

Waterfront Plan Land Use Subcommittee

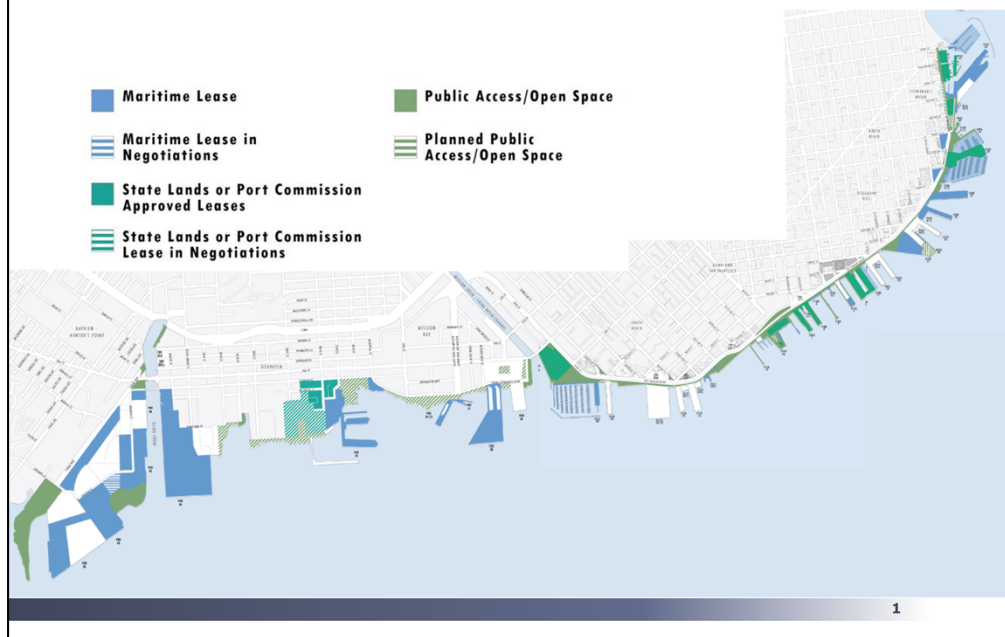
Feasibility Analysis: Historic Pier Rehabilitation



March 22, 2017

Bryan Allo
Photography

Land Use – Trust Consistent






Overview of Port properties committed and/or capital improvements for trust uses:

- Parks and waterfront public access
- Maritime and water-dependent facilities and operations
- Trust-consistent Maritime mixed use developments approved by State Lands Commission and Port Commission



Many of remaining Port properties facing substantial capital repair needs, vacancies, or development opportunities are located in the Embarcadero Historic District. The historic finger piers and bulkhead buildings are part of this National Register resource. The Ferry Building, Pier 1, Piers 1½-5, and the Exploratorium at Pier 15 have been successfully rehabilitated and reopened for public enjoyment, meeting National historic preservation standards. While precious, the remaining piers and bulkheads are old and require expensive repairs. The Waterfront Plan Update should include policies and strategies for repair, reuse and rehabilitation to optimize the remaining lifetime of these facilities, while also looking ahead to plan for sea level rise and waterfront resilience.

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	Full substructure and superstructure repair and seismic upgrade	Full repair and improvement of apron for public access and/or maritime use	High yield uses	Traditional trust uses: maritime office, visitor-serving retail/restaurant, water-related recreation, public access	Entire bulkhead building and pier shed	Public use, No lease (Most flexibility to change uses to meet trust objectives)
	Partial historic rehabilitation (bulkhead only; or bulkhead + partial shed)	Superstructure repair, but no or partial substructure repair; partial seismic upgrade (joint at shed)	Repair and improvement substantial portion of apron for public access and/or maritime use	Medium yield uses	Public attraction uses: museum/gallery, regional-serving indoor recreation, entertainment, specialty (local/maker) retail/manufacture	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	No major repairs or seismic upgrades, but tenant improvements, maintenance of some/all buildings.	Limited public access/maritime use, as can be supported by existing condition of apron with minor repairs	Low yield uses	General retail, institutional uses, government uses	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)	None	Long term (Least flexibility to change uses)
 <p>The level at which these objectives are set determines the required level of trust revenue/investment</p>				 <p>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</p>			

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This chart describes seven key categories that reflect the ways in which improvements to Embarcadero Historic District resources can deliver public trust benefits. Different facilities, pier condition, proposed uses, and public benefit improvements result in a variety of ways in which a project can provide public trust improvements; there is no one-size fits all approach. The matrix illustrates a spectrum of ways to achieve different public trust objectives at varying scales, with the top row representing the most desirable form of improvement, by category.

“Qualities” of uses can further trust purposes

- Serve or attract visitors from the broader region/state
- Water-dependent or oriented to the Bay
- Attract many (rather than few) people to the waterfront
- Provide opportunity to view/experience maritime historic architecture and maritime history

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Uses alone do not reflect whether public trust benefits will be achieved. The qualities of how uses are programmed, designed and operated, and how they enhance the architecture and reveal the Port's maritime history all play a part in determining how uses deliver public trust objectives.



Trust Objectives for Finger Piers							
PIER 1							
	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
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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			

Pier 1 development project achieved public trust objectives in the orange colored boxes.

Trust Objectives for Finger Piers							
EXPLORATORIUM, PIER 15-17							
	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
<div> <div>↑</div> <div>Most Desirable</div> </div>	Full historic rehabilitation to Sec. Int. Standards	Full substructure and superstructure repair and seismic upgrade	Full repair and improvement of apron for public access and/or maritime use	High yield uses	Traditional trust uses: maritime office, visitor-serving retail/restaurant, water-related recreation, public access	Entire bulkhead building and pier shed	Public use, No lease (Most flexibility to change uses to meet trust objectives)
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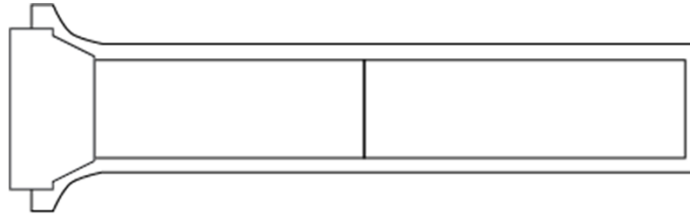
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The Exploratorium project delivered public trust benefits in a different manner from Pier 1. This illustrates how each development or Port project can achieve public trust objectives differently.

