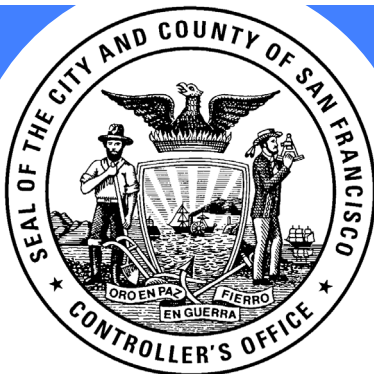


Remote Work and the San Francisco Office Market: Potential Property Tax Implications



CITY & COUNTY OF SAN FRANCISCO

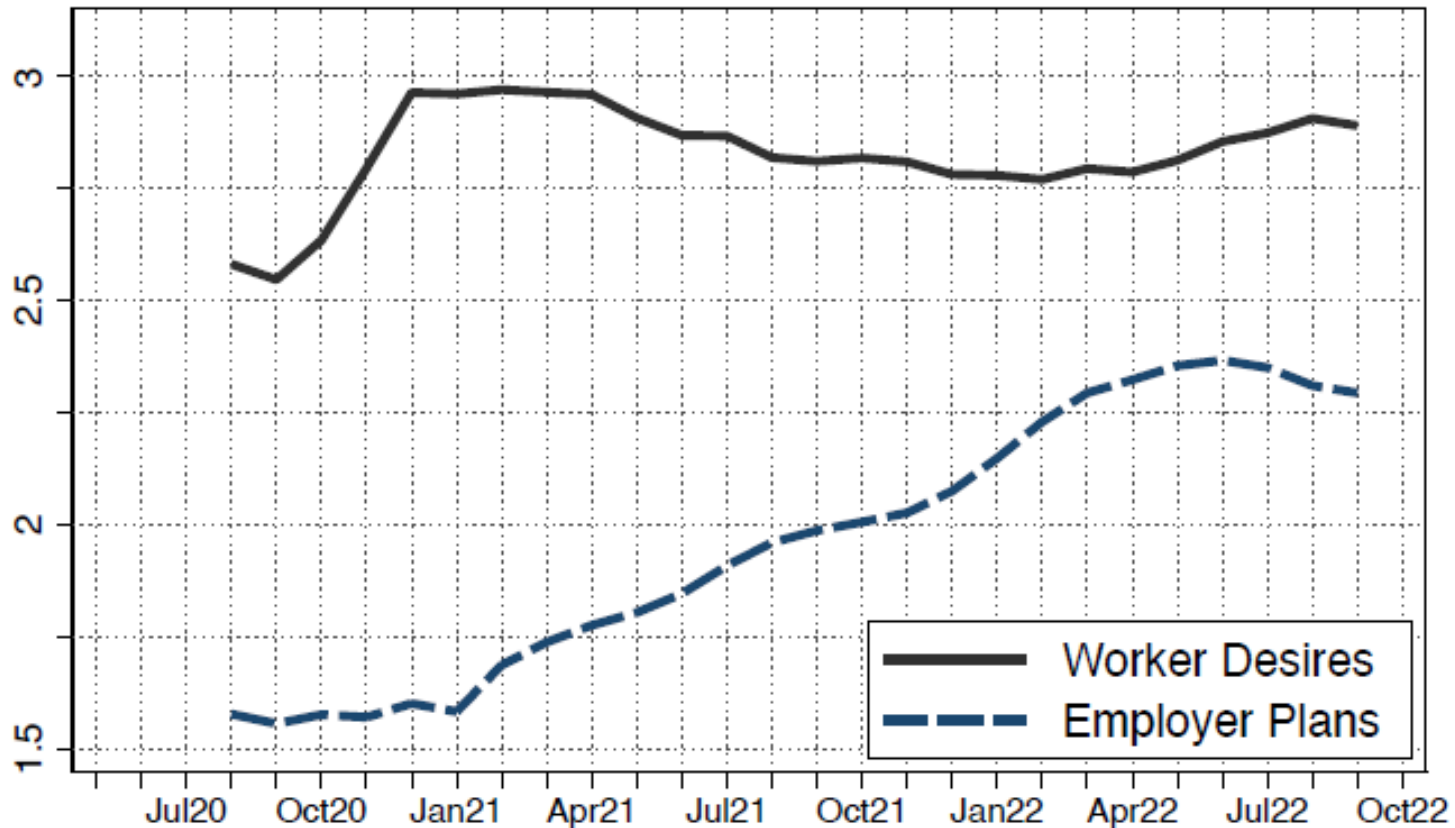
Office of the Controller

November 16, 2022

Remote Work Has Persisted After the Pandemic

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Average Days per Week Working From Home After the Pandemic Ends: Workers Able to WFH



