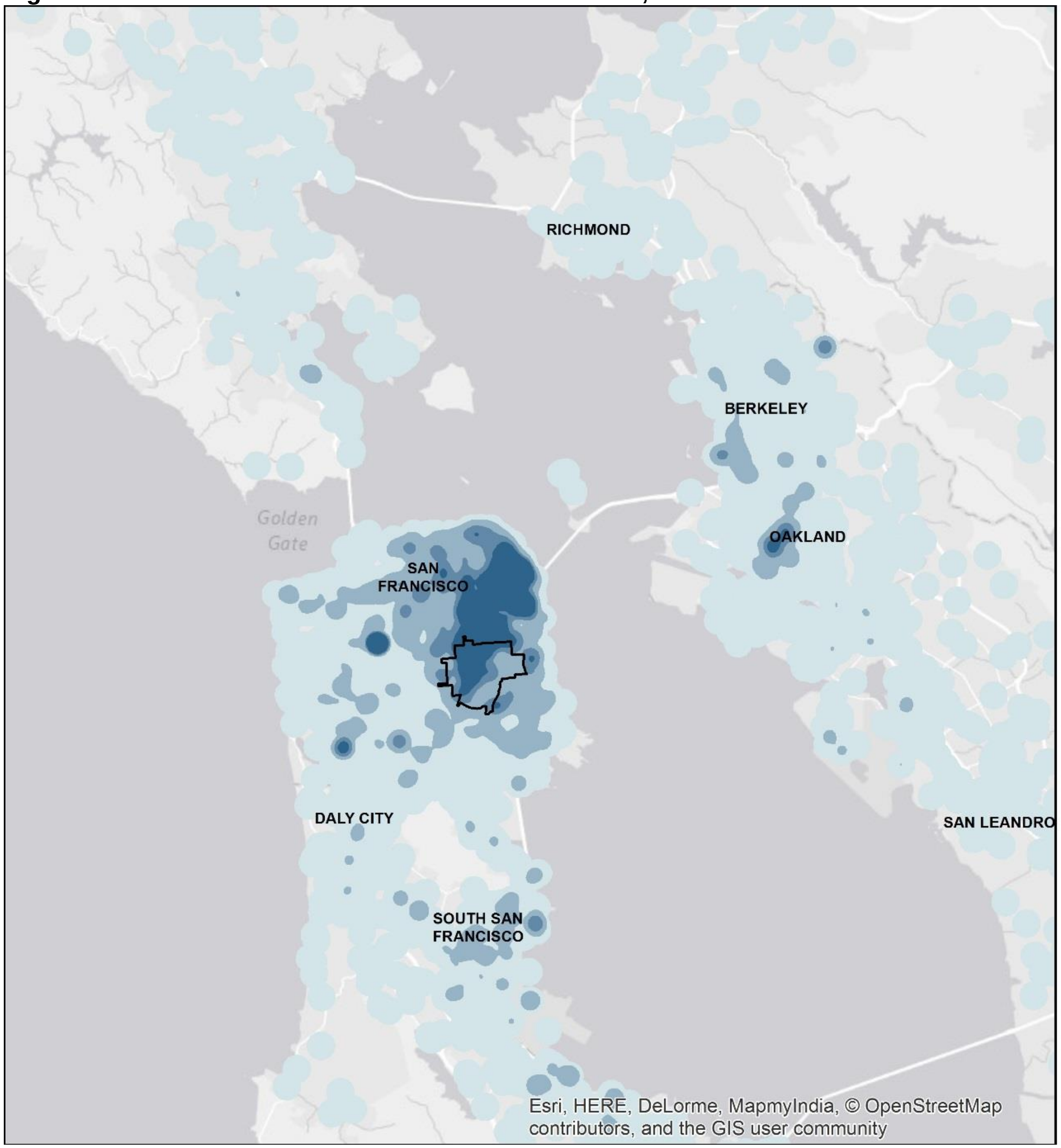
Note: "East Bay" includes Alameda and Contra Costa Counties, "Peninsula and South Bay" includes San Mateo and Santa Clara Counties, and "North Bay" includes Marin, Sonoma, Napa and Solano Counties.

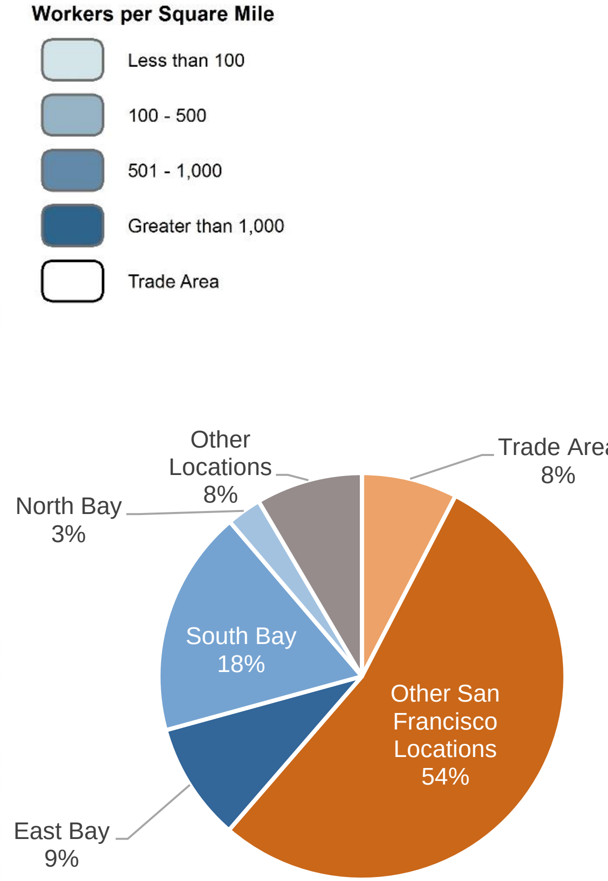
0 3.5 Miles N

STRATEGICECONOMICS

Sources: LEHD "On the Map", 2014; U.S. Tiger Line Data, 2014; Strategic Economics, 2016.

Figure III-14. Work Location for Trade Area Residents, 2014





Note: "East Bay" includes Alameda and Contra Costa Counties, "Peninsula and South Bay" includes San Mateo and Santa Clara Counties, and "North Bay" includes Marin, Sonoma, Napa and Solano Counties.

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Sources: LEHD "On the Map", 2014; U.S. Tiger Line Data, 2014; Strategic Economics, 2016.

OTHER SOURCES OF DEMAND

In addition to residents and workers who visit the corridor every day, 24th Street attracts many tourists and other visitors who come to experience the corridor's many cultural institutions and events, as well as shoppers from around the region. Although there are limited quantitative data on these visitors, some trends emerged from interviews with local business owners.

According to local business owners, Calle 24, and the trade area in general, have been attracting an increasing number of tourists. Regional, national, and international tourists are attracted by the cultural institutions, murals, public art, and specialty food and retail.

Calle 24's cultural institutions, such as the galleries (including Galeria de la Raza and Acción Latina's gallery) and Brava Theater, help draw visitors to the corridor who then shop at local businesses. These cultural institutions attract visitors from around the region, who often stay to purchase goods and services in neighboring shops, bars, and restaurants.

Special events in the Mission also help draw customers from the region and beyond, although some businesses report temporary declines in business during special events. Some businesses benefit greatly from events such as Carnaval or Día de los Muertos, while others report that their business is effected negatively, or see little effect. However, most interviewed business owners agreed that these events contribute to "putting 24th Street on the map" and bringing in customers in the long run.

