

**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102
(415) 552-9292 FAX (415) 252-0461

Policy Analysis Report

To: Supervisor Campos
From: Budget and Legislative Analyst's Office
Subject: Analysis of Small Business Displacement
Date: October 10, 2014



Summary of Requested Action

You requested that the Budget and Legislative Analyst assess the level of displacement of small businesses and commercial spaces over the last twenty years, specifically considering businesses that have been open for at least five years. The request specified that in addition to citywide trends to assess the patterns of displacement in two commercial corridors, the Mission and Castro/Upper Market. In addition, you asked that our office determine the average rate of change in commercial property value.

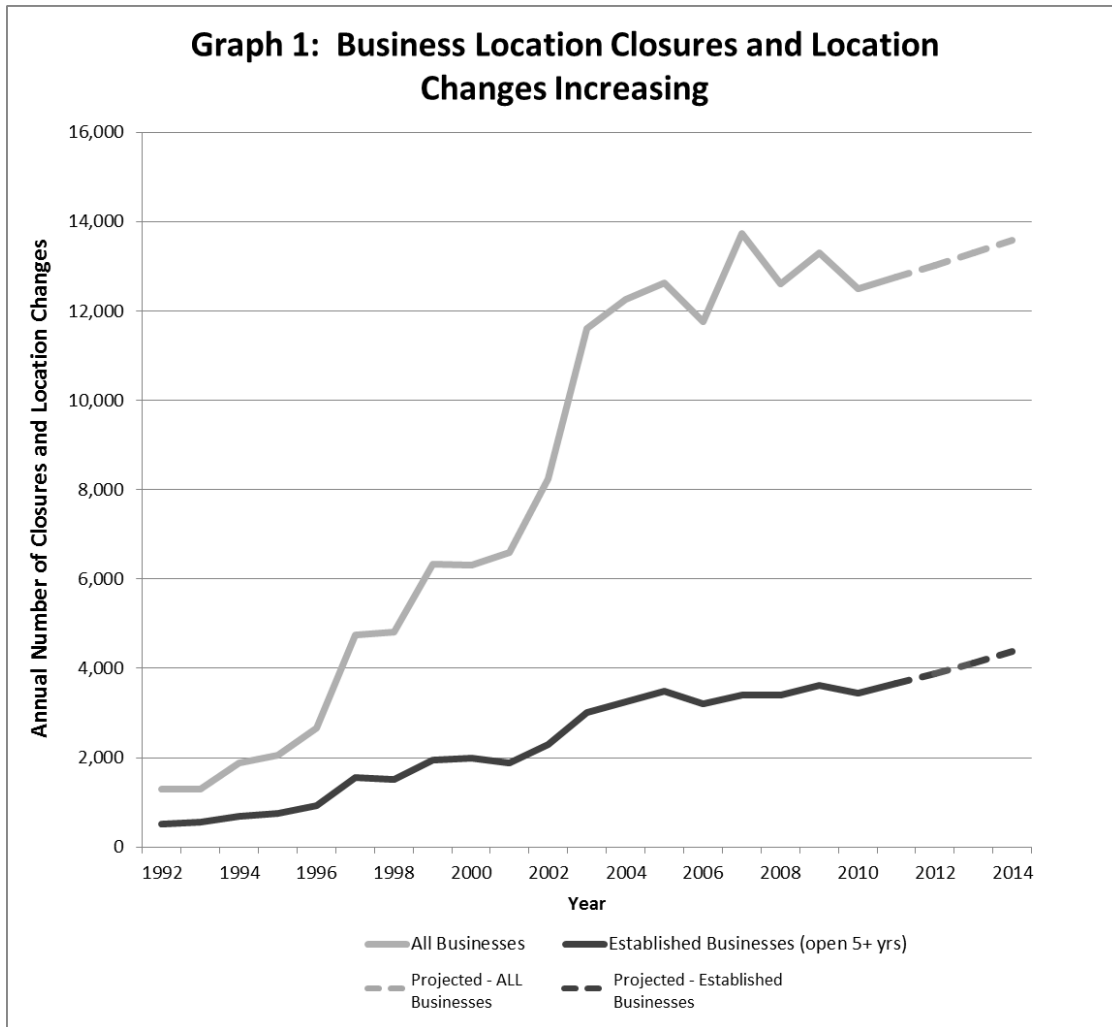
For further information about this report, contact Fred Brousseau at the Budget and Legislative Analyst's Office.