Sample: Workers able to work from home

Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Return-to-Office Has Been Slow: Especially in SF

3

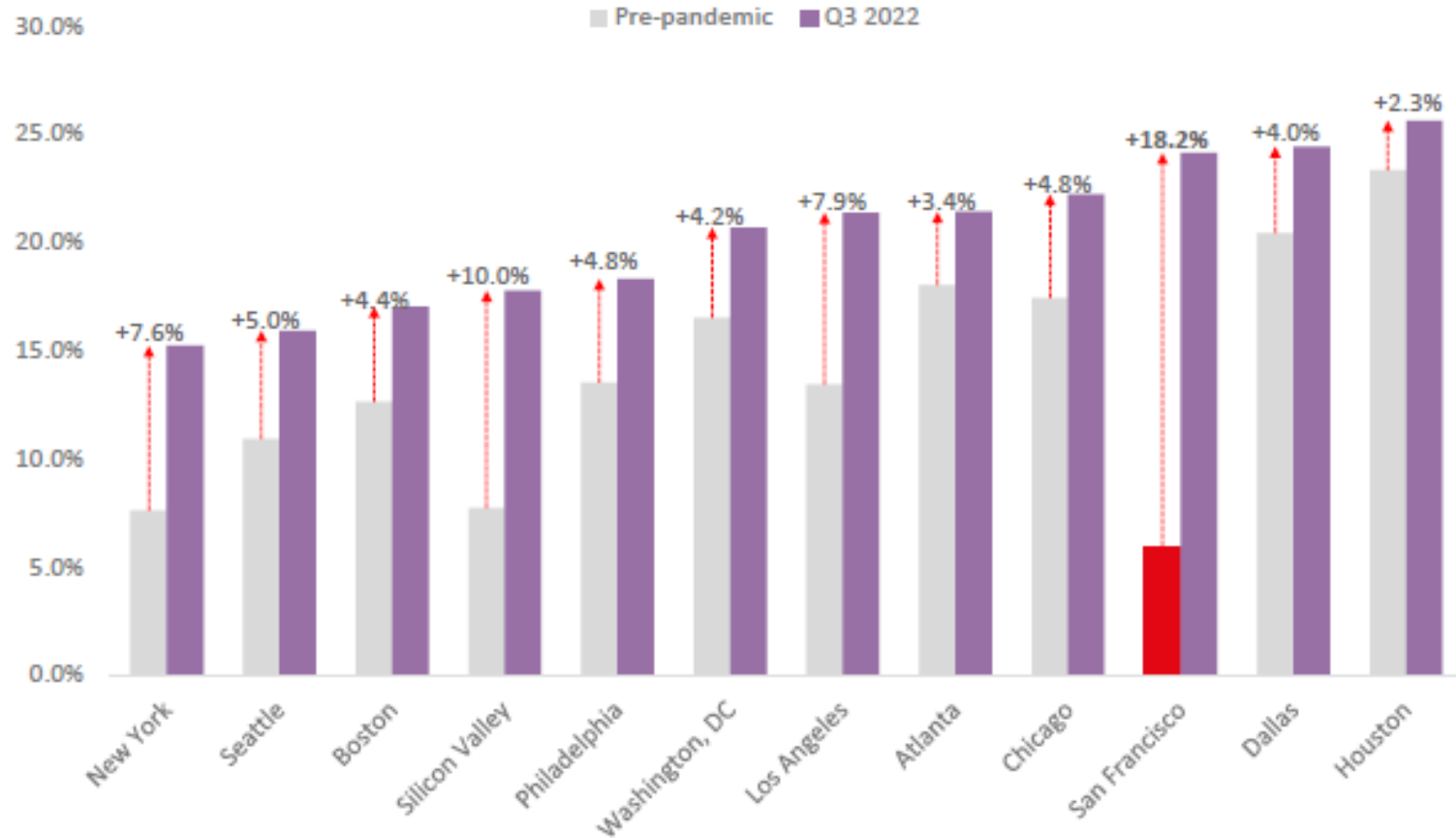


