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

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

City Payments to Nonprofit Contractors		
FY 11-12	FY 12-13	FY 13-14 (Actual + Projected)
$485,189,353	$497,522,089	$528,777,363

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.

Building Classification	Vacancy Rate 2012	Vacancy Rate 2013	Rent: $/Square Feet/Year 2012	Rent: $/Square Feet/Year 2013	Rent % Change
Class A	10.5%	8.9%	$49.26	$54.23	10.3%
Class B	13.6%	12.0%	$40.07	$45.93	14.6%
Class C	8.4%	8.3%	$31.40	$42.94	36.8%

Source: Market data provided to the Budget & Legislative Analyst's Office by Cushman & Wakefield for second quarter 2012 and 2013.

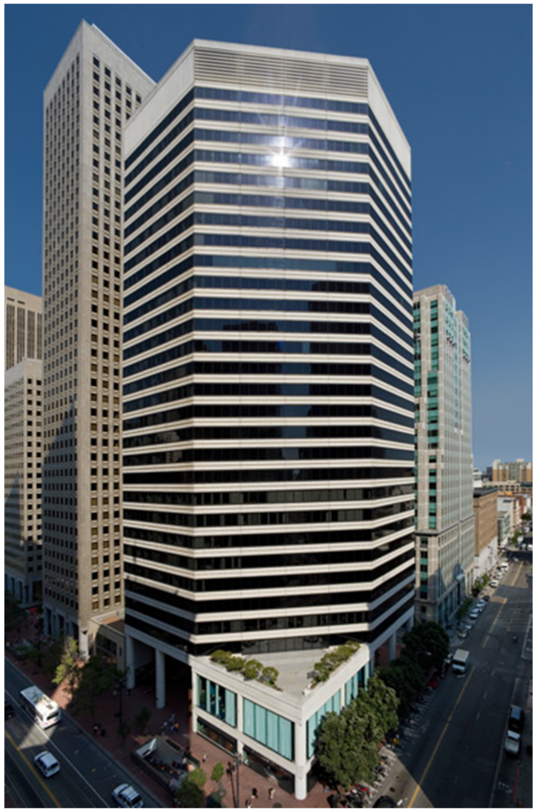
Rent and Vacancy Rates Citywide and SOMA

	3Q Vacancy Rates			3Q Overall Weighted Avg. Gross Rental Rate				
NEIGHBORHOOD	2011	2012	2013	2011	2012	2013	2011-12 % CHANGE	2012-13 % CHANGE
CITYWIDE	12.4%	10.4%	9.3%	$39.67	$48.18	$52.69	21.5%	9.4%
FINANCIAL DISTRICT NORTH OF MARKET ST.	12.1%	9.3%	9.0%	40.35	48.83	$55.03	21.0%	12.7%
FINANCIAL DISTRICT SOUTH OF MARKET ST.	8.1%	8.9%	8.3%	42.97	48.83	54.50	13.6%	11.6%
SOMA	23.1%	10.1%	East SOMA: 6.7%	38.54	50.57	East SOMA: 56.65	31.2%	12.0%
			West SOMA: 2.8%			West SOMA: 44.56		-11.9%

Source: MarketBeat San Francisco Office Report for third quarter of 2011, 2012, and 2013 provided to the Budget & Legislative Analyst's Office by Cushman & Wakefield.

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.

Chronicle / Deanne Fitzmaurice, File

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."
- Out of 58 responses to, "Does your organization own property in San Francisco?," 9 responses = "Yes;" 14 = "Both own and rent."

Rent Increases: Respondents with Expired Leases, 2012 & 2013

	Old Lease			New Lease			% Change
	Mo. Rent	Sq. Ft.	$/Sq. Ft/ Yr.	Mo. Rent	Sq. Ft.	$/Sq. Ft/ Yr.	$/Sq. Ft/ Yr.
Average	$8,599	6,401	$16.12	$10,503	5,853	$21.53	33.6%
Median	$4,190	3,315	$15.17	$5,461	3,258	$20.11	32.6%

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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Contacts: Fred Brousseau: fred.brousseau@sfgov.org

Katie Short: katherine.short@sfgov.org