

**CityLab**

Economy

# San Francisco Girds for Blow of Office Workers Never Returning

The tech hub is particularly vulnerable to a long-term shift to remote jobs.



The San Francisco metro area has the lowest share of workers back at the office among 10 U.S. cities. *Photographer: David Paul Morris/Bloomberg*

By Romy Varghese

March 3, 2022, 7:00 AM PST *Updated on March 3, 2022, 11:31 AM PST*

As major U.S. cities recover from the pandemic, San Francisco is getting left behind.

The tech hub, an economic boomtown over the last decade, is struggling with the nation's weakest office occupancies, stubbornly low transit ridership and one of the country's slowest recoveries of jobs. White-collar employees embracing remote work have decamped to less pricey areas, raising the question of if they'll ever come back.



Fred Tang, owner of Spice Kit restaurant. *Photographer: David Paul Morris/Bloomberg*

For businesses such as Spice Kit, a casual Asian-inspired eatery on the ground floor of a 10-story downtown office tower, the situation is dire.

“With no residents around here, we definitely got hit the hardest,” said Fred Tang, Spice Kit’s owner, as he waited for customers on a recent weekday afternoon. He’s hoping the partial return of BlackRock Inc. employees across the street could help turn things around, but if not, “end of this year and we’re done. We’re throwing in the towel. That’s it.”

With Covid concerns receding and U.S. employers calling staff back to offices, San Francisco stands to be an important test case on the persistence of remote work and how a leading American city is forced to adapt. It’s particularly vulnerable to a long-term shift given its high concentration of office jobs and tech companies’ embrace of flexible policies to attract and retain talent in a heated labor market.



BlackRock employees wait to order lunch at Spice Kit on March 2. *Photographer: David Paul Morris/Bloomberg*



Tang distributes catered lunches to BlackRock employees on March 2. *Photographer: David Paul Morris/Bloomberg*

A deepening homeless crisis, open drug use in a notorious downtown district, and viral smash-and-grab retail thefts have only added to concerns that San Francisco's appeal is diminishing. The recall last month of three school board members gained national attention, highlighting bureaucratic dysfunction. And even before the pandemic, residents were being squeezed by a real estate market that's seen the median house price soar to \$1.6 million.

"It really is primed for people to want to relocate out," said Laura Ratz, an economist at Moody's Analytics. "If they're no longer so tethered to the workplace, then that is going to ding the number of people who choose to pay that premium to live in the city."



A broken window in downtown San Francisco. *Photographer: David Paul Morris/Bloomberg*

The return to offices is taking on more urgency for Mayor London Breed, who on Thursday announced a commitment from employers such as Wells Fargo & Co. and Uber Technologies Inc. to implement policies that would call workers back to the office in some capacity. The city is requiring its own employees to resume in-person work on March 7.

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Large tech employers have indicated they are committed to offices in some form, but will be accommodating to remote staff. Google, which has offices in San Francisco, on Wednesday said Bay Area employees should return starting in April, on a hybrid basis. Salesforce.com Inc. is adopting broad flexibility. Lyft Inc. plans to wait until 2023 for a mandatory return, while Twitter Inc. and Dropbox Inc. have said some workers can be remote permanently.

The San Francisco metro area has the lowest share of workers back at the office among 10 U.S. cities, according to swipe-card data from security company Kastle Systems, with about a quarter of employees returning as of Feb. 23. The city's office market had a 22.6% vacancy rate at the end of 2021, compared with 16.6% for the U.S., data from CBRE Group Inc. show.



For now, city forecasters are estimating that by 2023, on average, office workers will permanently telecommute for 15% of the time. That means slower growth in business taxes that rely in part on the number of employees who are physically located in the city. But even that is a “placeholder” figure that’s uncertain, said Ted Egan, San Francisco’s chief economist.

“I don’t think anybody knows the answer, but I think we need to start planning for a world of reduced office demand,” he said.