Executive Summary

- Business closures and location changes occur in San Francisco for a variety of reasons, including moving to a new location to expand, moving to avoid unsustainable rent increases, to scale back a business, going out of business due to retirement or being bought out, and others. The rate of business turnover due to these and other causes steadily increased in San Francisco during the twenty years between 1992 and 2011 and, from available data, appears likely to continue its upward trend through 2014 and beyond.
- Measured in openings, closures and location changes, business turnover increased not only for all types of businesses Citywide over the twenty year period ending in 2011, but also for established businesses, or those operating for five years or more in the same location. As a result, the composition of businesses and business types in many areas has changed considerably over the years reviewed.
- Between 1992 and 2011, business closures and location changes of all businesses rose by 883.6 percent from 1,298 in 1992 to 12,767 in 2011, the most recent year for which complete closure data was determined to be available due to lags in businesses reporting closures to the City and County of San Francisco.
- For established businesses, or businesses open for at least five years at the same location, business closures and location changes increased from 518 in 1992 to 3,657 in 2011, an increase

of 606 percent. The rate of closures and location changes for established businesses increased to 20.6 percent relative to all business openings between 2009 and 2011, higher than the 20 year median rate of 15.3 percent between 1992 and 2011.

- During the same time period as an increasing number of established businesses have closed or changed locations, commercial property sales rates in San Francisco have also risen, from \$189.50 per square foot in 1999 to \$675.10 per square foot in 2013, an increase of 256.3 percent, according to Assessor-Recorder's Office data. Analyses by a number of real estate brokerage service firms predict a continuation of this trend through 2014 and beyond.
- Based on data analyzed and forecasts of the San Francisco commercial real estate market reviewed for this report, the Budget and Legislative Analyst projects that, if current trends continue, 4,378 established businesses, or those in business at the same location for five or more years, will close or change locations in 2014, up from 4,123 such projected occurrences in 2013.
- If the same trends continue for the five years beyond 2014, the Budget and Legislative Analyst projects the closure or change of location for 5,910 established businesses in 2019, an increase of 38.1 percent over the projected 4,378 closures and changes of location for established businesses in 2014.
- The Budget and Legislative Analyst analyzed business openings, closures and location changes from 1992 to 2011 for two commercial corridors: Lower 24th Street and the Castro/Upper Market areas. Though the activity in both areas was more volatile year-to-year because a small number of openings, closings or location changes can have a bigger impact in these smaller areas, the same general pattern as the Citywide trends were found, with an increasing number of business closures and location changes in more recent years, including for established businesses in the same location for five or more years.



Source: Business Registration Certificate Records, San Francisco Treasurer and Tax Collector’s Office

It is important to note that there are limitations in the data made obtained this analysis. Without a comprehensive study or additional data, the Budget and Legislative Analyst cannot address with full certainty why these changes occurred. This limits the Budget and Legislative Analyst to only measuring the rate of business closures and location changes over time, without regard to business size, and comparing these to the number of business openings. Furthermore, the data collected for 2012, 2013 and 2014 is incomplete due to a lag in businesses reporting their closure or location change to the Treasurer and Tax Collector’s Office, the source of the business opening and closure data used for this analysis. Therefore, this analysis focused primarily on 1992 to 2011, although the available data for 2012, 2013, 2014 is included in Appendix 2 for reference.

Rate of Business Closures and Location Changes are on the Rise Citywide

During the 20-year period between 1992 through 2011 the annual citywide volume of business openings and business closures and location changes has increased substantially. The number of business openings per year recorded by the Treasurer and Tax Collector’s Office increased from 3,956 in 1992 to 17,754 in 2011, an increase of 348.8 percent. During the same time, business closings and location changes increased from 1,298 in 1992 to 12,767 in 2011, an increase of 883.6 percent.

This rate of turnover reflects a dynamic business sector in San Francisco, with a high number of new businesses opening each year, and many existing businesses closing or changing location. Business openings and locations are recorded by the Treasurer and Tax Collector’s Office of the City and County of San Francisco when new businesses obtain their business registration certificates and closings or location changes are recorded when businesses file documentation that they have discontinued operations at a particular location. The Treasurer and Tax Collector’s Office does not require that businesses report the reason for discontinuing their operations at a certain location. As a result, reported closures and location changes include all of the possible reasons for location closings or changes such as a business ceasing its operations at a location entirely, moving to another location in San Francisco or moving to a location outside San Francisco. The closure or location change may be the result of business failure, owner retirement, moving to another location to expand, moving to another location to lower costs such as rent, taxes or labor costs, moving to be closer to customers or other causes.

