

MEMORANDUM

July 5, 2018

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. Gail Gilman
Hon. Victor Makras
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Request Approval of the Fiscal Year 2018-19 Monthly Rental Rate Schedule, Monthly Parking Stall Rates and Special Events

DIRECTOR'S RECOMMENDATION: Approve Resolution

This item was presented as an informational item at the June 12, 2018 Port Commission meeting and is now before the Port Commission for approval of the Fiscal Year 2018-19 Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Events and Filming Rates. At the June 12 hearing Commissioner Makras queried the proposed delegated authority for rent-free subsurface utilities agreements without seeking Port Commission, and suggested that the Port's proposal would be well-served to align with the City's policy. Accordingly, Port staff now recommends limiting this no-fee delegation to apply to the same "federal, state or local governmental agencies, commission, or departments" that qualify for a \$0 public right of way occupancy assessment fee for street encroachments under Public Works Code Section 786.7(e).

Executive Summary

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 Exhibit A hereto) for Port Commission and public review and discussion. Pending feedback on this informational item, Port staff expects to request Port Commission approval of the Rental Rate Schedule for Fiscal Year 2018-19 on July 10, 2018 for an effective date of August 1, 2018.

THIS PRINT COVERS CALENDAR ITEM NO. 10B

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 19 locations (30%) and lower the rate at 1 location, Pier 23 Bulkhead office. 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. 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 balanced strategy to the real estate portfolio and asset management to more effectively maximize asset value and income to the Port.

Stability:

By continuing to expand ongoing revenue sources in the economic uncertainty in the market the Port will ensure the future of this economic viability of Port revenue.

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 2017-18 was adopted by the Port Commission on June 13, 2017 and became effective as of July 1, 2017. 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 in Exhibit A on July 10, 2018, the Rental Rate Schedule for Fiscal Year 2018-19 will take effect on August 1, 2018.

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 MOUs 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

San Francisco remains one of the most sought-after cities in the country to live and work. Although San Francisco is one of the most expensive places in the world to operate a business, companies continue to expand within the city in order to attract top talent. Several sizable companies continued to absorb large blocks of space in San Francisco during 2017 and 2018 looks to be no different as there are over 40 office and life science tenants currently in the market looking for at least 50,000 sf. As of November 2017, the City and County of San Francisco’s unemployment rate was 2.3%, the second lowest rate for any county in the state of California, down from 3.1% in November 2016. While the San Francisco office market showed minor signs of slowing during 2017, it remains one of the strongest office markets in the country for tenants and investors. With its thriving technology sector that has fueled growth in this region for the past few years, companies such as Google, Salesforce, LinkedIn, Dropbox, Facebook and others will continue to anchor this market moving forward.

With the vast majority of new construction projects now pre-leased, expanding tenants will be forced to absorb existing available space, resulting in decreased overall vacancy. The fourth quarter of 2017 recorded positive absorption (21,462 SF) for the second quarter in a row after experiencing negative absorption during the first two quarters of the year. SOMA experienced the greatest amount of occupancy growth during the quarter (169,139 SF) while the North Financial District experienced the greatest decline in occupancy (-219,864 SF), due in part to large blocks of space in 1 Maritime Plaza and 333 Bush Street coming on market. Rents this quarter remained almost flat as they increased overall by just 0.8% since last quarter. Meanwhile Class A rents dropped .05% since Q3 2017. Mid -Market was the submarket with the biggest increase this

quarter (2.1%). Looking forward, Port staff expects rents to remain relatively flat in 2018 as tempered tenant demand will counteract any rent inflation caused by the lack of available Class A development inventory coming to market.

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. When leases expire or are amended or renewed, they become subject to the current Rental Rate Schedule.

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 360,000 Total <u>12,165,691</u>	Generally refers to pier aprons, valley areas and land
Total	14,340,660 Not Submerged 13,980,660	

Port Leasing Volume

For the period July 1, 2017 to April 30, 2018, Port Real Estate executed 38 new real property agreements pursuant to the Fiscal Year 2017-18 Rental Rate Schedule totaling \$481,565 per month or \$5,778,782 annualized, representing 1,259,124 square feet. Parameter rental rents impact shed, office, and parking stall customers, or approximately 19% of total real estate revenues.