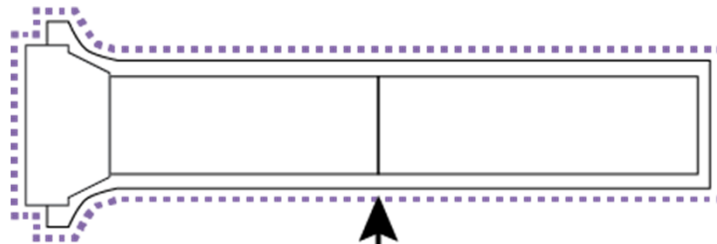
Trust Objectives for Finger Piers							
PIER 9 Leases (multi-tenant maritime + non-maritime)							
	Historic Preservation of the Trust Asset	Seismic/Life Safety Improvements to the Trust Asset	Exterior Public Access and/or Maritime	Trust revenue/ investment	Interior Uses Serving Trust Purposes - quality	Interior Uses Serving Trust Purposes – quantity	Lease Term
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	No rehabilitation, but tenant improvements, maintenance of some/all buildings	No major repairs or seismic upgrades, but tenant improvements, maintenance of some/all buildings.	Limited public access/maritime use, as can be supported by existing condition of apron with minor repairs	Low yield uses	General retail, institutional uses, government uses	Portion of ground floor of bulkhead.	Intermediate term for maritime (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)	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			

Pier 9 is a multi-tenanted facility managed by the Port, with maritime and non-maritime tenants. Even in shorter term, interim leases, the Port seeks to achieve public trust objectives.

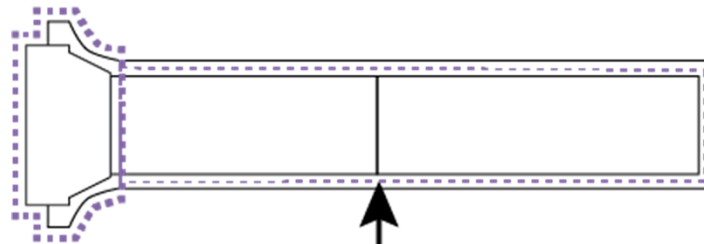
Historic Pier Rehabilitation: Objectives and Uses



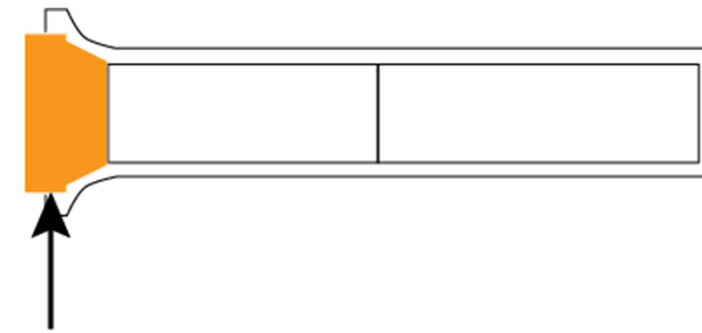
The following slides are to provide graphic representations to convey the public trust objectives described in the table.



