

MEMORANDUM

July 3, 2019

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 2019-20 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 11, 2019 Port Commission meeting and is now before the Port Commission for approval of the proposed Fiscal Year 2019-20 Monthly Rental Rate Schedule, Monthly Parking Stall Rates and Special Events Rates.

Executive Summary

Pursuant to statute, the Port is required to charge market rental rates for its properties, deposit such revenues into the Harbor Fund and use such funds to operate and maintain the Port. To establish this rate structure, Port staff surveys a variety of third-party real estate firms to generate comparable market data 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.

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 which as further described below is a driving factor towards staff's recommendation of increasing certain rates. A total of 75 rental rates are listed on the Rental Rate Schedule (Exhibit A). Port staff proposes to raise 32 of the rental rates (42.7%), to lower none of the rental rates (0%), and holding unchanged the remaining 43 rental rates (57.3%). Port staff also proposes raising the rates for parking, special events, and filming.

THIS PRINT COVERS CALENDAR ITEM NO. 10A

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 *Stability* goal of the Port's Strategic Plan by fostering the efficient management of a real estate portfolio that maximizes value and income to the Port, including maintaining a diversified tenant base that will perform through economic cycles and a vacancy rate in relation to benchmarks in the related sectors of the San Francisco market.

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 conditions. Port staff provides the following research of such current market conditions (see "Rate Setting Methodology" below) for the Port Commission's consideration. 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 2018-19 was adopted by the Port Commission on July 10, 2018 and became effective as of August 1, 2018. 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 9, 2019, the Rental Rate Schedule for Fiscal Year 2019-20 will take effect on August 1, 2019.

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 office space in San Francisco during 2018 and 2019 looks to be no different as large tenants continue to seek space in the 50,000 to 100,000 sf range. In the past six months there have been two large pre-leases on proposed sites that have yet to reach entitlements: 325,000 sf to Salesforce and nearly 490,000 sf to Pinterest. More than anything, these transactions speak to the scarcity of large block office supply in the City and is one reason why San Francisco 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. It is notable that the Port's master planned developments at Pier 70 and Mission Rock are proceeding quickly to receive regulatory approvals and develop Phase 1 infrastructure so that office buildings can be constructed to address this large block demand at the earliest practicable date.

As of February 2019, the City and County of San Francisco's unemployment rate was 2.3%, down from 2.5% for the same time last year. The construction pipeline for office building development remains robust with over 4.1 million square feet yet to be delivered, 72.9% of which is already pre-leased. This strong demand for office space resulted in a year-over-year decrease in the vacancy rate for office space by 21.21% from 5.8% in 1Q 2018 to 4.57% in 1Q 2019. Asking rental rates for full-service office space ended 1Q 2019 higher quarter-over-quarter for the sixth straight time. This represented a 6.26% increase quarter-over-quarter, and a 9.59% increase year-over-year. Class A asking rents increased 9.78% on a year-over-year basis, while Class B buildings experienced a year-over-year rise of 5.72%

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, office leasing, professional sports, bulk cargo, industrial warehousing and storage and cruise ship calls.

The Real Estate and Development Division manages approximately 583 commercial leases covering 453 acres, which represent 387 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 Oracle Park.

Total Port property available for commercial leasing consists of approximately 22.71 million square feet. As of June 30, 2019, the Port of San Francisco had 21.2 million square feet under contract. Of that space, the Port has leased approximately 7.2 million square feet as ground leases to master tenants. The remaining 14 million square feet of occupancy is directly leased and managed by Port Real Estate as described below. When leases expire or are amended or renewed, they become subject to the current Rental Rate Schedule.

Port Leasing Volume

For the period July 1st, 2018 to June 30th, 2019, Port Real Estate executed 65 new real property agreements pursuant to the Fiscal Year 2018-19 Rental Rate Schedule totaling \$450,000 per month, representing approximately 1.1 million square feet. Of these new leases, 47 were executed under the Parameter Rate Schedule in FY2019 representing 42 Tenants.

Port Vacancy

Demand for space along the waterfront has remained robust and stable. The Port's current overall vacancy rate is 5.80% portwide compared to 10.7% portwide at the same point in time during the last fiscal year. Vacancy in the Portfolio sub-areas year over year are contained in table 2.

Table 2: Portfolio Vacancy Rates

Portfolio	Vacancy Rate FY18	Vacancy Rate FY19
Fisherman's Wharf	0.9%	0.9%
Northeast Waterfront	16.3%	16.0%
Ferry Plaza / South Beach	3.6%	3.0%
China Basin / Central Basin	22.2%	17.4%
Southern Waterfront	11.1%	2.2%

Fisherman's Wharf lease demand remains steady with established leases with long-term tenants in good standing constraining the amount of new space available. Current vacancy includes a small amount of dilapidated office space located at 490 Jefferson street.

