

MEMORANDUM

May 18, 2017

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. Leslie Katz
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Interim Executive Director

SUBJECT: Informational Presentation on the Fiscal Year 2017-18 Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Events

DIRECTOR'S RECOMMENDATION: Information Only - No Action Required

Executive Summary

This is an informational presentation on the proposed Fiscal Year 2017-18 Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Events and Filming Rates.

Pursuant to statute, the Port is required to charge market rates for its properties, deposit such revenues into the Harbor Fund and use such funds to operate and maintain the Port. To set rates, Port staff surveys a variety of real estate data to ascertain equivalent market rates for its properties. Such rates are compiled into the proposed Rental Rate Schedule (see Exhibits A hereto) for Port Commission and public review and discussion. Port staff will request Port Commission approval of the Rental Rate Schedule for Fiscal Year 2017-18 on June 13, 2017 for an effective date of July 1, 2017.

The overall San Francisco and regional commercial real estate markets are enjoying low vacancy rates and high rental rates in all sectors. Similarly, Port property enjoys a low vacancy rate and a very low turnover rate. A total of 62 property locations are listed on the Rental Rate Schedule (Exhibit A). Port staff proposes to raise rates at 42 locations (68%). Port staff proposes holding rates unchanged at the remaining 20 locations due to their challenged physical conditions such as at Pier 54 and 501 Cesar Chavez. Port staff does not propose to reduce rates at any properties. Likewise, Port staff proposes raising rates for resale parking, certain special events and filming.

Strategic Objective

It is the Port Commission's practice to approve the Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Event and Filming Rates to provide certainty to tenants and ensure fair market value for Port properties. This action complies with the goals of the Port's Strategic Plan as follows:

Engagement:

By continuing to proactively engage the Port Commission in setting vision, strategy, policy and fiscal goals for the Port.

Livability:

By retaining affordable business space for non-profit entities, and single proprietorships.

Economic Vitality:

By planning and executing a holistic and balance strategy to the real estate portfolio and asset management to maximize assets value and income to the Port.

Stability:

By increasing Port annual revenues to \$125 million and continuing to expand ongoing revenue sources.

Background

The Port Commission periodically reviews and sets rental rates for its commercial leasing properties. These rates are known as the Port's Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule, (together, the "Rental Rate Schedule").

Separately, starting in 1993, the Port Commission delegated authority to the Executive Director to approve and execute (i) leases, (ii) licenses and (iii) Memoranda of Understanding ("MOU") provided that the terms of these agreements conform to certain minimum parameter terms of the Port's leasing policies. These parameter terms include a schedule of minimum rental rates for leases enumerated in the Rental Rate Schedule that are delegated to the Executive Director for execution without Port Commission approval.

Typically, the Port Commission reviews rates on an annual basis and enacts a new Rental Rate Schedule that changes rates as needed to reflect market changes. Port staff provides the following research of current market conditions (see "Rate Setting Methodology" below) for the Port Commission's deliberations. Port staff first presents the proposed new Rental Rate Schedule as an informational item to allow the Port Commission and the public the opportunity to review the proposal, make inquiries and request amendments if needed. Thereafter, Port staff present a final Rental Rate Schedule with an effective date for Port Commission approval. The Port's current Rental Rate Schedule for Fiscal Year 2016-17 was adopted by the Port Commission on July 12, 2016 and became effective as of August 1, 2016. It will remain in effect until the Port Commission adopts a new Rental Rate Schedule with a new effective date. If the Port Commission approves the schedule on June 13, 2017, the Rental Rate Schedule for Fiscal Year 2017-18 will take effect on July 1, 2017. The Rental Rate Schedule is one of several

Port Commission directives and policies to address real property agreements in accordance with the Port's mission to manage and steward the Port's diverse real estate assets. Embedded in the Port's management of its portfolio is the obligation to charge market rates for its property. Generally, the leases, licenses and MOU's that Port staff executes under this delegation include agreements for use of existing structures, facilities and land involving negligible or no expansion or change of use. A synopsis of Port Leasing Policies that allow for leasing within Executive Director delegated authority is contained in Exhibit F attached hereto.