The presence of the 24th Street Mission BART station also draws customers from adjacent neighborhoods, on their way to or from work. The 24th Street Mission BART station was the fifth most trafficked station in San Francisco, after the system's four downtown San Francisco stations, with over 13,000 weekday exits in 2013.[4] Many of the BART riders exiting at 24th Street Mission live in neighboring areas such as Noe Valley, Bernal Heights and Potrero Hill. These commuters contribute to supporting Calle 24's retail corridor.

According to local business owners, many former residents of the neighborhood who identify as Latino occasionally come back to the trade area in order to attend events at churches or other cultural institutions, or to shop. This pattern was noted by several business owners, but some also mentioned that they have noticed a decline in the return of former Latino residents.

The overall growth of the Latino consumer market throughout the Bay Area has increased the availability of products catering to this community, implying that former residents do not necessarily need to come back to Calle 24 to find specific products. Latinos are the fastest growing ethnic group in the U.S., and had a combined estimated spending power of $1.3 trillion in 2014 – up from $1 trillion in 2010. In California alone, Latino buying power was estimated at $304.3 billion in 2014. Businesses of all types are increasingly adjusting their projects and services to serve this growing market. For example, major national companies such as Target, Ford, and Proctor & Gamble have adjusted their product lines and marketing to appeal specifically to Latino consumers.[5] As a result, Latino customers who might once have visited Calle 24 regularly in order to find specific products and services may not be able to find those products in other parts of the region.

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[4] Source: BART Ridership Reports, Average Weekday Exits by Station, 2013.
[5] Source: Pantera Digital, "The 2014 Hispanic Consumer Market."

IMPLICATIONS FOR THE RETAIL ON CALLE 24

The changing consumer market in the trade area has a number of implications for retail demand on Calle 24 and on the other commercial corridors in the Mission. The major changes and some of the implications for consumer demand are summarized below; the following chapter describes in more detail how the changing consumer market and other trends have created new challenges and opportunities for businesses on 24th Street.

While the trade area continues to serve a significant Latino customer base, the area has experienced a significant decline in the Latino population and an increase in higher-income households. The Calle 24 trade area continues to serve a large Latino customer base; as of 2014, 40 percent of residents and 25 percent of workers employed in the trade area were Latino. However, the trade area has experienced a significant decline in Latino residents since 1990, accompanied by an increase in non-Latino white residents and in higher-income, more educated residents, with fewer children and smaller households.

The trade area is attracting a growing stream of visitors. Many visitors are drawn by the Mission's distinctive Latino heritage, including the neighborhood's cultural institutions, public art, and many Latino stores and restaurants. Special events in the Mission also help draw customers from around the Bay Area, although some retailers and restaurant owners report temporary declines in business during special events. According to business owners, former residents also return to the area to find specific goods and services. Other visitors come to the Mission for high-end dining, bars, and nightlife.

Increased buying power and a more diverse customer base are creating new retail opportunities in the trade area. Changes in the trade area's demographic base, and the influx of visitors from outside of the neighborhood, suggest that customer demand is increasingly diverse in terms of both price points and the types of goods and services for which there may be a market. According to local business owners, the trade area's Latino population – as well as many new residents – continue to patronize many of the long-standing businesses on Calle 24 and elsewhere in the Mission. At the same time, there is demand for new types of products and services, such as high-end restaurants, cafes, and bars.

Changing conditions are also creating challenges for some long-standing businesses. The following chapter discusses how changes in consumer market and the retail environment more generally – including increasing commercial rents, as well as broader trends like the impact of online shopping on brick-and-mortar retail – are creating challenges as well as opportunities for businesses on Calle 24.

IV. CHARACTERISTICS OF THE EXISTING RETAIL

While Chapter III focused on the characteristics of the consumer market in the trade area, this chapter analyzes retail activity in the trade area and on the Calle 24 corridor. The chapter covers the following topics:

- The broader national and regional retail dynamics that affect the Calle 24 retail corridor;
- The historical and cultural context of the Mission neighborhood, including a discussion of the different roles that Calle 24 and the other commercial corridors play within the neighborhood; and
- The current retail environment on Calle 24, including the existing retail mix, real estate trends, and the strategies businesses have developed to adapt to recent changes in consumer demand.

THE NATIONAL AND REGIONAL RETAIL ENVIRONMENT

The national and regional retail environment is shifting, influencing the types of retail on Calle 24 and in other retail areas. Some of these wider industry trends are described below.

The expanding Bay Area economy has fueled a very strong retail market that is allowing some retailers to thrive while creating challenges for others. Strong job creation and limited new construction of free-standing retail in the region[6] has propelled rents upwards over recent years: during the past 12 months, the average asking rent in the Bay Area for retail space grew by 5.9 percent, compounding the 9.4 percent increase in 2015.[7] While higher retail rent levels are creating challenges for some small and midsize businesses that may struggle to afford increased costs, the booming regional economy is also creating opportunities for retailers of all sizes.

Demand for brick-and-mortar retail space in local shopping districts is increasingly driven by businesses that do not compete directly with online shopping. As more retail sales shift online, demand for certain types of brick-and-mortar retail stores – for example, book, music, video rental, and electronics stores – has declined significantly. In shopping centers and retail corridors across the Bay Area, demand for new retail space is increasingly driven by uses that do not compete directly with online sales, such as restaurants, personal services (for example, hair and nail salons), grocery stores, and specialty retailers that provide goods and services that cannot be obtained online.

Nationally and regionally, the strongest growth is being experienced by retailers that offer either expensive, high-end goods and services, or discount products. This shift may in part reflect a regional and national decline in consumer demand from the middle class as median household incomes have stagnated, accompanied by strong growth in the share of domestic consumption generated by the top five percent of earners. Since the great recession of the late 2000's, brands that cater to the middle-class have seen their market shares diminish, while stores selling luxury goods have expanded.[8] At the same time,

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[6] The San Francisco Bay Area region has added very little new inventory in recent years, recently ranking 17th out of 19 primary markets for retail construction, despite having the lowest vacancy rate in the country. This does not include retail space that is part of mixed-use projects. Source: JLL, United States Retail Outlook, Q2 2015.

[7] Note that these figures are for retail space only, and do not include office. Source: Marcus & Millichap, Retail Research Market Report, San Francisco Metro Area, Q2 2016.

[8] Nelson D. Schwartz, "The Middle Class Is Steadily Eroding. Just Ask the Business World.," The New York Times, February 2, 2014, http://www.nytimes.com/2014/02/03/business/the-middle-class-is-steadily-eroding-just-ask-the-business-world.html.

some of the strongest growth in demand for retail space has come from discount stores serving lower-income households, including dollar stores and off-price apparel stores.[9]

Retailers increasingly favor storefronts in walkable, urban neighborhoods. Many retailers increasingly prefer urban retail corridors, which offer access both to a higher density of potential customers, as well as to segments of the population (such as Millennials or Latinos) that tend to locate in dense urban areas. The Mission's commercial corridors, which are transit-accessible, dense, and attract significant foot traffic, are highly desirable retail locations.

HISTORICAL AND CULTURAL CONTEXT

The Mission, and particularly the Calle 24 corridor, is a unique neighborhood with a long history as a retail destination. This section provides a short summary of the historic development of the Mission and an overview of the current characteristics of the neighborhood's commercial corridors, with a focus on Calle 24. The analysis presented in this section draws from the following sources:

- Historical information from various recent planning reports concerning the Mission, particularly the Mission Street Public Life Plan of February 2015;
- A ground floor uses survey and field observations conducted by Strategic Economics in March 2016; and
- Parcel and sales tax data provided by the City of San Francisco. Note that sales tax revenue data were available only at the Census Block level for Mission, Valencia, and 24th Street, and only in aggregate; a detailed analysis of the types of retail activity driving growth in each corridor was therefore not possible.