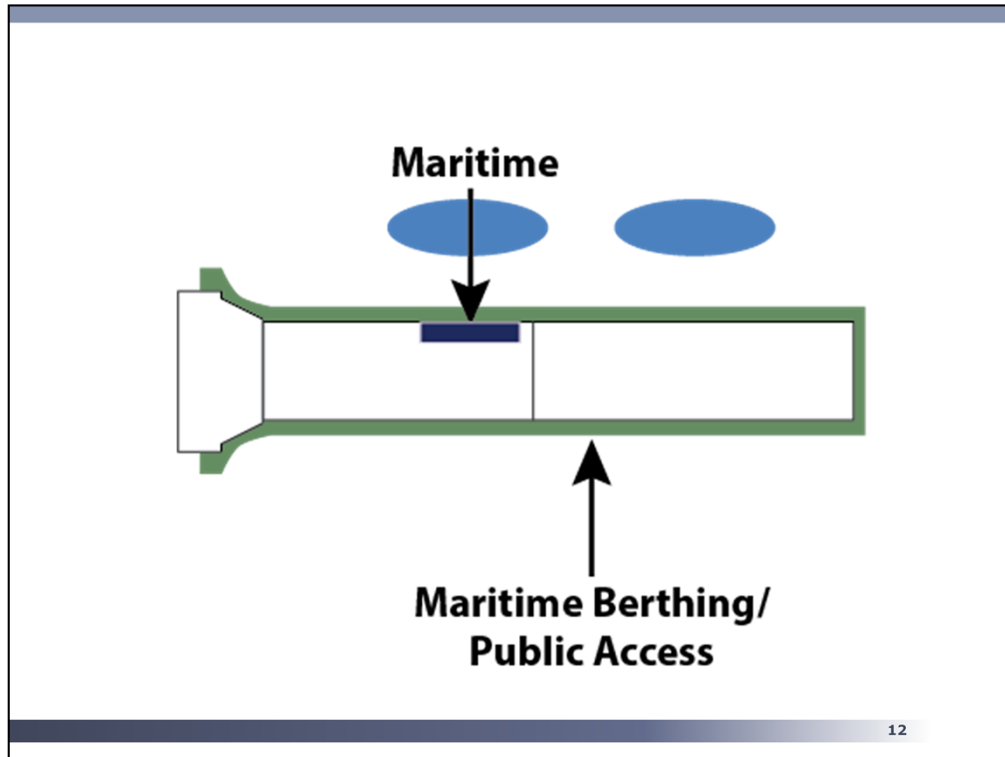
**Full Historic
Rehabilitation**

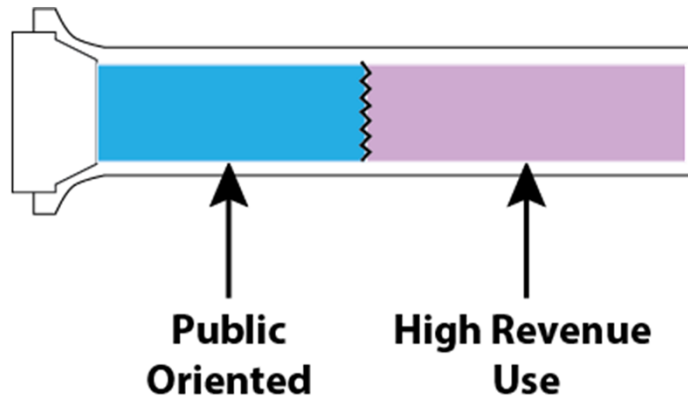


**Partial Historic
Rehabilitation**



**Visitor-Serving/
Retail**










Scope of the Analysis

- Analysis framework and “buckets” of **uses**
- Pier repair and rehabilitation **costs** (good and worse condition)
- **Market analysis** to set rental rate assumptions
- Review **scenarios** to be analyzed
 - Long-term/development leases
 - Hotel trust use layout/potential
 - Intermediate-term leases
- **Next Steps**

Analysis Framework and Use “Buckets”					
	Evaluation Metric	5-10 Yr Leases	Intermediate Term	50-66 Yr Leases	
Public Trust Benefits	Public access		☑	☑	
	Historic Rehabilitation		☑	☑	
	Seismic Superstructure		☑	☑	
	Seismic Substructure			☑	
	Seismic Seawall			☑	
	Revenues	☑	☑	☑	
Use Buckets	Maritime	Maritime berthing			
		Maritime storage/support			
		Recreational boating/Ferry/Water taxi			
		Commercial excursions			
	Commercial	Warehouse/ Storage	PDR	Public-oriented	
		PDR	Retail/Rest.	Event/ Entertainment	
		Retail/ Restaurants	Office	Museum/Cultural	
		Office		Retail/Restaurants	
		Parking		Hotel	Office
	Occupancy				

To briefly recap from a previous Land Use Subcommittee presentation, the Port hired EPS and its consultant team to analyze the financial feasibility of different mixes of uses for piers, for long-term and intermediate term leases. The longer the term of leases, the more ability to provide public trust benefits. The black check boxes in this chart indicate public benefits that can be achieved in the given timeframe; the grey check boxes indicate additional public benefit objectives that would be sought but not guaranteed.

The Use Buckets indicate use types that can be sought under short, intermediate, and long-term leases. Commercial uses are arrayed from top to bottom, ranging from low to high rental rates; maritime uses are sought in all types of leases, wherever feasible.



Pier Repair and Rehabilitation Cost Estimates

- Engineering
 - Substructure – Seismic repair
 - Superstructure – Seismic repair and utilities replacement
- Architecture
 - Historic features rehab. (windows, architectural details)
- Good condition and Worse condition



Pier Repair and Rehabilitation Cost Estimates

- Engineering
 - Substructure – Seismic repair
 - Superstructure – Seismic repair and utilities replacement
- Architecture
 - Including historic features (windows, doors)
- Estimates for Piers in Good condition and Worse condition

Cost Estimates - Preliminary

Cost Item	5-10 Yr	Intermediate Term		Long-term Lease	
		<i>Mid-range Investment</i>	<i>High-range Investment</i>	<i>Better Condition</i>	<i>Worse Condition</i>
Substructure Repair, Seismic, Apron	\$0	\$0	\$25.0	\$27.9	\$37.8
Superstructure Repair and Seismic	0	3.0	3.0	21.1	43.7
Utilities	0	2.0	2.0	11.6	11.6
Tenant Improvement	0	0	0	3.8	3.8
Soft Costs	0	0	0	19.6	26.1
Other Costs	0	0	0	7.7	9.7
Total Costs	\$0	\$5.0	\$30.0	\$91.8	\$132.6
\$/Sq.Ft.	\$0	\$50	\$300	\$610	\$880

Net Costs - Preliminary

Net Costs	5-10 yr	Intermediate Term (~100,000 Gross leasable)		Long-term Lease (~150,000 Gross leasable)	
		<i>Mid-range Investment</i>	<i>High-range Investment</i>	<i>Better Condition</i>	<i>Worse Condition</i>
Total Costs	\$0	\$5.0	\$30.0	\$91.8	\$132.6
(less) Historic Tax Credits	\$0	0	0	(14.2)	(21.3)
(less) IFD proceed	\$0	0	0	(8.5)	(12.2)
Net Cost	\$0	\$5.0	\$30.0	\$69.2	\$99.0
\$/Sq.Ft.		\$50	\$300	\$460	\$660



Real Estate Market Assessment

Waterfront Submarkets

- Waterfront/North Beach
- Jackson Square
- Financial District
- South Financial District
- Rincon/South Beach
- Mission Bay/China Basin
- India Basin

Land Use Types

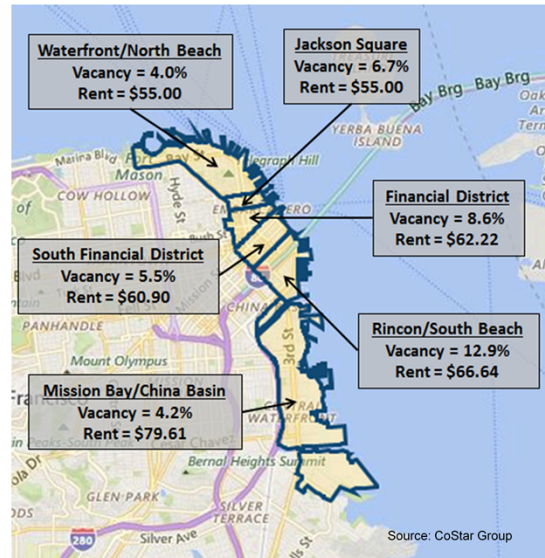
- Office
- Retail
- Industrial/PDR
- Cultural/Public-Oriented
- Hotel

Market Study Goal: Assess rents and other market factors to inform potential mix of uses



