



ADVANCE SF

FOR A
VIBRANT
CITY

MIDDLE-WAGE JOBS REPORT



BAYAREA
COUNCIL

TABLE OF CONTENTS

Foreword	3
Executive Summary	5
Introduction: Rebuilding the San Francisco Economy	7
Taking Stock of San Francisco and it's Economy	8
Tracking the Trends that Will Shape What Happens Next	9
A Recovery that Embraces Opportunity for All	17
Policy Recommendations	22
Conclusion	25

Advance San Francisco
advancesf.org

FOREWORD



San Francisco wants to remain a vibrant and diverse city, it needs to get serious about its high cost of living.

Advance SF (ASF) was created to address some of the most pressing problems facing San Francisco, understanding that “business as usual” is no longer sufficient to sustain our city. ASF sees affordability as one of the critical issues to tackle on behalf of its members, which represent some of the largest employers in San Francisco. The high cost of living and working in San Francisco will affect the city’s future in post-pandemic America now that it must compete more seriously with other cities for its economic recovery and growth.

Policymakers must address affordability across a broad spectrum of areas if they want the City to maintain its overall health. The significance of one aspect of the affordability problem: Middle Wage Jobs, is outlined in this paper published jointly by Advance SF and the Bay Area Council Economic Institute.

One important step forward would be to pause all new residential and business taxes and fees until it better understands its economic footing post-COVID-19.

For purposes of the paper, we’re focusing on the higher-end of the middle-wage spectrum for individual jobs in the Bay Area, which is an annual income of \$72,000 as defined by federal statistics. **This level of income is insufficient to address the City’s cost of living**, especially for a family. But as a marker for average income, it demonstrates the size of the problem we are facing.

For instance, in a recent study by the California Association of Realtors,¹ it was found that a household needed an annual income of approximately \$300,000 to buy a median-priced home in San Francisco. Another recent study reported in the *San Francisco Chronicle*² identified that a family needed an annual income of \$300,000 to access the benefits of a middle-class lifestyle.

The big gap between an annual income of \$72,000 and the \$300,000 necessary to buy a house or enjoy the expected opportunities of a middle income is staggering. It’s a critical factor in what makes San Francisco less attractive for employee recruitment or business location than places like Austin, Dallas, and yes, even Boise.

ADVANCE SF

It also raises the issue of the state of economic challenges in San Francisco. If an income of \$300,000 is necessary to access a middle-class existence, what does that mean for people and families that don't have that income level?

This paper is the first step in starting a discussion about making San Francisco more affordable and, therefore, more livable for everyone. We'll continue to examine this issue from a number of perspectives as a part of our core work.

Thanks for reading,

Wade Rose,
President Advance SF

Jim Wunderman,
President, Bay Area Council



1. California Association of Realtors, "4th Quarter 2021 Housing Affordability," February 10, 2022. Accessed at: <https://www.car.org/en/aboutus/mediacenter/newsreleases/2022releases/4qtr2021affordability>

2. Amy Graff, "How making \$300,000 in San Francisco can still mean you're living paycheck-to-paycheck," San Francisco Chronicle, December 7, 2021. Accessed at: <https://www.sfgate.com/local/article/How-making-300-000-in-San-Francisco-can-still-16679396.php>

EXECUTIVE SUMMARY

IT'S no secret that San Francisco's once-booming economy has been slow to recover from the effects of the COVID-19 pandemic. As we write this, San Francisco has lifted its remaining health regulations and many companies have announced firm dates for return to work for their employees. But fewer tourists and workers flocking to the city has resulted in a lag in spending compared to other large U.S. metro areas, and as such, a number of businesses have closed or are employing smaller staffs—particularly in the city's commercial core. San Francisco once led the nation in job growth. Sadly, we're now on the bottom tier for all the most common indicators as we climb out of a two-year self-imposed coma of our economic engine.

There is nowhere to go but up as we reinvigorate our economy, but the city also has an opportunity to re-envision its future growth trajectory by taking on its high cost of living. It won't be easy; the pandemic has exacerbated existing challenges or created new threats to the city's sustained economic prosperity:



- 1. Dense urban areas experienced the deepest COVID-19 related job losses and will experience the longest recoveries**
- 2. The San Francisco leisure and hospitality sector has experienced significant job dislocation**
- 3. Thousands of San Franciscans have dropped out of the labor force altogether**
- 4. Remote work is a game-changer for workers**
- 5. Remote work is a game changer for employers**
- 6. High housing costs might finally outweigh the benefits of the city**
- 7. New business taxes might finally outweigh the benefits of the city**
- 8. Other geographies are catching up to San Francisco**
- 9. The city's fiscal structure may be challenged in a remote work world**
- 10. A thriving tech economy may not equate to a thriving San Francisco**

This list highlights the economic trends that will influence San Francisco's economic recovery from the COVID-19 pandemic. They are also reasons to believe that future preferences of companies and employees—particularly around remote work—will create scenarios where growing companies only place their tech talent in San Francisco, and administrative, sales, accounting, and marketing roles are filled elsewhere. For San

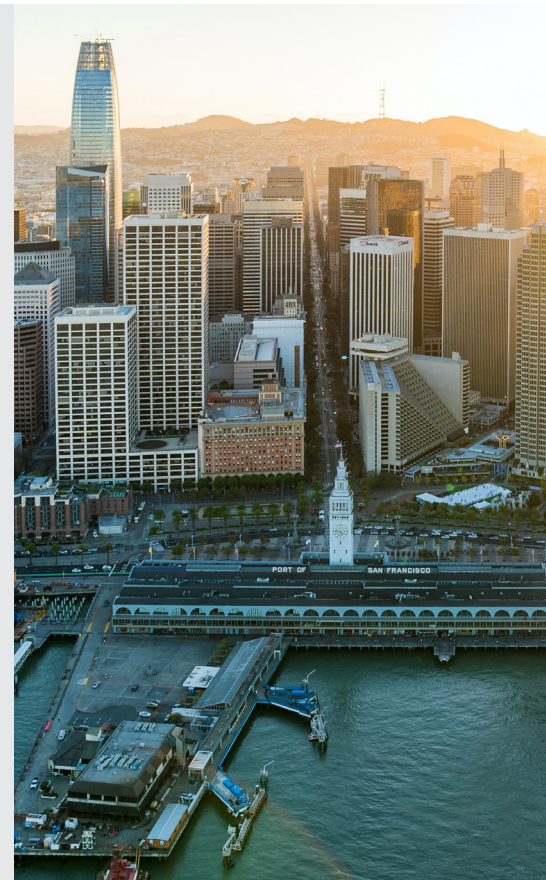
Francisco-based companies, these middle-wage positions can easily be filled in other geographies at lower cost with equally talented individuals.

Middle-wage positions—which pay between \$48,000 and \$72,000 annually—have declined as a percentage of San Francisco’s employment from 22.9% in 2005 to 20.8% in 2018. Fewer middle-wage opportunities in San Francisco pose a threat to more than the city’s economic balance. Beyond providing stable well-paying jobs that support middle-class lifestyles, middle-wage industries, and the jobs they support help economies remain resilient. Jobs in administrative support, sales, construction, entertainment, maintenance, and social services can also allow low-income households to move up the income spectrum. Without a robust middle-wage economy, the city’s equity disparity will only worsen.