TABLE 2: Parameter Revenues FY 2017		
Category	Annualized Revenue	Percentage of Total
Parameter Shed or Land	\$8.93 Mil	12%
Parameter Office	\$4.87 Mil	7%
Parameter Parking (Stalls)	\$0.44 Mil	1%
Sub-Total Parameter Revenues	\$14.24 Mil	19%
Parking Lots	\$16.23 Mil	22%
Ground Lease/ Development	\$12.93 Mil	17%
Non-Parameter Shed or Land	\$13.97 Mil	19%
Restaurant & retail	\$10.68 Mil	14%
Parking Meters	\$3.77 Mil	5%
Non-Parameter Office	\$2.03 Mil	3%
Film/Event/Other	\$0.16 Mil	0%
Sub-Total Non-Parameter Revenues	\$59.77 Mil	81%
Total Real Estate Revenues	\$74.00 Mil	100%

Note: Green is data from Port Rent Roll; None Green is date from People Soft

Port Vacancy

The demand for space along the Port's waterfront is moderate. As noted above, the Port's current office vacancy rate is 11.41% (same period last year 7.45%). The Port's vacancy rate is higher than the citywide office vacancy rate of approximately 5.2% compared to the same period last year of 6.6%. The Port's industrial/warehouse vacancy is higher (17.36%) than the same period last year (0.19%). The increased warehouse vacancy as compared to last year's report primarily results from the termination of the exclusive negotiation agreement for a long-term lease at Pier 38 and the need to keep space clear to accommodate the Port's capital improvement projects in the Pier 23 and 31 sheds. The Port is actively pursuing interim leasing opportunities at Pier 38 and is developing its strategy in order to move quickly to establish new leases at Piers 23 and 31 once the capital repairs are complete.

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 B, 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 published by Cushman and Wakefield and Kidder Mathews. 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 has retained a third-party consultant to review the proposed Rental Rate Schedule for Fiscal Year 2018/19. The findings will be included in the staff report when Port staff returns to the Port Commission seek approval at the July 10, 2018 meeting.

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 2017 (from 2.6% 1Q2016).

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 slightly softened through 1Q 2018. During the prior reporting period, 1Q 2017, the Port's industrial and warehouse vacancy was 0.19%. The Port's current warehouse vacancy rate has increased to 7.20% for the reasons set forth above.

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 2018-19

Given Port staff's market research, the Port's own leasing experience and the review by a third party consultant, Port staff recommends adjustment of the minimum rental rates set forth below to better reflect current market conditions. (For comparison, last year the Port raised rates by an average of 10-13%).

Port staff proposes changes to the current Rental Rate Schedule for certain office and industrial shed space as follows, and the delegated authority to enter MOUs with utility providers who are installing distribution facilities under Port streets at no cost.

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

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	\$2.00

Port staff proposes to lower Pier 23 office due to its condition, lack of amenities, and code compliance issues.

Pier Shed and Land:

Northeast Waterfront

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 31	\$1.30	\$1.65

Port staff proposes to increase the Pier 31 shed rate to better reflect market demand for warehouse space in the Northeast waterfront.

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	\$1.50	\$1.60
c)	Pier 40	\$1.50	\$1.60
d)	Pier 50	\$1.40	\$1.60

Port staff proposes to increase the shed rates in the South Beach/China Basin area to better reflect market demand for warehouse space in these areas.

Southern Waterfront

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	SWLs 343 & 354	\$1.10	\$1.15
b)	SWL 345	\$1.10	\$1.15
c)	Pier 92 & SWLs 344 & 349	\$1.00	\$1.05
d)	Pier 80 G&M	\$1.05	\$1.10
e)	Pier 96 M&R	\$1.10	\$1.15

Port staff proposes to increase the shed rates in the Southern Waterfront to better reflect market demand for warehouse space in this area.

Fishing Industry Pier Shed and Land

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.

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 45 Sheds	\$1.15	\$1.20
b)	Pier 45 2hrd floor	\$0.65	\$0.70
c)	Pier 45 Office 1 st floor	\$1.35	\$1.40
d)	Pier 45 2hrd floor mezz.	\$1.00	\$1.05
e)	Fishing Gear Storage	\$0.40	\$0.45
f)	Fish Gear Storage Non-Berth Holders	\$1.20	\$1.25
g)	Pier 33	\$1.20	\$1.25
h)	SWL 302 storage	\$1.15	\$1.20
i)	Aprons	\$0.45	\$0.50

(Research sources: Port of San Francisco, Santa Cruz Harbor, Pillar Point Harbor, Spud Point Harbor, Morro Bay Harbor, Crescent City Harbor 2018)

