

**METROPOLITAN
TRANSPORTATION
COMMISSION**
Meeting Transcript



JULY 24, 2024

1 **BAY AREA HEADQUARTERS AUTHORITY**
2 **WEDNESDAY, JULY 24TH, 2024, 9:45 AM**

3
4
5 **CHAIR, ALFREDO PEDROZA:** ALL RIGHT I'M GOING TO CALL TO ORDER
6 THE BAY AREA HEADQUARTERS AUTHORITY MY NAME IS ALFREDO PEDROZA
7 CHAIR ALONG WITH NICK JOSEFOWITZ OUR VICE CHAIR. THIS MEETING
8 IS WEBCAST ON THE MTC WEB SITE. ITEM ONE ROLL CALL PLEASE.

9
10 **CLERK OF THE BOARD:** CHAIR PEDROZA?

11
12 **CHAIR, ALFREDO PEDROZA:** HERE.

13
14 **CLERK OF THE BOARD:** PED PEDROZA AYE. VICE CHAIR JOSEFOWITZ --
15 PARDON ME. VICE CHAIR JOSEFOWITZ IS ABSENT. ABE-KOGA?

16
17 **MARGARET ABE-KOGA:** HERE.

18
19 **CLERK OF THE BOARD:** FLEMING?

20
21 **VICTORIA FLEMING:** HERE.

22
23 **CLERK OF THE BOARD:** GLOVER?

24
25 **FEDERAL D. GLOVER:** HERE.



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1

2 **CLERK OF THE BOARD:** PAPAN?

3

4 **GINA PAPAN:** HERE.

5

6 **CLERK OF THE BOARD:** WE HAVE A QUORUM.

7

8 **CHAIR, ALFREDO PEDROZA:** ALL RIGHT IF THE REST OF YOU HAVE
9 NOTICED YOU'RE NOT PART OF THIS COMMITTEE YOU DO NOT GET TO
10 LEAVE. ITEM TWO CHAIRPERSON'S REPORT. WE DON'T HAVE A REPORT.
11 ITEM TWO CONSENT CALENDAR. TWO ITEMS ON CONSENT DO WE HAVE ANY
12 PUBLIC COMMENT ON OUR CONSENT CALENDAR.

13

14 **CLERK OF THE BOARD:** NO PUBLIC COMMENT IN THE ZOOM SPACE. NO
15 MEMBERS OF THE PUBLIC IN THE BOARDROOM AND NO WRITTEN
16 CORRESPONDENCE RECEIVED.

17

18 **CHAIR, ALFREDO PEDROZA:** ALL RIGHT BACK TO THE AUTHORITY
19 LOOKING FOR A MOTION.

20

21 **FEDERAL D. GLOVER:** GLOVER MOVES APPROVAL.

22

23 **CHAIR, ALFREDO PEDROZA:** FIRST BY GLOVER. SECOND BY SOMEONE
24 THAT IS ON THE AUTHORITY? PAPAN?

25



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1 **GINA PAPAN:** YES THAT WOULD BE ME.

2

3 **CHAIR, ALFREDO PEDROZA:** FIRST BY GLOVER SECOND BY PAPAN.

4

5 **KATHLEEN KANE:** AND THIS CAN BE A VOICE VOTE.

6

7 **CHAIR, ALFREDO PEDROZA:** ALL IN FAVOR, SAY AYE. [AYES] MOTION
8 PASSES. THANK YOU ALL. MOVING TO ITEM 4A STATE OF THE REAL
9 ESTATE MARKET AND CONTRACT AMENDMENTS. DENISE RODRIGUES TAKE
10 IT AWAY.

11

12 **DENISE RODRIGUES:** GOOD MORNING DENISE RODRIGUES PROCUREMENT
13 RISK AND PROPERTY MANAGEMENT WITH MTC ITEM FOUR INCLUDES THREE
14 ITEMS FOR FIRST ITEM BRIEF UPDATE ON THE STATE OF REAL ESTATE
15 MARKET I'M GOING TO TURN IT OVER TO THE MANAGER DIRECTOR OF
16 BROKERAGE JOHN WALSH CUSHMAN & WAKEFIELD.