HISTORICAL CONTEXT

The Mission has been an important retail destination since the early 20th century, although it was profoundly transformed by the rise of the car culture and the construction of the BART system. As in other parts of the city and region, Mission Street saw a removal of its streetcar rails in 1949, which were replaced by buses. Despite this change, the neighborhood, and particularly Mission Street, remained a retail and entertainment destination in San Francisco. However, the construction of BART, which took place between 1967 and 1973 and involved tearing up Mission Street to allow for the construction of the subway, was a heavy blow to local businesses. The lengthy construction period was a significant challenge to local retailers, who were very dependent on foot traffic.

In the second half of the 20th century, the Mission grew increasingly Latino. While the Mission was populated with many Irish, German and Italian immigrants in the first half of the 20th century, changes in national immigration policy and local development patterns resulted in many Latinos moving to the Mission in the second half of the 20th century. According to one recent study, the Mission district's so-called "Spanish-surnamed" population grew from 11 percent in 1950 to 45 percent in 1970.[10]

The Mission developed a strong culture of Latino neighborhood activism and public art, exemplified by the Mission Muralismo movement. Starting in the 1960s and 1970s, many local residents organized

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[9] Cushman & Wakefield, U.S. Shopping Center Snapshot, Q1 2016.
[10] Tomás F. Summers Sandoval Jr., *Latinos at the Golden Gate: Creating Community & Identity in San Francisco,* (Chapel Hill, NC: The University of North Carolina Press, 2013, 101-102, 121)

to oppose large redevelopment projects in the Mission (for example, through the Mission Coalition Organization), laying the foundation for the neighborhood's strong Latino activism. In 1974, three local artists painted the *Homenaje a Siqueiros* mural (Homage to Siqueiros) at 23rd Street and Mission Street, an important milestone in the birth of the Mission Muralismo movement. To this day, the Mission, and particularly Calle 24, continues to be the canvas for many murals that draw on and pay homage to the Mission's Latino culture.

Since the 1990s, as technology companies grew in the Bay Area, the Mission has seen an influx of new residents with higher purchasing power accompanied by soaring residential and commercial rents. Because of the Mission's central location and transit accessibility the neighborhood has attracted many new educated, younger, higher-income residents. This process of gentrification, coupled with broader shifts in retail, has affected the Mission's various corridors in different ways. The following section discusses the current characteristics of the neighborhood's retail corridors.

CURRENT CHARACTERISTICS OF THE MISSION'S COMMERCIAL CORRIDORS

The Mission has five main retail corridors, each characterized by a unique pedestrian environment, building stock, and mix of ground floor uses.

Mission Street functions as the neighborhood's spine and main retail corridor. Some of the key characteristics of the corridor include:

- **Regional transportation corridor:** Mission Street is a major transit corridor that connects San Francisco's downtown to its most southern neighborhoods. Within the neighborhood, Mission Street functions as a wide boulevard with a vibrant pedestrian atmosphere, which is reinforced by the presence of two major BART stations at 16th and 24th Streets, and major bus lines.
- **Diverse retail mix and customer base:** The Mission Street corridor is home to over 400 businesses. The corridor's varied mix of retailers attracts a diverse customer base that varies between the day and the night. Typically, grocery stores and other types of local-serving retail draw local customers during the day, while bars, restaurants and nightclubs bring in a younger, more affluent clientele at night, from the neighborhood and beyond. Unlike the other corridors, Mission Street's retail mix also includes some formula retail businesses, including restaurants, cell phone stores, and drugstores. While these retailers are sometimes perceived as diminishing neighborhood character, they may also provide affordable products to local residents (as well as some employment opportunities for low- and moderate-income workers).[11]
- **Relatively wide storefronts and large parcels:** Because of the street's historic development, storefronts are larger and wider than in other areas of the Mission, attracting retail and high-end restaurants that require more space. As an indicator of land use patterns, Figure IV-1 presents the median parcel size for each of the Mission's major five retail corridors; Mission Street, along with 16th Street, has the highest median parcel size. (Note that parcel sizes do not directly translate into ground floor uses, as many parcels are occupied by buildings that have multiple small storefronts.)

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[11] Office of Economic Analysis, City and County of San Francisco, "Expanding Formula Retail Controls: Economic Impact Report," February 12, 2014, http://sfcontroller.org/sites/default/files/FileCenter/Documents/5119-130788_economic_impact_final.pdf; Strategic Economics, "San Francisco Formula Retail Economic Analysis," prepared for San Francisco Planning Department, June 2014, http://208.121.200.84/ftp/files/legislative_changes/form_retail/Final_Formula_Retail_Report_06-06-14.pdf.

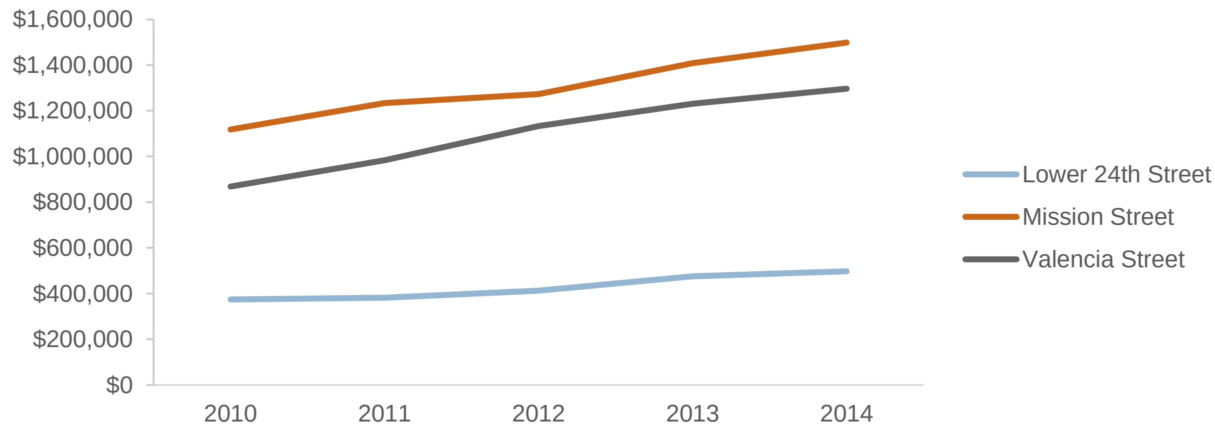
- **Relatively high sales:** As shown in Figure IV-2, the Mission Street retail corridor has higher sales tax revenues than Valencia and 24th Streets. In 2014, Mission Street represented about 30 percent of the trade area's total sales tax revenues. Mission Street's higher sales tax revenues presumably reflect the fact that it is one of the longer corridors in the trade area; data on business performance (average sales per store) or the types of retail driving sales in each corridor were not available.[12]

Figure IV-1. Median Parcel Size of the Mission's Commercial Corridors.

Commercial Corridor	Median Parcel Size (Square Feet)
Mission St: 14th Street to Cesar Chavez Street	3,480
Valencia Street: 14th Street to Cesar Chavez Street	3,050
16th Street: Dolores Street to Capp Street	3,480
22nd Street: Dolores Street to Capp Street	3,050
24th Street: Bartlett Street to Potrero Avenue	2,610

Sources: City of San Francisco, 2016; Strategic Economics, 2016.

Figure IV-2. Sales Tax Revenues by Corridor, 2010-2014



Note: Because the data were only available at the Census Block level, the boundaries used to define the corridors and the trade area do not exactly match those used in other parts of the report. 16th Street and 22nd Street were not analyzed because the Census Blocks were too imprecise to obtain meaningful results for these smaller corridor.
Source: San Francisco Sales Tax GIS Viewer, http://sfstax.hdlgov.com/geodata/, accessed June 2016; Strategic Economics, 2016.