To make the data more comparable year-to-year, the Budget and Legislative Analyst measured the relationship of business closings or location changes to business openings as a ratio (see Table 1 column “Ratio of Closed to Open”). As can be seen in Table 1, there have been some variations year to year but, overall, the rate of business closures and location changes has trended upward as a share of business openings over the twenty year period.

Table 1: Rate of Business Closures and Location Changes on the Rise between 1992 and 2011

YEAR	Business Locations Opened	Business Locations Changed and Closed (ALL)	Ratio of Closed to Opening
1992	3,956	1,298	32.8%
1993	4,356	1,302	29.9%
1994	6,188	1,889	30.5%
1995	6,809	2,052	30.1%
1996	8,342	2,654	31.8%
1997	9,843	4,747	48.2%
1998	10,522	4,823	45.8%
1999	12,782	6,334	49.6%
2000	12,950	6,312	48.7%
2001	13,214	6,588	49.9%
2002	16,977	8,244	48.6%
2003	17,561	11,621	66.2%
2004	18,082	12,270	67.9%
2005	18,242	12,625	69.2%
2006	17,838	11,762	65.9%
2007	27,119	13,733	50.6%
2008	17,165	12,605	73.4%
2009	17,541	13,315	75.9%
2010	17,658	12,506	70.8%
2011	17,754	12,767	71.9%

Source: Business Registration Certificate Records, San Francisco Treasurer Tax Collector's Office

Comparing the Closed to Opening ratios for select years within the twenty year period shows that there has been more turnover in the business sector in San Francisco during that period and that the rate of business closures and location changes has increased. Table 2 shows that the median percentage of businesses closings or location changes relative to openings was 39.3 percent between 1992 and 2001, but a higher 68.6 percent between 2002 and 2011, and an even higher 71.9 percent for the just the three years between 2009 and 2011.

Table 2: Rate of Business Closures and Location Changes for Selected Years

Median CLOSE TO OPEN 1992 to 2001	39.3%
Median CLOSE TO OPEN 2002 to 2011	68.6%
Median CLOSE TO OPEN 2009 to 2011	71.9%

Rate of Established Business Closures and Location Changes Rising

While there has been a higher rate of business turnover for all businesses in the City in recent years, the number of businesses operating five years or more, or “established businesses” for the purposes of this report, also closed or changed locations in increasing numbers and at higher rates between 1992 and 2011, according to the Treasurer and Tax Collector’s Office’s business registration certificate database. Classified as established businesses by the Budget and Legislative Analyst to signify their tenure in their locations, the number of businesses open five or more years increased over the twenty year period from 518 in 1992 to 3,657 in 2011, or by 606 percent. The number of annual closures and location changes of established businesses relative to business openings increased to 20.6% in 2011 from 13.1% in 1992, a 57.3% increase.

Table 3: Rate of Business Closures and Location Changes of Established Businesses, 1992 to 2011

YEAR	All Business Locations Opened	Established Businesses¹ Closed or Changed Location	Ratio of Closed to Opening
1992	3,956	518	13.1%
1993	4,356	550	12.6%
1994	6,188	693	11.2%
1995	6,809	760	11.2%
1996	8,342	930	11.1%
1997	9,843	1565	15.9%
1998	10,522	1517	14.4%
1999	12,782	1941	15.2%
2000	12,950	1997	15.4%
2001	13,214	1871	14.2%
2002	16,977	2296	13.5%
2003	17,561	3019	17.2%
2004	18,082	3258	18.0%
2005	18,242	3488	19.1%
2006	17,838	3197	17.9%
2007	27,119	3406	12.6%
2008	17,165	3398	19.8%
2009	17,541	3624	20.7%
2010	17,658	3444	19.5%
2011	17,754	3657	20.6%

Source: Business Registration Certificate Records, San Francisco Treasurer and Tax Collector’s Office

¹ Established Businesses: those open in the same location for five or more years.

Comparing the Closed to Opening ratios for established businesses for select years within the twenty year period between 1992 and 2011 shows the increase in the rate of established business closures and location changes during that period. Table 4 shows that the median percentage of established businesses closings or location changes relative to openings was 13.7 percent between 1992 and 2001, but a higher 18.6 percent for the more recent 2002 through 2011, and an even higher 20.6 percent for just the three years between 2009 and 2011. In other words, established businesses have comprised a higher percentage of businesses closing or changing location in recent years.