17

18 **JOHN WALSH:** GOOD MORNING. I'M JOHN WITH CUSHMAN & WAKEFIELD.
19 THANK YOU VERY MUCH FOR THE OPPORTUNITY TO SPEAK TODAY. I'M
20 GOING TO GIVE A BRIEF HIGH-LEVEL OVERVIEW OF THE CURRENT
21 COMMERCIAL OFFICE LEASING MARKET HERE IN SAN FRANCISCO OF THE
22 FIRST SLIDE, PLEASE. ONE MORE. SO, AS OF THE FIRST QUARTER,
23 THIS IS A GENERAL OUTLOOK OF THE AVAILABLE SPACE WE HAVE IN
24 SAN FRANCISCO. THE OVERALL OFFICE MARKET IN SAN FRANCISCO IS
25 ABOUT 85 MILLION SQUARE FEET. OUR CURRENT AVAILABILITY LEVELS



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1 ARE AT HISTORIC NUMBERS. NO SURPRISE TO ANY OF YOU AS I'M
2 SURE. WE'RE CURRENTLY LOOKING AT ABOUT 25 MILLION OF AVAILABLE
3 OFFICE SPACE HERE IN SAN FRANCISCO. 8 MILLION OF THAT IS
4 SUBLEASE SPACE. AND I CAN GET SUBLEASE SPACE ON A FURTHER
5 SLIDE TO TALK MORE ABOUT THAT. NO SURPRISE, WE HAVE HAD SOME
6 PRETTY CHALLENGING TIMES IN THE OFFICE LEASING SECTOR. NEXT
7 SLIDE, PLEASE. SO, THIS IS A SLIDE OF THE LEASING ACTIVITY WE
8 HAVE ON A QUARTERLY BASIS. THIS GOES BACK TO 2006. AND YOU CAN
9 SEE HERE THAT THE LAST COUPLE OF YEARS HAVE BEEN RELATIVELY
10 ANEMIC, HISTORICALLY, SINCE 2006, OUR NEW LEASING ACTIVITY HAS
11 BEEN ABOUT ONE AND A HALF MILLION SQUARE FEET PER QUARTER.
12 WE'RE AT ABOUT HALF OF THAT RIGHT NOW, HOWEVER I WILL SAY THAT
13 WE'RE GETTING THE PRELIMINARY NUMBERS IN FOR THE SECOND
14 QUARTER, THEY'RE STARTING TO LOOK A LITTLE MORE POSITIVE. SO,
15 AGAIN, THE FIRST QUARTER OF THIS YEAR, WE HAD 800,000 SQUARE
16 FEET OF LEASING THAT DOESN'T INCLUDE LEASING RENEWALS IF YOU
17 ADD RENEWALS THAT'S 1.5 MILLION SQUARE FEET OF SPACE. STILL
18 WELL BELOW OUR BOOM YEARS, BUT, AGAIN, WE'RE CAUTIOUSLY
19 OPTIMISTIC GOING INTO THE LATTER PART OF THE YEAR. NEXT SLIDE
20 PLEASE. SO THIS IS OUR HANDY LITTLE TOOL FOR THE TEAM HERE IN
21 THE BUILDING. OUR STACKING PLAN. I DID WANT TO POINT OUT ON
22 THE THIRD AND FOURTH FLOORS WE HAVE ABOUT 95,000 SQUARE FEET
23 OF SPACE COMING UP, WITH TWILIO THAT LEASE EXPIRES LATER THIS
24 YEAR THEY VACATED THE SPACE 18 MONTHS AGO IT'S BEEN ON THE
25 MARKET SUBLEASE WE HAVE BEEN WORKING IN TANDEM WITH THEM TO



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1 LEASE THE SPACE BEFORE THE LEASE EXPIRES. AND WE DO HAVE A
2 COUPLE OF PROSPECTS THAT WE ARE CURRENTLY SPEAKING WITH. IT'S
3 A GOOD VISUAL OF TENDENCIES AND WHEN LEASES ARE UP, AN OVERALL
4 SNAPSHOT STATUS OF THE BUILDING. ANY QUESTIONS FROM ANYONE

5

6 **CHAIR, ALFREDO PEDROZA:** KEEP PRESENTING, THEN WE'LL ASK
7 QUESTIONS AT THE END.