Valencia Street concentrates many of the Mission's high-end retail uses. Key characteristics of this corridor include:

- **Significant foot traffic, enhanced by recent public improvements:** Running parallel to Mission Street, Valencia Street serves as a bicycle and pedestrian route within the neighborhood and benefits from foot traffic from the nearby transit nodes on Mission Street. While Valencia Street is itself fairly narrow, the corridor has wide sidewalks that were recently improved to better accommodate pedestrians and allow for outdoor seating. The corridor also includes several parklets that provide additional outdoor seating and enhance the pedestrian atmosphere.
- **Specialization in high-end restaurants and retail:** There are approximately 100 merchants located on Valencia Street. The corridor increasingly specializes in high-end restaurants and retail

[12] Because the data were only available at the Census Block level, the boundaries used to define the corridors and the trade area do not exactly match those used in other parts of the report. As a result, sales tax data are not directly comparable to other data (such as number of businesses) in the report.

(for example, clothing boutiques and furniture stores) catering to higher-income residents and tourists, who are drawn, for instance, to the murals of nearby Clarion Alley.

- **Mix of storefront sizes and types:** Storefronts along Valencia Street are typically slightly smaller than those found on Mission Street, although there are some larger spaces. The street's building mix includes Victorian buildings, which may be residential or mixed-use, with some newer mixed-use buildings with first floor retail spaces.
- **Fast growing sales:** The Valencia Street corridor generates similar levels of sales tax revenues as the Mission Street corridor. However, sales tax revenues on Valencia grew by 11 percent between 2010 and 2014, faster than both Mission Street and 24th Street (which grew by 8 and 7 percent, respectively, during this time period). The fast rate of sales growth may in part reflect the shift towards high-end retail and restaurants on Valencia.

16th Street is an important east-west transportation corridor with a varied business mix. Characteristics of the corridor include:

- **Regional transportation corridor with relatively limited pedestrian amenities:** 16th Street is an important transit corridor for the city, due to the presence of the 16th Street Mission BART station and several bus lines. The corridor connects the Mission to the Castro to the West, and Potrero Hill/Mission Bay to the East, and attracts a large amount of foot traffic and car traffic. Although there are several cafes and restaurants along the corridor, there is relatively little outdoor seating.
- **Dense mix of activities catering to a range of price points:** Retail on the corridor includes restaurants, bars, retail and theaters, punctuated by gas stations and auto repair shops. The corridor's activities cater to a younger clientele, but at different price points depending on the business.
- **Relatively large parcels and storefronts:** In particular, there are a number of very large parcels at the corridor's main intersections. As shown in Figure IV-1, the median parcel size on the 16th Street corridor is similar to Mission Street, and larger than the other corridors.

A shorter retail corridor, 22nd Street largely functions as a node linking activities between Valencia and Mission Streets. 22nd Street is characterized by:

- **Relatively limited retail activity:** The corridor includes a mix of residential uses along with a approximately 155 businesses including restaurants, bars, retail stores, galleries, and banks. A portion of the corridor from Mission Street to Valencia Street is closed on Thursday evenings for the Mission Community Market. Retail along the street ranges from more residential-serving (bakeries, banks) at the Capp Street end of the corridor to more comparison-shopper serving (high-end boutiques, galleries) at the Valencia Street node. Between Valencia and Dolores, the corridor is largely residential.
- **Small, narrow storefronts:** Many of the retail storefronts along this corridor are smaller and narrower, somewhat similarly to the Calle 24 corridor. While there are some larger buildings, they do not necessarily include ground floor retail.

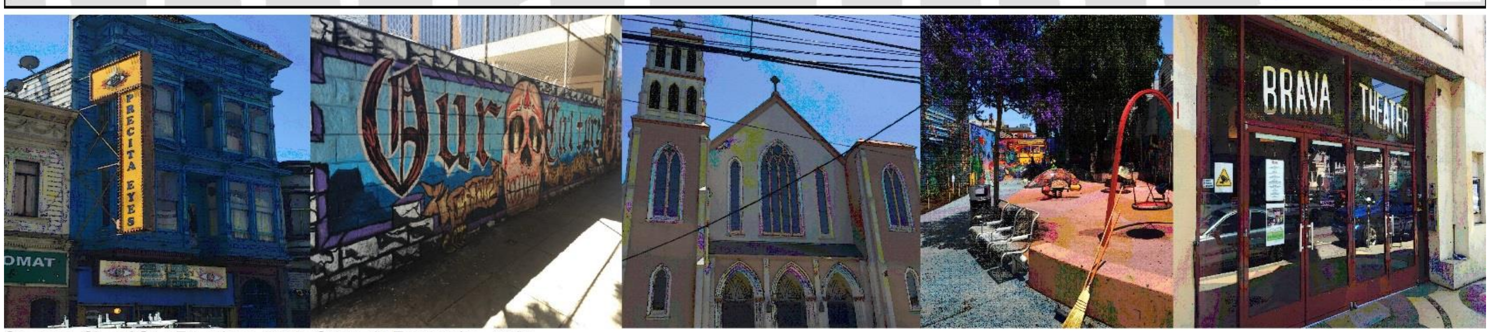
Calle 24 is seen by many stakeholders as the Mission's cultural heart, an area that has retained its authenticity amidst the changes that have impacted the broader neighborhood. Some of the characteristics of the corridor include:

- **Vibrant activity hub and key neighborhood transportation link:** Calle 24 is one of the Mission's major east-west corridors, linking the neighborhood to Noe Valley to the west and Potrero Hill/the Dogpatch to the east. It also serves the residents of the northern slope of Bernal

Heights, which is adjacent to the corridor on the south. The street itself is narrow, with relatively narrow sidewalks. The corridor has a lively, vibrant pedestrian atmosphere, due in part to the presence of the 24th Street BART station, and San Francisco General Hospital to the east.

- **Cultural destination:** As shown in Figure IV-3, the corridor is characterized by the many murals and cultural institutions that contribute to making it a destination.
- **Food-oriented retail:** The corridor has a great number of businesses focusing on food, many of which continue to serve the Latino community while accommodating new customers as well. The characteristics of the corridor's business are analyzed in more detail in the following sections.
- **Small, narrow storefronts:** Many of the buildings along Calle 24 are Victorian style and date from the late 1800s and early 1900s. This is reflected in the corridor's relatively low median parcel size (Figure IV-1). As the land use pattern suggests, the commercial spaces are smaller and narrower compared to the Mission's other commercial corridors, making the spaces more affordable to smaller, independent retailers.
- **Lower sales tax revenues compared to Mission and Valencia:** As shown in Figure IV-2, the Calle 24 corridor has much lower sales tax revenues than the Valencia and Mission Street corridors; between 2010 and 2014, Calle 24 represented approximately 10 percent of the sales tax revenues generated within the trade area. This may reflect Calle 24's relatively smaller size compared to the other two corridors, as well as the fact that many businesses focus on non-taxable items such as fresh foods.

Figure IV-3. Cultural Context Map of the Calle 24 Retail Corridor



Sources: City of San Francisco, 2016; Strategic Economics, 2016.