Table 4: Rate of Business Closures and Location Changes for Selected Years for Established Businesses

Median CLOSE TO OPEN 1992 to 2001	13.7%
Median CLOSE TO OPEN 2002 to 2011	18.6%
Median CLOSE TO OPEN 2009 to 2011	20.6%

Commercial Real Estate Prices Increasing As Well

There are many factors that impact the longevity and location choices of businesses. Real estate prices and commercial rental rates have a bearing on businesses' costs and their ability to maintain their operations. In data made available from the Assessor-Recorder's and the Treasurer and Tax Collector's Offices, it can be seen that the cost of non-residential real estate and the increase in business closures and location changes have been rising together in step.

Based on our analysis of data provided by the Office of the Assessor-Recorder, the average price for all commercial real estate increased by 256.2% between 1999 and 2013, from \$189.50 per square foot in 1999 to \$675.10 in 2013, the highest level in the 14 year period. The median annual rate of change during that period was seven percent.

Spanning the period from 2002 through 2011, the median Closed to Opening ratio of all businesses City-wide grew to 68.6 percent, up from 39.3 percent during the previous ten year period. While there appears to be a relationship between price and business closures and location changes, data available for this analysis is not sufficient to confirm the extent to which price drives the rate of business closures and location changes. At best, the Budget and Legislative Analyst can infer some degree of link between the two factors, given the assumption that rapidly changing costs can outpace some businesses' ability to adapt. However, without a more comprehensive study or precise data the Budget and Legislative Analyst cannot assert the causes of and links between these trends.

**Table 5: Commercial Real Estate
Prices Continued to Rise between
1999 and 2013**

Year	Average of Price Per Square Foot	Annual Rate of Change
1999	\$ 189.5	
2000	\$ 293.4	54.8%
2001	\$ 288.7	-1.6%
2002	\$ 237.0	-17.9%
2003	\$ 236.4	-0.2%
2004	\$ 292.8	23.9%
2005	\$ 282.1	-3.7%
2006	\$ 322.1	14.2%
2007	\$ 604.9	87.8%
2008	\$ 374.7	-38.1%
2009	\$ 229.4	-38.8%
2010	\$ 374.9	63.4%
2011	\$ 311.7	-16.9%
2012	\$ 514.8	65.1%
2013	\$ 675.1	31.1%

Source: Budget and Legislative Analyst's calculations of data provided by the San Francisco Office of the Assessor-Recorder

Near-term Prices Increasing Further

There have been many recent reports on rising commercial real estate prices in the City. The most recent data from the Office of the Assessor-Recorder supports these observations. In the recent period of 2011 to 2013, prices have increased at a median annual rate of 31.1 percent and reached a level beyond their 2007 pre-recession peak, as shown in Table 5.

Other sources confirm this trend and show continued price growth into 2014. According to figures published by LoopNet.com, an online commercial real estate listing service, the asking sale and rent price of commercial property have been on the rise in 2014. For example, between August 2013 and August 2014, the asking price for leased office space citywide rose by 15.3 percent, industrial leases Citywide rose 46.0 percent, and retail leases Citywide rose by 16.0 percent. Similarly, during the same period the asking sale price of office property Citywide rose by 2.3 percent, and retail Citywide by 24.1 percent (industrial property for sale wasn't reported at the City level by this source).¹

Part of the explanation for the increasing prices in the analyses reviewed by the Budget and Legislative Analyst is a shortage of supply. This trend is highlighted in a recent publication on retail property in San

¹ http://www.loopnet.com/San-Francisco_California_Market-Trends

Francisco, by Cushman & Wakefield, a commercial real estate service provider. The report shows a strikingly low citywide retail vacancy rate of 1.9 percent during the first quarter of 2014.² This is low compared to the national retail vacancy rate reported at 4.4 percent in the second quarter of 2014.³ Similarly, office property in San Francisco had a relatively low citywide vacancy rate of 8.9 percent in the second quarter of 2014.⁴ This also is low compared to the national rate reported in the second quarter of 2014 at 15.1 percent.⁵ In all other commercial retail property categories, San Francisco is reported to have higher demand and lower supply than the national averages.

In the same reports, both retail and office property in San Francisco are forecast by Cushman & Wakefield to continue to grow in demand and realize further declines in vacancy rates. Retail property in particular is forecast to see continued demand with limited new supply anticipated. The Cushman and Wakefield report concludes with the remarks “as the lack of available space coincides with strong demand from tenants for that limited space, rents will continue their upward trend.”⁶ If these forecasts are realized, the Budget and Legislative Analyst anticipates that commercial real estate prices and commercial rents will continue to grow. This would likely continue to apply pressure on businesses, and could perpetuate the trend of increasing business closures and location changes, including for established businesses that have been open and in their current locations for five or more years.