Source: Kastle Systems

Office Vacancy Rates Have Risen: Especially in SF

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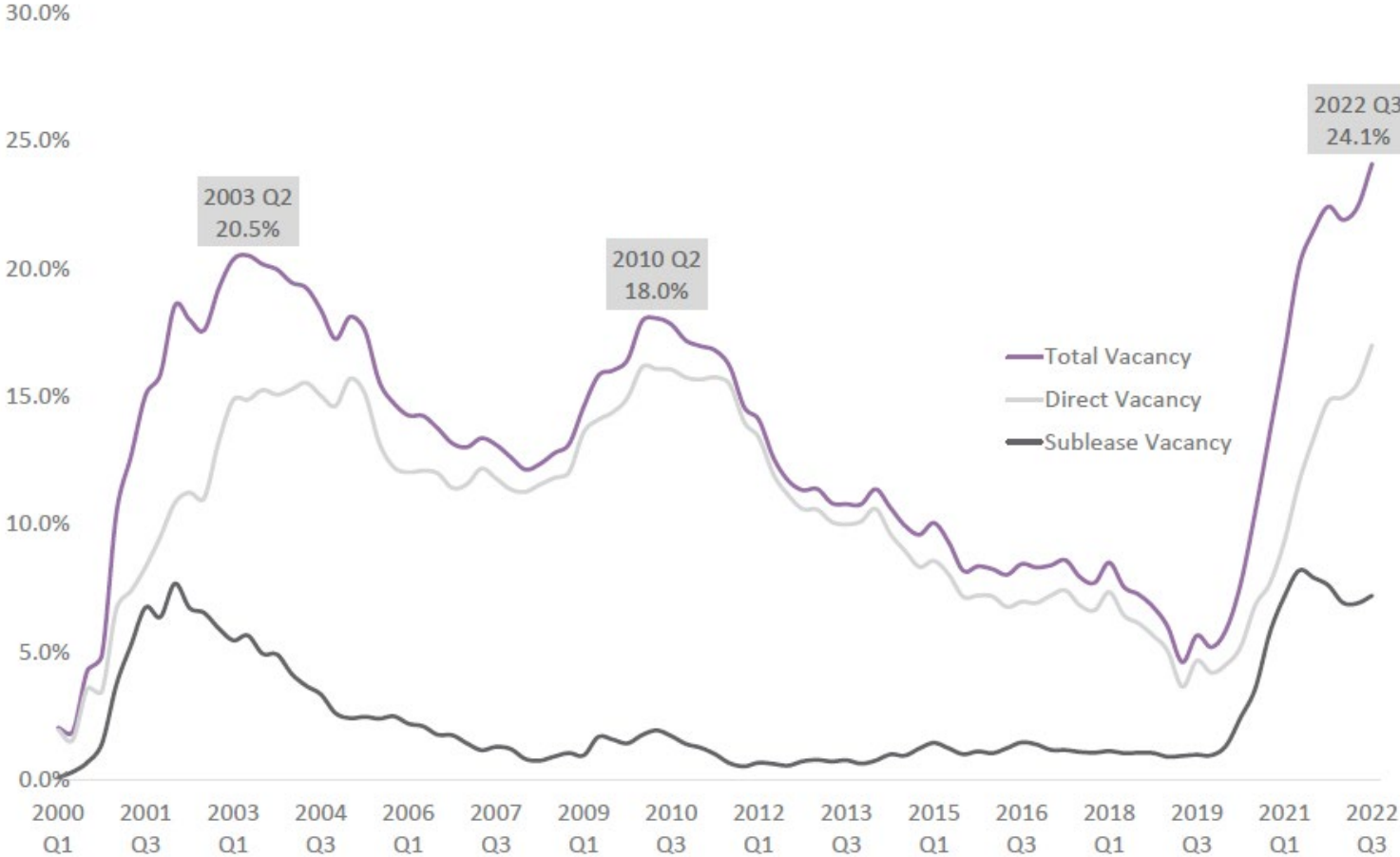
Market Vacancy Comparison