San Francisco Market Summary

While overall asking rents increased slightly, the first quarter of 2017 exhibited continued signs of a cooling San Francisco office market. Despite several large leases by tenants like Slack, Google, and We Work, absorption dropped from last quarter by -390,340 sq. ft. In particular, the North Financial District (NFD) saw notable negative absorption (-227,571). This was largely caused by an uptick in Class A sublease availabilities this quarter and 9% decline in NFD leasing activity. However, despite negative absorption, rents remained largely flat this quarter, a mark of continued market strength.

Submarkets that showed overall rent growth from Q4 2016 were the North Financial District (2.1%), Union Square (1.4%), and Mid-Market (2.4%). Unsurprisingly, of these submarkets the North Financial District had the highest average rents at \$73.56 for Class A and \$63.38 for Class B. Conversely SOMA and the South Financial District saw the largest overall decreases, with their rents dropping -2.2% and -0.9% respectively.

Major leases this quarter by several high-profile tech tenants exemplified a continued demand for quality, well-located, Class A office space. This can be seen in both Slack's 227,000 SF lease at 500 Howard and Google's 166,000 SF lease at 121 Spear. This activity along with continued behind-the-scenes-interest from several major tech tenants was a reassuring sign for San Francisco developers. However, even with this activity, the 6M SF of office being developed right now (with an approximate average asking rate of \$98.00) will test overall market strength in the coming years.

This quarter had an increase in the overall office vacancy rate by 50 basis points (from 6.1% to 6.6%). At the heart of this increase was the North Financial District. NFD Class A vacancy increased 60 basis points from last quarter and Class B jumped 160 basis points (now 7.4% and 9.3% respectively). As mentioned before, a slowdown in NFD leasing activity was in part responsible for this uptick in vacancy. However, an increase in the amount of vacant sublease space also contributed. In particular, the North Financial District saw a 42% increase (85,000 SF) in the amount of vacant sublease space from Q4 as tenants have looked to increase office efficiency and shed unneeded space.

Thus while absorption was negative in Q1 and vacancy has increased, slight rent growth and continued tenant demand give us reason to be confident in the San Francisco market for the coming quarters.

The San Francisco industrial market relaxed slightly in the fourth quarter of 2016, as 57,931 square feet of negative net absorption increased the vacancy rate to 3.6%. Nonetheless, asking rental rates rose to an average of \$1.49 per square foot, triple-net, amid limited availabilities and a growing trend of creative reuse of industrial spaces. A slowdown in land-value sales has stabilized the city's industrial stock for now, and most landlords marketing recently vacated spaces quickly secured replacement tenants,

suggesting a return to positive absorption in the early quarters of the new-year. Still, the region's largest traditional industrial leases are being consummated in San Mateo County and the East Bay, where available space and expansive facilities are in much greater supply. In early 2016, the San Francisco Planning Department began to engage in stricter enforcement of its Production, Distribution, and Repair (PDR) zoning, aiming to reinvigorate the manufacturing sector of the city's economy and prevent further conversion or demolition of the city's industrial buildings.

Unfortunately, most industrial/warehouse property analyzed by commercial real estate firms and attributable to San Francisco is actually housed on the San Francisco peninsula and outside the city limits making it difficult to find good comparables for Port property. Further exacerbating this trend, most such space is significantly newer (although not new), larger and more conveniently located than equivalent Port space. Kidder Mathews, a commercial real estate firm, noted that warehouse vacancy in San Francisco County is 3.6% and asking rates average \$17.92 or \$1.49 per square foot. Conversely, the Port commands an average rate of \$1.63 per square foot or approximately 9.5% higher with a vacancy rate of 1.9%.

Port's Rental Portfolio

The Port's portfolio area consists of 7½ miles of waterfront property adjacent to the San Francisco Bay, from Hyde Street Pier in the northeast to India Basin in the southwest. It includes more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. Commercial operations on Port property include restaurants, retail shopping, ferry service, commercial fishing, Bay excursion, leasing, professional sports, bulk cargo, cruise ship calls and ship repair.