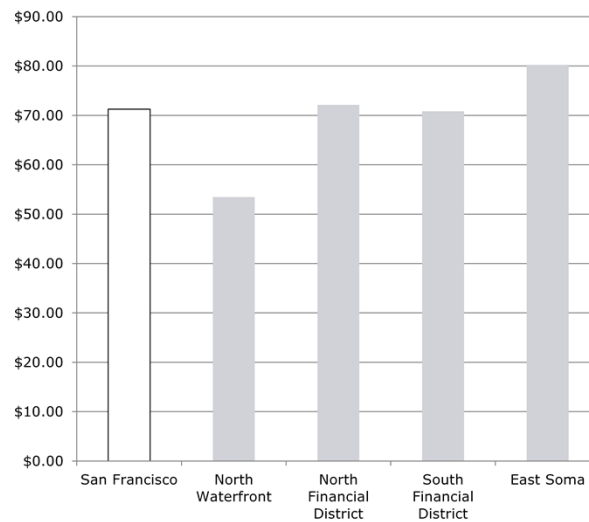
Class A Office Rents and Vacancy by Submarket

- Highest waterfront rents in Mission Bay/ China Basin and Rincon/South Beach
- Lowest waterfront vacancy rates in Waterfront/North Beach and Mission Bay/China Basin



Class A Office Rents Cushman & Wakefield Perspective

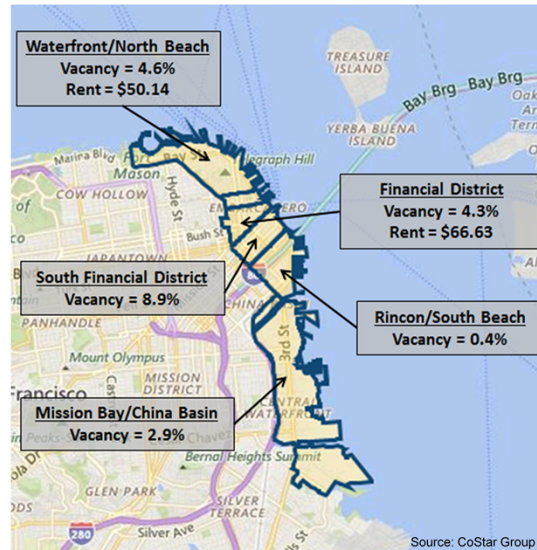
- C&W data reveal somewhat higher rent potential
- Trend data indicate average asking rents have continued to increase but **rent growth has slowed in recent years**



Source: Cushman & Wakefield

Retail Rents and Vacancy by Submarket

- Relatively high vacancy rate in South Financial District
- Very low vacancy rate in Rincon/South Beach
- According to C&W, citywide vacancy and rents remain strong:
 - Rent = \$58.70
 - Vacancy = 2.4%

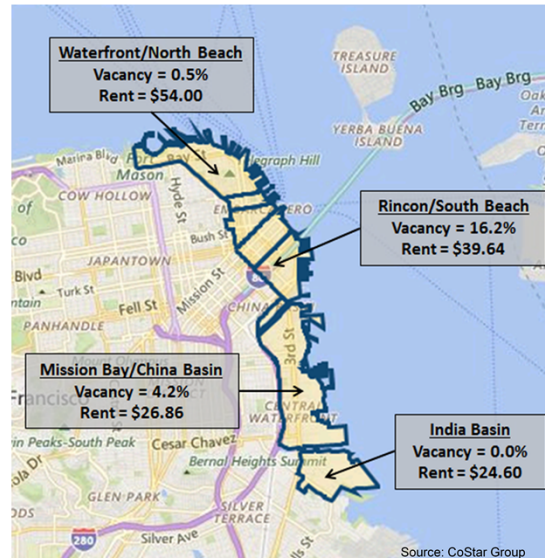


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Retail (including restaurant) uses, types and rental rates are highly location-specific, and limited in the amount of square footage that can be developed in any given site.

Industrial/PDR Rents and Vacancy by Submarket

- Rents by submarket range from \$24-\$54 (full service)
- Rents are highest in the Port's northern submarkets
- Limited inventory available overall
- According to KM, citywide Rental Rate \$18 (NNN)



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Production, Distribution and Repair (PDR) cover a broad range of industrial activities, ranging from basic warehouse storage of goods, to light manufacturing, assembly and repairs, to high-tech based design and innovation research and development, which can pay relatively high rental rates. Thus, rental rates range from \$24 to 54/s.f.

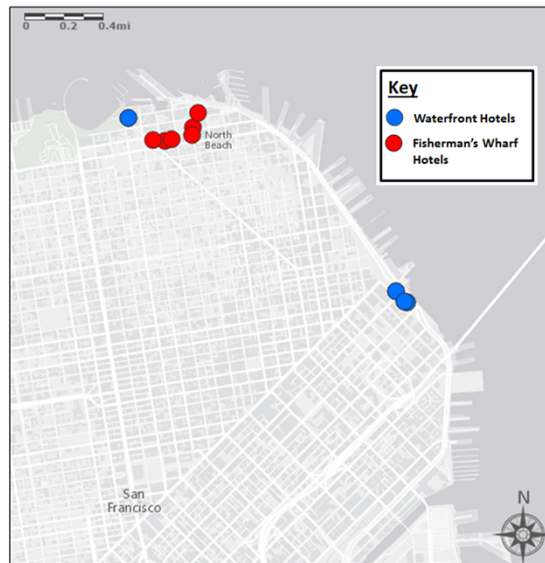
Waterfront Hotel Market

Competitive Set

“Upper Upscale” Hotels

Group 1
4 Waterfront Hotels

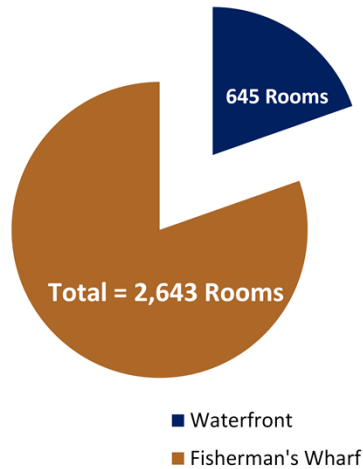
Subgroup 2
4 Waterfront Hotels
+ 7 Hotels in Fisherman’s Wharf



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EPS included consideration of hotels in the market survey because it is a public trust use, although currently prohibited on Port piers under Proposition H. The hotel market survey included luxury and upscale hotel markets in the waterfront area.