RECENT RETAIL TRENDS ON CALLE 24

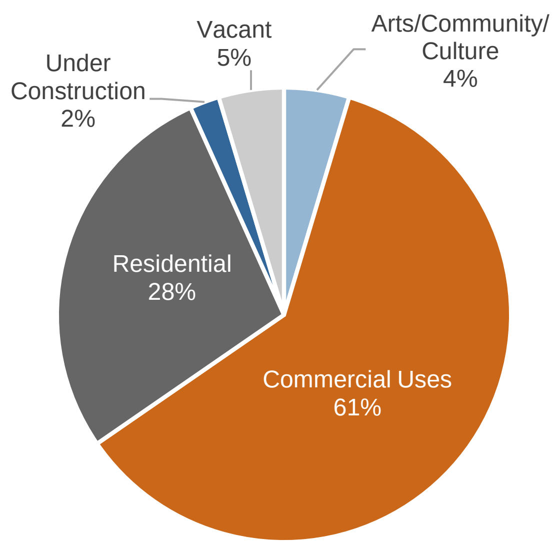
This section focuses on recent retail trends along the Calle 24 corridor, including characteristics of the study area's retail environment, trends in business turnover and the commercial real estate market, and the different approaches that businesses have taken in order to adapt to changing retail conditions.

CHARACTERISTICS OF THE RETAIL ENVIRONMENT

In March 2016, Strategic Economics conducted a visual survey of 237 ground floor addresses on the Calle 24 corridor. The survey focused on the types of ground floor uses, whether storefronts were active (i.e. whether storefronts had visible display windows and outdoor seating), and hours and days of operation. The findings presented below draw from this survey, as well as from interviews conducted with local business owners and other stakeholders, and from Strategic Economics' observations of local retail dynamics.

More than 60 percent of ground floor addresses along the corridor are used for commercial purposes. As shown in Figure IV-4, another quarter of ground floor spaces are occupied by residential uses, while approximately five percent are devoted to artistic or cultural uses. Seven percent of all spaces were vacant or under construction at the time of the survey.

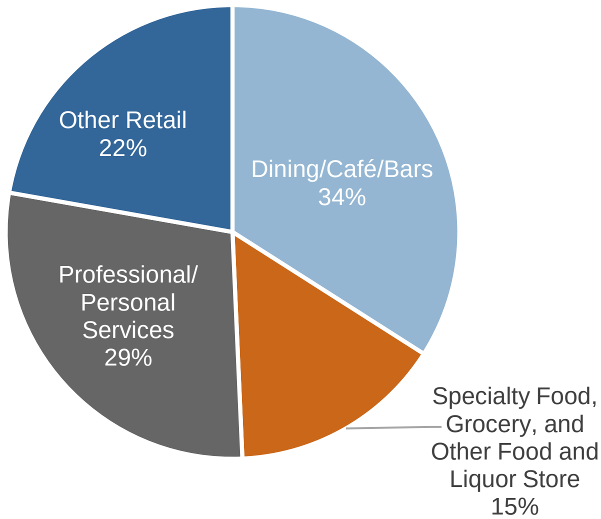
Figure IV-4. Ground Floor Uses: Calle 24 Study Area, March 2016



Source: Strategic Economics, 2016.

Food and dining establishments are the predominant commercial use on Calle 24. About a third of the establishments are restaurants, cafes, or bars where food and/or drinks can be consumed on the premises, and an additional 15 percent are retail businesses selling food or liquor. Professional and personal services account for another 30 percent of the establishments, and retail establishments that do not sell food or liquor represent about 20 percent of the total (Figure IV-5).

Figure IV-5. Ground Floor Commercial Uses: Calle 24 Study Area, March 2016



Source: Strategic Economics, 2016.

There is a variety of food and dining on the Calle 24 corridor, although many of the dining options focus on Latino food. The dining/café/bars category includes a variety of taquerías and pupuserias, other fast/casual restaurants such as pizza and sandwich shops, and sit-down restaurants. The specialty food, grocery, and other food and liquor store category includes a wide variety of food-related establishments including grocery stores, meat and seafood markets, bakeries and panaderías, a juice shop, and liquor stores.

Calle 24's concentration of food and dining establishments, combined with other retail uses and cultural institutions, helps create an attractive retail destination. In general, retail establishments tend to cluster in concentrated nodes. A concentration of similar businesses that offer variety and selection helps create a destination that attracts more shoppers. In the case of Calle 24, the large number of food and dining establishments acts as an anchor for the corridor, while the other retail uses and cultural institutions on the corridor both help to draw more customers to the corridor, and benefit from the clientele who are attracted by the restaurants. The business owners interviewed for this study tended to see their activities as mutually reinforcing, rather than competing against each other.

In addition to drawing customers from outside the neighborhood, the mix of businesses on the corridor continues to serve the daily needs of local residents. While the Calle 24 retail corridor attracts customers from the region and beyond, many of the businesses primarily serve the daily needs of local residents. For example, the dining/café/bars category contains businesses with various price points, including many that are relatively affordable and serve locals and visitors alike. Other examples of local serving businesses include grocery stores and beauty salons.

Almost all the commercial uses on the corridor have a display window that allows passers-by to engage with the business, lending Calle 24 the feeling of a busy, pedestrian-oriented corridor. Three-quarters of the storefronts on the corridor have a display window, while 6 percent also offered outdoor seating (Figure IV-6).

Figure IV-6. Storefront Characteristics: Calle 24 Study Area, March 2016

	Number	Percent of Total
Active Storefront	**125**	**81%**
Display Window	116	75%
Display Window and Outdoor Seating	9	6%
Non-Active Storefront	**30**	**19%**
Total	**155**	**100%**

Note: The data excludes the following uses: vacant, under construction and residential.
Source: Strategic Economics, 2016.

Fewer than half of businesses on the corridor have hours of operation posted either on the storefront or online. At the time of the survey, 65 businesses (42 percent) had hours and days of operations clearly posted either on their storefront or online. For the other 58 percent of businesses, opening hours were not publicly available.

Among businesses with posted hours of operation, over a third are open early in the morning and almost half are open in the evening, while relatively few are open past 10 p.m. As shown in Figure IV-7, many businesses have hours of operation that extend earlier and/or later than 9 a.m. to 7 p.m. While personal services tend to be open earlier in the morning, bars and restaurants tend to remain open later into the evening. Several interviewed business owners mentioned that they extended their hours of operation to serve the flow of commuters who pass through the corridor throughout the day. Longer hours allow businesses to serve residents on their way to or from work, commuters who come to work in the neighborhood (including at San Francisco's General Hospital), and parents dropping off and picking up their children to and from school.

Figure IV-7. Hours of Operation by Activity Type: Calle 24 Study Area, March 2016

Activity Type	6am-9am	9am-7pm	7pm-10pm	10pm-Late
Arts/Community/Culture	1	3	0	0
Dining/Café/Bars	13	24	16	8
Specialty Food, Grocery, and Other Food and Liquor Store	2	5	3	1
Professional/Personal Services	6	18	7	1
Other Retail	2	15	2	0
Total	**24**	**65**	**28**	**10**
Percentage of Total	**37%**	**100%**	**43%**	**15%**

Note: The sum of the values in each row is larger than the total for each category, as some businesses are open in more than one time period.
Source: Strategic Economics, 2016.

Almost all of the businesses with posted days of operation remain open on Mondays and Saturdays, and a great majority of them are open on Sundays. All of the businesses with posted hours were open Tuesday through Friday. As shown in Figure IV-8, the majority were also open on Monday, Saturday, and/or Sunday. According to business owners, most retail activity on the corridor occurs on the weekends. Some business owners stated that remaining open on Mondays allowed them to serve customers who work in dining or hospitality and have that day off.

Figure IV-8. Days of Operation by Activity Type: Calle 24 Study Area, March 2016

Activity Type	Open Monday	Open Saturday	Open Sunday
Arts/Community/Culture	2	2	1
Dining/Café/Bars	20	25	23
Specialty Food, Grocery, and Other Food and Liquor Store	5	5	5
Professional/Personal Services	18	15	11
Other Retail	13	13	8
Total	**58**	**60**	**48**
Percentage of Total	**89%**	**92%**	**74%**

Note: All businesses with opening hours were open Tuesday-Friday. The sum of the values in each row is larger than the total for each category, as some businesses are open on several of these days.

