



Waterfront Plan Working Group
Land Use Subcommittee Meeting
Meeting Notes: March 22, 2017

Present: Alice Rogers (chair), Kirk Bennett, Jon Golinger, Jane Connors, Jasper Rubin, Corinne Woods

Not Present: Ellen Johnck, Ron Miguel, Dee Dee Workman, Karen Pierce

Other Working Group and Advisory Team Members Present: Adam Mayer, Tom Lockard, Howard Wong

Port Staff: Diane Oshima, Kari Kilstrom, David Beaupre, Brad Benson, Rebecca Benassini, Anne Cook, Jay Edwards, Norma Guzman, Byron Rhett

Agency Staff: Reid Boggiano (State Lands), Jamie Garrett (State Lands), Andrea Gaffney (BCDC)

Guest Consultants: Nancy Goldenberg (Carey & Co.), Jim Musbach (EPS), Ben Sigman (EPS), Amit Price Patel (SiteLab), Mary Smitheram-Sheldon (EPS)

1. Introductions and postponing of the consideration of [Revised Draft Policy Recommendations on Open Space Activation](#).

2. [Presentation](#) on Preliminary Results of EPS Financial Model Analysis.

- Link to [Presentation](#) and Link to [Presentation with Notes](#)
- The Port hired EPS Economic & Planning Systems (EPS) consultants to support the Land Use Subcommittee's discussion on financial feasibility and land uses on the Port's historic finger piers. The presentation described assumptions and inputs, and initial results of economic model analysis results. The goal is to better understand the financial requirements of rehabilitating piers on a short-term and long-term basis, for a pier in good condition, and in worse condition. The Port presented various public trust objectives which set a frame for different combinations of maritime, public access, historic preservation, seismic improvements and use programs on piers in the scenarios analyzed in the economic model.

Diane Oshima, Port Assistant Director of Planning

- Provided an overview of Port-wide properties that have been dedicated and/or improved for maritime, public open space, or public trust-consistent developments. The map indicates Port properties and finger piers that are vacant, need capital improvement,

or face unique economic/engineering challenges. Diane reviewed a matrix that describes public trust objectives for Embarcadero Historic District pier rehabilitation leasing and development projects ([see attached table](#)). These public trust objectives were the framework for pier re-use/ and development scenarios analyzed by the EPS consultant team. Different combinations of land uses, public benefits, levels of investment and lease terms deliver varying levels of public trust objectives.

Rebecca Benassini, Port Assistant Director of Development

- Reviewed the scope of EPS analysis, including:
 - Market survey to establish rental rate assumptions for variety of uses that could be included in pier leases and developments. Hotel use also was included in the market survey because it is a public trust use, although Proposition H prohibits hotels in piers
 - Categories of uses that vary by revenue generation potential, which were assumed in different combinations in pier re-use scenarios
 - Engineering cost estimates for pier substructure and superstructure (seismic) repair and utilities replacement, architectural restoration, for piers in better condition and in worse condition, to capture a range of possible pier improvement costs;
 - Description of three long-term (50-66 year) re-use scenarios and preliminary feasibility findings
 - Description of two intermediate-term re-use scenarios which assume partial facility repairs, that are still under review by EPS.

Ben Sigman, EPS Economic & Planning Systems

- EPS consulted with Moffatt and Nichol, an engineering consulting firm that provided pier repair cost estimates. EPS combined substructure costs with superstructure costs that were sensitive to San Francisco market-rate hard (construction) and soft (design, entitlement) costs. EPS incorporated certain off-sets to these costs, including 20% historic tax credits and infrastructure financing district funds. Assuming lower tenant improvements, the cost per square foot to repair was still high -- \$50-300/sf for partial-repairs (intermediate term) and roughly \$500-700/sf for full-rehabilitation (long-term leases).

Mary Smitheran-Sheldon, EPS Team – CBRE/Sedway Associates

- Mary described prevailing real estate market conditions for multiple submarkets along the waterfront. For the office market, vacancy rates are low overall in the waterfront area. Rents are strong, but because of increased subleasing and construction, rent growths have slowed. Rents range from \$24-54 per square foot. For retail, market demand and rental rates are location-sensitive; retail rents can be high in certain locations with high exposure and foot traffic along The Embarcadero, developed in limited amounts that would not occupy an entire pier shed. Because many industrial buildings have been converted to other uses, the demand for industrial space is high. Port piers support a full range of Production, Distribution, Repair (PDR) uses from storage, local maker manufacturers, to high tech R&D innovation shops. In the hotel market, EPS looked at comparable “luxury”

properties near the waterfront, and “upper upscale” properties in Fisherman’s Wharf, most of which enjoy very strong occupancy rates of 85% and room rates. Sedway also surveyed different types of “publicly-oriented” uses including museums, recreation, assembly and entertainment uses. It is difficult to establish market-data because these uses are unique. Of those surveyed, the rental rates are generally low.