Projecting Forward

As discussed further in Appendix 1, the business registration certificate data provided by the Treasurer and Tax Collector’s Office from 2012, 2013, and 2014 is incomplete as it does not account for all business closures and location changes during those years due to the fact that closure and location change reports are not provided to the Office for all businesses until two to three years after they have closed or changed locations. However, to consider what would happen if recent business closure and location change trends continued at their current rate, the Budget and Legislative Analyst has prepared projections for 2012-2014 and for the five year period between 2015 and 2019 based on the median annual rate of change of the Closed to Opening ratio for 2009 to 2011. For all businesses the median was 2.1%, but for the established businesses it was a larger 6.2%. These rates of annual change were used by the Budget and Legislative Analyst to project business closures and location changes through 2014 and for the five year period ending in 2019 (see Table 6).

If the conditions that drove the increasing business location changes and closures between 2009 to 2011 persist the Budget and Legislative Analyst expects the Closed to Opening ratio to continue rising into 2014 and through 2019. This seems likely assuming the 2009 to 2011 conditions are at least in part driven by commercial real estate prices, which are in turn expected to continue to rise in the short-term. Under these circumstances, we expect more businesses will change and close locations as commercial real estate prices continue to rise.

² http://www.cushmanwakefield.com/~media/marketbeat/2014/07/SanFrancisco_AMERICAS_MarketBeat_Retail_Q12014.pdf

³ http://www.cushmanwakefield.com/~media/marketbeat/2014/08/US_AMERICAS_MarketBeat_Retail_Q22014.pdf

⁴ http://www.cushmanwakefield.com/~media/marketbeat/2014/07/SanFrancisco_Americas_MarketBeat_Office_Q22014.pdf

⁵ http://www.cushmanwakefield.com/~media/marketbeat/2014/07/US_AMERICAS_MarketBeat_Office_Q22014.pdf

⁶ http://www.cushmanwakefield.com/~media/marketbeat/2014/07/SanFrancisco_AMERICAS_MarketBeat_Retail_Q12014.pdf

Table 6: Actual and Projected Business Closures and Location Changes Compared to Business Location Openings, all Commercial Businesses and those Opened Five Years or More (Established Businesses)

1992-2011 Actual and Projected for 2012 through 2019

YEAR	Business Locations Opened	Business Locations Changed or Closed (ALL)	Business Locations Changed or Closed (Established Businesses)	Close:Open Ratio For Year	Close:Open Ratio For Year	
1992	3,956	1,298	518	32.8%	13.1%	
1993	4,356	1,302	550	29.9%	12.6%	
1994	6,188	1,889	693	30.5%	11.2%	
1995	6,809	2,052	760	30.1%	11.2%	
1996	8,342	2,654	930	31.8%	11.1%	
1997	9,843	4,747	1565	48.2%	15.9%	
1998	10,522	4,823	1517	45.8%	14.4%	
1999	12,782	6,334	1941	49.6%	15.2%	
2000	12,950	6,312	1997	48.7%	15.4%	
2001	13,214	6,588	1871	49.9%	14.2%	
2002	16,977	8,244	2296	48.6%	13.5%	
2003	17,561	11,621	3019	66.2%	17.2%	
2004	18,082	12,270	3258	67.9%	18.0%	
2005	18,242	12,625	3488	69.2%	19.1%	
2006	17,838	11,762	3197	65.9%	17.9%	
2007	27,119	13,733	3406	50.6%	12.6%	
2008	17,165	12,605	3398	73.4%	19.8%	
2009	17,541	13,315	3624	75.9%	20.7%	
2010	17,658	12,506	3444	70.8%	19.5%	
2011	17,754	12,767	3657	71.9%	20.6%	
Projected	2012	17,872	13,033	3,883	72.9%	21.7%
Projected	2013	17,992	13,305	4,123	74.0%	22.9%
Projected	2014	18,112	13,583	4,378	75.0%	24.2%
Projected	2015	18,232	13,867	4,649	76.1%	25.5%
Projected	2016	18,354	14,156	4,937	77.1%	26.9%
Projected	2017	18,476	14,451	5,242	78.2%	28.4%
Projected	2018	18,600	14,753	5,566	79.3%	29.9%
Projected	2019	18,724	15,061	5,910	80.4%	31.6%

Source: Actual data 1992-2011 from Treasurer and Tax Collector's Office Business Registration Certificate Database. Projections for 2012-2019 by Budget and Legislative Analyst