The Real Estate and Development Division manages approximately 588 commercial leases covering 453 acres, which represent 320 commercial and industrial tenants including long-term ground leases at Fisherman's Wharf, 50 Francisco, Pier 39, Piers 15-17, Piers 1½-3-5, Pier 1, the Ferry Building and AT&T Park.

Port property available for commercial leasing consist of approximately 13.9 million square feet, as described below. As such leases expire, are amended or renewed, they become subject to the current Rental Rate Schedule. Such properties consist of:

Table 1: Port Space Types

Space Type	Amount in Square Feet	Notes
Office Space	315,105	Class B and Class C space located in 18 buildings Includes office storage No Class A space
Industrial Shed	1,834,864	Located on 16 piers and 6 seawall lots
Fishing Industry	25,000	Landside space for fish wholesaling, processing and gear storage at Piers 45 and 33
Open Land	unpaved 980,100 paved 9,954,391 improved 871,200 submerged <u>360,000</u> total 12,165,691	Generally refers to pier aprons, valley areas, and land
Total	14,340,660 not submerged 13,980,660	

Port Leasing Volume

For the period April 1, 2016 to March 31, 2017, Port Real Estate executed 95 new real property agreements pursuant to the Fiscal Year 2016-17 Rental Rate Schedule totaling \$489,428.57 per month or \$5,873,143 annualized representing 4,465,964 square feet. Parameter rental rents impact shed, office, and parking stall customers, or approximately 18%.

Parameter Revenues FY2016		
Category	Annualized Revenue	Percentage of Total
Parameter Shed or Land	\$8.17 Mil	11%
Parameter Office	\$4.50 Mil	6%
Parameter Parking (Stalls)	\$0.54 Mil	1%
Sub-Total Parameter Revenues	\$13.21 Mil	18%
Parking Lots	\$13.28 Mil	18%
Ground Lease/ Development	\$12.66 Mil	17%
Non-Parameter Shed or Land	\$11.15 Mil	15%
Restaurant & retail	\$11.22 Mil	15%
Parking Meters	\$8.52 Mil	12%
Non-Parameter Office	\$2.15 Mil	3%
Film/Event/Other	\$0.25 Mil	0%
Sub-Total Non-Parameter Revenues	\$59.23 Mil	82%
Total Real Estate Revenues	\$72.44 Mil	100%

Port Vacancy

The demand for space along the Port's waterfront is high. As noted above, the Port's current office vacancy rate is 7.45% (same period last year 3.5%) largely due to a recent large signal tenant vacancy of an entire floor. Additionally, there are other several offices being kept vacant due to an ongoing mechanical repair project. The Port's vacancy rate is slightly higher than the citywide office vacancy rate of approximately 6.6%. The Port's industrial/warehouse vacancy is .19% (same period last year 4%). It should be noted that Piers 23 and 31 are scheduled for extensive repairs and therefore not included in the Port vacancy calculation. These piers are anticipated to be ready for leasing in 2018.

Rate Setting Methodology

Port staff reviews numerous pieces of data to create a composite rate suited for each of the Port's unique assets. Generally the data used to inform the composite rate falls into one of the following categories:

1. *Commercial Data:* Port staff reviews available commercial data including comparable market rates of similarly situated properties to that of Port properties (see Exhibit D, Bibliography). With respect to office space, Port staff consulted market reports published by seven San Francisco real estate firms. With respect to industrial space, Port staff consulted market reports that Cushman and Wakefield and Kidder Mathews publish. With respect to fish processing/gear storage space, Port staff consulted five separate fishing harbors. With respect to parking, Port staff surveyed various parking lots/garages in adjacent areas (see Exhibit D). A summary of the findings is presented throughout this report.
2. *Port Leasing Activity:* Port staff reviewed Port leasing activity for the prior 12 months (included as Exhibit I) and used this data to measure current market conditions (i.e., supply and demand) of the Port's unique spaces. Large vacancies would signal that rental rates are too high and low to no vacancy would signal that they are too low. Port staff also surveyed several of its master tenants to determine what rates they have been setting for properties under their management such as the Ferry Building, Pier 1 and Piers 1½-3-5.
3. *Third party consultant review:* The Port again has contracted with Keyser Marston Associates (KMA), a third party consultant, to review the proposed Rental Rate Schedule for Fiscal Year 2017/18 In process.