The Northeast Waterfront has experienced on-going vacancy of Piers 19, 23, 29, & 31 due to construction work and capital investment. (Note: Pier 31 will be nearly fully occupied by August with the establishment of the City of San Francisco's Department of Elections' tenancy in the shed which in itself will reduce the vacancy rate from 16.0% to 13.4%. Port staff is also actively marketing Piers 19 and 23 for interim leasing ahead of the upcoming Historic Piers RFP process per the strategy detailed at the October 23, 2018 Port Commission meeting.)

The Ferry Plaza/South Beach portfolio had a slight decrease in vacancy due to new parameter leases for industrial space executed at piers 26 & 28. Current vacancy does include space at Pier 38 due to code compliance and weight restriction issues.

China Basin & Central Basin had significant decreases in vacancy due to the execution of the Mission Rock development lease at Seawall Lot 337 as well as on-going parameter leasing at Pier 54 & 401 Terry Francois Blvd. Significant construction projects in the area related to the warriors arena are currently having a detrimental effect on asking rates in the area. However, we anticipate those to rise sharply in the area as the Arena construction completes and begins to operate on a routine basis.

The Southern Waterfront experienced significant decreases in vacancy due to the execution of further development-related leases in the Pier 70 area associated with the FC

Pier 70, LLC and Orton Development projects. The takedown of these major development leases coupled with the general shortage of industrial space in San Francisco to ensure strong demand for large industrial tenancies in the Eco-Industrial Complex.

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 2019/20. Their findings are included in the staff report as Exhibit E.

Port Office Space

The Port directly manages approximately 330,000 square feet of Class B and C office space. While there is Class A office space within the Port's portfolio, it is managed by master tenants such as Hudson One Ferry Operating L.P. (Ferry Building), Prologis (Pier 1) and San Francisco Waterfront Properties (Piers 1½-3-5). (Note: This will also be the case with the office space to be constructed at the Mission Rock and Pier 70 development sites. The Port does not manage any Class A office space directly, thus 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.

Most Port managed office spaces primarily fall into the Class C category of office space except for 7 properties that are considered Class B. The Port’s directly managed office holdings are laid out in Table 3. During the prior reporting period, FY2018, the Port’s office vacancy was 7.4%. The Port’s current office vacancy rate has decreased to 3.4%.

Table 3: Directly Managed Properties by Class Type

Building Class	Name of Building
Class A	N/A
Class B	Roundhouse Plaza
Class B	Pier 9 Bulkhead
Class B	Pier 9 Pier Offices
Class B	Pier 26 Annex
Class B	Pier 33 ½ North
Class B	Pier 33 Bulkhead
Class B	Pier 35 Bulkhead
Class C	Agriculture Building
Class C	401 Terry Francois
Class C	Piers 23 Bulkhead
Class C	Pier 29 Annex
Class C	Pier 29 ½
Class C	490 Jefferson St.
Class C	Piers 26 Bulkhead
Class C	Pier 28 Bulkhead
Class C	Pier 38 Bulkhead
Class C	Piers 50 Bulkhead
Class C	Pier 54 Office
Class C	Pier 70, Building 11
Class C	671 Illinois Street
Class C	501 Cesar Chavez
Class C	601 Cesar Chavez
Class C	696 Amador
Class C	Pier 96 Admin. Bldg.
Class C	Pier 96 Gate House

Full Service & Net Leases

Gross or Full Service leases include maintenance, janitorial, and utilities costs in the monthly rent amount. NET leases 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 square feet 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 square feet of Class C office space (18 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 23.2 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

Due to increased demand in 2018 and lack of available space for lease, the overall San Francisco market remained extremely tight, posting a 1Q 2019 vacancy rate of 1.1%. As a direct result of the tight conditions, the market wide average asking lease rate increased from \$2.77 Industrial Gross (IG) to \$2.95 IG in 1Q 2019, a quarterly increase of 6.5% and an annual increase of 19%. The range of rates varies from \$1.20 to \$5.72 depending on location, condition and amenities. During the prior reporting period, FY2018, the Port's industrial and warehouse shed vacancy was 4%. It should be noted that Piers 23 and 31 were scheduled for extensive repairs and therefore not included in the Port vacancy calculation during the previous fiscal year. In FY2019, The Port's current industrial and warehouse shed vacancy rate has increased to 6.0%.