Additionally, the city’s long-standing issues with housing affordability make a high quality of life difficult to attain even for those in the middle class. That is why economic development strategies that focus on middle-wage employment must be accompanied by housing policies that create and protect the housing needed for a middle-class workforce. While not all of San Francisco’s workers will live within the city, more can be done to ensure that the opportunity exists for middle-income households to both live and work within the city.

If San Francisco is serious about restoring its economy, then it must reshape its policies to attract and retain middle-wage jobs as part of its economic strategy. This paper provides eight suggestions:

- 1. Pause the introduction of new taxes, fees, and regulations until San Francisco can evaluate its costs compared to other cities.**
- 2. Conduct exit interviews with companies that have recently left and present findings.**
- 3. Investigate San Francisco’s overall cost of living against other cities in the US.**
- 4. Take an inventory of existing middle-wage job industries and identify retention needs.**
- 5. Create a package of incentives for companies to locate in SF and or create middle-wage jobs.**
- 6. Ensure economic development and workforce development programs are aligned and focused on middle-wage occupations.**
- 7. Develop and or support existing policies that prioritize the construction of workforce housing.**
- 8. Focus on quality-of-life issues for San Francisco as a whole.**





INTRODUCTION

Rebuilding the San Francisco Economy

The December 12 issue of *The San Francisco Chronicle* painted a grim picture at the top of the business section: “One Firm in Five Plans to Leave San Francisco.”

That headline ran in 1988.

Thirty-four years later, newspapers on both coasts have been running similar stories questioning the future of the City by the Bay, as relocation of both businesses and households away from the city became the dominant media narrative over much of the last two years. The COVID-19 pandemic has created questions about San Francisco’s path to recovery, with no shortage of opinion on both sides of the debate. Will San Francisco quickly return to its old form as one of the fastest-growing urban economies globally, or will it enter a new slower growth era as a middle-of-the-pack city?

What happens next will have repercussions for years, and the city’s aspirations for a more equitable and diverse community are at stake.

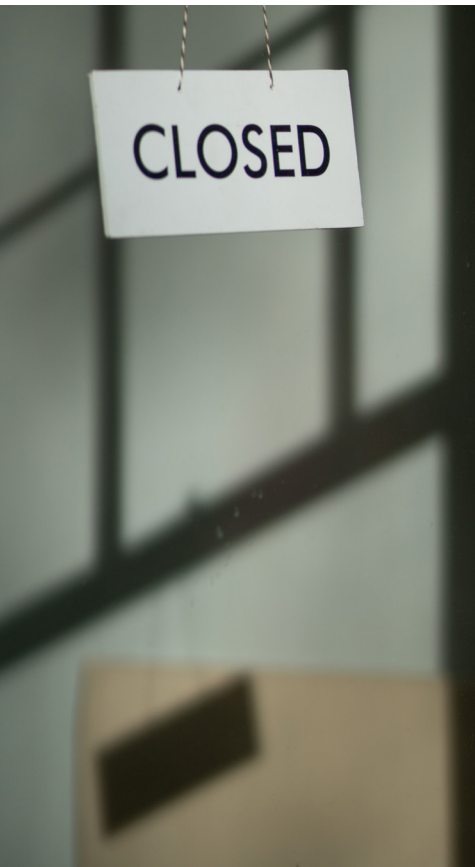
Previous recessions have reshaped the city’s economy and created a need for workforce development and economic policies that have revitalized specific industries and neighborhoods, such as the biotech payroll tax exemption and the Central Market tax exclusion. San Francisco’s future economic path coming out of the pandemic is not pre-ordained, and policymakers now have another chance to reinvigorate the city’s economy through policy and investment.

In this white paper, we first seek to provide insights on the city’s economic future while digging into the economic imbalances that existed before COVID-19 and that have been exacerbated by it. This analysis is based on the premise that after decades of dominating the world’s attention as a leading city for business, tourism, food, and creativity, San Francisco is at a critical inflection point, and the economic disruption of COVID-19 requires innovative policies to reignite the city’s economy. The second half of the analysis is focused on understanding middle-wage jobs in San Francisco, which can bring a new wave of job growth that provides opportunities not just to those at the top of the income spectrum but across it. We highlight their importance to a balanced urban economy and make policy recommendations that can put the city on a path to long-term economic sustainability.

TAKING STOCK

of San Francisco and its Economy

Already laboring under the unintended consequences of a rapidly growing economy—most notably, high housing costs—the pandemic has created a new set of problems. The COVID-19 pandemic, the restrictions put in place to limit its spread, and the stops and starts in reopening the California economy have created challenges on multiple fronts:



A SIGNIFICANT EMPLOYMENT LOSS. Between January 2020 and March 2022, employment in the San Francisco Metropolitan Division (which includes San Mateo County) has declined by nearly 47,000 jobs (or roughly 4% of the area’s pre-pandemic employment); the majority of these job losses are connected to leisure, hospitality, and the arts.³

SKYROCKETING OFFICE VACANCIES. The city’s office vacancy rate is 23.8% as of the first quarter of 2022, far surpassing the high point experienced during the financial crisis.⁴

GROWING CONCERNS ABOUT CRIME, STREET CONDITIONS, AND HOMELESSNESS. After nearly two years of being shuttered, many San Francisco storefronts remain boarded up or vacant. Homelessness and crime have become pervasive problems and are frequently cited by individuals and families as top reasons why they might consider leaving the city, according to polling by the San Francisco Chamber of Commerce that showed more than 45% of respondents are planning to leave the city in the next few years.⁵

Additionally, many San Francisco-based companies have been expanding their workforce numbers in other lower-cost geographies, and more companies are signaling they do not plan to return to the city with the same workforce numbers as before the pandemic. When viewed in the context of the conditions mentioned above, San Francisco’s tax and regulatory policies which once seemed to take the city’s extraordinary growth as a given, now pose a significant threat to its recovery.

3. Data taken from U.S. Bureau of Labor Statistics, State and Area Employment, Hours, and Earnings.

4. Data taken from CBRE San Francisco Office Snapshot, Q1 2022.

5. San Francisco Chamber of Commerce, “2022 Dignity Health CityBeat Poll Results.” Accessed at: <https://sfchamber.com/2022-dignity-health-citybeat-poll-results/>

TRACKING THE TRENDS

that Will Shape What Happens Next

The pandemic has introduced game-changing economic and behavioral forces that may well permanently alter San Francisco’s future in profound ways, including massive shifts in customer behavior and an increasingly nomadic workforce attracted to U.S. cities with a lower cost of living. But even if the city retains its tech hub status, it needs new strategies for job creation and workforce retention to remain a diverse, resilient, balanced city over the coming decades.