Source: JLL

Direct Vacancies are a Rising Share of SF Total

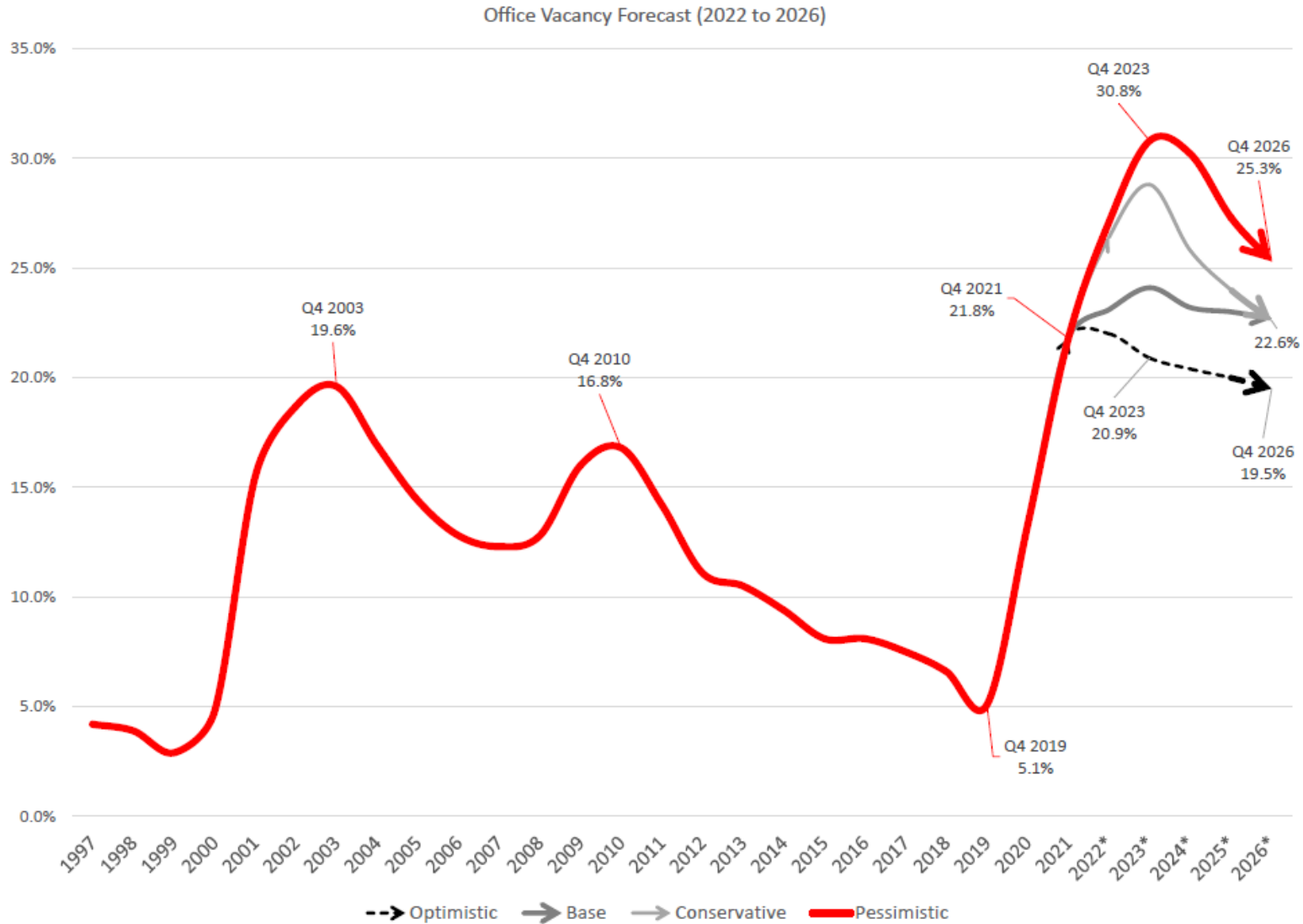
Historical Office Vacancy



Source: JLL