Ben Sigman, EPS Economic & Planning Systems

- Market information feeds into the financial analysis, providing rental rates that determine operating income, which is compared with project costs, to determine whether there is revenue left for the Port after rehabilitating the pier, which would indicate a financially feasible project.
- Three long-term development scenarios (50-66 year term) were examined (see PowerPoint presentation) all of which deliver the most public trust benefits, which include full pier substructure and superstructure seismic upgrade and historic rehabilitation, maritime and/or public access use along [repaired] pier aprons, and visitor-serving retail in the bulkhead portion of the pier, adjacent to The Embarcadero. The three development scenarios assumed varying amounts of public-oriented (lower-revenue) uses and higher-revenue uses in the pier shed. Scenario 1, which assumed public-oriented uses in the entire shed would require an estimated subsidy of \$30 million for a pier in good condition, up to \$60 million for a pier in worse condition. Scenario 2, with about 55% public-oriented use in the pier shed essentially breaks-even for a pier in good condition and 15% for a worse condition pier. Scenario 3, which assumes high revenue (office) use in shed, would raise approximately \$2 million per year for a good condition pier and \$350 million per year for a worse condition pier in trust revenue to the Harbor Fund, the main source for Port capital investments.

Amit Price Patel, Site Lab Studios, and Nancy Goldenberg, Carey & Co.

- Goldenberg described site analysis to assess whether a finger pier could be altered to accommodate a hotel and also address Secretary of Interior historic rehabilitation requirements. The team evaluated constraints and opportunities with regard to rehabilitating a historic pier; some of the constraints, particularly historic character and defining features, are design opportunities as well.
- Patel presented a hotel program analysis that demonstrated a feasible layout that preserves the historic character-defining features. The length of the pier is a challenge for use, but the size could allow a variety of public uses, hotel rooms (200 rooms), and community rooms. Union Station in Denver provides an example of adapting an historic resource for hotel and a mix of restaurant uses. Further studies were recommended to examine structural, utility and flood protection improvement needs.

Intermediate Lease Terms

- Long-term development projects face long lead times, and not all piers can be redeveloped at once. The Port needs nimble leasing strategies to keep facilities rented and occupied with tenants, and to avoid vacancies, which invite safety and security risks

along the waterfront. Rising pier repair costs are driving the need for longer amortization periods and lease terms. About 55% of Port revenues come from short-term leases. While short lease terms allow more frequent opportunity to lease facilities to public trust uses, the Port is also more susceptible to vacancies during an economic downturn. More longer-term leases can help to diversify the Port's portfolio and strengthen its G.O. bond credit rating.

- EPS will be testing two intermediate-term lease scenarios and will present the results at the next Land Use Subcommittee meeting.

Questions/Comments



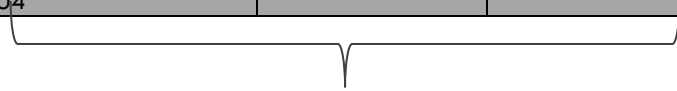
- Brighter, contrasting colors are suggested for Port-wide maps, which are difficult to read in the PowerPoint presentation
- We see the public trust objectives, but how do the Prop H requirements approved by voters factor in these objectives? Could the Port planning process incorporate public trust objectives and Proposition H objectives? Answer: Proposition H sets forth requirements to create a Waterfront Plan and defined acceptable uses, and prohibits hotels on piers, but it did not extinguish the Burton Act public trust requirements that apply to Port property. The public trust objectives provide an important framework to guide this EPS analysis, to examine potential pier rehabilitation scenarios that respond to these fundamental Port requirements.
- The Pier 24 Pilara museum is a desirable public-oriented use that is seismically retrofitted but limits visitor volumes by choice, without an entrance fee.
- Are there plans to develop an intermediate lease type? Yes, EPS is still examining these scenarios.
- Which two facilities provided the base for repair cost estimates for the pier in good condition and worse condition? Answer: Engineers looked at Pier 19 and Pier 38, to evaluate good and worse conditions, respectively. Generally, Piers 23 and 31 may be more similar to Pier 19 conditions; and Piers 26 and 28 may be more similar to Pier 38.
- The formerly proposed George Lucas Museum and the existing Chelsea Piers in New York City could be examples of assembly/cultural uses that could pay good rent. Could there be a closer look at revenue-potential for these types of projects?
 - Lucas Museum is quite unique, promoted by a wealthy-individual. We looked at the Exploratorium as a comparable use, but it is an established institution that had a strong capital campaign to raise over \$300 million.
 - The Chelsea Piers site is seeking rent reductions and rent abatement because of lower revenues and the cost of managing the piers. A Port intern carried out a mini case study on active recreation uses by reaching out to operators who were willing to share financial information. Port staff will conduct further research, including Palace of Fine Arts Request For Proposals for public oriented uses.
 - Active recreation uses tend to occur in warehouse buildings. Chelsea Piers had to layer-on higher revenue uses to carry the cost of lower-revenue uses (i.e. incorporate retail within and adjacent to the recreation).