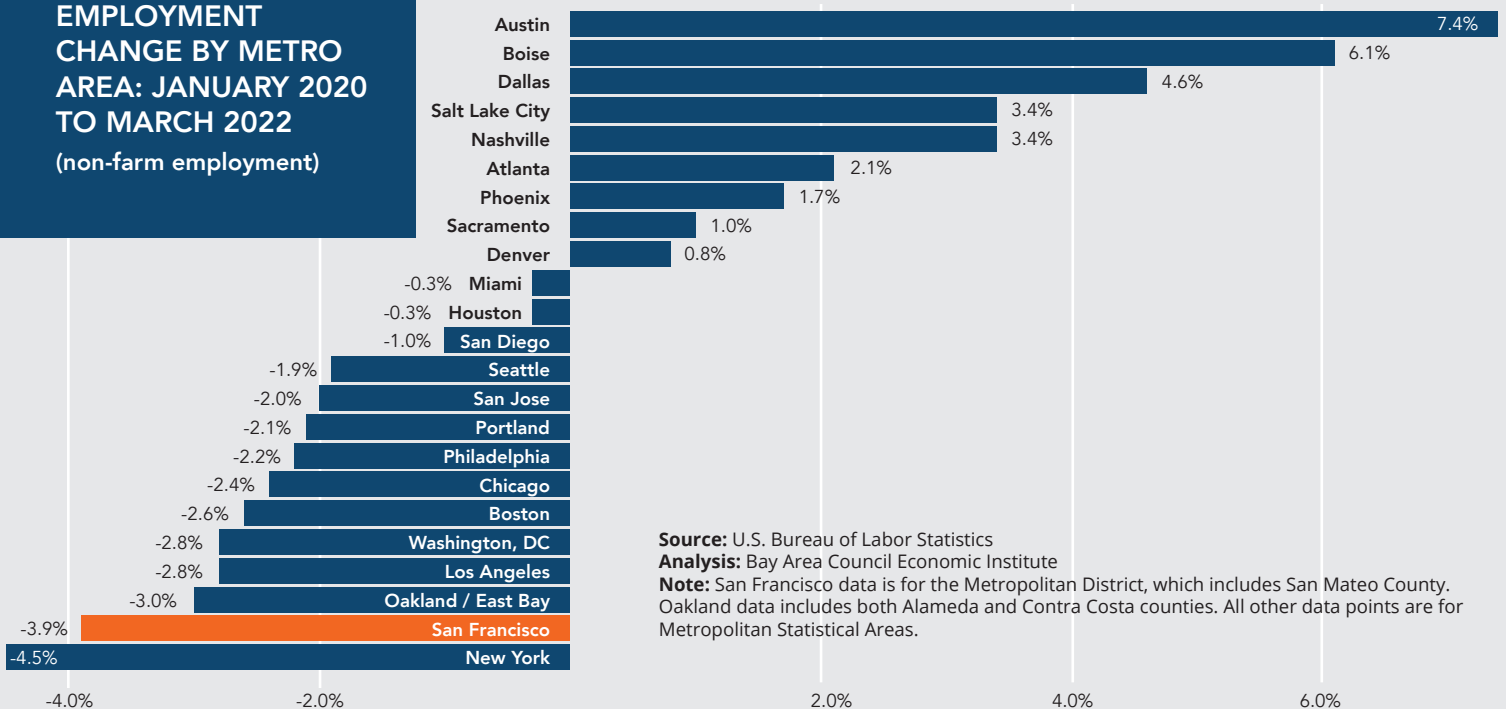
This section will detail 10 trends that could pose a threat to San Francisco’s future economic balance.



DENSE URBAN AREAS EXPERIENCED THE DEEPEST COVID-19 RELATED JOB LOSSES

The San Francisco and New York City metro areas have had the steepest level of sustained job decline since the onset of the pandemic. While some cities are recovering quickly and are above pre-pandemic employment levels, San Francisco still is down from its pre-pandemic employment peak by 4%. These dense coastal areas will likely be the last to fully recover as they have the most ground to make up.

EMPLOYMENT CHANGE BY METRO AREA: JANUARY 2020 TO MARCH 2022 (non-farm employment)



Source: U.S. Bureau of Labor Statistics
Analysis: Bay Area Council Economic Institute
Note: San Francisco data is for the Metropolitan District, which includes San Mateo County. Oakland data includes both Alameda and Contra Costa counties. All other data points are for Metropolitan Statistical Areas.



2.

A FRACTURED LEISURE AND HOSPITALITY SECTOR

More than half of all job losses in the San Francisco Metropolitan District (including San Mateo County) have come out of the leisure and hospitality sector, which has lost 26% of its employment base in San Francisco—the largest percentage job loss for this sector of any metro area in the U.S. This employment loss can be attributed at least partially to San Francisco’s dependence on tourism and business travel to drive employment in this sector. With international and business travel likely curtailed through 2022, a quick rebound in this important sector (more than 13% of San Francisco’s pre-pandemic jobs were in leisure and hospitality) seems unlikely.

Cultural institutions in the arts, entertainment, and recreation sector across the city also experienced near-complete shutdowns over the past two years. Many of these institutions are what make San Francisco such a special place to live and work in, and without them, the city would not be what it is today. A recent Economic Institute analysis found that the sector is also critical for middle-income employment, supporting nearly 30,000 jobs and \$1 billion in economic output.



3.

THOUSANDS OF SAN FRANCISCANS HAVE DROPPED OUT OF THE LABOR FORCE ALTOGETHER

Between February 2020 and February 2022, San Francisco’s resident labor force (employed plus looking for work) fell by more than 22,000 people. Much of that drop is likely attributable to a smaller overall population, but others have left the labor force altogether. It is known that labor force participation rates recover slowly after recessions and the longer someone is out of the labor force, the less likely their return becomes.

22,000
San Franciscans left the labor force between February 2020 and February 2022.

The population that has dropped out of the labor force is of particular concern. While data is limited for San Francisco, across the U.S., many low-wage workers are currently out of the labor force. If the service sector is slow to return in San Francisco, many of these workers may struggle to find employment when they do choose to re-enter the labor force.

4.

REMOTE WORK ELIGIBILITY BY JOB LOCATION

Counties in bold are included in the nine-county Bay Area

	Share of Jobs Remote Eligible	Remote Eligible Jobs
San Francisco County	51%	381,248
Santa Clara County	51%	569,941
San Mateo County	47%	185,218
Bay Area	45%	1,789,622
Sacramento County	40%	274,133
Alameda County	40%	316,655
San Diego County	39%	580,670
Orange County	39%	642,799
Marin County	39%	45,013
Contra Costa County	38%	1,708,733
Los Angeles County	38%	1,708,733
Sonoma County	32%	67,926
Fresno County	30%	120,780
Solano County	29%	40,988
Napa County	26%	20,903

Data: Emsi Occupation Date 2019
 Note: In the Emsi date, if an occupation category for a specific geography has under 10 jobs it is reported as "<10" but the exact number is not reported. As a result, the sum of all nine counties remote eligible jobs does not sum to the overall Bay Area number of remote eligible jobs. This is due to scenarios in which the nine counties collectively have over 10 jobs in an occupation category, while the individual counties do not all have over 10 jobs in the same category.