8

9 **JOHN WALSH:** THANK YOU, MR. CHAIR. NEXT SLIDE. WE THOUGHT THIS
10 WOULD BE A HELPFUL VISUAL FOR OUR CLIENTS BAHAMON WHERE WE
11 HAVE BEEN AND WHERE WE'RE GOING. I HAD THE OPPORTUNITY TO BE
12 ON THE PROJECT FOR THE INITIAL LEASE-UP. WE STARTED
13 TRANSACTING OUR FIRST LEASES HERE ON THE PROPERTY IN 2015.
14 INTERESTINGLY, YOU CAN SEE WE STARTED DOING LEASES IN THE LOW
15 40s THEN GRADUALLY THE RENTS INCREASE AS WE WENT THROUGH THE
16 FOLLOWING YEARS. IF YOU LOOK BACK AT VACANCY BACK IN 2015 IT
17 WAS SIX AND A HALF, TO 7%, NOW WE'RE ABOUT 35%. SO, IT'S BEEN
18 QUITE DRAMATIC. WE HAVE STRIKE ZONE WHERE WE DID OUR ORIGINAL
19 LEASES BACK IN 2015 AND 2016, AND NOW WE'RE ADJUSTING FOR WHAT
20 WE THINK THE NEW MARKET RENTS GOING FORWARD FOR OUR NEW SPACE.
21 THE GRADE LINE THERE IS THE PROJECTED RENTS GOING FORWARD FROM
22 THIS CURRENT DATE, AND WE HAVE A SLIDE LATER IN THE
23 PRESENTATION THAT SHOWS THAT GRAPHICALLY. JUST, KIND OF,
24 RENTS, A RENTAL DEAL THAT WAS RECENTLY DONE, AS A COMPARABLE,
25 YOU MAY HAVE HEARD THAT THE CITY AND COUNTY OF SAN FRANCISCO



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1 SIGNED 150,000 SQUARE FOOT LEASE AT 1455 MARKET STREET. AND
2 OUR UNDERSTANDING IS THAT LEASE WAS DONE, THE RENT WAS IN THE
3 30S. SO, THAT'S -- AND THE BUILDING WAS FORTUNATE; THE
4 PROXIMITY TO CITY HALL, AND WHAT NOT, HAS HELPED THEM DO THAT.
5 LEASING COMPARABLE, I THINK SOMEWHERE IN THE 30S. NEXT SLIDE
6 PLEASE. AND I JUST MENTIONED HISTORICAL RENTS HERE. SO THIS
7 KIND OF GIVES A SNAPSHOT OF WHERE THE RENTS AND THE VACANCIES
8 HAVE BEEN THE PAST FEW YEARS AND THEN LOOKING FORWARD. I MEAN,
9 THE BOTTOM LINE IS WE STILL HAVE A LOT OF VACANCY. THERE IS
10 LEASES ROLLING OVER IN THE NEXT COUPLE OF YEARS. WE HAVE ABOUT
11 15 MILLION SQUARE FEET OF LEASES ROLLING AND THE NEXT NEW
12 YEARS TENANTS I'M SURE YOU HAVE HEARD ARE LEASING LESS SPACE.
13 THE GOOD NEWS IS WE'RE SEEING PEOPLE COMMIT TO LONG-TERM
14 LEASES AS OPPOSED TO THE LAST COUPLE OF YEARS THEY LET THE
15 LEASE EXPIRE PEOPLE WORKING FROM HOME MAYBE SHARED SPACE
16 SITUATION. THAT'S POSITIVE TENANTS ARE LEASING MORE SPACE. AS
17 AN EXAMPLE, CARRINGTON AND SUTCLIFFE THEY'RE ON HOWARD STREET
18 WENT FROM 160,000 SQUARE FEET TO ABOUT 110 THAT'S RENEWED
19 STILL POSITIVE FOR THE CITY. BUT NEXT FEW YEARS ARE GOING TO
20 BE SOMEWHAT CHALLENGING NO QUESTION. HOWEVER I WANT TO POINT
21 OUT BACK TO THE SUBLEASE SCENARIO. WE FOUND WITH THE LARGE
22 FLOOR PLATES WE HAVE HERE, THE SUBLEASES HAVE BEEN A BIG
23 COMPETITOR OF OURS, PLUG AND PLACE, ALREADY FURNISHED, READY
24 TO GO. THE GOOD SUBLEASE SPACE HAS BEEN BURNING OFF, SO THERE
25 IS LITTLE -- THERE IS 8 MILLION SQUARE FEET, BUT NOT A LOT IS