Port Office Space

The Port directly manages approximately 330,000 s.f. of Class B and Class C office space. While there is Class A office space within the Port's portfolio, it is managed by master tenants such as Equity Office Partners (Ferry Building), Prologis (Pier 1) and San Francisco Waterfront Properties (Piers 1½-3-5). The Port does not manage any Class A office space directly so none is subject to the Rental Rate Schedule.

Location is the key driver of office space value thus office leases are often defined by neighborhood when listed, rather than by building features. An office tower in San Francisco's Financial District will be prized for its superior access, prestigious corporate address, and proximity to neighborhood amenities like fine dining and business services.

Similarly, the Port's key office space has water views and is close to Market Street and its amenities.

The majority of Port-managed office spaces primarily fall into the Class C category of office space with the exception of 7 properties that are considered Class B. The Port's directly managed office holdings are as follows:

Table 3: Building by Class Type

Building Class	Name of Building	Location
Class A	None	
Class B	Roundhouse Plaza	2 Lombard Street
	Pier 9 Bulkhead Bldg.	@ Broadway
	Pier 9 Pier Offices	@ at Broadway
	Pier 26 Annex	@ Harrison Street
	Pier 33 ½ North	@ Montgomery Street
	Pier 33 Bulkhead Bldg.	@ Montgomery Street
	Pier 35 Bulkhead Bldg.	@ Bay Street
Class C	Agriculture Building	@ Mission Street
	401 Terry Francois	Terry Francois Blvd.
	Piers 23 Bulkhead Bldgs.	@ Sansome Street
	Pier 29 Annex Bldg.	@ Battery Street
	Pier 29 ½	@ Battery Street
	490 Jefferson St.	Jefferson St @Leavenworth
	Piers 26 Bulkhead Bldg.	@ Harrison Street
	Pier 28 Bulkhead Bldg.	@ Bryant Street
	Pier 38 Bulkhead Bldg.	@ Townsend Street
	Piers 50 Bulkhead Bldg.	Terry Francois Blvd.
	Pier 54 Office	Terry Francois Blvd.
	Pier 70, Building 11	Foot of 20 th Street
	671 Illinois Street	Illinois Street @ Mariposa
	501 Cesar Chavez	Foot of Cesar Chavez St
	601 Cesar Chavez	Cesar Chavez @ Illinois St
	696 Amador	Amador and Cargo Way
	Pier 96 Admin. Bldg.	Foot of Cargo Way
	Pier 96 Gate House Bldg.	Foot of Cargo Way

Gross or Full Service leases include maintenance, janitorial, and utilities costs in the monthly rent amount. NET lease are net of services so that the tenant pays the maintenance, janitorial, and utilities costs in addition to the monthly rent. The market difference between a full service lease and a net lease is approximately \$1.50 to \$1.75 per square foot per month.

Class A • In general, the definition of Class A space refers to the best of the best. Class A office space is located in newer buildings with state-of-the-art infrastructure. On occasion it may be located in older buildings that have been extensively renovated such as Pier 1 and the Ferry Building. Class A buildings are located in prime locations, generally the San Francisco Central Business District (aka Financial District) with good access and are professionally managed.

Class B • The Port manages approximately 150,000 s.f. of Class B office space (7 locations). By industry definition, Class B spaces are often older and require renovation and improvements. These spaces are usually well-maintained and well-managed, but infrastructure may need some capital investment to keep them functional.

Class C • The Port manages approximately 180,000 s.f. of Class C office space (17 locations). By industry definition, Class C spaces are older (usually 15-25 years), poorly located, and often in need of extensive renovation and updates to out-of-date infrastructure. They usually have lower rental rates to compensate for the lower quality office space. Class C spaces often are vacant longer than higher-classed spaces, and can be targeted for redevelopment opportunities. A fair number of the Class C office spaces in the Port's inventory are not truly office buildings but rather walk-up office spaces above retail or service businesses.