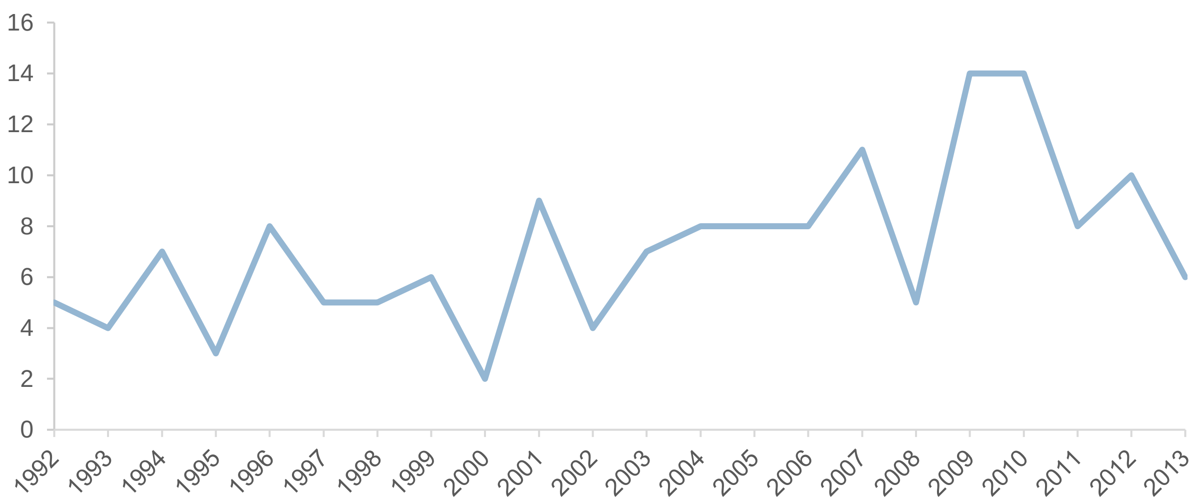
Source: Strategic Economics, 2016.

BUSINESS TURNOVER

The City of San Francisco provided data on business turnovers in the Calle 24 study area between 1992 and 2014. A turnover occurs when one business closes and is replaced by another. For the purposes of this analysis, businesses were categorized according to the four high-level retail categories used above (dining/café/bars, specialty food/grocery/other food and liquor, professional/personal services, and other retail). Note that because data on the total number of businesses located on the corridor over time were not available, it was not possible to calculate the rate of business turnover (i.e., turnovers as a percent of total businesses in any year).

The number of business turnovers on the Calle 24 retail corridor has been increasing gradually since the 1990s. Figures IV-9 through IV-12 present the number of business turnovers between 1992 and 2014. As the line graph on Figure IV-9 shows, the number of businesses turning over has varied greatly from year to year, although the overall trend is an increase over time. Overall, more turnovers occurred per year in the 2003-2014 compared to the 1992-2003 period (Figure IV-10).

Figure IV-9. Business Turnovers on the Calle 24 Corridor, 1992-2014



Source: City of San Francisco, 2016; Strategic Economics, 2016.

Figure IV-10. Number of Business Turnovers by Time Period, 1992-2014

Time Period	Number of Business Turnovers	Average Annual Number of Business Turnovers
1992-2002	58	5
2003-2014	103	9
Total	**161**	**7**

Source: City of San Francisco, 2016; Strategic Economics, 2016.

Most businesses that have closed in the Calle 24 retail corridor were replaced by similar types of establishments. Figure IV-11 presents turnovers by business category of the closing and the opening business. In most cases, new businesses belong to the same business category as the business they replaced. For example, of 46 businesses that closed in the dining/café/bars category, 40 of them were replaced by establishments in the same category.

Figure IV-11. Number of Business Turnovers by "Before" and "After" Use Category, Calle 24 Retail Corridor, 1992-2014

	Use After Turnover				
	Dining/ Café/ Bars	Specialty Food, Grocery, and Other Food and Liquor Store	Professional/ Personal Services	Retail	**Total**
Use Before Turnover					
Dining/Café/Bars	40	1	2	3	**46**
Specialty Food, Grocery, Other Food & Liquor	6	13	2	8	**29**
Professional/Personal Services	1	1	3	14	**19**
Retail	10	4	9	44	**67**
Turnovers without Change of Use	40	13	3	44	**100**
Turnovers with Change of Use	17	6	13	25	**61**
Total Turnovers	**57**	**19**	**16**	**69**	**161**

Source: City of San Francisco, 2016; Strategic Economics, 2016.

Overall, there has been a net increase in the number of restaurants, cafes, and bars and retail establishments in the corridor between 1992 and 2014. Restaurants, cafes and bars saw a net gain of 11 establishments, while the retail category added two net new businesses (Figure IV-12). The number of businesses in the specialty food, grocery, and other food and liquor store category has diminished the most, with a net loss of ten establishments between 1992 and 2014.

The increased number of business turnovers on Calle 24 in the last decade could be a reflection of the challenges some businesses face, and/or a sign of a dynamic retail market with strong demand. Although it is not possible to link the trends described above to specific causes, the increase in turnovers observed over time may reflect some or all of the following factors:

- Higher rents and increased costs of doing business.
- Generational change, as older retailers decide to retire and close or sell their businesses.
- A strengthening local economy and increased local buying power, attracting new businesses.
- Calle 24's growing reputation and increasing success as a dining destination.

- National and regional retail trends, including an increase in online shopping that has led to closures of brick-and-mortar retailers that compete directly with Internet sales, accompanied by a shift towards restaurants and other goods and services that are harder to find online.

Figure IV-12. Net Change in Number of Businesses by Use Category, Calle 24 Retail Corridor, 1992-2014

Source: City of San Francisco, 2016; Strategic Economics, 2016.

REAL ESTATE MARKET TRENDS

This section presents findings related to Calle 24's real estate market, drawing from interviews with local business owners and real estate brokers, as well as data on commercial rents provided by CoStar (a real estate data vendor).

Current asking rents on Calle 24 are reportedly in the range of $3.00 to $4.30 per square foot per month, comparable to other Mission retail corridors. According to brokers and CoStar data, current asking rents were between $3 and $4.30 per square foot (triple net) in mid-2016,[13] depending on the characteristics of the building and location.

Some retailers with long-term leases pay well below current market rates. Retailers who disclosed their rents reported paying between $2.10 and $3.10 per square foot per month.

The vacancy rate on the corridor is relatively low. The Strategic Economics survey of ground floor uses found a vacancy rate of 7 percent (including storefronts that were under construction at the time of the survey). As a rule of thumb, a healthy vacancy rate for a local shopping district is between 5 and 10 percent.

Calle 24's small, narrow storefronts help shape the type of businesses that the corridor attracts. Calle 24 has narrower, smaller retail spaces than other corridors in the Mission, particularly compared to Mission Street. According to brokers, smaller spaces are usually easier to rent, as they are more affordable overall than larger spaces and can serve both new, independent businesses with lower profit margins as well as more established businesses that do not require much space. At the same time, the small storefronts that are generally available on Calle 24 make the corridor a less attractive location for some types of retailers and restaurants that require larger spaces to display their inventory or provide seating for diners.

[13] In a triple net (NNN) lease, the tenant agrees to pay all real estate taxes, building insurance, and maintenance on the property in addition to rent and utilities.