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1 VERY GOOD SPACE. SO, THAT'S A POSITIVE FOR US. GOING FORWARD,
2 WE'RE HOPING -- THINGS HAVE SLOWED DOWN A TAD WITH SUMMERTIME,
3 PEOPLE ARE OUT. I MEAN, YOU COULD SEE LESS PEOPLE HERE, BUT IN
4 SEPTEMBER WE'RE PRETTY BULLISH. THERE IS MORE PEOPLE ON THE
5 STREETS, MORE PEOPLE COMING BACK TO THE OFFICE; WE THINK THAT
6 PORTENDS WELL FOR THE FUTURE. AND FOR THOSE WHO HAVE STUDIED
7 SAN FRANCISCO, SINCE THE GOLD RUSH IT'S BEEN A BOOM TOWN.
8 LOOKING AT THE LAST FEW CYCLES, THEY HAVEN'T BEEN GRADUAL. SO,
9 A COUPLE TECH GENIUSES MAY HELP US COME BACK MORE QUICKLY THAN
10 WE THINK. WE DON'T KNOW, BUT THIS HAS BEEN A BOOM TOWN AND I
11 THINK IT ALWAYS WILL BE. SAN FRANCISCO WILL COME BACK THOUGH.

12

13 **DENISE RODRIGUES:** THAT CONCLUDES THE PRESENTATION. AVAILABLE
14 FOR QUESTIONS.

15

16 **CHAIR, ALFREDO PEDROZA:** ANY QUESTIONS? THIS IS AN ACTION ITEM.
17 I WOULD AGREE THAT IT HURTS; IT'S GOING TO CONTINUE TO HURT.
18 IT'S NOT A QUESTION OF IF, IT'S A QUESTION OF WHEN. BUT I
19 BELIEVE RISING TIDES LIFT ALL BOATS. SO, AGAIN, I APPRECIATE
20 THE INFORMATION. COMMISSIONERS, ANY QUESTIONS? YEP.

21 COMMISSIONER CHAVEZ?

22

23 **CINDY CHAVEZ:** COULD YOU TALK ABOUT THE OFFICE SPACE THAT YOU
24 FEEL MOST BULLISH ON? I'M CURIOUS YOU SAID SUBLEASES ARE NOT



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1 THAT QUALITY. I'M ASSUMING WHAT YOU MEAN IS CLASS B OR CLASS -
2 - IS THERE A LOWER CLASS THAN C?

3

4 **JOHN WALSH:** C IS LOWEST CLASS. THAT'S A GOOD QUESTION.
5 INITIALLY WHEN WE WENT INTO THE PANDEMIC WE SAW HUGE BLOCKS OF
6 SUBLEASE COMING BACK. THEY WERE LONGER TERM, NUMBER ONE, AND
7 WERE IN CLASS A BUILDINGS. MOST OF THAT HAS LEASE OFF, NOW
8 THERE ARE REMAINING SPACES. THERE IS SHORT-TERM LEFT, SO IT'S
9 NOT AS DESIRABLE FOR PEOPLE, AND WE'RE SEEING LESS IN THE
10 DESIRABLE BUILDINGS, CLASS B AND C BUILDINGS.

11

12 **CINDY CHAVEZ:** THANK YOU.

13

14 **JOHN WALSH:** GOOD QUESTION.

15

16 **CHAIR, ALFREDO PEDROZA:** COMMISSIONER CANEPA?

17

18 **DAVID CANEPA:** JUST HAVE A QUESTION. CAN YOU TALK ABOUT HOW
19 THESE NEGOTIATE AGREEMENTS ARE PUT TOGETHER NOW AS OPPOSED TO
20 WHEN IT WAS A HOTTER MARKET? IS IT LESS YEARS ON THE TERM FOR
21 LEASING? CAN YOU -- I'M JUST WONDERING WHAT THE CONTRACTUAL
22 AGREEMENTS ARE IF THAT'S BEEN MODIFIED.