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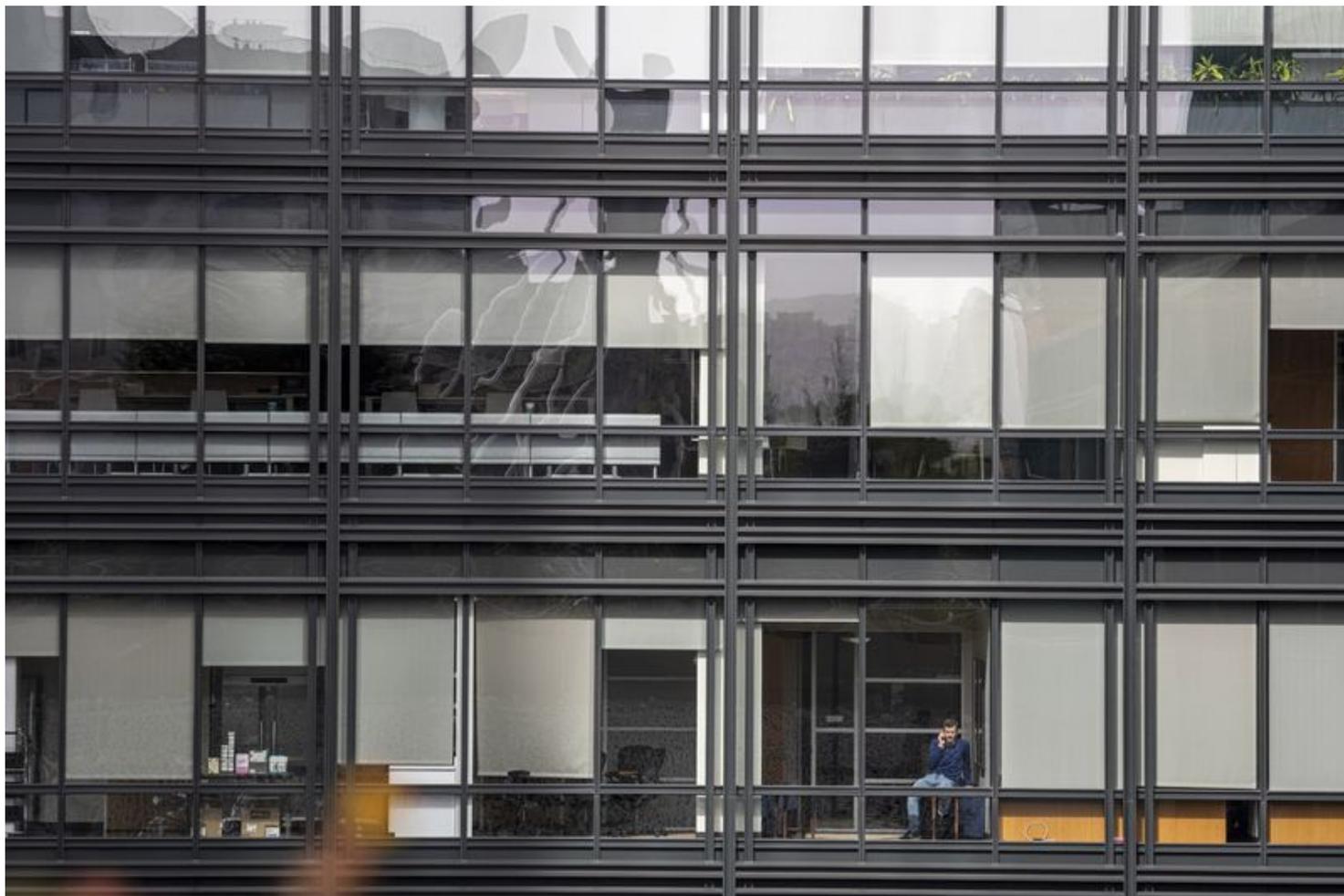
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Of course, San Francisco has weathered booms and busts before. Local officials have extended multiple grant programs. The budget, buoyed by federal stimulus, is posting a surplus this year. Many small businesses, the lifeblood of cities, have adapted, from setting up outdoor dining spaces to embracing online purchases. And there are the intangible qualities that have long attracted people to the Bay Area: natural beauty, diversity and quirky character.

“The people who come here every day to work also come here to support our small businesses, to enjoy the arts, and to go out at night after work at our bars and restaurants and enjoy themselves. They are a part of what makes San Francisco feel vibrant and what makes this an incredible city,” said Jeff Cretan, a spokesperson for Breed. “We know that things will look different after the pandemic, but we have a lot to offer to people after two years of spending a lot of time at home.”



A worker talks on a phone inside an office in San Francisco on March 2. *Photographer: David Paul Morris/Bloomberg*

Still, forward indicators show the challenges ahead. The San Francisco metropolitan area is among those with the slowest growth in job postings, according to Indeed.com. And recent research from the Conference Board shows that 43% of job postings from West Coast tech firms are based in locales outside of California, Oregon and Washington, a 13 percentage point jump since 2019.

Meanwhile, San Francisco's metro region has recovered just 61% of the jobs that disappeared during the worst of the pandemic, according to an analysis of federal data by Moody's Analytics. That's well behind California's 72% showing and the U.S. figure of 87%.

## **San Francisco Bay Blues**

The city's percentage of regained jobs that were lost during the height of the pandemic lags that of other major metros

Source: Moody's Analytics analysis of federal data  
Data reflects metro regions

The lag is largely because of the slow revival of leisure and hospitality jobs, reflecting both the decreased business demand and depressed travel to a city that was a premier destination for overseas visitors, particularly from Asia. Passengers at San Francisco International Airport are expected to reach 2019 volumes much later ..... than the sector overall, according to Moody's Investors Service.

Claudia Valencia used to work as a housekeeper at the Hilton in the Union Square district, making \$27 an hour plus benefits. She took a job at a local Walmart while she waits for her old position to come back. But she works fewer hours because she can't afford a babysitter on those wages, \$17 an hour with no benefits.

"It's really hard and frustrating," said Valencia, whose union UNITE HERE Local 2 is seeking to ensure hotels bring back the workforce at pre-pandemic levels.

California's property-tax system is helping to keep San Francisco's finances stable. Valuations for property-tax purposes are often well below market prices, so local governments have a cushion in downturns. In addition, many large businesses are still operating under long-term leases.



For Lease signs in San Francisco on March 2. *Photographer: David Paul Morris/Bloomberg*

“Once the pandemic is behind us and people have a clear sense of that, you’ll see an adjustment in the market, vacancy rates will come down, employees will be back in the offices, the city’s tax base from downtown will be growing again,” said Egan, the economist.

Some groups in the city are also trying to find ways to adapt. The Downtown San Francisco Community Benefit District is surveying residents about what they’d like to see in the central business neighborhood, such as more greenspace and cultural events, said Robbie Silver, the organization’s executive director.

"Aggressive adaptation to a new hybrid reality is the only answer to this pivotal cultural change," he said.

– *With assistance by Sarah Holder, and John Gittelsohn*

*(Updates with return to office commitment from employers in eight paragraph.)*

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