



## **ESTIMATED ECONOMIC IMPACTS OF ALTERNATIVE BUILDING USE**

### **Purpose of Analysis**

The scope of this study includes an analysis of the potential annual expenditures in Japantown of visitors to and employees of an alternative use for the subject site's existing building. Based on the site's underlying zoning, an economic analysis was conducted for a medical office building as an alternative use for the site. The expenditure data is based on real estate industry standards and was not derived from direct interviews.

### **Findings**

*Although medical offices as an alternative use for the subject site's existing building would provide more and higher paying jobs than Japantown Bowl, a bowling use at the site is projected to generate greater spending in Japantown by visitors and employees.*

### **Supporting Data**

- Market data reveals that a reuse of the subject site's existing building for a medical office uses would attract approximately 45,000 visitors annually, compared with the Japantown Bowl's 225,000 annual patrons.
- Visitors to an office building are less likely to spend money in Japantown for restaurants, groceries, and retail. Even if Japantown expenditures by office visitors matched the average Japantown Bowl patron's per visit expenditure of \$18, the total annual Japantown expenditures by office visitors would be significantly less than Japantown Bowl patrons' expenditures due to the bowling facilities' higher volume of visitors.
- A reuse of the subject site's existing building for community-serving uses such as medical offices would create more on-site jobs than a bowling operation. The Japantown Bowl operation provided approximately 34 full-time equivalent jobs, compared to 66 to 77 permanent (non-construction) jobs that would be created by a medical office building.
- Based on annual per capita employee expenditures of \$3,900, the total annual expenditures in Japantown by employees of the medical office building would be approximately \$300,000, compared to \$133,000 annually by employees of a bowling facility.



- As summarized in Appendix B, an alternative use of the Japantown Bowl building as a medical office building could generate approximately \$1.2 million in annual Japantown expenditures by visitors and employees, compared to \$4.2 million in annual Japantown expenditures by a bowling facilities' visitors and employees. A reuse of the subject site's existing building for administrative offices, such as Internet companies, would generate even less Japantown business sales due to the insignificant number of clients typically visiting these types of businesses.

## **ECONOMICALLY OPTIMAL ALTERNATIVE SITE USES TO GENERATE COMMUNITY AND PROPERTY OWNER BENEFITS**

### **Purpose of Analysis**

The scope of this study also includes a market and financial assessment to determine alternative uses for the subject site. The analysis focuses on an economically optimal use from the perspective of addressing community benefits and identifying market supportable uses. For the purpose of this study, a cursory financial assessment was conducted for three alternative uses as a comparative analysis: (1) three-story office building with ground floor retail; (2) six-story office building with ground floor bowling center; and (3) six-story residential building with ground floor bowling center. The financial analysis of the hypothetical construction projects, provided in Appendix C, is not a comprehensive financial feasibility study but rather a comparative analysis of relative viability.<sup>5</sup>

The six-story alternatives would most likely require a plan amendment to the Western Addition A-2 Redevelopment Plan, in addition to an Environmental Impact Report. This analysis does not suggest an assessment or projection of the viability of obtaining a plan amendment. For example, a property owner's request for a plan amendment would likely require significant work during an 18-month period, in addition to strong support from the community.

In addition, the analysis does not necessarily represent the views of the community or property owner. Rather, the following analysis provides the consultant's strategy suggestions for generating both community and property owner benefits.<sup>6</sup> The strategy

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<sup>5</sup> The analysis does not include land cost, developer profit or potential costs associated with obtaining development entitlements.

<sup>6</sup> The financial analysis provided in Appendix C is not intended as a recommendation of condominium sales prices, retail rental rates or office rental rates. Rather, the analysis is based on neighborhood comparables as a means to assess the comparative financial viability of alternative uses.



would likely be more viable if the height and FAR increases were part of an overall strategic plan for Japantown. The following does not represent a Task Force policy decision at this point in time.

## **Findings**

*An analysis of new construction alternatives for the subject site reveals that residential development could potentially generate excess revenues sufficient to subsidize a new bowling center or other recreational and social facilities serving the Japantown community. A financially viable project, however, would most likely require a plan amendment to the Western Addition A-2 Redevelopment Plan to increase the current height and FAR constraints.*

## **Supporting Data**

- A simplified financial model, prepared solely for the purpose of comparing alternative site uses, illustrates that increasing the site's current height and FAR limitation for residential development could potentially provide sufficient revenues to a developer to support construction of a new 20-lane bowling alley or another community-serving use.
- A market and financial assessment of new construction alternatives reveals that redevelopment of the Japantown Bowl site as a condominium development, including public benefits such as 20 percent of the units set-aside at prices affordable to low-income families and a ground floor bowling center, is the most viable site alternative among three scenarios analyzed. The exceptionally strong demand for new housing units is a key factor in this alternative's overall viability from the perspective of both community need and financial feasibility. Other community-serving uses on the ground floor would most likely also be supportable in this medium-density residential reuse concept.
- The preliminary feasibility analysis indicates that newly constructed office buildings for community-serving uses may not be viable at three or six stories, depending upon land price, due to several key economic factors. These include the lower rents achieved in community-serving office uses compared to "administrative office uses", premium construction costs associated with steel construction required for the six-story building and the high costs associated with bowling center tenant improvements.
- A detailed financial pro forma is warranted that analyzes the financial feasibility of residential development at the subject site and the potential to subsidize a variety of community-serving uses. Other community-serving uses that could be analyzed include a recreation center, cultural facility and a range of social venues to meet the needs of children, youth, young adults and seniors.



## CONCLUSION AND IMPLICATIONS

- The most significant impacts associated with Japantown Bowl's closure are related to the loss of an important, accessible and safe recreational and social gathering place for a diverse constituency. The groups most impacted include youth and seniors, in addition to Asians and African Americans. Japantown Bowl served an important health, social and cultural function in these patrons' lives.
- Additional resources need to be deployed to fill the gap in social, cultural and recreational activities for youth and seniors. In addition to providing shuttles for organized groups to other San Francisco bowling centers, the provision of youth and senior activities in Japantown are important for maintaining cultural cohesion and mutual support systems. Given the documented health benefits of retaining cultural values and social networks, identifying financial and programmatic support for new programs should be a priority for community planning efforts.
- The economic impact on Japantown associated with Japantown Bowl's closure is projected to result in a loss of approximately \$2.4 million annually in Japantown business revenue. Individual businesses will be impacted differently; and businesses that attracted a significant proportion of their revenues from Japantown Bowl patrons will be more severely effected. The potential cumulative economics impacts associated with the closure of other Japantown destination-oriented facilities could be significant for Japantown's small businesses.
- Although the reuse of the subject site's existing building as a medical office building with ground floor retail would create more jobs than the bowling center, the total direct Japantown spending by the building's visitors and employees would be less than the spending generated by the bowling center.
- The reuse of the subject site that could provide the greatest economic, social and cultural contributions to the neighborhood would most likely require a complex plan amendment to the existing redevelopment plan. A plan amendment would require strong community support.
- Creative site planning conducted by the property owner in collaboration with the community could transform the former vital bowling center site into a vibrant mixed-use development that provides essential services to the community. This approach presents a unique model that could be replicated on other key Japantown parcels in the spirit of preserving and strengthening Japantown as a long-term cultural and social resource for the area and its constituency in the greater part of San Francisco and the region.