23

24 **JOHN WALSH:** GOOD QUESTION. BACK WHEN WE STARTED LEAGUES THE
25 BUILDING PEOPLE WERE SIGNING 7, 8, 10 YEARS, ESPECIALLY FOR



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1 THE BIGGER TENANTS AND SOME ARE BEING LOOKING TO DO EVEN
2 LARGER ONES 5 TO 7 YEARS AS OPPOSED TO TEN YEARS SMALLER
3 TENANTS ARE DIPPING THEIR TOES IN THE WATER A BIT MIGHT WANT
4 TO DO A THREE YEAR DEAL SO IN TERMS OVERALL LOOKING AT LEASES
5 ASSIGNED 2016 TO 2017 LOOKING AT TERM VERSUS TODAY IT WOULD BE
6 SHORTER, JUST KICKING THE CAN DOWN THE ROAD RENTING FOR A
7 YEAR, 18 MONTHS, LOOKING TO DO 5, 7, 10 YEARS.

8

9 **DAVID CANEPA:** IN CONVERSATIONS YOU'RE HAVING, FOR EXAMPLE, IN
10 SAN MATEO COUNTY WE'RE BEHIND JUST A LITTLE BIT IN TERMS OF
11 OFFICE VACANCIES RELATIVE TO SAN FRANCISCO BUT I'M CURIOUS HOW
12 YOU SEE THE STRATEGIES AROUND WORK AT HOME. WE HAVE ALL HAD
13 BOOM AND BUST MAKE NO MISTAKE ABOUT IT, THE INTERNET, DO YOU
14 DO YOU THINK THAT TREND WILL CONTINUE? WHAT ARE WE TALKING
15 ABOUT, SORT OF, WITH THE PEOPLE YOU WORK WITH AND YOUR PEERS?

16

17 **SPEAKER:** THAT'S THE MILLION DOLLARS QUESTION BUT I WILL SAY
18 FROM MY EXPERIENCE, THAT THE TRENDS WE SEE NOW STARTED BEFORE
19 THE PANDEMIC. FRIDAY I HAD LAW FIRM CLIENTS THEY SAID NOBODY
20 WAS IN ON FRIDAY. PEOPLE WOULD WORK FROM A SATELLITE OFFICE OR
21 FROM HOME. BUT THE PANDEMIC ACCELERATED TRENDS. SO THERE IS NO
22 QUESTION THAT REMOTE WORK IS CERTAINLY A PART OF THE REALITY
23 NOW. BUT, YOU KNOW, WE'RE STARTING TO SEE MORE AND MORE
24 COMPANIES, SALESFORCE WANTS MORE PEOPLE BACK IN OCTOBER. IS IT
25 GOING TO BE FIVE DAYS A WEEK, PROBABLY NOT. BUT WITH



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1 TECHNOLOGY PEOPLE CAN BE MORE FLEXIBLE BUT A LOT OF THESE
2 LEADERS ARE GOING TO BE WANTING PEOPLE BACK IN THE OFFICE
3 MEETING WITH COLLEAGUES FACE-TO-FACE. HOW MANY PEOPLE ARE
4 TIRED OF ZOOM CALLS, HERE ON MUTE. I THINK IT'S HERE TO STAY.
5 [LAUGHTER] BUT I THINK, MAYBE THERE MAY BE SOME WALL STREET
6 FINANCIAL SERVICE FIRMS THAT -- AND PART OF IT IS CULTURE. YOU
7 WILL BE IN FIVE DAYS A WEEK, BUT I THINK, OVERALL, IT'S
8 PROBABLY GOING TO BE MAYBE 3 TO 4. BUT I STILL SEE PEOPLE
9 WORKING FIVE DAYS. BUT THEY MAY BE AT HOME ON A MONDAY, OR --
10 AND I THINK COMPANIES HAVE KIND OF EVOLVED A BIT AS FAR AS
11 CHILDREN, YOU KNOW, IN THE SUMMER TIME, THEY'RE NOT IN SCHOOL.
12 SO BEING A LITTLE MORE FLEXIBLE BUT THEY STILL EXPECT THEIR
13 PEOPLE TO PRODUCE.