Port Industrial and Warehouse Space

The Bay Area has approximately 159 million square feet of warehouse rental space along the East Bay I-80/880 Corridor and in Santa Clara, San Mateo and San Francisco Counties. The East Bay is the largest home to industrial/warehouse space and San Francisco County the smallest, representing approximately 12% of the total Bay Area warehouse rental space. The San Francisco industrial market has approximately 19.3 million square feet located in three major submarkets:

- i.* Mission/South of Market (SOMA)
- ii.* 3rd Street Corridor/Potrero Hill and
- iii.* Bayview/India Basin

The Port directly manages approximately 1,368,215 square feet of industrial and warehouse space and represents approximately 12% of the industrial market in San Francisco.

More than three quarters of San Francisco's warehouse space is located in the Mission/SOMA and 3rd Street Corridor/Potrero Hill areas.

The San Francisco-Bay Area industrial and warehouse vacancy rate increased to 3.6% in 4Q 2016 (from 2.6% 1Q2015).

The majority of Port warehouses are categorized as Class C. The Port's industrial properties have various levels of improvements including partitions, fencing, electrical service, plumbing, etc. These industrial/warehouse spaces are typically leased under "net" leases with space defined as "gross leasable area." The majority of these spaces lack loading docks, attached office space and non-permeable concrete floors, and they share a common drive aisle. Despite the limited infrastructure, the Port has been able to negotiate rental rates comparable to those of private landlords that have more amenities. This is due in large part to the close proximity of the Port's warehouse space to the City's financial and social center and the scarcity of industrial land in San Francisco. During the previous twelve months, Port warehouse rates have averaged \$1.60 to \$2.00 per square foot.

Demand for Port warehouse and industrial space has strengthened through 1Q 2017. During the prior reporting period, 1Q 2016, the Port's industrial and warehouse vacancy was 4%. The Port's current warehouse vacancy rate has decreased to 0.19%.

Monthly Rental Rate Schedule

The proposed Rental Rate Schedule, attached hereto as Exhibit A, is presented for Port Commission review and consideration. The Rental Rate Schedule is a minimum rental schedule and gives Port staff authority to negotiate higher rates or the flexibility to quote rates in the mid-range or lower range of the Rental Rate Schedule when justified, for properties that may be physically sub-standard or oddly configured.

The proposed Rental Rate Schedule lists all commercial properties and their associated Minimum Initial Rental Rates and Net Effective Rental Rates (see below). The Rental Rate Schedule is organized first by type of use and lease type (full service vs net) and second by property/geographical location.

For each property the Rental Rate Schedule provides a range of rents on a gross basis and a net effective basis. The gross basis, entitled *Minimum Initial Lease Rental Rates*, represents the market rent range for the first year of the lease. The net effective basis, entitled *Minimum Net Effective Rental Rates*, represents the net effective rent calculated and applied over the lease term after rent credits for flooring and wall coverings are amortized over the term of the lease. The Port Commission has previously approved application of rent credits for flooring and wall coverings.

Port staff has the authority to issue tenant improvement allowances for floor and wall coverings if those credits do not result in the net rent over the term of the lease falling below the Minimum Net Effective Rental Rates found in the Rental Rate Schedule.

Port leases are annually indexed by either the Consumer Price Index (CPI) or fixed rate adjustments currently ranging from 3% to 3.5%. Most of the Port's leases provide for a "mark to market" adjustment on an extension or option date. Most also provide for a "mark to market" adjustment upon expiration if they go to month-to-month holdover status while a new lease or a termination is negotiated.

Proposed Changes to Rental Rate Schedule for Fiscal Year 2017-18

Given Port staff's market research, the Port's own leasing experience and the overview by KMA, Port staff recommends adjustment of the minimum rental rates averaging 5% to 15% for the majority. (For comparison, last year the Port raised rates by an average of 10-13%) Port properties to better reflect current market conditions. Port staff proposes changes to the current Rental Rate Schedule for certain office and industrial shed space as follows.

1. The following office properties are currently in high demand and are experiencing limited vacancy rates. Staff recommends revising minimum monthly rents for these locations in recognition of demand and limited vacancy at these locations.