While some property owners in the trade area have expressed an interest in consolidating storefronts, others are interested in subdividing existing, larger spaces. On Calle 24, where the storefronts tend to be small, some property owners have expressed interest in consolidating existing storefronts in order to attract commercial uses that require larger spaces. Larger commercial spaces can attract high-end restaurants, as well as other types of retailers who need space to display their inventory and may be able to sign longer-term leases. At the same time, however, the significant demand for smaller spaces also drives an interest in subdividing larger spaces. Moreover, while smaller spaces are generally more affordable on a total, monthly basis, from a property owners' perspective smaller storefronts may command higher rents on a per-square-foot basis. The interest in subdividing spaces may be more pronounced on Mission Street and other corridors in the trade area where there are larger commercial spaces, rather than on Calle 24. In general, commercial property owners prefer increased flexibility to consolidate or subdivide storefronts in order to meet the changing demands of the market.

ADAPTING TO CHANGING BUSINESS CONDITIONS ON THE CORRIDOR

As discussed above, the Calle 24 retail corridor and the surrounding trade area have experienced significant changes in recent years, including major demographic shifts, increased tourism, higher commercial rents, and increased business turnover. This section describes the impacts that these changes are having on local businesses, the strategies that business owners are using to adapt, and the challenges that businesses continue to face. The findings are based on interviews with local business owners, real estate brokers and property owners, and staff at cultural institutions, conducted by Strategic Economics in the spring of 2016.

The changing consumer market has affected some long-standing businesses negatively, while others have seen their customer bases expand. As described in Chapter III, the Calle 24 trade area has undergone significant demographic change since the 1990s. Between 1990 and 2014, the trade area's Latino population declined, while the neighborhood gained many new non-Latino white residents. Overall, the trade area's demographics have become higher-income and more educated. Meanwhile, the Bay Area's overall Latino population has increased, so that Latinos who once may have needed to travel to the Mission to find goods and services catering to the Latino community can now find those products readily in many locations across the region.

Businesses on 24th Street have been affected by these changes differently. Some long-standing retailers have experienced a decline in business. While some businesses have had to close, others have responded by adapting their offering of goods and services to meet demand from new customers, shifting their opening hours to capture a broader clientele, and engaging in new types of marketing efforts (particularly online through platforms such as Yelp or Facebook). On the other hand, some businesses, particularly in the food industry, have seen their customer base expand and their market position strengthen. Several grocery stores and specialty food stores were able to take advantage of the trade area's demographic changes, and are currently thriving. For example, a grocery store like Casa Lucas has started carrying organic products to cater to its clientele, and the Latino food store and takeout restaurant La Palma has increased their organic and vegetarian products over time. Businesses selling Latin American crafts, such as Luz de Luna and Mixcoatl, were able to expand their clientele beyond the Latino community and cater to occasional visitors and tourists.

Shifts in the trade area's demographic base have also attracted new businesses to the corridor. Many of the newer businesses on the corridor contribute to Calle 24's specialization in food and dining, although some serve a clientele with a higher disposable income. For example, some of the newer businesses include Wise Son's Jewish Delicatessen and Dynamo Donut and Coffee.

The rise in tourism in the Mission, and especially on Calle 24, has also created new business opportunities for establishments on the corridor. The Mission's thriving Latino culture and public art, especially in the form of murals, has drawn many new customers from the region and beyond to the Calle 24 corridor. Many business owners mentioned that tourism (particularly walking tours of the Mission's murals and large events such as Carnaval) has brought in new customers and led some establishments to adjust their offerings to specifically target tourists.

According to business owners, the corridor's improved appearance and perception of security has enhanced Calle 24's retail environment. According to some long-standing business owners, the Calle 24 corridor has seen very positive change in its appearance in recent years, while perceptions of safety have also improved. This has helped the corridor position itself as an attractive retail destination for customers outside of the neighborhood. While acknowledging improvements, however, business owners also noted that perceived concerns around safety, cleanliness, and disorder continue to deter some customers. For example, business owners cited challenges involving the presence of homeless people, mentally ill people, and persons with substance use disorders.

Business owners have identified public space improvements that could further improve conditions on the corridor. For example, increased lighting could help create a more welcoming environment at night. This could partly be attained by trimming down street trees, which obscure some of the light. Business owners also stressed the need for increased traffic security, more garbage cans to reduce litter, more frequent power-washing of the sidewalk, and better access to street parking for customers driving to the corridor.

San Francisco's rising commercial rents are a challenge for many businesses on Calle 24. For many businesses with low margins, rent increases create a strong pressure on their bottom line. As noted previously, many existing businesses pay a monthly rent at a much lower level than current asking rents. Businesses with leases ending in the coming months or years are worried about being priced out of the corridor.

Recruitment and retention of employees are major challenges for small businesses. Some business owners expressed concerns that, as living costs escalate in San Francisco and in the Bay Area, many of their current or prospective workers require higher wages. While San Francisco is nationally known for its progressive laws aimed at improving pay, access to health care, and paid sick leave for all workers, particularly lower-wage workers, many independent retailers are likely to be exempt from some of these requirements. Because these businesses try to keep their prices low, in order to continue to attract some of their long-standing clientele, the wage increases above the minimum wage that employees often require are very difficult to afford. Recruitment and retention of employees constitutes an increasing challenge not just for businesses on the Calle 24 corridor, but also for many other business owners in the retail, food, and services sector across the region.

Performing needed tenant improvements on the façade or the commercial space is a challenge for many cash-strapped businesses. Many interviewees expressed a desire to undertake capital improvements, but lack the funds. A number of them, such as Acción Latina and L's Caffe, have been able to benefit from small grants or loan programs from the City of San Francisco, or are in the process of obtaining funds, to help carry out improvements that attract more customers.

For many businesses, marketing, particularly on the Internet, remains a challenge. Many business owners recognize a need for marketing assistance in order to keep their business visible both on- and off-line. A number of business owners mentioned using Yelp, Facebook, and in some cases Trip Advisor, as platforms to increase their visibility. Generally, most of them acknowledged a need to expand marketing to attract more customers. Many business owners said they were not involved with the Calle 24 Latino Cultural

District Community Council; in the future, this organization could play a larger role in helping brand the corridor and respond to the businesses' marketing needs.

CONCLUSIONS

Calle 24's unique concentration of cultural institutions and murals, as well as the corridor's diverse mix of retailers and restaurants, contribute to its reputation as the cultural heart of the Mission. Although Calle 24 has experienced significant business turnover and other changes over the years, the corridor has retained much of its character. In addition to the arts and cultural institutions, the diverse mix of retail, restaurants, and services – including many Latino businesses – help create a distinctive retail environment.

The corridor's food and dining establishments, combined with the cultural institutions, serve as anchors that help create an attractive retail destination and draw customers. Restaurants, cafés, and bars account for a third of all the businesses on Calle 24. This concentration of food and dining establishments serves as an anchor that helps draw customers for other types of retail on the corridor. Other specialized retail activities, such as jewelry stores, also serve as destinations that help draw repeat customers to the corridor.

In addition to drawing customers from outside the neighborhood, the mix of businesses on the corridor continues to serve the daily needs of local residents. Many restaurants, cafés, grocery stores, and other businesses are relatively affordable and serve locals and visitors alike.

The changing consumer market has affected some long-standing businesses on Calle 24 negatively, while others have seen business expand. Some long-standing retailers have experienced a decline in business, and have either closed or attempted to adjust to attract new customers. While some businesses have had to close, others have responded by expanding their marketing and offering new goods and services. Grocery stores, specialty food stores, and some artesanía stores appear to have been particularly successful at expanding their products to take advantage of the trade area's demographic changes, and/or cater to tourists and other visitors.