Hotels in the Competitive Set



Waterfront Hotels:

1. Argonaut Hotel
2. Harbor Court Hotel
3. Hotel Griffon
4. Joie De Vivre Hotel Vitale

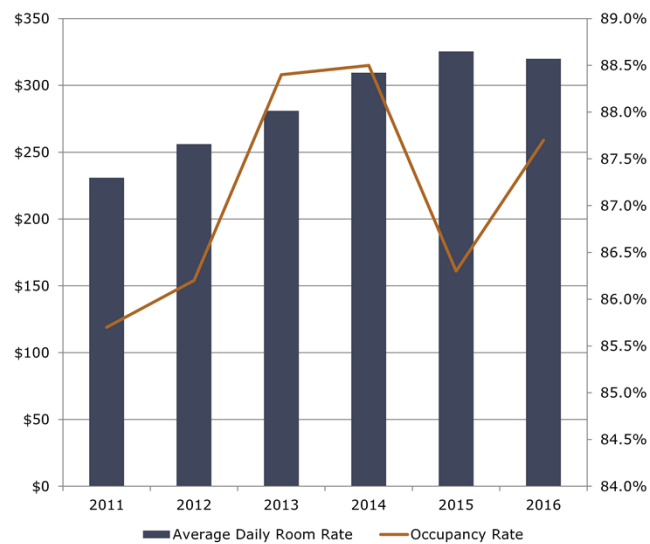
Fisherman's Wharf Hotels (subgroup):

1. Hotel Zephyr
2. Marriott SF Fisherman's Wharf
3. Sheraton Fisherman's Wharf Hotel
4. The Wharf Inn
5. Hyatt Centric Fisherman's Wharf Hotel
6. Pier 2620 Hotel Fisherman's Wharf
7. The Tuscan Fisherman's Wharf

Source: STR Report

Waterfront Hotel Room Rates and Occupancy

- Occupancy rates remain very strong at **over 85%**
- Room rates beginning to taper off
- Waterfront hotels have a robust average daily room rate of about \$320



Source: STR Report

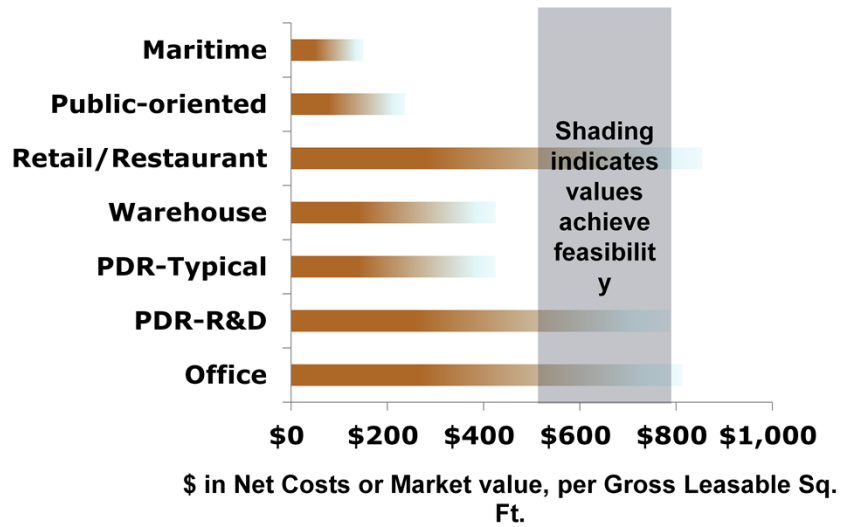
Cultural / Public-Oriented Uses

- Space Usage Concepts include:
 - Public-oriented
 - Recreation
 - Museum
 - Assembly
- Significant variation in use concepts
- Projects likely to be one-of-a-kind use concepts
- Cultural/Public-oriented uses are not “commodity” real estate assets; market data assessment and valuation is challenging

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EPS also includes “Publicly-oriented” cultural, recreational, and assembly types of uses in its market survey. These activities vary widely, and do not subscribe to standardized characteristics like for office, hotel or retail. The uses researched for the survey pay relatively low rental rates.

Long-term Development Costs and Revenues Compared





Feasibility Analysis – Test Scenarios

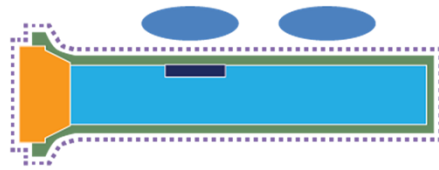
- Public-Private Partnership model
- Long-term Leases
 - Max Trust/Public-oriented use (subsidy)
 - Financially feasible Trust/ Public-oriented use (no subsidy)
 - High-revenue use → Produce Harbor Fund revenues



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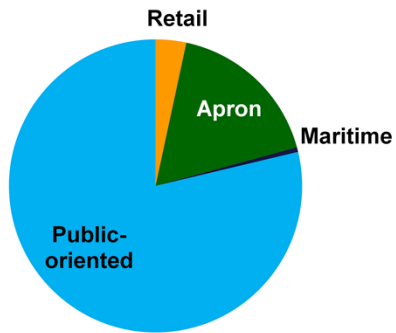
Three initial scenarios analyzed by EPS are long-term development programs, assuming a public-private partnership model. The use programs were analyzed for a pier in good condition, and a pier that is in worse condition. The analysis thus took into account differing repair/rehabilitation costs and revenues to determine whether they were financially feasible and, if so, estimated annual revenues generated for the Harbor Fund, to support capital improvements Port-wide.

