



**Waterfront Plan Working Group  
Land Use Subcommittee Meeting**

Meeting Notes: April 12, 2017

**Present:** Alice Rogers (chair), Kirk Bennett, Jane Connors, Jon Golinger, Ellen Johnck, Ron Miguel, Stewart Morton, Don Neuwirth, Jasper Rubin, Corinne Woods, Dee Dee Workman

**Not Present:** Lawrence Beard, Karen Pierce

**Other Working Group and Advisory Team Members Present:** Earl James, Tom Lockard, Ellen Lou, Max Lowenstein, Adam Mayer, Nathan Nayman, Amy Patrick, Anthony Veerkamp

**Port Staff:** Diane Oshima, Kari Kilstrom, David Beaupre, Rebecca Benassini, Anne Cook, Jay Edwards, Elaine Forbes, Aaron Golbus, Norma Guzman, Byron Rhettt, Ming Yeung

**Agency Staff:** Jennifer Lucchesi (State Lands), Reid Boggiano (State Lands), Andrea Gaffney (BCDC), Ethan Lavine (BCDC), Suzanne Loosen (SF Environment), Eileen Malley (City Attorney)

**Guest Consultants:** Jim Musbach (Economic Planning Systems, EPS), Ben Sigman (EPS), Lynn Segway (Sedway Associates, CBRE)

1. Introductions and acceptance of Draft Meeting Notes from the [March 15](#) and [March 22](#) Land Use Subcommittee meetings (final versions here: [March 15](#) and [March 22](#)).
2. Acceptance of [Draft Open Space Policy Guidance Recommendations](#)
3. Presentation and discussion of results of [Feasibility Analysis: Historic Pier Rehabilitation](#).
  - Diane Oshima summarized the public trust objectives chart which describes different categories for achieving various types of public trust benefits in leases and development projects. She invited questions from the subcommittee and meeting attendees about these objectives and received none.
  - Rebecca Benassini provided a brief recap of EPS economic consultant analysis of long-term development scenarios presented at [March 22, 2017 Land Use Subcommittee Meeting](#), and then turned focus on economic analysis of leasing scenarios with lease terms of over 10 years (“intermediate” terms).
  - Long-term leases/development scenarios support seismic retrofit of bulkhead and pier shed structures, and full suite of public trust benefits. Short-term leases generate trust revenues, but the short lease duration makes financing or amortizing any significant investment in repairs or improvements economically unfeasible and so deterioration of the historic structure may be slowed but not stopped. Intermediate lease terms allow the Port and/or tenant to invest in facility repairs and improvements, including possible seismic retrofit of bulkhead buildings, but not pier sheds. Pier shed leases must be managed so

that the occupancy of a facility overall complies with industrial occupancy under Port Building Code and does not trigger a requirement for seismic upgrade of pier shed substructure. This restricts the amount of floor area that can be used for higher occupancy uses, including public-oriented activities. The industrial occupancy standard does allow limited areas (20,000 to 40,000 s.f. of a typical 100,000 s.f. pier shed was assumed) for some higher intensity PDR/research and development tenancies that can generate high revenue, with the rest of the shed used for low-occupancy, lower revenue industrial storage leases, including maritime supplies.

- Two intermediate lease scenarios were analyzed, illustrating how the Port could lease an entire facility to a master tenant to take responsibility for repairs and improvements (\$15-30 million investment assumed) and sub-leasing of a pier facility, vs. a scenario where Port makes capital investments in the pier (\$5-15 million investment assumed) and manages tenant leasing. Public-oriented use in the bulkhead buildings is assumed in both scenarios, and 20,000 to 40,000 square feet of the pier shed are assumed to have high revenue PDR/R&D uses with higher tenant improvement costs and rental rates, requiring lease terms up to 35 years; the rest of the pier shed are assumed to have low-occupancy industrial storage (which could include maritime tenancies) with shorter lease terms. The more investment in Port property, the longer the lease term required while still allowing a minimum base rent to Port. EPS research with lenders indicate potential loan risk associated with seismic risk exposure for intermediate lease terms, which could then add an additional 5-10 years to required lease term beyond the period needed to amortize improvements; some lenders also could require earthquake insurance.
- Jennifer Lucchesi, State Lands Commission (SLC) Executive Officer described that the Port has been discussing leasing needs, including longer lease terms, with State Lands over the last 10 years. In general, SLC encourages interim leasing to support revenue generation and facility occupancy; based on consultation with State Attorney General, interim lease terms typically are 1-10 years. SLC requested that the Port demonstrate why longer lease terms and leasing flexibility is needed. The EPS analysis is instructive and educates SLC about challenges, tradeoffs and leasing and asset management options. SLC has established rules and conventions for administering public trust-consistent leases and projects, but recognizes that the public trust doctrine evolves. The Embarcadero Historic District presents unique needs and challenges, and there is nothing like the San Francisco waterfront elsewhere in California. SLC review includes consideration of precedents, but also considers unique situations. Given these specific trust management challenges and the analysis, if there's agreement that the commitment to preserve and rehabilitate Embarcadero Historic District piers and structures is an important priority for San Francisco and the State (possibly including the State Legislature), SLC understands the need to agree on tradeoffs to balance trust needs to achieve that objective.