Port Office Class B Net Leases

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 26 Annex	\$3.15	\$3.25
b)	Pier 33 Bulkhead Bldg.	\$3.10	\$3.25
c)	Pier 35 Bulkhead Bldg.	\$3.10	\$3.25

Port Office Class C Full Service

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Agriculture Building Window office	\$3.35	\$3.40
b)	Interior Office.	\$1.55	\$1.60
D)	401 Terry Francois	\$3.40	\$3.50

Port Office Class C Net

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 23 Bulkhead	\$3.25	\$3.35
b)	Pier 26 Bulkhead	\$1.50	\$1.55
c)	Pier 50 Bulkhead	\$2.25	\$2.75
d)	601 Cesar Chavez	\$1.50	\$1.80
e)	696 Amador	\$1.25	\$1.30
f)	Pier 96 Administration	\$1.25	\$1.30
g)	Office Storage All Facilities	\$1.65	\$1.70

On average, net lease rates are \$1.50-\$1.75 per square foot per month less than equivalent gross leases. Adjusted net lease rates for Class B office space in the same geographic area as those listed above, published by Jones Lang LaSalle are:

Pier Shed and Land:

Northeast Waterfront

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 33,35,45	\$1.25	\$1.30
b)	Pier 31	\$1.25	\$1.30
c)	Pier 9	\$1.65	\$1.75
d)	Pier 19	\$1.50	\$1.65
e)	Pier 23	\$1.50	\$1.65
f)	Pier 29	\$1.50	\$1.65
g)	Pier 47 shed storage	\$0.75	\$0.80

South Beach/China Basin

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
b)	Piers 26-28-38	\$1.40	\$1.50
c)	Pier 40	\$1.40	\$1.50
d)	Pier 48	\$1.50	\$1.60
e)	Pier 50	\$1.40	\$1.50

Southern Waterfront

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	SWLs 343 & 354	\$1.05	\$1.10
b)	SWL 345	\$1.05	\$1.10
c)	Pier 92 & SWLs 344 & 349	\$0.98	\$1.00
	Pier 80 G&M	\$0.98	\$1.05
e)	Pier 96 M&R	\$1.05	\$1.10

Open Land and Pier Uses

Port staff recommends amending paved land lease rates. Staff believes the rate should be increased to reflect strong demand.

Industrial Gross Leases

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Unpaved Land	\$0.32	\$0.35
b)	Paved Land	\$0.42	\$0.45
d)	Submerged Land	\$0.18	\$0.19

3. The rental rates at Pier 45 Fish Processing Center were last adjusted in 2016. Port staff recommends adjustments in the following rate categories to better reflect current market conditions in the fishing industry.

Fishing Industry Pier Shed and Land

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 45 Sheds	\$1.05	\$1.10
b)	Pier 45 2rd floor	\$0.53	\$0.60
c)	Pier 45 Office 1 st floor	\$1.25	\$1.30
d)	Pier 45 2rd floor mezz.	\$0.90	\$0.95
e)	Fishing Gear Storage	\$0.37	\$0.40
f)	Fish Gear Storage Non-Berth Holders	\$1.00	\$1.15
g)	Pier 33	\$1.05	\$1.15
h)	SWL 302 storage	\$1.05	\$1.10
i)	Aprons	\$0.36	\$0.40

(Research sources: Port of San Francisco, Santa Cruz Harbor, Pilar Point Harbor, Spud Point Harbor, Morro Bay Harbor, Crescent City Harbor 2017)

Parking

The Port operates a number of parking facilities where the Port leases individual parking stalls on a monthly basis totaling Approx. ~362 stalls with annual revenues of Approx. \$613,240 for the 12 month period from April 1, 2016 to April 1, 2017, an increase of 5.8% over same period in the prior year (same period prior year revenues were \$579,374 in 4, 2015 – 4, 2016. The vast majority of the stall holders are Port tenants. A map is attached as Exhibit F1 that shows the location of those facilities at which the Port currently offers monthly parking. The Port’s current parking stall vacancy rate is 0%. There is currently an active waiting list for all facilities port-wide. In the same period last fiscal year the vacancy rate was approximately 5%.