14

15 **DAVID CANEPA:** CHAIR JUST ONE LAST, I PROMISE YOU. YOU CAN TALK
16 A LITTLE BIT ABOUT THE DEFAULTS IN -- FOR, ON LOANS, AND HOW -
17 - WHAT DOES THAT MEAN FOR THE EVALUATION OF BUILDINGS HERE?
18 AND HOW DOES THAT, SORT OF, YOU KNOW, HOW DOES THAT RELATE TO
19 THE MARKET? I MEAN, ARE THERE STILL A LOT OF DEFAULTS TAKING
20 PLACE IN TERMS OF --

21

22 **JOHN WALSH:** THERE ABSOLUTELY ARE. A LOT OF LOANS COMING DUE IN
23 THE NEXT COUPLE OF YEARS. PEOPLE BOUGHT BUILDINGS DURING THE
24 BOOM OF 2018, 2019. SO, UNTIL LATE LAST YEAR WE HADN'T SEEN A
25 LOT OF BUILDINGS TRADE. BUT NOW. A LOT OF THE LENDERS THEY



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1 WANT TO GET THIS SETTLED SO THEY'RE NOT WAITING. WE'RE SEEING
2 BUILDINGS HELPING ACTUALLY CLEAN OUT THE MARKET KIND OF RESET
3 WHERE THE MARKET IS LISTING ON BUILDINGS, CALIFORNIA STREET
4 NEW YORK OWNER, BOUGHT IN 2014, AND THEY HAD A LOAN COMING UP
5 AND IT WAS TIED INTO A PORTFOLIO OF OTHER BUILDINGS AROUND THE
6 COUNTRY, AND I ENDED UP ACTUALLY BRINGING AN OFF MARKET BUYER
7 TO THE PROPERTY AND HELPING THEM SOLVE THEIR LOAN WITH THE
8 LENDER, AND THE BUILDING JUST SOLD HALF OF WHAT THEY PAID IN
9 2014. SO BUILDINGS WEREN'T ABLE TO TRANSACT BEFORE NOW ONCE
10 THINGS GET SETTLED THEY CAN START TRANSACTING THAT WILL HELP
11 MOMENTUM IN THE MARKET.

12

13 **CHAIR, ALFREDO PEDROZA:** THANK YOU COMMISSIONER JUST LOOKING AT
14 RESETS AREN'T BAD JUST WHEN THERE ARE LOSSES REACT TO THAT AND
15 WANT TO COME BACK INTO THE MARKET IT'S DIFFERENT TERMS YES
16 INCREASE THE BASIS AGAIN. JUST A TOUGH SITUATION. APPRECIATE
17 THE REPORT. COMMISSIONERS ANY QUESTIONS ON THE CONTRACT
18 AMENDMENTS? LOOKING FOR A MOTION. CAN'T TAKE THE MOTION BY
19 CANEPA. I'M GOING TO SAY IT, FIRST BY GLOVER.

20

21 **GINA PAPAN:** SECOND BY PAPAN.

22

23 **CHAIR, ALFREDO PEDROZA:** SECOND BY PAPAN. ALL THOSE IN FAVOR?
24 AYE. [AYES]

25



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1 **CHAIR, ALFREDO PEDROZA:** MOTION PASSES UNANIMOUSLY BY ALL
2 MEMBERS PRESENT. WITH HONORABLE MENTION TO COMMISSION TO
3 COMMISSIONER CANEPA. MOVING TO ITEM FIVE, PUBLIC COMMENT.

4

5 **CLERK OF THE BOARD:** NO PUBLIC COMMENT IN THE ZOOM SPACE, NO
6 WRITTEN CORRESPONDENCE RECEIVED, AND NO ONE IN THE BOARDROOM.

7

8 **CHAIR, ALFREDO PEDROZA:** MOVING TO ITEM SIX, ADJOURNMENT. THE
9 NEXT MEETING FOR THE BAY AREA HEADQUARTERS AUTHORITY IS
10 WEDNESDAY SEPTEMBER 25TH. MEETING ADJOURNED. THANK YOU TO ALL.
11 THANK YOU TO THE PUBLIC. THANK YOU TO STAFF. [ADJOURNED]

12



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