Scenario 1: All Trust/ Public-oriented Uses



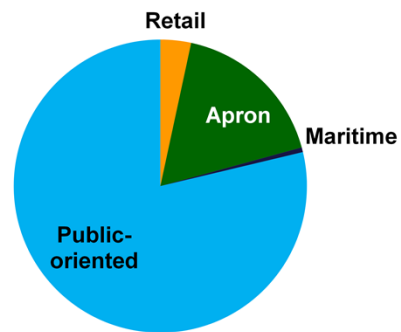
Good Condition Pier:

Requires ~ \$30M Subsidy

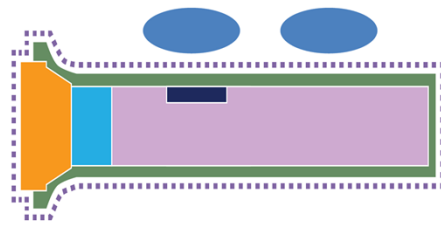


Worse Condition Pier:

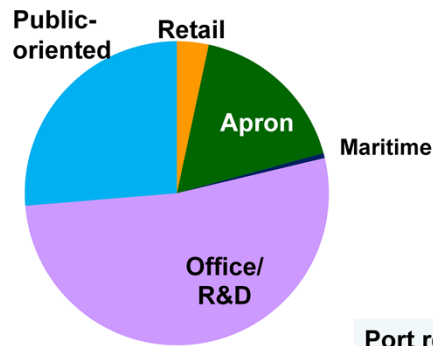
Requires ~ \$60M Subsidy



Scenario 2: Feasible public- oriented use program

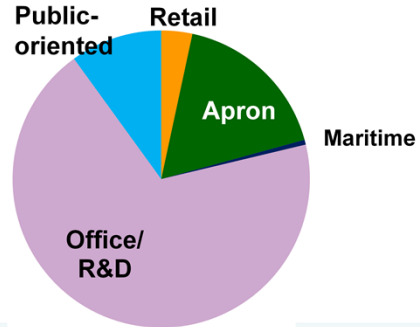


Good Condition Pier



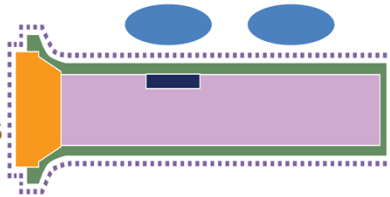
Port rent:
\$100K/yr

Worse Condition Pier

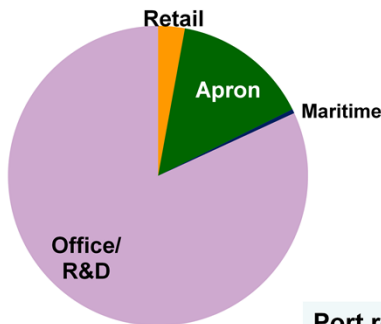


Port rent:
\$100K/yr

**Scenario 3:
Maximize Revenues for
Port-wide Capital Improvements**

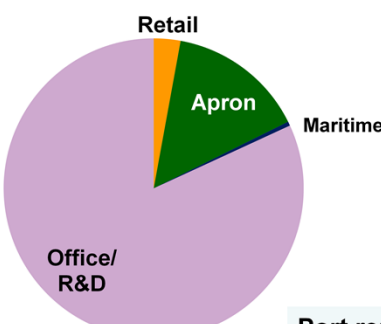


Good Condition Pier

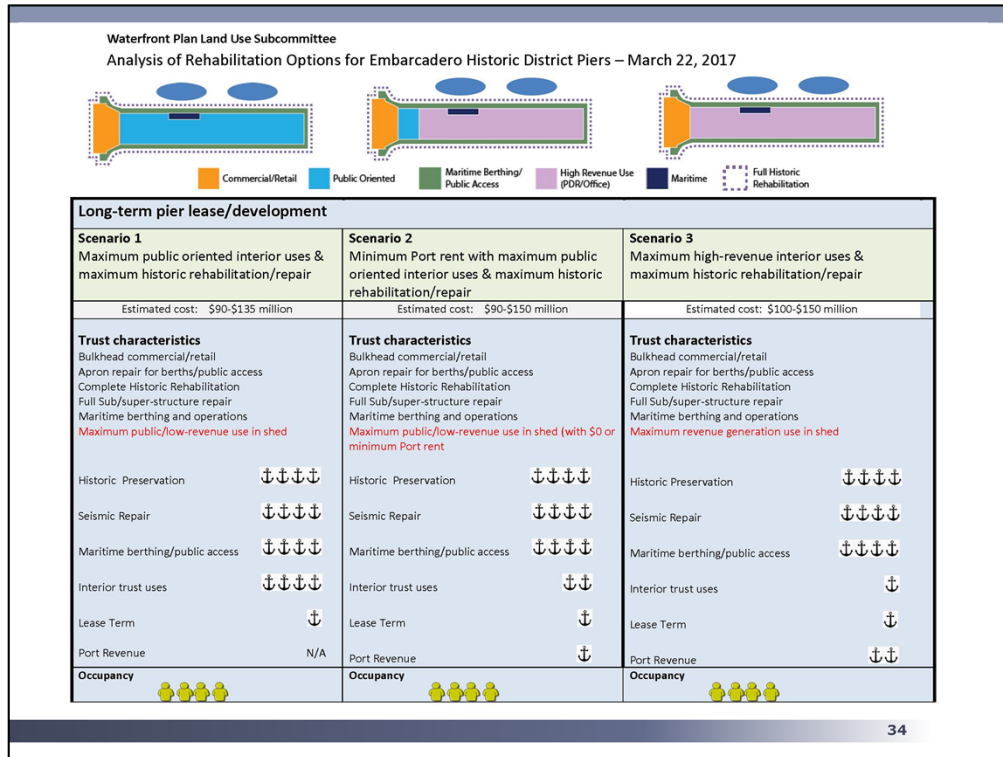


Port rent:
\$2M/yr

Worse Condition Pier



Port rent:
\$350K/yr



This comparison chart conveys the public trust improvements and benefits, as outlined in the previous public trust objectives matrix earlier in the presentation, and a scorecard to reflect the relative value in each trust category. A 4-anchor represents the highest public trust value.

Hotel Physical Feasibility Test

Constraints

- Historic character defining features
- Pier length
- Light

Opportunities

- One-of-a-kind location
- Spectacular views
- Water access

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The EPS team includes SiteLab urban designers and Carey and Company historic architects who conducted analysis to determine that it is possible to adapt a historic finger pier for hotel use, and still respond to Secretary of Interior Standards for historic rehabilitation. EPS will analyze and present the financial feasibility of a hotel-based scenario at a future Land Use Subcommittee meeting.