The Office Vacancy Rate Could Rise Further

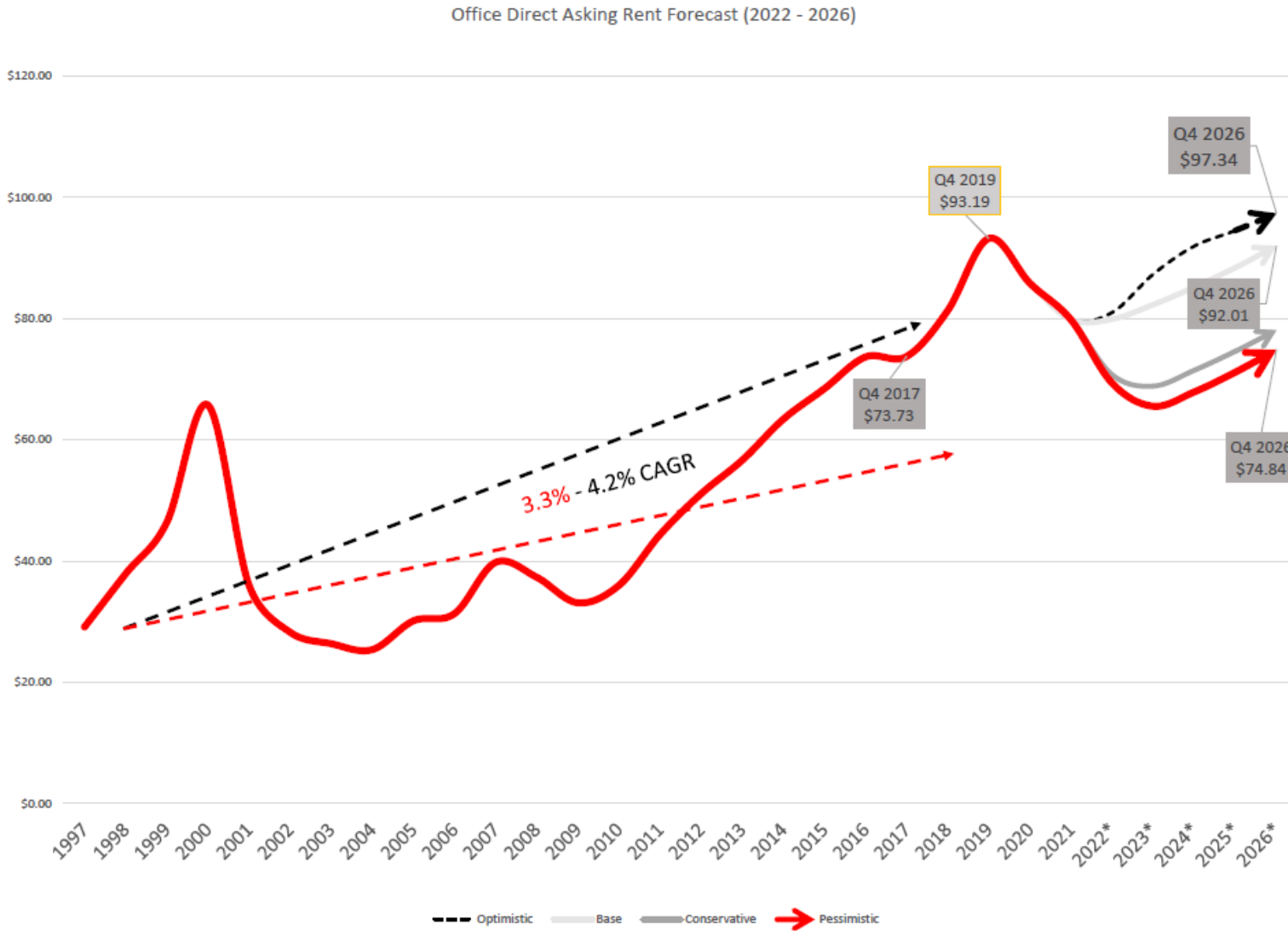
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Source: JLL