REMOTE WORK IS A GAMECHANGER FOR WORKERS

Though the long-range effects of the COVID-19 pandemic will fully reveal themselves over time, it does appear that an increased level of remote and flexible work arrangements is here to stay. According to the 2021 Bay Area Council poll, 38% of respondents believe they will go to their workplace five days per week post-pandemic, compared with 58% of respondents saying they had gone to a workplace five days per week pre-pandemic. This shift to more flexible work arrangements has a particularly negative effect on San Francisco, as it is dependent on workers flooding into the city to support a host of service sector jobs (e.g., restaurant workers, barbers, dry cleaners, and personal trainers).

San Francisco also has the highest percentage of remote work eligible occupations (i.e., jobs that could be performed remotely) of any county in California. While it is unlikely that most of these jobs will go fully remote, many employers have voiced a preference for a hybrid schedule that places workers in an office setting between two and four days per week.⁶ These new schedules could drastically reduce the city's daytime population in its downtown area in the short term, which will have downstream impacts on the service sector and small businesses that depend on office worker spending.

6. A November 2021 survey by the Bay Area Council of medium- and large-sized employers found that 15% predicted workers would come back to a physical setting twice per week, 41% said three times per week, and 15% said four times per week.

5.

REMOTE WORK IS A GAME CHANGER FOR EMPLOYERS

The ability to work remotely has also changed the way that many employers think about their workforce. Prior to the pandemic, San Francisco employers were focused on finding talent and expanding their labor shed in a tight job market. To attract potential employees from over a broader geography, many large employers found office sites near transit to be highly desirable. As such, office vacancy rates hovered around 5% in San Francisco even as significant amounts of office space were constructed in the South of Market neighborhood in the years prior to the pandemic.

With the success of remote work and videoconferencing during the pandemic, many employers have reduced their physical footprint in San Francisco, and some are moving away from the city altogether.

With the success of remote work and videoconferencing during the pandemic, many employers have reduced their physical footprint in San Francisco, and some are moving away from the city altogether. This list includes companies such as Salesforce, Twitter, Yelp, and Airbnb that have either canceled leases or are subleasing existing space. San Francisco companies Coinbase and Splunk have made even more drastic moves in announcing that they will become remote-first companies with no permanent headquarters.

As more companies seek to diversify their workforce, fully remote teams or departments allow for candidate attraction from around the country or globe. Whereas recruiting to open positions in San Francisco is a challenge due to the city's high cost of living, a remote work strategy can allow companies to build a more diverse talent base elsewhere.

While large, established firms have embraced remote work as part of their culture going forward, there is also concern that newly formed startups will look to more distributed teams to garner the best talent from across the globe. In a survey of portfolio companies done by Initialized Capital, 37% of respondents said they would pursue a hub-and-spoke model after the pandemic, 36% would be fully decentralized, and just 27% would have a primary office. This move to a more distributed workforce means that even if San Francisco continues to produce new startups, a smaller percentage of employees within those companies will be based in the city.

6.

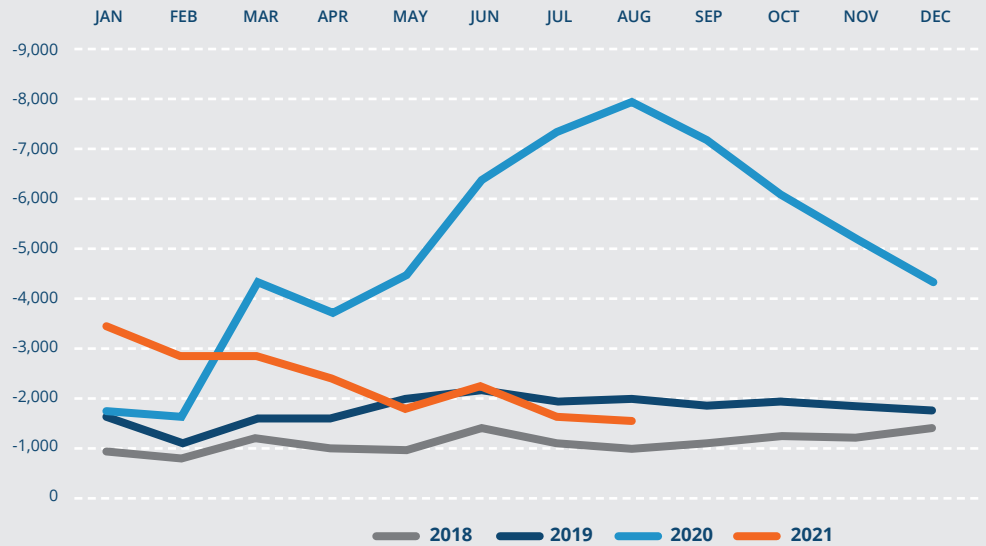
HIGH HOUSING COSTS MIGHT FINALLY OUTWEIGH THE BENEFITS OF THE CITY

Some of the highest costs of living in the country strain San Francisco’s ability to grow its workforce. Prior to the pandemic, thousands of individuals streamed into the Bay Area from the Central Valley each morning, and countless others endured commutes of over 90 minutes or more. Jobs will follow the talent, and increasingly it seems that talent cannot afford to or chooses not to live in the city. Remote work has untethered work and home geographies, allowing individuals to live further from a physical office location if they are only commuting a few days per week or working remotely full-time.

Between July 2020 and July 2021, San Francisco’s population fell by about 55,000 people according to the U.S. Census Bureau, producing one of the largest percentage declines of any county in the nation. By another metric—postal service change of address requests—San Francisco lost more than 60,000 people on a net basis in 2020, nearly three times the rate of out-migration experienced during 2019. Some of this movement can be explained by remote work, but price also appears to be a factor—San Francisco’s median home sale price currently hovers around \$1.6 million—as the majority of moves from San Francisco were to lower cost suburban locales in the Bay Area.⁷

MONTHLY NET MIGRATION FROM SAN FRANCISCO

Based on USPS Change of Address Requests



Source: United States Postal Service
 Analysis: Bay Area Council Economic Institute

7. Dineen, J.K. “People are leaving S.F., but not for Austin or Miami. USPS data shows where they went,” *San Francisco Chronicle*, February 16, 2021.



7.

NEW BUSINESS TAXES MIGHT FINALLY OUTWEIGH THE BENEFITS OF THE CITY

In just the past three years, San Francisco has passed numerous tax increases on businesses that might now hamper the city's recovery. Companies already face a high cost of doing business in the city related to higher-than-average labor and real estate costs, but those costs were often outweighed by access to a high-quality talent pool and proximity to other innovative, growing companies. With the additional taxes, that cost-benefit equation of locating in the city may now be shifting negatively.

Highlighting this change are fintech companies that are paying higher gross receipts taxes under 2018's Proposition C—the passage of which preceded at least two fintech corporate relocations out of the city. A new tax paid by companies with highly paid executives also passed in 2020, adding more costs to business operations in San Francisco. These taxes have disproportionately penalized many headquartered and non-tech businesses that provide jobs in administration, accounting, human resources, and information technology—roles that add diversity to the San Francisco economy by providing opportunity at the middle of the wage spectrum.