- What rental rates are assumed for PDR uses? Answer: There are 2 types of PDR use assumptions: “typical” PDR users that pay \$2.50/ft., representing the bulk of the market; and a limited amount of “higher-end” production/design tech users that are willing to pay more for research and development space which is also considered PDR; this is a small segment of the market.
- What are the assumptions in the analysis about restaurant lease terms? Restaurants are typically subleased spaces in development projects, and would have a shorter-term than a master tenant that undertakes more structural repairs and oversees the leasing of smaller spaces. The respective rental rates and tenant improvement costs would then be recalculated based on the space’s unique set of conditions.
- Scenarios 1 and 2 require long-term leases and substantial process and commitment, which is difficult to do, given sea level rise considerations. Answer: yes, but scenarios do assume development partner would take on pier flood protection responsibility.
- Did the scenarios include flooding adaptation measure costs? Yes, they included minimal flood measures such as barriers around railings. We will do more research, but didn’t think it would affect costs now because the developer might implement those measures at a later date.
- Is there a window of time after which it would be difficult for tenants to enter a long-term lease due to sea level rise? We don’t know where that line is; today, there is still market interest in piers. The Port has included sea level rise provisions in recent leases which include a provision for the Chief Harbor Engineer to declare a property uninhabitable if flood protections are not effective, that may trigger lease termination.
- What would happen to existing Port leases in the event of a major earthquake? There are *force majeure* provisions which allow the termination of leases. We are starting the Seawall Resilience Project to be as prepared as possible before a major seismic event happens.
- Have you talked to the Golden Gate National Recreation Area staff about their experience rehabilitating Pier 31? I heard that this project had fire response access issues. Yes, this is one of many issues that will be further addressed as part of that project.
- The intermediate lease is not eligible for tax credit, so will this be factored in? Yes, we understand that intermediate leases leave tax credit money on the table and, yes, the costs will reflect no tax credit subsidies.
- Can you include apron repairs in scenarios? Yes, the long-term development scenarios include full apron repair; intermediate scenarios accounts for some apron repair.
- There was mention of maritime berthing tonight, but maritime also needs indoor warehouse space. Is maritime shed use included in these scenarios? Yes we are working with maritime staff and, from a rental rate perspective, maritime operations are assumed similar with warehouse/PDR uses. Maritime operations within the pier shed are included in the long-term scenario assumptions.
- I am concerned about amount of effort put into hotel use, but also concerned about safety, so will piers be fully rehabilitated for that use? Yes, full pier rehabilitation is assumed.

- Why wasn't residential use included in tonight's scenarios? Residential is not a public trust consistent use, particularly on a pier over water. Hotel use is a public trust use because it can be used by local residents and visitors.
- The Waterfront Plan and Burton Act only allow for long-term and short-term interim lease. The scenarios presented today appear to call for an intermediate-term. Will this require an amendment to the Burton Act? Interim leasing is not established in the Burton Act, but a policy issue for discussion with representatives from the State Lands Commission.
- To alter San Francisco's Proposition H requirements to allow hotel, the City would have to go back to voters.
- When you talk about PDR-office use mixes, are you referring to high-end PDR uses that pay good revenue? Yes, there are high-end PDR uses that can finance costly repairs.

Special "thank you" to State Lands staff, for attending the meeting.

Trust Objectives for Finger Piers

	Historic Preservation of the Trust Asset	Seismic/Life Safety Improvements to the Trust Asset	Exterior Public Access and/or Maritime	Trust revenue/ investment	Interior Uses Serving Trust Purposes – Quality*	Interior Uses Serving Trust Purposes – Quantity	Lease Term
 Most Desirable	Full historic rehabilitation to Sec. Int. Standards H1	Full substructure and superstructure repair and seismic upgrade S1	Full repair and improvement of apron for public access and/or maritime use A1	High yield uses	Traditional trust uses: maritime office, visitor-serving retail/restaurant, water-related recreation, public access U1	Entire bulkhead building and pier shed	Public use or no lease (Most flexibility to change uses)
	Partial historic rehabilitation (bulkhead only; or bulkhead + partial shed) H2	Superstructure repair, but no or partial substructure repair; partial seismic upgrade (joint at shed) S2	Repair and improvement substantial portion of apron for public access and/or maritime use A2	Medium yield uses	Public attraction uses: museum/gallery, regional-serving indoor recreation, entertainment, specialty (local/maker) retail/manufacture U2	Entire ground floor of bulkhead building; portions of shed and/or upper floor bulkhead	Short term (Flexibility to change uses)
	No rehabilitation, but tenant improvements, maintenance of some/all buildings H3	No major repairs or seismic upgrades, but tenant S3 improvements, maintenance of some/all buildings	Limited public access/maritime use, as can be supported by existing condition of apron with minor repairs A3	Low yield uses	General retail, institutional uses, government uses U3	Portion of ground floor of bulkhead.	Intermediate term (Less flexibility to change uses)
Least Desirable	Vacant, deterioration	Vacant, deterioration	No public access/maritime use of apron	Non-revenue generating uses	Private Uses (general office; R&D) U4	None	Long term (Least flexibility to change uses)
	 The level at which these objectives are set determines the required level of trust revenue/investment				 The required level of trust revenue/investment will allow Port to solve for the quality and quantity of uses serving trust purposes, for each category of lease term		