Office Rents Could Be Slow to Recover

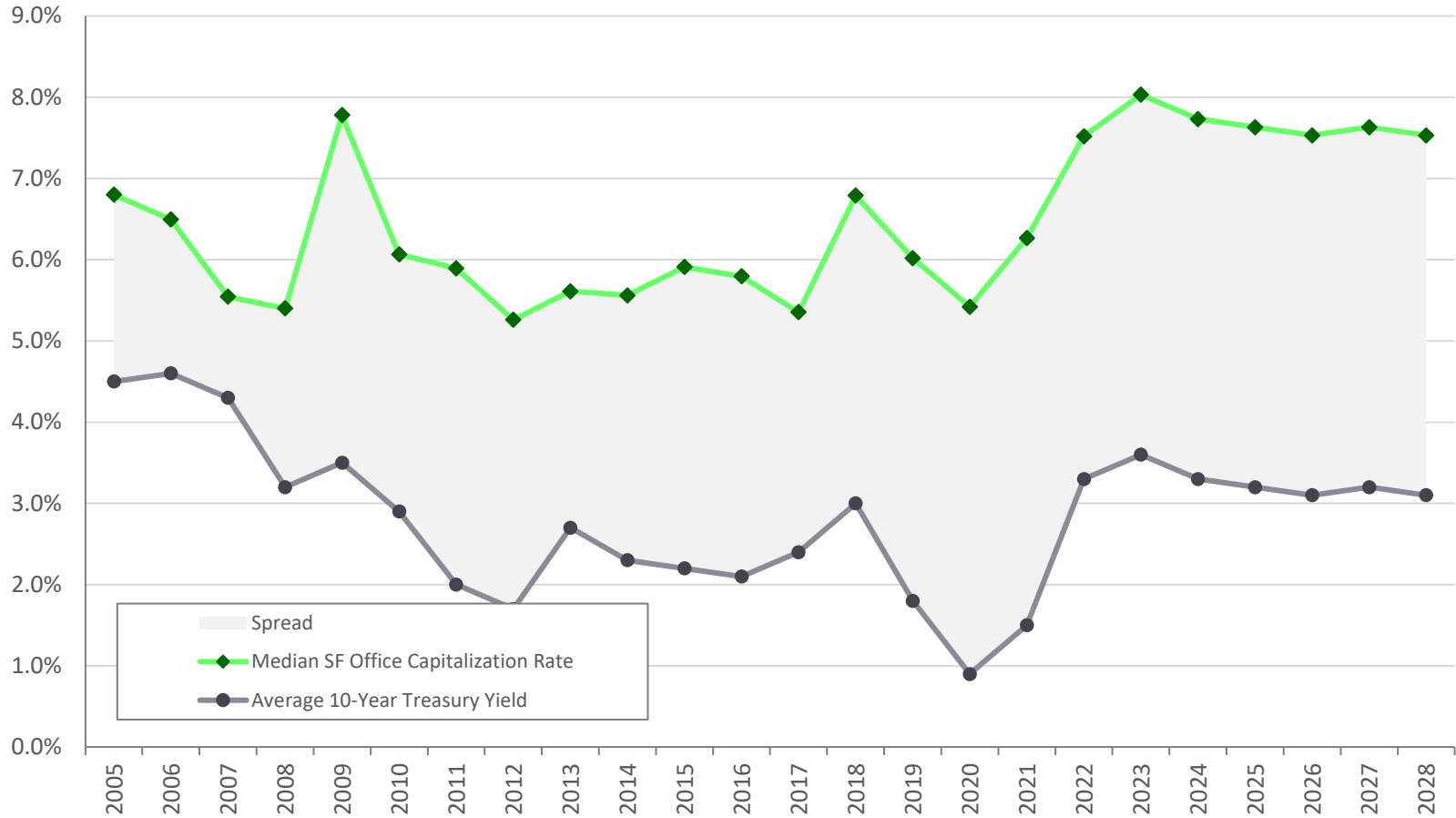
7



Source: JLL

Rising Interest Rates Pressure Property Values

Historical and Forecast San Francisco Capitalization Rate, 10-Year Treasury Yield, and Spread, 2005-2028



Source: Controller's Office forecast based on Moody's Analytics data and Blue Chip Economic Indicators forecast.

Implications for Property Tax

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- Office sector represents 18% of the City's Property Tax.
- Office vacancy, effective rents, and property income.
- Interest rates, capitalization rates, and market value.
- Market value, assessed value, and property tax.
- Mitigating factors: long-term leases, and Proposition 13