Southern Waterfront Beautification Set Aside Benefit Fund

The Port defines the Southern Waterfront as the area located from Mariposa Street in the north to India Basin in the south (the "Southern Waterfront"). The Southern Waterfront is home to the Port's industrial maritime operations and a mixture of other users. In November 2007 the Port Commission adopted its Policy for Southern Waterfront Benefits and Beautification, which includes a requirement that Port set aside a portion of monthly rents collected from Southern Waterfront property leases. The amounts set aside were intended to be, and have been, used to fund certain improvements, beautifications and/or benefits in the Southern Waterfront. The table below represents the proposed 2018/2019 set-aside amounts per square foot based on the amounts designated in the 2007 policy, escalated to reflect the increase in the base monthly rental rates per square foot of applicable categories of property between the 2007 rental rates and the currently proposed rate schedule. Note that there is no longer a Southern Waterfront-specific Office Storage rate, so the large increase stems from the application of the higher Port-wide rate.

tem	Type of Property	Monthly Rate Average Per Square Foot in 2007	Currently Proposed Monthly Rate Average Per Square Foot	Annual Set Aside/Per Dollar of Rent in 2007	Currently Proposed Monthly Set Aside Per Square Foot
a)	Office	\$1.36	\$1.30	\$0.07	\$0.07
b)	Shed	\$0.61	\$1.06	\$0.04	\$0.07
c)	Office Storage	\$0.90	\$1.70	\$0.04	\$0.08
d)	Land	\$0.25	\$0.40	\$0.02	\$0.03

Parking

The Port operates a number of parking facilities where the Port leases individual parking stalls on a monthly basis that total approximately 362 stalls with annual revenues of approximately \$651,568 for the 12 month period from April 1, 2017 to April 1, 2018, an increase of 6% over same period in the prior year (same period prior year revenues were \$613,240). 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 2017-18 Monthly Parking Stall Rate Schedule as part of its approval on June 13, 2017 of the Rental Rate Schedule. Since last year's parking stall rate review, the market of comparable parking resources 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 rates 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

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*, *AVP San Francisco Open*, *New Year's Eve*, *Giant's Fanfest* and *the San Francisco Marathon*. The Port is also very popular with advertisers that account for the majority of still photo shoots that occur at

the Port. 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.

Special events and filming generated a combined total of \$163,028.00 in revenues to the Port over the past 12 months (April 2017 to March 2018). Of this amount, special events generated all revenues. Port staff recommends waiving any fees for use of public access and public rights of way areas on Port property and delegating authority to the Mayor's Film Office to issue and enforce filming permits for, with the Mayor's Film Office retaining all fees paid to it in order to defray its administrative costs. This arrangement would be predicated on the continuation of current practice, whereby the Mayor's Film Office requests permission from the Port prior to any issuance of a film permit for these public areas, imposes conditions requested by Port, and ensures that the Port is indemnified and released, named as an additional insured on all required insurance policies and is otherwise covered under the Film Commission's standard use agreement which includes repair of damage, compliance with laws and City requirements, and public safety precautions. Port will continue to issue use agreements and charge fees for filming in indoor areas not otherwise subject to a lease or license (e.g., an empty pier shed), and for special events.

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; Bike to Work Day; San Francisco Police Department Motorcycle Skills Training/Competition South Downtown Design & Activation Plan Spear Street Activation; Bay Splash*
2. Ongoing Fee Reductions: *Delancey Street Christmas Tree Lot, \$4,000 versus \$8,000, and Pawtrero's Annual Dog Day Afternoon and Adoption Event - \$2,000 versus \$2,500 (incremental increase)*

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 2018-19 Special Event And Filming Rate Schedule

Port staff recommends increases to the FY 2018-19 Special Event and Filming Rate Schedule, which is listed on Exhibit A.

Proposed Delegation for Subsurface Utility Distribution Infrastructure

With the buildout of Mission Bay and areas surrounding the Port's own master planned developments, new public utility distribution infrastructure by PG&E and other City departments is being located beneath Port lands. Section 3.1 of the Burton Act authorizes the Port to enter into leases for up to 66 years for the construction and operation of all "utilities incidental, necessary or convenient for the promotion and accommodation of commerce and navigation." Accordingly, utility infrastructure that serves the Port or Port tenants is consistent with the public trust. The right to use and occupy such subsurface property requires some type of real property agreement which would usually take the form of an MOU in the case of utilities installed by a City department or a lease or license in the case of utilities installed and operated by PG&E. Typically in these situations outside of Port property the utility provider obtains an encroachment permit from the City and is not required to pay rent for the use of the subsurface space. Port staff does not currently have clear delegated authority to pursue a similar long term rent-free agreement without seeking Port Commission approval.