## Responses to Questions

- How does occupancy work? How many people can be allowed in a pier? Occupancy standards are set by the Port Building Code, and administered by the Port Engineering and Building staff when reviewing specific use proposals and plans. Piers were built for industrial warehouse uses which are rated at lower occupancy of workers and visitors than public-oriented oriented uses. Given the age and varying conditions of piers, occupancy assessments occur on specific-project basis; there is no one-size-fits-all approach, but EPS analysis was structured to show how pier condition (“good” condition vs. “worse” condition) affects financial feasibility of reuse strategies. The intermediate lease scenarios assume that pier sheds remain at current industrial occupancy standards, which can accommodate 20,000 to 40,000 s.f to be improved for higher occupancies if the remainder of the shed is managed for lower occupancy storage uses. For the bulkhead buildings, both scenarios assume public-oriented uses can be accommodated, but Scenario 1 assumes the bulkhead is seismically upgraded and supports high visitor volume public-oriented uses; Scenario 2 does not assume seismic upgrade of the bulkhead building.
- Are some of these scenarios presented today doable? Intermediate leasing seems like a logical next step. Has there been demand for them? Yes, Port has received inquiries, and EPS market survey indicates tenant interest for lease of improved space in the piers if longer lease terms are allowed.
- Which long-term development scenario would represent the Pier 15 Exploratorium project? Scenario 1, which represents a public-oriented use, maritime and public access program for the entire pier; in this case, Exploratorium’s Board demonstrated high fundraising capability to finance the pier seismic upgrade and improvements.
- Are piers in different conditions? Some worse than others? Yes, Port Engineering manages a rapid condition assessment program to track pier condition and repair improvements needs.
- Can these examples be made less abstract? Can we see examples like Pier 29 and America’s Cup? Can you make up a project so that we can relate to more readily? The matrix is thoughtful, but should be more accessible. Port staff will work to provide clearer examples of these scenarios.
- Which piers are in better condition? Generally, the even numbered piers south of the Ferry Building are in worse condition, and piers north of Ferry Building are in better condition. We can come back at next meeting with more pier condition information.
- Have there been short-term tenants making million-dollars worth of investments to repair facilities? No, tenants cannot secure bank loans for that amount for a 5-year lease. There

are a very small number of tenants that are self-financing who have been able to afford million-dollar investments on their own and are not subject to standard loan requirements.

- Can State Lands representatives present today share their initial thoughts about this leasing juncture? State Lands has seen the Port implement several successful projects, such as Pier 15-17 Exploratorium. The economic analysis presented in these meetings highlights the complexities and competing needs which was not previously understood. “Balancing tradeoffs” is a good way to describe the situation. If a goal is to preserve the historic piers for the public trust, more flexibility may be necessary. The Embarcadero waterfront is unique in the state.
- Pier 1 is private office use for the most part. If we made all of these piers into offices, is that a win? Long-term development leases deliver full seismic rehabilitation, public access and maritime benefits, more than short-term or intermediate term leases. However, high revenue uses such as office and high revenue PDR uses are needed to financially support public trust improvements. This illustrates how balance of public trust objectives and trade-offs need to be considered for the finger piers.
- How will seismic upgrades and Seawall improvements align with each other? The Port will be issuing an engineering and planning RFP soon to develop a program and the first phase of improvement for the Seawall Resiliency Project. The Seawall will be improved in phases over time, and will require continued public engagement to build on the work from the Waterfront Plan Update public process to implement improvements, which will include sea level rise design and public amenities. This work will inform and be closely coordinated with future pier projects. The Port Commission has recently started including language in leases acknowledging the need for Port and tenant coordination regarding seawall repairs and improvements.
- When are historic tax credits triggered? \$35 million in revenues seems to be the target for seeking tax credits.
- It would be helpful to see alternative options for saving piers, even if some of them compete with each other. We should also use the Guiding Principles to guide the process. The EPS analysis provides 5 scenarios for partial to full seismic upgrades and repairs, maritime, public access and historic preservation improvements. This was intended to reflect different alternative approaches for the Land Use Subcommittee and Working Group members to consider.
- The Ferry Building seems to be between Long-term Development Scenario 2 and 3, is this the case? The Ferry Building provides a high level of trust benefits, but carries high operational costs and has not generated high rental revenue. However, leases can be sold which provides sale proceed revenue benefits.