The Port directly manages approximately 1,600,000 square feet of industrial and warehouse shed space and represents approximately 6.5% of the industrial market in San Francisco. The majority of Port warehousing and shed space is categorized as Class C. The Port's industrial properties have various levels of improvements including partitions, fencing, electrical service, plumbing, etc. These industrial warehousing shed spaces are typically leased under NET leases with space defined as "gross leasable area." The majority of these spaces lack modern loading docks, attached office space, non-permeable concrete floors, and share a common drive aisle. Despite the limited infrastructure, the

Port has been able to negotiate rental rates comparable to those of private landlords with more robust amenities. This is due in large part to the close proximity of the Port's warehouse shed space to the City's financial and social center and the general scarcity of industrial land in San Francisco. During the previous twelve months, Port warehouse shed rates have averaged from \$1.44 to \$1.59 per square foot.

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 2019-20

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.

Office Space:

Staff recommends increasing minimum monthly rents for the following locations and uses:

Full Service Office – Class C			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Ferry Plaza	Ag. Building Window	\$3.40	\$3.50

Port staff proposes to increase Agriculture Building Interior space due to its prime location, stable demand, and low vacancy rate.

Net Office – Class B			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Northeast Waterfront	Pier 35 Bulkhead	\$3.25	\$3.50
Northeast Waterfront	Pier 9 Bulkhead	\$4.00	\$4.25
Northeast Waterfront	Pier 9 Shed	\$4.00	\$4.25

Port staff proposes to increase Pier 9 & 35 office rates due to stable demand and low vacancy rate.

Net Office – Class C			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
South Beach	Pier 28 Bulkhead	\$2.50	\$2.75
South Beach	Pier 26 Bulkhead	\$2.50	\$2.75
Southern Waterfront	Pier 96 Admin. Bldg.	\$1.40	\$1.50
Southern Waterfront	Pier 96 Gate House	\$1.14	\$1.15

Port staff proposes to increase South Beach office rates due to the increasing demand in the SOMA and an on-going shortage of affordable Class C office space in the neighborhood.

Pier Shed and Land:

Fisherman's Wharf - Pier & Shed Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Fisherman's Wharf	Pier 45	\$1.50	\$1.60

Port staff proposes to increase the shed rates at Pier 45 to reflect market demand for industrial warehouse space in the area. This rate does not apply to fishing industry tenants who have a separate rate for operations at Pier 45 as shown below.

Northeast Waterfront - Pier & Shed Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Northeast Waterfront	Pier 35	\$1.50	\$1.60
Northeast Waterfront	Pier 33	\$1.50	\$1.60

Port staff proposes to increase the shed rates at Piers 33 & 35 to reflect market demand for industrial warehouse space in the northern waterfront.

Ferry Plaza & South Beach - Pier & Shed Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
South Beach	Pier 26	\$1.60	\$1.75
South Beach	Pier 28	\$1.60	\$1.75
South Beach	Pier 38	\$1.60	\$1.75
South Beach	Pier 40	\$1.60	\$1.75

Port staff proposes to increase the shed rates at Piers 26, 28, 38, and 40 to reflect continuing trend of industrial and storage space moving southward along the Embarcadero as development replaces previously industrial uses in the Northern Waterfront.

China Basin & Central Basin - Pier & Shed Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
China Basin	Pier 48	\$1.60	\$1.75
China Basin	SWL 343	\$1.15	\$1.25
China Basin	SWL 345	\$1.15	\$1.25

Port staff proposes to increase rates in the China Basin portfolio to reflect increasing demand as on-going construction projects in the area completes.

Southern Waterfront - Pier & Shed Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Southern Waterfront	SWL 349	\$1.05	\$1.10
Southern Waterfront	Pier 80	\$1.10	\$1.25
Southern Waterfront	SWL 354	\$1.15	\$1.25
Southern Waterfront	Pier 92	\$1.05	\$1.10
Southern Waterfront	SWL 344	\$1.05	\$1.10
Southern Waterfront	Pier 96 M&R Bldg.	\$1.15	\$1.25

Port staff proposes to increase rates in the Southern Waterfront to reflect comparable increases in asking rates due to the construction of major developments in the neighborhood.