8.

OTHER GEOGRAPHIES ARE CATCHING UP TO SAN FRANCISCO

The Bay Area remains a global hub for innovation even in the face of multiple headwinds caused by the pandemic. In 2021, one-third of all venture capital investments made in the U.S. went to a Bay Area-based company. This is a clear sign that investors still have faith in the region's innovation economy, top entrepreneurs still live here, and companies are still being cultivated here.

However, other geographies are attempting to copy the Bay Area playbook, and cities like Denver, Seattle, Salt Lake City, and Austin appear primed to capture a greater share of future U.S. innovation. These metro areas may be a few decades behind the Bay Area in terms of the maturity of their innovation ecosystems, but they are growing quickly and strategically. In the near term, San Francisco and Silicon Valley will face pressures from more technology companies adopting dispersed employee footprints. If tech talent continues to concentrate in other cities, San Francisco should expect more competition from new tech hubs over the next decade.



9.

THE CITY'S FISCAL STRUCTURE MAY BE CHALLENGED BY REMOTE WORK

The city's future fiscal health will be closely tied to its economic recovery, particularly as emergency federal aid to municipalities wanes. Property tax receipts could be negatively impacted if commercial properties are sold at a loss, and hotel tax receipts will be challenged by a slow recovery in tourism. Regarding the city's gross receipts tax, large company revenues are still apportioned to San Francisco based in part on the workforce that is physically in the city. In a future where remote work is more prevalent, business tax receipts may face a steep recovery. A full recovery in the office market appears years away, and even if that can be attained, new tenants may have fewer in-person workdays or lower taxable gross receipts—either of which would create revenue pressure on the city's business tax receipts.



10.

A THRIVING TECH ECONOMY MAY NOT EQUATE TO A THRIVING SAN FRANCISCO

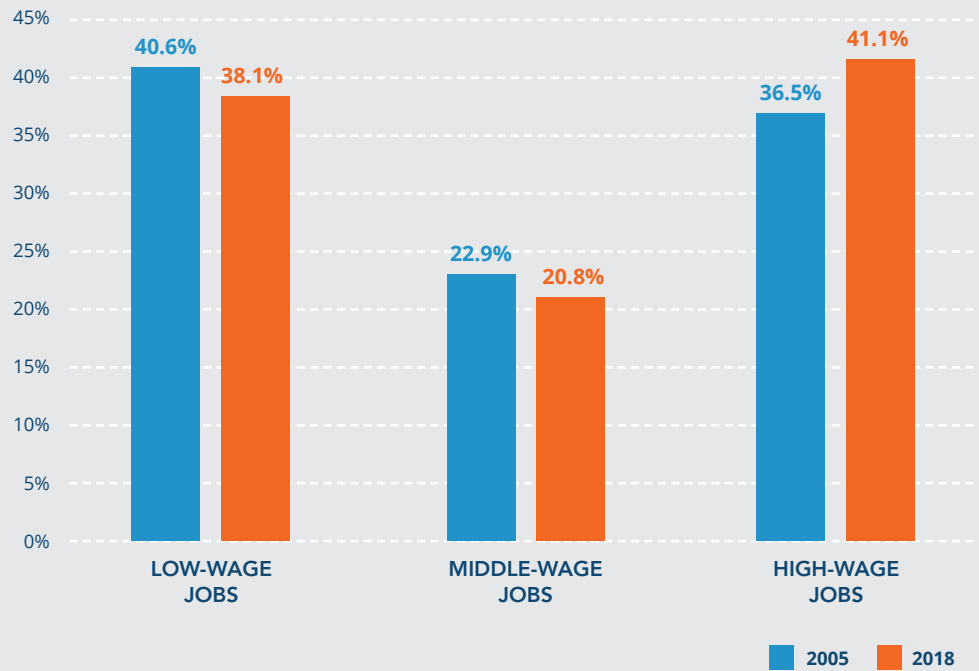
While the service economy struggles to recover in large cities, the tech economy has largely been thriving around the globe. Even as tech companies have been re-evaluating their physical office footprints, their financial performance has been strong. In fact, San Francisco was corporate headquarters to many of the largest technology IPOs, SPACs, and direct public listings of 2021.

San Francisco was corporate headquarters to many of the largest technology IPOs, SPACs, and direct public listings of 2021.

This tech prominence is a positive sign for the economy overall, as it does bring more wealth into the region that can help spur an economic rebound. However, the tech economy's growth over the last 10 years in San Francisco has coincided with an imbalance in employment opportunities, as jobs at high-wage levels have been growing rapidly.

Jobs in population-serving sectors at the low end of the wage spectrum continue to be a large part of the San Francisco economy, but they were becoming a smaller share of the city's total job base before the pandemic and new spending preferences may stall their future growth. And in the middle, low-barrier-to-entry jobs that pay a family-sustaining wage in San Francisco are becoming harder to find, making it difficult to move out of a low-wage career pathway.

SHARE OF JOBS IN SAN FRANCISCO BY WAGE LEVEL (2018)



Source: EMSI
 Analysis: Bay Area Council Economic Institute

The list above highlights the economic trends that will influence San Francisco’s economic recovery from the COVID-19 pandemic. There are multiple reasons to believe that future preferences of companies and employees—particularly around remote work—may create scenarios where growing companies only place their tech talent in San Francisco, and administrative, sales, accounting, and marketing roles are filled elsewhere. For San Francisco-based companies, these middle-wage positions can easily be filled elsewhere at lower cost with equally talented individuals.

The region’s comparative advantage is clearly in its tech talent, but middle-wage roles are also critical for a balanced, equitable economy. Middle-wage jobs—and their importance to the local economy—will be explored in more detail in the following section, along with strategies to grow them in San Francisco.

The region’s comparative advantage is clearly in its tech talent, but middle-wage roles are also critical for a balanced, equitable economy.