In order to provide clear direction and to harmonize the Port's approach to subsurface utility infrastructure with what is seen elsewhere in the City, Port staff recommends delegating authority to staff to issue rent-free real property agreements for the siting and operation of subsurface utility infrastructure by federal, state or local governmental agencies, commissions, or departments, so long as: (i) the infrastructure is intended to be utilized in whole or in part for distribution of public utility or fire suppression services to the Port or Port tenants, (ii) the utility is located beneath a current or future street right of way that is not anticipated for any other use and the applicable federal, state or local governmental agency, commission, or department has maintenance and repair obligations for the infrastructure; (iii) the term of the real property agreement does not exceed 66 years (subject to Board of Supervisors approval if otherwise required due to the term); and (iv) any real property agreement includes requirements for the removal of such infrastructure if the street right of way is vacated or if the use is no longer consistent with the public trust at some point in the future. Lastly, Port staff proposes that the delegated authority would not extend to the issuance of real property agreements for non-public utilities or utilities that primarily support revenue-generating enterprise activities; transmission only facilities (as opposed to distribution facilities) or telecommunications, cable or wireless services. Such agreements will continue to be subject to compliance with the parameters established by the Commission.

Recommendation:

Port staff requests that the Port Commission approve the Fiscal Year 2018-19 Monthly Rental Rates Schedule, Monthly Parking Stall Rates and Special Event and Filming Rates, and the delegations described above regarding filming permits and utility distribution facilities attached hereto as Exhibit A. The new rates will be effective on August 1, 2018.

Prepared by: Jeffrey A. Bauer, Senior Leasing Manager

For: Michael J. Martin, Deputy Director
Real Estate and Development

Mark Lozovoy, Assistant Deputy Director
Real Estate

ATTACHMENTS

- Exhibit A Fiscal Year 2018-19 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 2018 and Map
- Exhibit E Third Party Review 2018
- Exhibit F Port Leasing Policies
- Exhibit G Port Active Office and Warehouse Rental Transactions

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 18-41**

- WHEREAS, By Resolution No. 93-127, adopted September 8, 1993, and as amended by Resolution 93-135, the Port Commission authorized the Executive Director to approve and execute certain transactional documents such as leases and licenses that conform to all of the parameters set forth in those Resolutions as amended (the “delegated authority”); and
- WHEREAS, Port staff has delegated authority to enter into leases, licenses, and Memorandums of Understanding with rents that conform to the applicable Monthly Rental Rate Schedule, Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule as adopted and amended periodically by the Port Commission (last amended Resolution No. 17-27 for the fiscal year 2017-18); and
- WHEREAS, the parameter Rental Rate Schedule provides that leases, licenses, and Memorandums of Understanding shall have rents that conform to the Monthly Rental Rate Schedule, Parking Stall Rate Schedule, and Special Event and Filming and Public Art Rates adopted and amended periodically by the Port Commission; and
- WHEREAS, Port staff has reviewed current office/industrial-warehouse, parking, and special event and filming market data and has prepared updated delegated authorities and updated the Fiscal Year 2018-19 Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule; and
- WHEREAS, Port staff recommends approval of the delegated authorities specified in the Memorandum dated July 5, 2018 and the Fiscal Year 2018-19 Monthly Rental Rate Schedule, Parking Rate Schedule, and Special Events and Filming Schedule, which would set rental rates for office, shed, and land space, color curbs, telecommunication sites, monthly parking stalls, and special event, and filming rates, and delegations described above to Port staff regarding utility distribution facilities and to Port staff and the Mayor’s Film Office regarding filming permits as described in the Memorandum dated July 5, 2018; and
- WHEREAS, Port staff recommends approval of proposed fee waiver for the following special events: : 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 ; and

- WHEREAS, Port staff further recommends approval of fee reductions for the Delancey Street Christmas Tree Lot as described in the Memorandum date July 5, 2017; now, therefore be it
- RESOLVED, That the Port Commission hereby approves and adopts the Fiscal Year 2018-19 Monthly Rental Rate Schedule, Parking Rate Schedule, Special Event and Filming Rate Schedule to be implemented by Port staff in connection with the delegated authorities as described in the Memorandum dated July 5, 2018 and approves the proposed fee waivers and fee reductions for certain special events as described in this Resolution; and be it further
- RESOLVED, That Port Commission finds that competitively bidding the real property agreements covered by the delegated authorities and the rental rate schedules approved by this Resolution is impractical; and be it further
- RESOLVED, That Port staff shall continue to provide the Port Commission, within thirty days following each calendar month, a summary of leases, licenses, and Memoranda of Understanding entered into and subleases or assignments consented to during that month.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of July 10, 2018.

Secretary