- It would be helpful to use real people counts to measure the scope of public trust benefit in a project, for example, “100,000 users per year will come to site X.” At a previous meeting someone suggested considering use counts for special events and cultural events as ways to measure how many people would benefit from public trust uses. This would be difficult to manage, given variability of size and scope of special events, and difficulty predicting outcomes.

## Comments

- Pier 1 ½ , 3 and 5 seem like real-life examples of Scenario 1.
- America’s Cup occupied some of the piers for a lengthy time, but did not trigger changes. What rules govern temporary occupancy?
- America’s Cup was a temporary use of the piers.
- The Port buildings were built before earthquake codes and they can continue to perform with the same industrial occupancy load. But if we intensify uses, we will have to improve them to current building code seismic standards. We need revenue to help stop deterioration, and we have a challenge in getting a long term leases because of the deterioration.
- Tradeoffs are considerations, but if we think of the Port as a landowner, then we have a mismanaged situation given that more than half of the leases are for short terms.
- (Lynn Sedway): Agree. Too many short-term leases do not make a good long-term management strategy. There should be more longer-term leases to provide a more stable revenue stream. The cost estimates, rental rates, lender financing challenges are all valid. Despite the high risks, everyone acknowledges the valuable and unique properties at the Port.
- I would like to test this analysis with the Maritime Commerce Advisory Committee. I know two maritime tenants who would like longer term leases in order to be able to finance improvements.
- At our May 10 Land Use Subcommittee meeting, we will continue this discussion. What we are tasked with is discussing a unique irreplaceable segment of the waterfront, and the first responsibility is to save it for future generations. Unlike the first Waterfront Plan group, we have to do some problem-solving to activate and save assets.
- Warehouse and maritime uses seem interchangeable, but we do not know what the maritime industry will demand in 30 years. The scenarios should reflect potential for maritime warehouse and back-of-house operations in pier sheds, not only general warehouse.
- City has overlaid values (Prop H) on top of the SLC public trust values. Prop H prioritizes maritime, public trust, environmental restoration. Any other uses, including consideration of hotels, need to demonstrate justification and how it respects maritime, public trust and environmental restoration. Do we save all 11 of the remaining piers? If we let some piers to go, and concentrated investment in the others, would that be better? Could we prioritize repairs

to some piers and use their revenues to save others, but not try to save all? We should decide whether we can let some piers go.

- I do not agree with letting any piers go.
- We previously discovered that Pier 30-32 requires \$40 million to be demolished. Should we just watch the remaining piers fall down? In this financial analysis, we should build in cost of dealing with non-salvageable piers, whether demolition costs or maintenance costs.
- The Port has lost a lot of piers already. Different opportunities may present themselves to save some of the deteriorated piers: Exploratorium at Pier 15-17. There's not a one-size-fits-all. Maybe some piers should go out for development vs. intermediate leases. Not sure I like idea of deciding now which piers should be abandoned. There's no other place in the world with a waterfront like SF's.
- We could start to triage rehabilitation if we know the cost of certain repairs now. It could be helpful if we know what the Port should focus on. We have to make recommendations to be of value.
- Even if we wanted to, we couldn't predetermine the fate of each pier; there needs to be flexibility to allow different choices over time; there's no one-size-fits-all answer for all piers. At the same time, we don't want a mono-culture (e.g. offices in every pier); we want to continue to promote diverse uses. The Working Group should define those values for policy updates in the Waterfront Plan. Be creative; many uses are not necessarily either/or. Office buildings can offer up meeting spaces that can serve the community, which is happening in some projects in SOMA.
- Note that there is a lot of office at the Port now, like Pier 1, as well as interim offices in other piers.
- Maybe the Working Group should reconsider Proposition H as we are in different economic times.
- The Ferry Building needs the private office use as a long-term, constant source of revenue to pay for clean bathrooms, trash disposal and security from 6am to 10pm. The Ferry Building is costly to manage and does not generate a large amount of revenue.
- Piers should not be looked at as mutually exclusive, but rather they are complementary and connected as a system to other piers on the waterfront.
- We are looking at an irreplaceable historic resource, and it's our job to put the Port in position to problem solve and address trade-offs to support viable leasing and capital improvements. This does not mean doing the financial negotiations; we do need to set the values and priorities, with sufficient flexibility to allow the Port to manage the resources.
- The next Land Use Subcommittee meeting on May 10, 2017 will continue discussions on these leasing and development topics so that we can determine values and recommendations to share with the larger Working Group. We also need to plan meeting time to continue discussion about public process.
- Proposition H states that the Waterfront Plan has to be reviewed every 5 years. It may be helpful for the process now if we know that in 5 years we will look at certain issues.