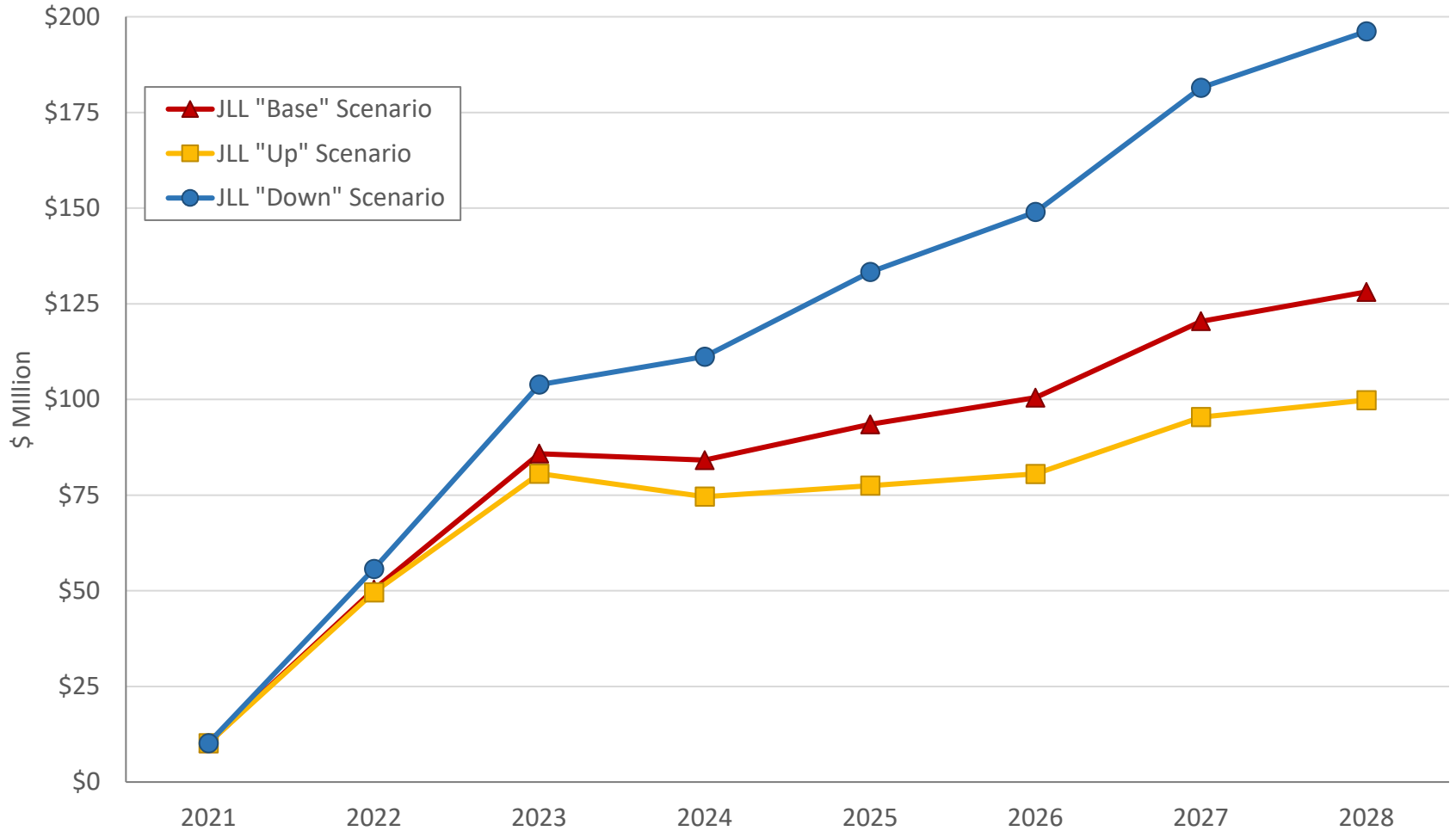
Controller's Office Property Tax Model

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- JLL Office Market Scenarios
- Market Value forecast
- Assessed Value forecast
- Identifying Over-Assessed Buildings

Revenue Loss Under Different Office Scenarios

Forecast Revenue Loss from Office Property Tax,
Under 3 Office Market Scenarios, 2021-2028



Source: Controller's Office

Conclusions

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- \$80 - \$150 million required reserve by 2026 under JLL's published forecast, potentially widening to \$100 - \$200 million by 2028 if conditions do not improve after 2026.
- Caveats:
 - Unusual level of uncertainty in market forecasts.
 - But prudent to assume a less-than-normal level of office demand during our forecast period.
 - In the short term, mitigating factors (long-term leases, Proposition 13 cushion) will limit the City's revenue risk.
 - However, if office demand is permanently reduced by remote work, eventually the City will see sizable reductions in Property Tax revenue from offices.
- Full updated 5-year revenue forecasts will be produced by the Controller's Office in December.

Staff Contact

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