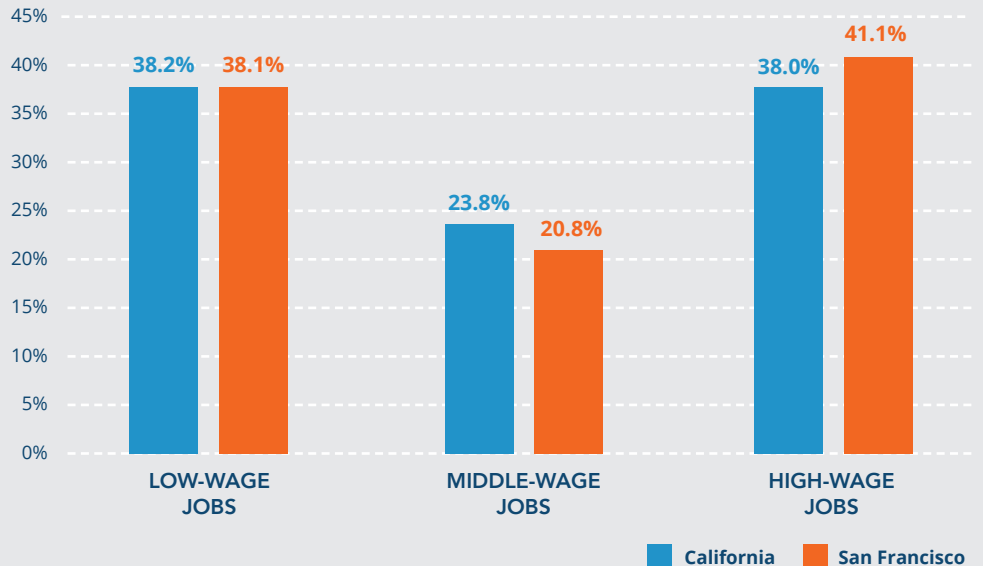


A RECOVERY That Embraces Opportunity for All

Beyond providing stable, well-paying jobs that support middle-class lifestyles, middle-wage industries and the jobs they support also help regional economies remain resilient by diversifying the economy. Additionally, a lack of middle-wage employment opportunities exacerbates income disparities and limits the number of career paths that offer upward mobility.

Across California, jobs in middle-wage occupations (jobs that earn between 80-120% of the state’s median income) represent nearly one-quarter of the state’s employment, three percentage points higher than their share in San Francisco. These shares have declined slightly since the Great Recession, with total job numbers stagnating for middle-wage roles in the manufacturing, construction, and retail sectors in California. Growth in the number of middle-wage jobs in the healthcare sector, such as personal care aides and registered nurses, has largely prevented a more severe decrease in middle-wage jobs as a percentage of the state’s economy. A limited number of accessible middle-wage jobs coupled with high housing costs continues to impede upward mobility for low-wage workers across the state.

**MIDDLE-WAGE
JOBS AS A SHARE
OF TOTAL JOBS,
CALIFORNIA VS.
SAN FRANCISCO**
(2018)



Source: California EDD, OEWS Employment and Wages
Analysis: Bay Area Council Economic Institute
Note: Low-wage jobs are those that pay below 80% of the geography’s median wage. Middle-wage jobs pay between 80% and 120% of the median wage. High-wage jobs pay above 120% of the median wage.

The lack of new opportunity for middle-wage work is especially prevalent in San Francisco. Over the past decade, sharply rising costs of doing business have pushed many companies to move middle-wage occupations out of San Francisco. High commercial rents, high labor costs, and increasing taxes, fees, and regulations have made it difficult for all but the highest productivity occupations to remain. However, trends in middle-wage occupations have a large influence on regional economic stability, and the loss of these industries and occupations will have long-term implications for the city.

SAN FRANCISCO MIDDLE-WAGE EMPLOYMENT BY OCCUPATION (2018)

Occupation	Middle-Wage Jobs	Total Jobs	% MWJ of Total
Office and Administrative Support	49,959	111,641	44.7%
Sales and Related	21,233	69,079	30.7%
Construction and Extraction	15,494	23,792	65.1%
Arts, Design, Entertainment, Sports, and Media	14,078	28,931	48.7%
Installation, Maintenance, and Repair	12,331	16,569	74.4%
Healthcare Practitioners	7,274	32,220	22.6%
Community and Social Service	7,124	14,011	50.8%
Management	5,133	68,499	7.5%
Educational Instruction and Library	5,063	34,746	14.6%
Business and Financial Operations	4,948	78,889	6.3%
Transportation and Material Moving	4,570	36,103	12.7%
Legal	4,076	14,468	28.2%
Personal Care and Service	3,559	49,670	7.2%
Life, Physical, and Social Science	2,964	10,456	28.3%
Architecture and Engineering	2,600	17,103	15.2%
Production	2,493	14,703	17.0%
Building and Grounds Cleaning and Maintenance	1,587	34,221	4.6%
Healthcare Support	1,570	11,549	13.6%
Food Preparation and Serving	1,477	72,115	2.0%
Protective Service	1,399	16,947	8.3%
Computer and Mathematical	0	65,190	0.0%

Source: EMSI Occupation Data - Derived from the BLS Occupation Employment Statistics (2018)
Analysis: Bay Area Council Economic Institute

WHAT IS A MIDDLE-WAGE OCCUPATION IN SAN FRANCISCO?

For the purposes of this analysis, we have used a common definition of middle wage: occupations that earn between 80-120% of the median hourly wage in the region. The San Francisco-Oakland-Hayward metropolitan statistical area includes Alameda, Contra Costa, Marin, San Francisco, and San Mateo counties. Median wages in the San Francisco-Oakland-Hayward metropolitan region are substantially higher than the area’s peer regions and the nation at \$60,403 annually per worker,⁸ which results in a middle-wage job earning \$48,322 to \$72,483 annually.

Of note, this methodology calculates the median wage using a regional approach, which has been the same approach taken by other analyses.⁹ Because of this expansive calculation, the middle-wage range considers a wide variety of jobs and geographies. The methodology also bases the range only off wages and does not utilize costs to determine middle wage. Because middle-wage workers can and do live

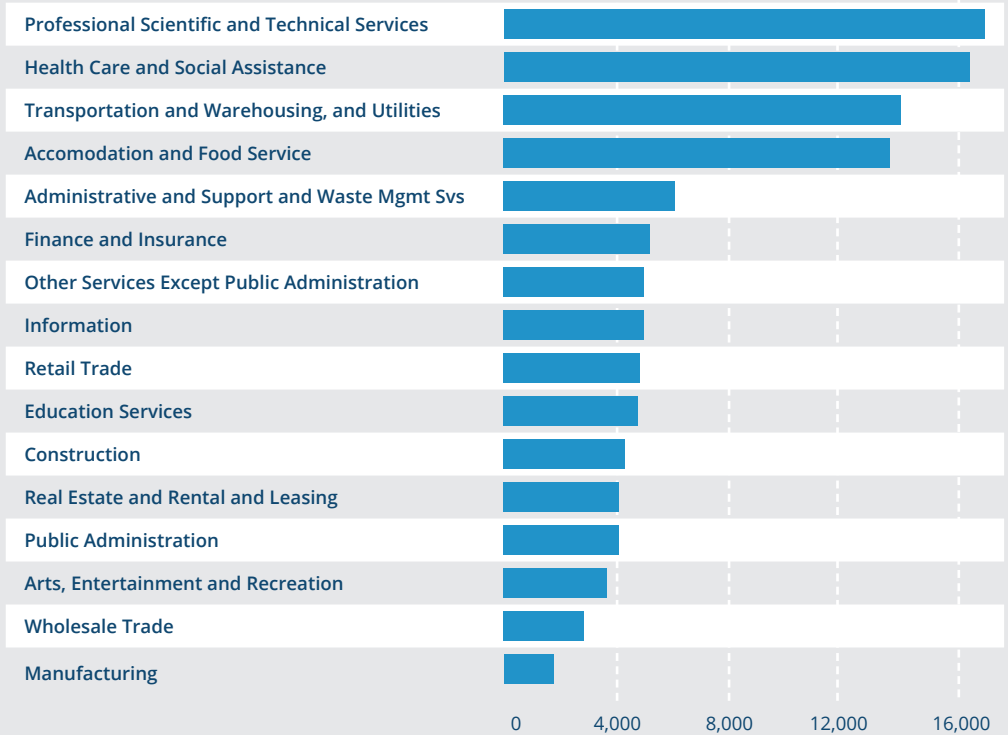
throughout the region—40% of all San Francisco workers live outside of the city—the middle-wage range in San Francisco does provide access to housing in other parts of the region. The \$300,000 annual household salary needed to afford the median home in San Francisco does mean that most workers in middle-wage occupations would not be able to buy a home in San Francisco. However, two-thirds of San Francisco residents are renters, so a middle-wage role can still provide access to housing in the city.

