REVIEW OF THE IMPACT OF INCREASING RENTS IN SAN FRANCISCO ON LOCAL NONPROFIT ORGANIZATIONS

Policy Analysis Report to Supervisor Kim

Presentation to:
BUDGET AND FINANCE COMMITTEE
BOARD OF SUPERVISORS
CITY AND COUNTY OF SAN FRANCISCO

October 9, 2013

Budget and Legislative Analyst
National, State, Local Nonprofit Sector

- 1,424,918 nonprofit organizations in the U.S.*
- 146,383 nonprofits organizations in California*
- 6,005 nonprofits in San Francisco*
- 1,425 nonprofits contracting with the City**

* U.S. Internal Revenue Service, Exempt Organizations Business Master File (2013, July)
** San Francisco’s Controller’s Vendor Payment Summaries Website Report for Nonprofits, 09/29/13

<table>
<thead>
<tr>
<th>CITY PAYMENTS TO NONPROFIT CONTRACTORS</th>
</tr>
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<tbody>
<tr>
<td>FY 11-12</td>
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<tr>
<td>----------</td>
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<tr>
<td>$485,189,353</td>
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</tbody>
</table>

Source: San Francisco’s Controller’s Vendor Payment Summaries Website Report for Nonprofits, 09/29/13
Research: Benefits of Nonprofit Ownership, Co-location

- **2000 SF survey:** 52% nonprofit respondents reported likely or committed to leaving SF due to rents. 69% interested in co-locating with other nonprofits. (Source: “Nonprofits at Risk”, CompassPoint Services, 2000. 301 responses)

- **2003 nonprofit publication:** Advice on acquiring own property, including multi-tenant office buildings. *Suggests local government can play role in providing property, funding.* (Source: “A Nonprofit Space Odyssey”, CompassPoint and Silicon Valley Council on Nonprofits, 2003)

- **2012 national survey:** Contributions to 37% of respondents declined that year. 13.4% merged with other nonprofits to weather economy. (Source: “Effect of the Economy on the Nonprofit Sector”, GuideStar, 2012. 500 responses)

- **2013 national survey:** 77% reported slight or greater increase in demand for services in last year; 52% unable to meet demand. 16% reported collaborating with other nonprofits to reduce administrative costs. (Source: “2013 State of the Nonprofit Sector Survey”, Nonprofit Finance Fund, 2013. 5,983 surveyed)
Citywide Vacancy & Rental Rates by Building Class: 2013 vs. 2012

- Strong job growth in San Francisco 2011-2013: 41,300 new jobs in 12 mos. through January 2013, primarily professional and business services, including computer systems design.
- Commercial vacancy rates down; rental rates up for all classes of buildings.

<table>
<thead>
<tr>
<th>BUILDING CLASSIFICATION</th>
<th>VACANCY RATE</th>
<th>RENT: $/SQUARE FEET/YEAR</th>
<th>RENT % CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>CLASS A</td>
<td>10.5%</td>
<td>8.9%</td>
<td>$49.26</td>
</tr>
<tr>
<td>CLASS B</td>
<td>13.6%</td>
<td>12.0%</td>
<td>$40.07</td>
</tr>
<tr>
<td>CLASS C</td>
<td>8.4%</td>
<td>8.3%</td>
<td>$31.40</td>
</tr>
</tbody>
</table>

Source: Market data provided to the Budget & Legislative Analyst’s Office by Cushman & Wakefield for second quarter 2012 and 2013.
# Rent and Vacancy Rates Citywide and SOMA

<table>
<thead>
<tr>
<th>NEIGHBORHOOD</th>
<th>3Q Vacancy Rates</th>
<th>3Q Overall Weighted Avg. Gross Rental Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITYWIDE</td>
<td>12.4%</td>
<td>10.4%</td>
</tr>
<tr>
<td>FINANCIAL DISTRICT NORTH OF MARKET ST.</td>
<td>12.1%</td>
<td>9.3%</td>
</tr>
<tr>
<td>FINANCIAL DISTRICT SOUTH OF MARKET ST.</td>
<td>8.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td>SOMA</td>
<td>23.1%</td>
<td>10.1%</td>
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</tbody>
</table>

Building Classifications

Class A:

595 Market St.  1455 Market St.

Source for Locations: Cushman & Wakefield.
Building Classifications

Class B:

1200 Van Ness

631 Howard

Source for Locations: Cushman & Wakefield.
Building Classifications

Class C:

1019 Market St.

901 Mission St.

Source for Locations: Cushman & Wakefield.
BLA Survey of SF Nonprofit Organizations

- Conducted September 2013 through Human Services Network; 90 responses out of 121 surveys returned used.
- Mix of mental health, health, human, housing, legal & other service providers.
- Mix of neighborhood locations: 37% in SOMA area (zips 94103 and 94105).
- Respondents’ average total budget, current fiscal year: $4,856,166; average annual rent: $224,738 (4.6% of total).
- 20 respondents entered in to new leases in 2012 & 2013 (first 9 mos.).
- 25 respondent leases will expire in last quarter of 2013 or 2014.
- Out of 45 responses to, “Is it essential to be located in this neighborhood?”, 32 responses (71.1%) = “Yes.”
# Rent Increases: Respondents with Expired Leases, 2012 & 2013

<table>
<thead>
<tr>
<th></th>
<th>Old Lease</th>
<th>New Lease</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mo. Rent</td>
<td>Sq. Ft.</td>
<td>$/Sq. Ft/ Yr.</td>
</tr>
<tr>
<td>Average</td>
<td>$8,599</td>
<td>6,401</td>
<td>$16.12</td>
</tr>
<tr>
<td>Median</td>
<td>$4,190</td>
<td>3,315</td>
<td>$15.17</td>
</tr>
</tbody>
</table>

Source: Survey administered by Budget & Legislative Analyst of San Francisco Nonprofits on Rent Increases, September 2013. Responding Sample Sizes: Old Lease Monthly Rent: 20; Old Lease Square Feet: 19; New Lease Monthly Rent: 14; New Lease Square Feet: 14
Policy Options for the Board of Supervisors

1. Development Impact Fees.
2. Inclusionary zoning requirements.
3. Incentives for below-market leases for nonprofits.
4. Loans and/or grants through City programs.
5. City provide unutilized or underutilized City property to nonprofit organizations at low/no cost.
6. City collaborations with foundations, private donors, and others to fund building ownership, multi-tenant centers.
Questions and comments

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