Two Commercial Corridor Study Areas

Business openings and closures and location changes were analyzed by the Budget and Legislative Analyst for two San Francisco commercial corridors. The areas are based on two of the 25 commercial corridors identified and studied by the Office of Economic Workforce Development's (OEWD) Invest in Neighborhoods program. The OEWD's mission is to "... support the ongoing economic vitality of San Francisco."⁷ The Invest In Neighborhoods "program is an interagency partnership to strengthen and revitalize neighborhood commercial districts around San Francisco, according to OEWD. The initiative, currently being piloted in 25 commercial districts, aims to strengthen small businesses, improve physical conditions, increase quality of life, and increase community capacity."⁸ In order to lend better data comparability, and take advantage of the research already available from the initiative, the Budget and Legislative Analyst selected two of the 25 study areas: the Lower 24th Street and the Castro/Upper Market corridor.

Lower 24th Street

Graph 2: Area Included in Lower 24th Street Commercial Corridor Study Area



Source: OEWD Invest In Neighborhoods Program

The OEWD's profile of the Lower 24th Street's commercial corridor notes the area's diversity of small businesses, many of which serve local residents and the predominantly Latino community. The profile also notes the area has "proven attractive to new residents and new businesses." Within the report it cites "increasing commercial rents" as a challenge that is "difficult for longtime residents to pay." The combination of increasing interest, diversity of longstanding small businesses, and the report of increasing rents makes the corridor of interest for this analysis. Table 7 presents trends observed by the

⁷ OEWD.org

⁸ investsf.org

Budget and Legislative Analyst in the data extracted from the Treasurer and Tax Collector's business registration certificate database.

As shown in Table 7, the overall number of businesses opening and closing is smaller for this area than at the Citywide level so greater volatility is seen over the period as a few additional openings or closings in an individual year has greater effects on opening and closing rates. However, even given that difference, the general trend over the twenty year period in the Lower 24th Street area has been increasing numbers of business closures and location changes relative to business openings, including for established businesses, or those operating in the same location for five years or more.

Table 7: Rate of Business Closures and Location Changes: Lower 24th St. Corridor

YEAR	Business Locations Opened	Business Locations Changed or Closed (All)	Ratio of Closed to Open (All)	Business Locations Changed or Closed (Established)	Ratio of Closed to Open (Established)
1992	17	6	35.3%	0	0.0%
1993	12	3	25.0%	0	0.0%
1994	13	2	15.4%	0	0.0%
1995	14	10	71.4%	2	14.3%
1996	20	8	40.0%	3	15.0%
1997	17	7	41.2%	4	23.5%
1998	18	5	27.8%	2	11.1%
1999	18	11	61.1%	4	22.2%
2000	28	9	32.1%	4	14.3%
2001	20	7	35.0%	4	20.0%
2002	37	11	29.7%	3	8.1%
2003	30	27	90.0%	11	36.7%
2004	29	29	100.0%	13	44.8%
2005	31	23	74.2%	10	32.3%
2006	33	22	66.7%	5	15.2%
2007	44	25	56.8%	11	25.0%
2008	30	25	83.3%	6	20.0%
2009	33	23	69.7%	6	18.2%
2010	34	32	94.1%	10	29.4%
2011	34	26	76.5%	7	20.6%

Source: Business Registration Certificate Records, San Francisco Treasurer and Tax Collector's Office

Castro/Upper Market

The OEWD's profile of the Castro/Upper Market commercial corridor notes the area's significance as serving local residents and being an international cultural destinations as "one of the nation's first and largest gay neighborhoods." The report cites a slightly different challenge for businesses in the neighborhood as "a number of long term vacancies; some landlords are absentee and/or seem to be holding out for high rents." This suggests that property owners anticipate an increase in rents on the horizon, although the time frame is not mentioned. The OEWD report was published in February 2013, so their data primarily considers past trends regarding property and does not address if the mentioned increase has fully materialized. As the recent Cushman and Wakefield reports mention, commercial real estate is in demand and was in short supply during the first half of 2014.