Applying this range to employment in San Francisco, jobs defined as middle-wage exist across a wide range of occupations as depicted in the chart below. Approximately two-thirds of the city’s middle-wage jobs fall in five broad occupational categories: Office and Administrative Support; Sales; Construction; Arts, Entertainment, and Media; and Maintenance and Repair.

WHO EMPLOYS SAN FRANCISCO’S MIDDLE-WAGE WORKFORCE?

Known for its high-wage, high-tech workforce, San Francisco is not necessarily defined by its middle-wage earners, as just 21% of the city’s employment falls into the middle-wage category. The same industries that offer many opportunities for high-skilled workers support much of the city’s middle-income earners. From a workforce standpoint, San Francisco’s professional and technical industry is essential not just for high-skilled top earners, but also vital to the city’s middle-wage workforce. This industry employed over 17,000 middle-wage earners in 2019, or 18% of San Francisco total middle-wage workforce. Within each of the industries depicted below, education, arts/entertainment, healthcare, and wholesale trade each have middle-wage job concentrations of over 20%.

ESTIMATED NUMBER OF MIDDLE-WAGE JOBS IN SAN FRANCISCO BY INDUSTRY

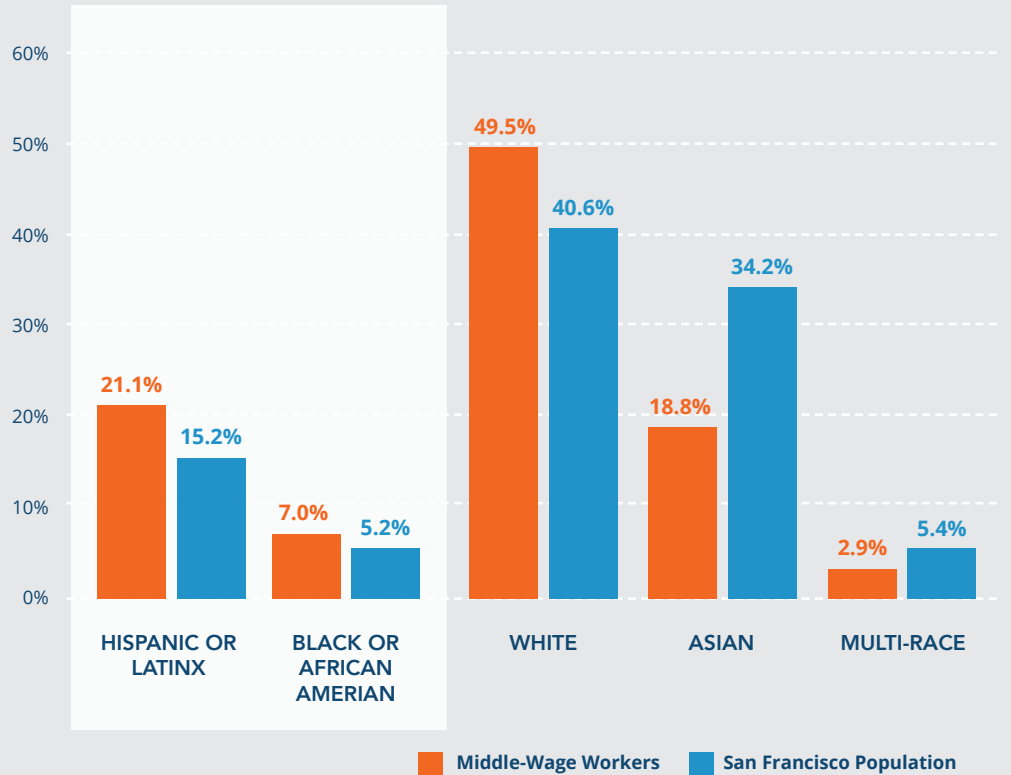


Data: American Community Survey 2019 1-year estimates; 2019 Industry Employment
Analysis: Bay Area Council Economic Institute

MIDDLE-WAGE JOBS ARE PARTICULARLY IMPORTANT FOR BLACK AND LATINX WORKERS

In an increasingly expensive San Francisco, middle-wage jobs and careers are important pathways into the middle-class, particularly for Black and Latinx workers. Black and Latinx workers are over-represented in middle-wage occupations when compared to the city's baseline demographics. While many San Francisco workers commute into the city, an inability to grow middle-wage occupations into the future could also contribute to declining diversity in the city's population.

RACE/ETHNICITY OF MIDDLE-WAGE WORKERS IN SAN FRANCISCO



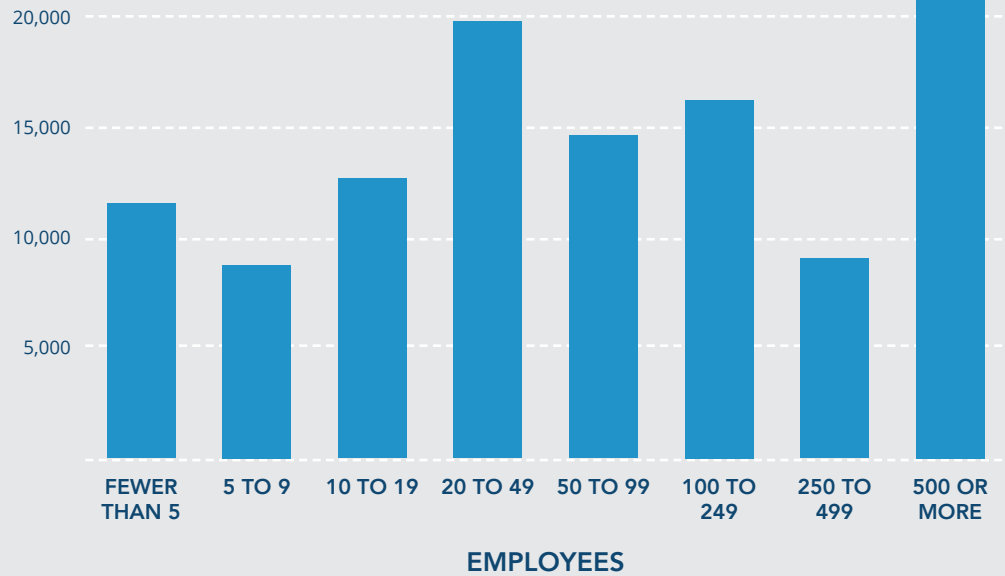
Data: Emsi, American Community Survey (ACS)
Analysis: Bay Area Council Economic Institute

LARGE AND SMALL BUSINESSES ARE CRITICAL FOR MIDDLE-WAGE EMPLOYMENT

A large share of San Francisco’s middle-wage jobs is found within large establishments, but these are also the businesses that are currently facing increasing costs of continuing to operate in the city. Establishments with over 500 workers employ an estimated 19% (over 20,000 jobs) of the citywide middle-wage jobs. While shielding small business from increased cost pressure is important to the city’s economic future and recovery, so are middle-wage jobs. Continuing to target larger businesses with tax increases may inadvertently impact the middle-income earners in the city.