Industrial Rates:

Fish Processing & Wholesale Industry Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Fisherman’s Wharf	Pier 45 2 nd Floor Mezzanine	\$1.05	\$1.10
Fisherman’s Wharf	Pier 45 1 st Floor Office	\$1.35	\$1.40
Fisherman’s Wharf	Pier 45 Shed	\$1.15	\$1.25
Fisherman’s Wharf	Pier 45 2 nd Floor Warehouse	\$0.70	\$0.75
Fisherman’s Wharf	SWL 302	\$1.15	\$1.20
Northeast Waterfront	Pier 33	\$1.25	\$1.50

Port staff recommends minor adjustments in the fishing industry rates to keep pace with inflation.

Fishing Gear Storage Rates			
Sub-Area	Location Type	Current Rate PSF	Proposed Rate PSF
Portwide	Non-Berthholders	\$1.20	\$1.50

Port staff proposes to increase rates to continue to bring them in line with other west-coast ports.

Pier 40 Storage Rates			
Sub-Area	Location Type	Current Rate	Proposed Rate
South Beach	Pier 40 Lockers	\$80.00	\$100.00

Port staff proposes to increase Pier 40 storage locker rates to continue to bring them in line with other west-coast recreational harbors.

Proposed New Rates:

Proposed Rates			
Sub-Area	Location Type	Rate Category	Proposed Rate
Portwide	Subterranean Land	Land Rates	\$0.19 PSF
Portwide	Small Cell Site	Industrial Rates	\$4680.00 Per Year

Port staff proposes to create a Subterranean Land rate to accommodate leasing of subsurface area to accommodate uses such as underground utilities, cables, piping and fiber optic lines. Port staff also proposes a rate for Small Cell sites that will help support newly developed wireless technology such as 5G.

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. To simplify accounting for the set-aside, Port staff propose to apply a simple percentage to all revenue-generating leases in the Southern Waterfront. As of the start of the 2019-20 fiscal year, staff would allocate 6.5 percent of all Southern Waterfront lease revenue, regardless of type of use or space, into the Southern Waterfront Beautification Fund.

Parking

The Port operates a number of parking facilities where the Port leases individual parking stalls on a monthly basis that total approximately 375 stalls with projected annualized revenues of approximately \$640,000 for the 12-month period from July 1, 2018 to June 30, 2019. This represents an increase of 4.5% based on prior year revenues at approximately \$611,000. A significant portion 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 parking facilities portwide. In the same period last fiscal year, the

vacancy rate was also approximately 0%.

The Port Commission approved the Fiscal Year 2018-19 Monthly Parking Stall Rate Schedule as part of its approval on July 10, 2018 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 at market in the Northern Waterfront and moderately under market in the Southern Waterfront. Staff proposes increasing parking rates by an average of 5% - 10% 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 Celebration, 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 \$206,750.00 in revenues to the Port over the past 12 months (April 2018 to May 2019). Port staff recommends continuing the waiver approved by the Port Commission in 2018 of any fees for use of public access and public rights of way areas on Port property and extending the associated delegation of authority to the San Francisco Film Commission to issue and enforce filming permits, with San Francisco Film Commission retaining all fees paid to it in order to defray its administrative costs. This arrangement is the continuation of long-established practice, whereby the San Francisco Film Commission requests permission from the Port prior to any issuance of a film permit for these public areas, imposes conditions requested by the 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 San Francisco 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, trust benefit and/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: Chinatown YMCA Chinese New Year Run; Delancey Flower Sale; Black Health and Healing Summit; Bike to Work Day; South Downtown Design & Activation Plan Spear Street Pop Up Party; 4th of July Celebration and Fireworks; San Francisco Symphony Concert; San Francisco Police Department Motorcycle Skills Training/Competition; Fleet Week; BaySplash; Fisherman's Wharf – Wharf Fest; City's New Year's Eve Celebration; U.S. Government Vessel Commissioning; Pier 35 Cruise Calls
2. Ongoing Fee Reductions: Pawtrero's Annual Dog Day Afternoon and Adoption Event - \$2,250 versus \$2,750; Delancey Street Christmas Tree Lot - \$4,250 versus \$8,250 (incremental increase); SF Baykeepers - Baykeeper Parade -\$650 vs \$2750

In addition, at the suggestion of the Port Commission, Special Events staff have reviewed the Port's policies relating to fees charged to nonprofits and recommend the following pilot program during FY 2019-2020: for nonprofit organizations with offices located in San Francisco and with an annual budget equal to or less than \$2 million, the Executive Director is authorized to waive 50% of the otherwise payable fee. This partial fee waiver does not extend to nonprofits scheduling events at facilities leased or managed through other Port tenants and operators. Port staff will report back to the Port Commission regarding the impacts of this pilot program at the end of the fiscal year. The special event must be a fund-raising event to benefit the non-profit, be open to members of the public that purchase a ticket, and the fee must cover the costs of Port staff time.