The Port Commission approved the Fiscal Year 2016-17 Monthly Parking Stall Rate Schedule as part of its approval on June 13, 2016 of the Rental Rate Schedule. Since last year’s parking stall rate review, the parking market has experienced improvement. Port staff recently conducted a survey of comparable parking facilities in the vicinity of Port property where the Port rents monthly parking stalls, attached hereto as Exhibit D. The survey determined that the monthly parking stall rates for Port facilities are slightly under market in the Northern Waterfront and moderately under market in the Southern Waterfront. Staff proposes increasing parking rates by an average of 4%-7% to better reflect current market conditions. The new proposed parking stall rate are listed on Exhibit A, Please note that the parking rates in this report do not include any City parking tax, currently 25%, which is paid by the stall holder and remitted to the City Tax Collector.

Special Events and Filming

Special events and filming generated a combined total of \$252,673.00 in revenues to the Port over the past 12 months (April 2016 to March 2017). Of this amount, special events generated all revenues and filming \$00.00. During this period the film permitting was done by the Film Commission and those fees are retained by the Film Commission. Film permits require quick turnaround for limited revenue return to the Port. The Port does however, lease office, shed, and land to film production companies. This revenue is captured as commercial rent.

The Port's 7½ miles of waterfront property is a popular venue for special events and filming projects produced each year in the City. Among the most notable special events are *Fleet Week*, *4th of July Celebration and Fireworks*, *Sunday Streets*, *New Year's Eve*, *Giant's Fanfest* and *the Nike Women's Marathon*.

The Port is also very popular with advertisers that account for the majority of still photo shoots that occur at the Port. From elegant fashion and auto ads located at Pier 7 to the more urban industrial projects shot in the Southern Waterfront, the Port offers a variety of locations sought after by creative photographers.

In order to standardize film and photography related fees charged for various Port facilities, Port staff has established a Special Event and Filming Fee Schedule. The schedule is reviewed annually to reflect current market conditions and submitted to the Port Commission for re-approval.

There are several recurring Special Events/Uses that have a strong maritime or community connection to the Port of San Francisco and customarily have been given either a fee waiver or fee reduction by the Port Commission on an ad hoc basis. In order to streamline the administrative process and costs associated with preparing individual Port Commission Agenda Items for each event, the Port Commission typically approves the recommended fees for these events as part of its approval of the Rental Rate Schedule:

1. Proposed Fee Waiver: *4th of July Celebration; Fleet Week; City's New Year's Eve Celebration; Madonna Del Lume; Delancey Street Flower Sale; Black Health and Healing Summit; San Francisco Symphony Concert; Fisherman's Wharf - Wharf Fest; and Bike to Work Day*
2. Ongoing Fee Reductions: *Delancey Street Christmas Tree Lot, \$3,528 versus \$7,055.*

The methodology for deriving the fees described in the Special Events and Filming Fee Schedule is a combination of market research, continuous dialog with special events promoters and the Port's own experience at negotiating fees.

Proposed FY 2017-18 Special Event And Filming Rate Schedule

Port staff recommends increases to the FY 2017-18 Special Event and Filming Rate Schedule, which is listed on Exhibit A.

Recommendation

Port staff will return to the Port Commission and seek approval of the Fiscal Year 2017-18 Monthly Rental Rates Schedule, Monthly Parking Stall Rates and Special Event and Filming Rates, attached hereto as Exhibit A. If approved, the Fiscal Year 2017-18 rates will take effect on July 1, 2018.

Prepared by: Jeffrey A. Bauer, Senior Leasing Manager

For: Michael Martin, Deputy Director
Real Estate and Development

ATTACHMENTS

- Exhibit A Fiscal Year 2017-18 Monthly Rental Rates Schedule, Monthly Parking Stall Rates and Special Event and Filming Rates
- Exhibit B Bibliography of Market Research Sources
- Exhibit C Office, Bulkhead Office and Pier Shed Vacancy Rate
- Exhibit D Parking Facilities Located in the Vicinity 2017 and Map
- Exhibit E Keyser Marston Memorandum 2017
- Exhibit F Port Leasing Policies
- Exhibit G Port Active Office and Warehouse Rental Transactions