ESTIMATED
NUMBER
OF MIDDLE-
WAGE JOBS BY
ESTABLISHMENT
SIZE



Note: Estimates produced using QCEW industry employment by establishment size for the State of California, applied to the estimated number of middle wage jobs in each industry in San Francisco County and summed by the establishment size.

Data: California EDD 2019 Industry Employment, QCEW California Industry Employment by Establishment Size
Analysis: Bay Area Council Economic Institute

POLICY RECOMMENDATIONS



Middle-wage occupations and the industries that employ them have long been overlooked by policymakers and government officials. A vibrant middle-class has always been key to America's success, and middle-wage jobs provide the city with a strong foundation for sustained economic growth. However, years of strong employment gains have resulted in local policies that can have a chilling effect on job creation, and the pandemic has revealed trends that could prove negative for middle-wage jobs and the economy overall.

Economic development strategies are often geared toward attracting high-wage jobs or protecting those in low-wage jobs. **If San Francisco is serious about restoring its economy to fund its vision of a city that works for everyone, then it must reshape its policies to attract and retain middle-wage jobs as part of its economic strategy.** This white paper provides eight suggestions:

1

Pause implementation of new taxes, fees, and regulations.

San Francisco has always been an expensive place to live and do business. However, for many industries and the middle-wage jobs they support, San Francisco has simply become too expensive to justify continuing investment and maintaining a physical footprint. The pandemic has made other U.S. cities vastly more attractive for locating a company. San Francisco should pause all of its new tax increases, fees, and regulations until its economy has stabilized.

2

Conduct exit interviews with companies that have left San Francisco and present findings.

San Francisco should retain a consultant to conduct exit interviews and present the findings on a quarterly basis to the Mayor's Office of Economic and Workforce Development. If we want to get serious about creating a more equitable economy, we need to listen to why middle-wage job producers (and others) exit our city.

3

Investigate San Francisco's overall cost of living against other cities in the U.S. and make a commitment to stay competitive.

The city should make affordability its top priority and look to innovative solutions to immediately provide more affordable housing options to middle-wage workers. The city itself can also analyze its own policies around permitting and approvals that may be causing delays and adding to the cost to build, own, and rent housing in San Francisco.

4

Take an inventory of existing middle-wage job industries and identify retention needs.

Policymakers must understand what occupations remain and what industries employ them. To that end, developing an annual report and index tracing the health of middle-wage occupations in the city and the industries that employ them is a necessary step. Regular examination of that data and discussion with industry will be critical to understanding and responding to the needs of those businesses.

5

Identify financial incentives for employers to create middle-income jobs in the city.

San Francisco has employed tax credits in the past to support strategic economic development initiatives. These tax credits have supported entire industries (e.g., clean tech) and neighborhoods within the city (e.g., Central Market Street). As the economy evolves, tax credits that support middle-wage hiring can play an important role in the city's recovery. Companies that commit to policies that align with the city's equity, economic, and environmental goals (i.e., apprenticeships in middle-wage fields, environmental and social leadership) might also benefit from financial incentives in form of a payroll tax exclusion, deferred taxes, or streamlined approval of expansion projects.

6

Ensure economic development and workforce development programs are aligned and focused on middle-wage occupations.

Low-wage leisure and hospitality jobs have been most impacted by the pandemic. While the sector will recover over time as office usage increases and tourism returns, some of these jobs may not return after the pandemic as businesses turn to automation or hope for greater productivity out of a smaller staff. As such, there is a current opportunity to deploy workforce programs that are strategically aligned with economic development programs that support middle-wage jobs. Importantly, providing support, investing in, and incentivizing growth in middle-wage employment would be an effective way to increase opportunities for the low-wage workforce to advance into higher-paying roles. Careful attention also needs to be paid to bridge any gaps between employers and workforce development programs. Workforce development programs that are not closely aligned with industry run the risk of training for the wrong careers.

7

Develop and or support existing policies that catalyze the construction of workforce housing.

While economic development strategies have a clear connection to job growth in the city, housing costs in San Francisco are one of the biggest deterrents to middle-wage employment growth. A high cost of living in San Francisco and the surrounding region has pushed up wages and made the city less competitive for new talent when compared to other metropolitan areas, which has been the most frequent factor cited when companies relocate jobs elsewhere. A renewed focus on housing affordable to middle-wage households—either through subsidy or zoning that creates affordability by design—can help to rebuild a middle class in the city.

8

Refocus on quality of life.

Local, national, and international press have documented San Francisco's homelessness, crime, and gritty street conditions during the pandemic. These are not new problems, but the pandemic exacerbated things to unbearable levels that are having a material effect on the decisions residents and companies make about keeping San Francisco as their home. Recent polls highlight voter dissatisfaction with conditions.¹⁰ San Francisco must get serious about street conditions, ease of public transportation, and perception of safety if it wants to attract and retain its core industries. Now, more than ever, employees have a choice about where they live.

10. CBS Bay Area, "Poll: Fear Of Crime Preventing Bay Area Residents Return To Big City Downtowns," March 31, 2022. Accessed at: <https://sanfrancisco.cbslocal.com/video/6219709-poll-fear-of-crime-preventing-bay-area-residents-return-to-big-city-downtowns/>



CONCLUSION

Urban economies across the country are at a critical inflection point. Many high-wage workers have remained in their home offices throughout the pandemic—and are likely to do so more often in the future. Their limited presence in downtown locations has negatively impacted employment in the low-wage service sector and has caused many small businesses to shut down permanently. Middle-wage work is also affected, as office vacancies and smaller daytime populations mean less need for administrative roles. This phenomenon is most evident in San Francisco, where job recovery numbers have fallen behind peer metro areas.

COVID-19 induced job losses in San Francisco were unprecedented. And the recovery that follows will be unlike others. As such, the city has an opportunity to put policies in place that both rebuild and rebalance the economy. Strategies that retain and attract middle-wage employment should be a priority. These roles provide the stepping stones for economic opportunity needed for the city's residents to move up the income ladder. Often overlooked, middle-wage employment is a key ingredient for a balanced economy.

Focusing on the middle—both in terms of middle-wage jobs and the affordable housing needed for workers—can help the city ensure that it really is providing opportunity for all and that its vibrancy can be accessed by anyone.