Graph 3: Area Included in Castro/Upper Market St. Commercial Corridor Study Area



Source: OEWD Invest In Neighborhoods Program

Table 8: Rate of Business Closures and Location Changes: Castro/Upper Market

YEAR	Business Locations Opened	Business Locations Changed or Closed (All)	Ratio of Closed to Open (All)	Business Locations Changed or Closed (Established)	Ratio of Closed to Open (Established)
1992	26	8	30.8%	0	0.0%
1993	33	8	24.2%	3	11.5%
1994	53	14	26.4%	5	15.2%
1995	55	17	30.9%	5	9.4%
1996	73	27	37.0%	12	21.8%
1997	84	32	38.1%	12	16.4%
1998	83	32	38.6%	7	8.3%
1999	105	60	57.1%	16	19.3%
2000	82	39	47.6%	12	11.4%
2001	82	49	59.8%	12	14.6%
2002	93	72	77.4%	25	30.5%
2003	115	78	67.8%	37	39.8%
2004	99	86	86.9%	41	35.7%
2005	130	81	62.3%	29	29.3%
2006	121	82	67.8%	30	23.1%
2007	165	76	46.1%	19	15.7%
2008	128	108	84.4%	37	22.4%
2009	123	94	76.4%	28	21.9%
2010	121	111	91.7%	30	24.4%
2011	146	105	71.9%	32	26.4%

Source: Business Registration Certificate Records from the San Francisco Treasurer and Tax Collector's Office

Memo to Supervisor Campos
October 10, 2014

Similar to the findings for the Lower 24th Street, commercial corridor, business opening, closure and location change data for the Castro/Upper Market corridor shows that number and rate of business openings and closures and location changes have increased during the twenty year period reviewed through 2011, including increased closures and location changes for established businesses, or those in businesses for five years or more.

APPENDIX 1: LIMITATIONS OF BUSINESS PERMIT DATA

The Business Registration Certificate Records used in this report were provided by the Treasurer and Tax Collector's Office of San Francisco. Their records begin in 1968 and continue to June 15th 2014. Following this date, the Treasurer and Tax Collector's Office has begun migrating to a new collection system that is not currently available for analysis and comparison with the legacy data they provided. The legacy data they provided represent digitized and more recent digital records of information gathered when businesses apply for Business Registration Certificates with the Treasurer and Tax Collector's Office. The change of location data is gathered from subsequent forms filed to notify the Treasurer and Tax Collector's Office that the business location has closed or changed. While this data is very robust there are some notable limitations to its utility in our analysis. It is important to note these limitations as they constrain the conclusions we are able to draw from the data at hand.

Location Change and Close Data Could Represent Many Things

Unfortunately, the location change and close date could represent many things and these details are not tracked. For example, simply knowing that a business location changed or closed could represent any of the following:

- The business location and entity permanently closed.
- The business entity owns and operates multiple locations and one closed but another opened.
- The business changed locations.
- The business reorganized as a corporation, which triggered a change in the records but the business stayed generally the same.
- The business was sold to a new owner, which triggered a change in the records, but the business stayed generally the same.

Furthermore, even if it is known that a business location truly closed there is no data regarding why the business closed. Businesses can close for any number of reasons such as insolvency, the retirement of the owner, increase in cost (such as rising rents), a sale of the business, and many more. Without this knowledge it is difficult to infer much beyond the overall rates of change among business locations.

There Is No Detailed Information on the Type of Business

The businesses included are inclusive of all types of businesses. Since the Treasurer and Tax Collector's Office doesn't track business type for its tax and fee collections, the data includes every type of business from a small family owned restaurant, large multi-national corporate chain, an apartment building registered as a business, to an independent contractor working out of their home office. More detailed records of various types of businesses, their sizes, number of employees and nature of their operations do exist. However, given the time and resource constraints of this report it was not feasible to acquire, validate, and join these datasets effectively with the Business Registration Certificate data that is available. This could be pursued further, but it would necessitate additional time and resources to manage the analysis of these large confidential datasets from various agencies.

Without details on who is being affected it is difficult to conclude the nature of the patterns. The rise in closures may be due to a certain type of business, a certain size of business, or businesses with a certain number of employees.

Data from 2012, 2013, and 2014 Excluded Due to Incomplete Collections

The data available does not provide a reliable real-time monitor of business closures. The Budget and Legislative Analyst's Office excluded data from 2012, 2013, and 2014 in our primary analysis because it is incomplete (see Appendix 2 Table 9). The incomplete data is due to the nature of the location change and closure forms collected by the Treasurer and Tax Collector's Office. The Treasurer and Tax Collector's Office reports that the forms are not submitted in real-time as a business changes location or closes, and they can sometimes lag for several years. According to the Treasurer and Tax Collector's Office, many businesses when closing or changing locations may not always file the appropriate paperwork notifying the Treasurer and Tax Collector's Office of the closure or location change. However, when the business receives their bill in the following billing cycle they are often prompted to submit their forms indicating their location change or the closure of the business. This seems plausible, as businesses may be preoccupied with a move, legal matters, or the closure of their business.