Business owners identified a number of other continuing challenges on the corridor. These include concerns about displacement as a result of rising rents; perceptions about safety issues; a need for additional lighting and other public improvements; challenges recruiting and retaining employees; a lack of access to capital for investing in tenant and façade improvements; and challenges in expanding marketing to reach new customers.

These challenges, and the changes that the corridor has experienced in recent years, reflect changing national and regional retail trends as well as more local dynamics. For example, businesses all over San Francisco are struggling with rising rents and facing difficulties in employee recruitment and retention. Demand for new retail space across the country is increasingly driven by uses that do not compete directly with online sales, such as restaurants, personal services (for example, hair and nail salons), grocery stores, and specialty retailers that provide goods and services that cannot be obtained online. Nationally and regionally, the strongest growth in retail is being experienced by retailers that offer either expensive, high-end goods and services, or discount products. Finally, the overall growth of the Latino consumer market throughout the Bay Area and the U.S. as a whole has increased the availability of products catering to this community, implying that Latinos do not necessarily need to visit Calle 24 to find specific products. Any strategy for maintaining and strengthening the retail on Calle 24 will need to consider the effects of these broader trends.

V. APPENDIX: CURRENT REGULATORY ENVIRONMENT

The Calle 24 corridor and the trade area are subject to planning controls and other regulations that directly relate to retail. As shown on the map in Figure V-2, the commercial corridors in the trade area are generally zoned for mixed-use. The remainder of land in the trade area is mostly zoned for residential, with some land zoned for industrial use in the northern part of the area. In addition to these zoning requirements, the Calle 24 retail corridor is subject to a number of planning controls relating to fringe financial services, restaurants and liquor stores. These controls are illustrated in Figure V-2 and described in Figure V-1.[14]

The Mission Alcohol Beverage Special Use District was enacted in 1996, at a time when the presence of many liquor stores in the Mission was perceived as contributing to the decline of the neighborhood. In 2007, an ordinance instituting the Fringe Financial Services Restricted Use District was adopted, in response to concerns about predatory lending practices and the potential for check cashing and payday lending establishments to displace other financial service providers, such as charter banks.[15] In 2012, the Mission Street Formula Retail Restaurant Subdistrict prohibited all formula retail restaurants from locating on Mission Street between Cesar Chavez Street and Randall Street.

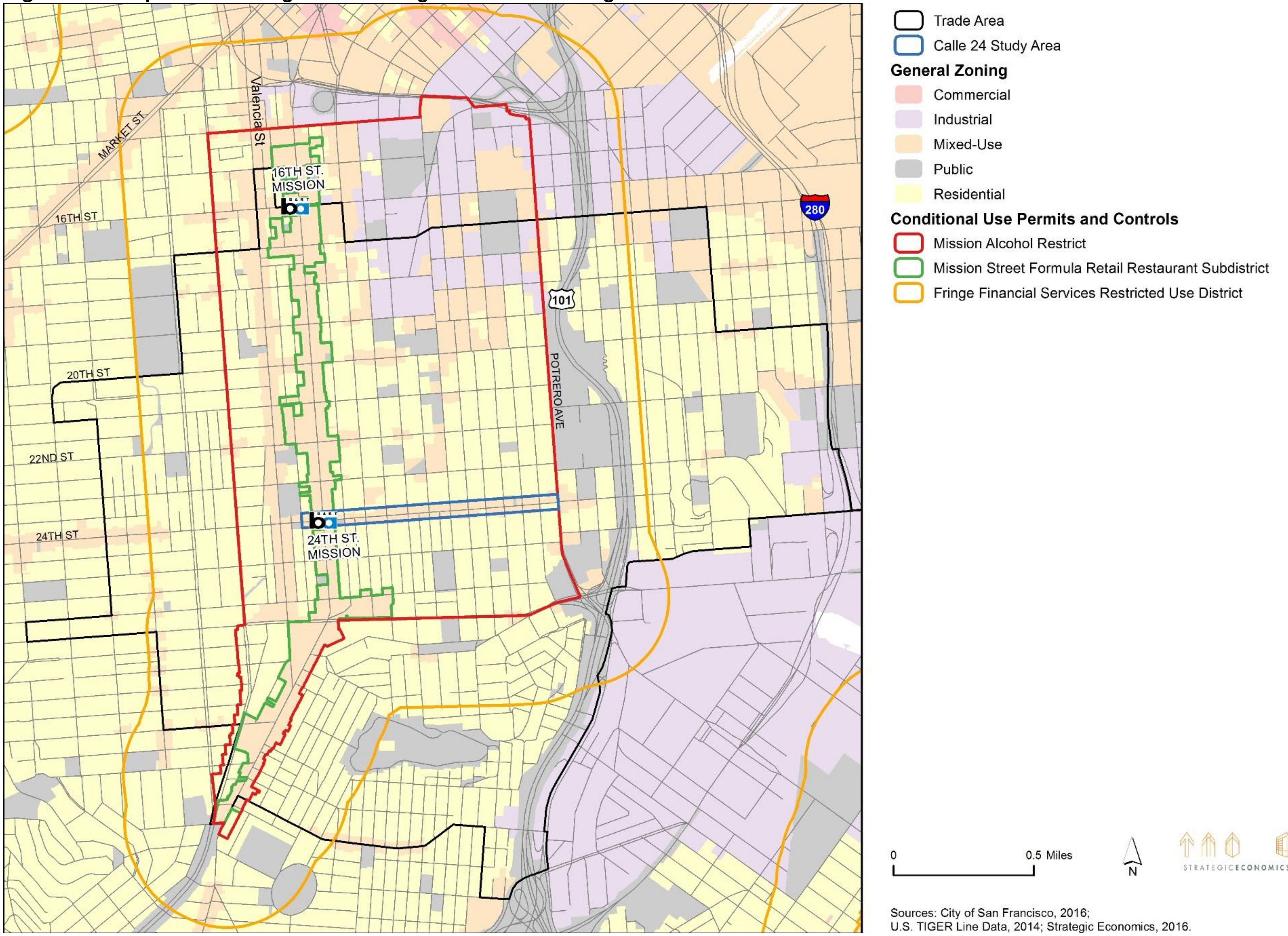
Figure V-1. Conditional Use Permits and Controls Affecting the Calle 24 Trade Area

Control Name	Description	Source	Year Effective
Mission Alcohol Beverage Special Use District	No new liquor licenses can be granted within the subdistrict.	San Francisco Planning Code, Section 249.60	1996
Fringe Financial Services Restricted Use District	No new fringe financial services are permitted in the district. A fringe financial service is defined as a retail sales and service use that provides banking services and products to the public and is owned or operated by a "check casher" or a "licensee" as defined by the California Financial Code. Additionally, no new fringe financial service shall be permitted within a quarter mile of an existing fringe financial service.	San Francisco Planning Code, Section 249.35	2007
Mission Street Formula Retail Restaurant Subdistrict	Restaurant uses (including those that do not allow consumption on the premises, have seating, or serve alcohol) that are also formula retail uses (operating 11 or more locations worldwide) are not permitted in this subdistrict.	San Francisco Planning Code, Sections 781.5; 790.90; 790.91	2012

Source: San Francisco Planning Code, 2016; Strategic Economics, 2016.

[14] Note that in addition to the conditional use permit and other controls shown in Figure V-2, the wider trade area is subject to a number of additional planning requirements; only the planning controls affecting the Calle 24 retail corridor itself are shown here.
[15] San Francisco Planning Code, Sec. 249.35(a).

Figure V-2. Map of the Zoning and Planning Controls Affecting the Calle 24 Trade Area



Sources: City of San Francisco, 2016;
U.S. TIGER Line Data, 2014; Strategic Economics, 2016.