PRELIMINARY HISTORIC RESOURCES ANALYSIS

CONSTRAINTS

CHARACTER DEFINING FEATURES
TO BE RETAINED

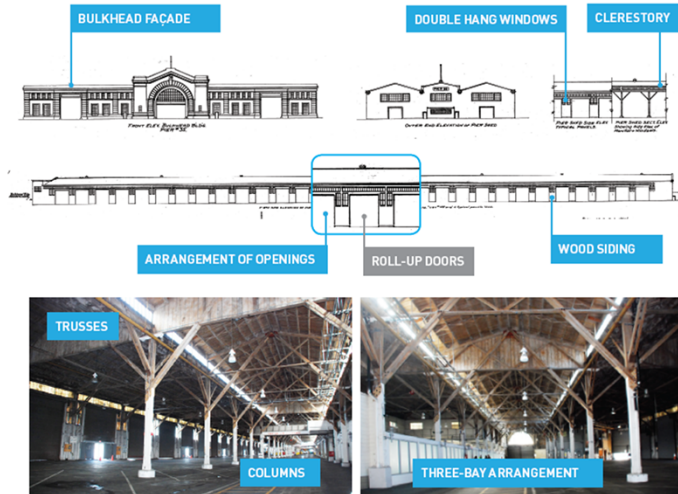
EXTERIOR

- THE BULKHEAD FAÇADE
- HORIZONTAL WOOD SIDING
- MULTI-LITE DOUBLE HUNG AND CLEAR STORY WINDOWS
- ARRANGEMENT OF OPENINGS
- ROLL-UP DOORS (POTENTIAL)*

INTERIOR

- TRUSSES
- COLUMNS WITH DIAGONAL STRUTS
- THREE BAY ARRANGEMENT
- MEZZANINE WALKWAY ALONG THE SOUTH SIDE OF PIER SHED (UNIQUE TO PIER 35)*

*DENOTES FEATURES THAT POTENTIALLY NEED TO BE
RETAINED OR THAT ARE UNIQUE TO PIER 35



WLUP FEASIBILITY ANALYSIS March 6, 2017

EXAMPLE MODIFICATIONS TO INTERIOR SPACE

PIER 9

MIXED-USE BUILDING

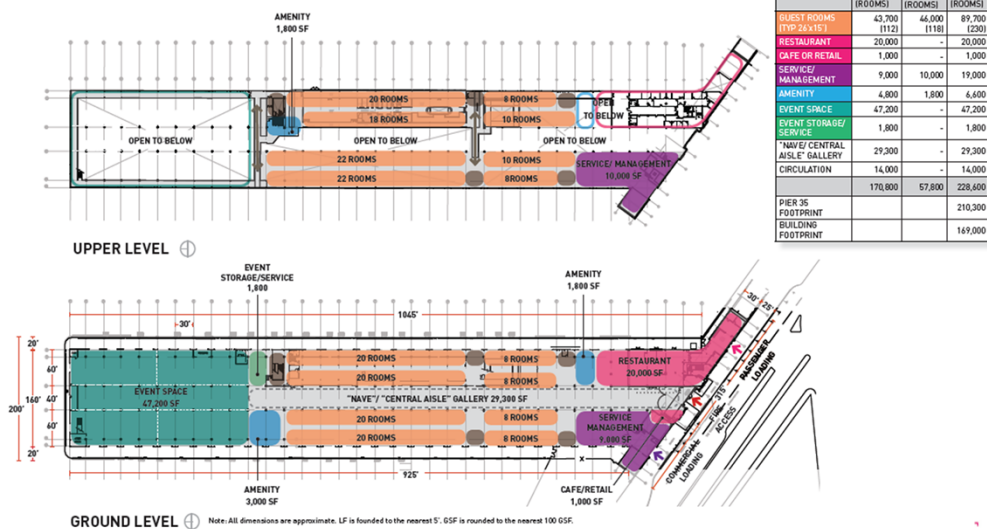
- EXPOSED STRUCTURE AT CENTRAL AISLE
- CLERESTORY BRINGS NATURAL LIGHT INTO THE CENTRAL AISLE
- TWO STORY OFFICES LOCATED WITHIN THE SIDE AISLES.
- UNDERUTILIZED SPACE AT THE END OF THE PIER



WILLIAM PIER 9 MIXED-USE ANALYSIS March 6, 2017

SITELAB
LIVING LABS

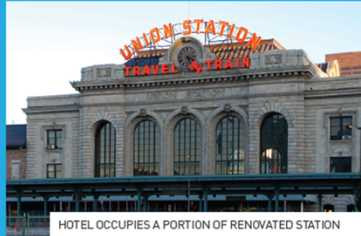
POTENTIAL HOTEL LAYOUT ON PIER 35



WLUP FEASIBILITY ANALYSIS March 6, 2017

SITELAB
DESIGN

PRECEDENT - HOTEL USE OF HISTORIC STRUCTURES



HOTEL OCCUPIES A PORTION OF RENOVATED STATION



HOTEL FEATURES STATION'S HISTORY

GUEST ROOMS FACE LOBBY/MAIN TERMINAL



STATION REBUILT IN 1914, HOTEL RENOVATED IN 2014



TOTAL 112 ROOM, EACH WITH HIGHLIGHTS OF HISTORIC ELEMENT

CRAWFORD HOTEL - UNION STATION, DENVER

WLUP FEASIBILITY ANALYSIS March 6, 2017

OTHER FACTORS TO CONSIDER

TOPICS THAT REQUIRE FURTHER STUDIES

- SEISMIC UPGRADES
(PIER BUILDING AND SUBSTRUCTURE)
- BUILDING RESILIENCY AGAINST SEA LEVEL RISE
(PIER BUILDING AND SUBSTRUCTURE)
- UTILITY UPGRADE
- MEP UPGRADE
- FIRE ALARM & SPRINKLER SYSTEM UPGRADE
- INSULATION OF THE BUILDING
- FIRE ACCESS
- ACCESSIBILITY
- SUSTAINABILITY