The Treasurer and Tax Collector's Office reports that this reporting delay is often exacerbated when businesses that have closed or changed location may overlook or not receive the following year's business permit renewal bill. This could be due to a complete change in business location, mailing address, or any number of reasons following the close or location change of their business. In these instances, the Treasurer and Tax Collector's Office initiates their collections process and submits the overdue fees to their Bureau of Delinquent Revenue, which operates as the City's collection agency. The Bureau begins an effort to contact the business and to collect the delinquent debt. The Treasurer and Tax Collector's Office reports using a number of methods, including "skip tracing", which seeks to identify the businesses' new address and contact information. If the business has truly closed these efforts could take some time. The Treasurer and Tax Collector's Office reports that eventually most closed businesses are contacted by the Bureau, and the closed business submits their closure forms to avoid accruing further fees and delinquencies. The Treasurer and Tax Collector's Office estimates this often happens within six months, and that they usually collect at least \$20 million in delinquent business fees per year.

For the purposes of measuring the rate of business location closures, the Budget and Legislative Analyst's estimates that this lag in submission of closure forms can persist in the location closure data for upwards of two years. This accounts for the time delay between annual billing cycles, and instances when the collection process exceeds six months. As a result, we are not confident in the location closure data available for 2013 and much of 2012. Given this uncertainty, we have primarily presented data ending in 2011 in our calculations and graphs.

Taken at face value, the trends observed in the 2012, 2013 and 2014 data suggest a decline in the volume of business location closures or changes. While this conflicts with the anecdotal reports and

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patterns of previous years, The Budget and Legislative Analyst's Office cannot confirm the completeness of the data. That limits our analysis to retrospectively analyzing trends of recent history and considering their potential impact on current and future trends. Given all of the various caveats to the data available, any conclusions we or others can make are based on limited historical data, which is not necessarily an indicator of future trends.

APPENDIX 2: SOURCE DATA INCLUDING INCOMPLETE YEARS

**Table 9: Actual and Projected Business Closures and Location Changes Compared to Business Location Openings, all Commercial Businesses and those Opened Five Years or More (Established Businesses).
 Includes Incomplete Data Collected In 2012-2014**

YEAR	Business Locations Opened	Business Closed or Location Changed (ALL)	Business Closed or Location Changed (Established Businesses)	Close:Open Ratio For Year	Close:Open Ratio For Year	
1992	3,956	1,298	518	32.8%	13.1%	
1993	4,356	1,302	550	29.9%	12.6%	
1994	6,188	1,889	693	30.5%	11.2%	
1995	6,809	2,052	760	30.1%	11.2%	
1996	8,342	2,654	930	31.8%	11.1%	
1997	9,843	4,747	1565	48.2%	15.9%	
1998	10,522	4,823	1517	45.8%	14.4%	
1999	12,782	6,334	1941	49.6%	15.2%	
2000	12,950	6,312	1997	48.7%	15.4%	
2001	13,214	6,588	1871	49.9%	14.2%	
2002	16,977	8,244	2296	48.6%	13.5%	
2003	17,561	11,621	3019	66.2%	17.2%	
2004	18,082	12,270	3258	67.9%	18.0%	
2005	18,242	12,625	3488	69.2%	19.1%	
2006	17,838	11,762	3197	65.9%	17.9%	
2007	27,119	13,733	3406	50.6%	12.6%	
2008	17,165	12,605	3398	73.4%	19.8%	
2009	17,541	13,315	3624	75.9%	20.7%	
2010	17,658	12,506	3444	70.8%	19.5%	
2011	17,754	12,767	3657	71.9%	20.6%	
<i>Incomplete</i>	2012	<i>17,374</i>	<i>11,382</i>	<i>3,804</i>	<i>65.5%</i>	<i>21.9%</i>
<i>Incomplete</i>	2013	<i>16,390</i>	<i>8,618</i>	<i>3,004</i>	<i>52.6%</i>	<i>18.3%</i>
<i>Incomplete</i>	2014	<i>6,807</i>	<i>2,339</i>	<i>820</i>	<i>34.4%</i>	<i>12.0%</i>

Source: Actual data 1992-2011 from Treasurer and Tax Collector's Office Business Registration Certificate Database. Projections for 2012-2014 by Budget and Legislative Analyst. Incomplete data 2012-2014 from Treasurer and Tax Collector's Office Business Registration Certificate Database.