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, San Francisco Recreation and Parks, and the Port's own experience at negotiating fees. To accommodate special circumstances that may arise, the Executive Director may authorize fee reductions or waivers for other events as necessary.

Proposed FY 2019-2020 Special Event and Filming Rate Schedule

Port staff recommends increases to the FY 2019-2020 Special Event and Filming Rate Schedule, which is listed on Exhibit A.

Recommendation:

Port staff requests that the Port Commission approve the Fiscal Year 2019-20 Monthly Rental Rates Schedule, Monthly Parking Stall Rates and Special Event and Filming Rates, attached hereto as Exhibit A, and the delegations described above regarding filming permits and utility distribution facilities. The new rates will be effective on August 1, 2019.

Prepared by: Demetri Amaro, Property Manager

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

Mark Lozovoy, Assistant Deputy Director
Real Estate and Development

ATTACHMENTS

- Exhibit A Fiscal Year 2019-20 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 2019 and Map
- Exhibit E Third Party Review 2019
- Exhibit F Port Leasing Policies
- Exhibit G Port Active Office and Warehouse Rental Transactions

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 19-24**

- 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. 18-41 for the fiscal year 2018-19); and
- WHEREAS, pursuant to Section 23.2 of the Administrative Code, “Market Rent” shall mean the most probable rent that real property should bring in a competitive and open market reflecting all conditions and restrictions of the property agreement; 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 2019-20 Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule; and
- WHEREAS, Based on its review, Port staff has determined that the rates proposed in the Fiscal Year 2019-20 Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule represent the fair market value rent as defined in Section 23.2 of the SF Administrative Code (“Market Rent” shall mean the most probable rent that real property should bring in a competitive and open market reflecting all conditions and restrictions of the property agreement); and
- WHEREAS, Port staff recommends approval of the delegated authorities specified in the Memorandum dated July 3, 2019 and the Fiscal Year 2019-20 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 3, 2019; and

WHEREAS, Pursuant to the Port's Policy for Southern Waterfront Benefits and Beautification (Port Commission Resolution 07-77), the Port sets aside a portion of monthly rents collected from leases in the Southern Waterfront to fund the Southern Waterfront Benefits and Beautification Fund; starting on July 1, 2019, Port staff proposes to allocate 6.5 percent of all Southern Waterfront lease revenue to the Southern Waterfront Beautification Fund; and

WHEREAS, Port staff recommends approval of proposed fee waiver for the following special events: Chinatown YMCA Chinese New Year Run; Delancey Flower Sale; Black Health and Healing Summit; Bike to Work Day; South Downtown Design & Activation Plan Spear Street Pop Up Party; 4th of July Celebration and Fireworks; San Francisco Symphony Concert; San Francisco Police Department Motorcycle Skills Training/Competition; Fleet Week; BaySplash; Fisherman's Wharf-Wharf Fest; City's New Year's Eve Celebration; U.S. Government Vessel Commissioning; Pier 35 Cruise Calls; and

WHEREAS, Port staff further recommends approval of fee reductions for: Pawtrero's Annual Dog Day Afternoon and Adoption Event - \$2,250 versus \$2,750; Delancey Street Christmas Tree Lot - \$4,250 versus \$8,250 (incremental increase); SF Baykeepers - Baykeeper Parade -\$650 vs \$2750 as described in the Memorandum dated July 3, 2019; now, therefore be it

RESOLVED, That the Port Commission hereby approves and adopts the Fiscal Year 2019-20 Monthly Rental Rate Schedule, Parking Rate Schedule, Special Event and Filming Rate Schedule, effective as of August 1, 2019, to be implemented by Port staff in connection with the delegated authorities as described in the Memorandum dated July 3, 2019 and approves the proposed fee waivers and fee reductions for certain special events as described in this Resolution; and be it further

RESOLVED, That the Port Commission hereby approves and adopts, as of July 1, 2019, the allocation of 6.5 percent of all Southern Waterfront lease revenue to the Southern Waterfront Beautification Fund; and be it further

RESOLVED, That the Port Commission delegates to the Executive Director, as a pilot program, the authority to reduce Special Event fees by up to 50% for nonprofit organizations meeting the criteria set forth in the Memorandum dated July 3, 2019; and be it further

- RESOLVED, That the Port Commission finds that the Fiscal Year 2019-20 Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule is equivalent to “Market Rent” as defined in Section 23.2 of the SF Administrative Code; 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 9, 2019.

Secretary