WLUP FEASIBILITY ANALYSIS March 6, 2017

SITELAB
LIFE CYCLE ANALYSIS



Intermediate Lease Term

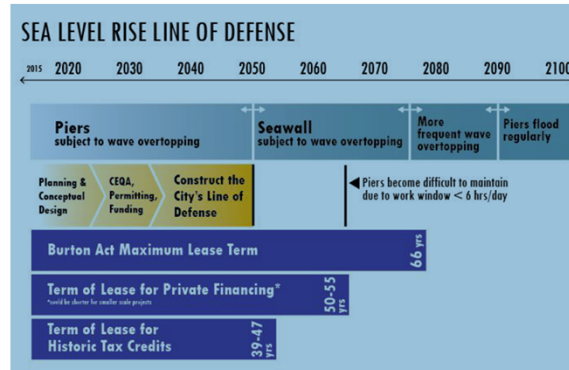
Rationale to Analyze Intermediate Lease Terms

- Long lead time for long-term leases
- Port RE leasing needs:

+ SLR

+ Pier deterioration

= Need for more nimble leasing and capital investment strategies



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EPS also is preparing further economic feasibility analysis of intermediate lease scenarios, to be presented at the April 12th Land Use Subcommittee meeting. Long-term development projects take years to complete, and the Port needs to maintain ongoing leasing, management and improvement of its properties in the meantime. The Port also seeks effective leasing strategies to manage facilities in the face of growing flood risk from sea level rise, which is a growing constraint on the 50-66 year leases for long-term development. Given the age and increasing repair costs, the EPS analysis will examine the lease terms needed to amortize the cost of improvements for 2 intermediate lease term scenarios.

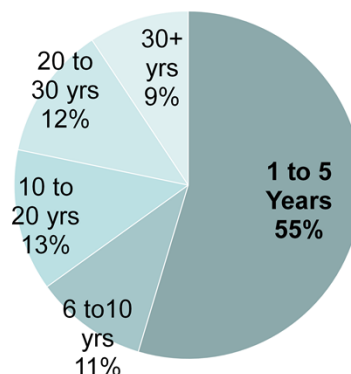


Intermediate Lease Term

Benefits over short-term lease drawbacks:

- Typically low-revenue storage uses
- Limited/no pier repairs
- More exposure to market downturns
- Diversifies and strengthens Port's revenue streams; 55% of Port lease revenue from 0-5 year leases

Port Revenue, by Lease Term

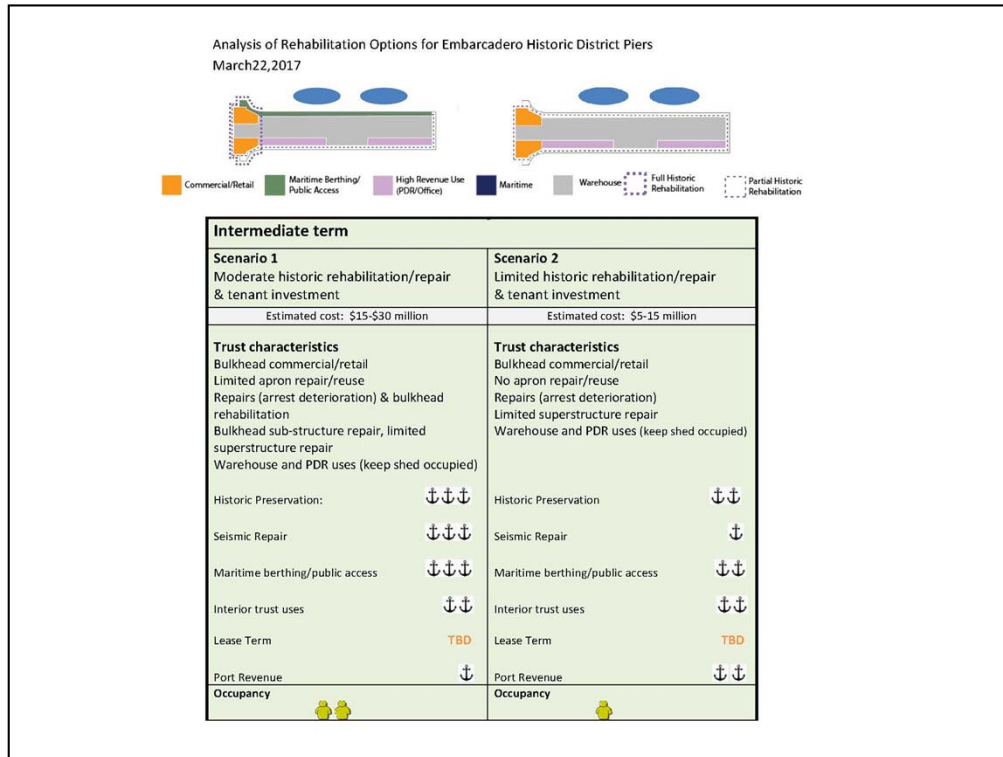


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Over half of Port leases are for 5 years or less. While this provides flexibility to the Port for different tenant opportunities, short term leases generally do not deliver repairs or improvements that extend useful life, and increases exposure to vacancies during down markets and less stable revenue stream.

Intermediate Lease Term Scenarios

- \$5M to \$30M pier investments tested
- Scenarios assume Tenant(s) make investment
- Research underway relative to:
 - Bank loans to Tenants for leasehold improvements
 - Real estate brokers, to identify tenant types with wherewithal to undertake these investments



EPS will study 2 intermediate-term lease scenarios. Both assume higher-revenue retail uses in portions of bulkhead and limited amount of PDR/R&D tenants in portions of the pier shed. All repairs comply with Secretary Standards for historic rehabilitation:

Scenario 1 – higher investment assumed includes a seismic joint between the bulkhead and pier shed, to allow a modest increase in occupancy in the bulkhead and shed; public access/maritime berthing improvement on one of the aprons.

Scenario 2 – lower investment provides for some building shell improvements (e.g. repairs, a new roof) without increasing occupancy. In addition to revenue, Port seeks to keep buildings filled to protect against accelerated deterioration, vandalism and security threats in vacant facilities.



Next Steps

Questions & Discussion

April 12th Land Use Subcommittee Meeting:

- Complete analysis for Intermediate-term Lease and Hotel scenarios
- Continuation of Leasing and Development Discussions, including State Lands Executive Officer Jennifer Lucchesi

Land Use – All

