MEMORANDUM

February 19, 2021

TO: MEMBERS, PORT COMMISSION

Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. John Burton
Hon. Gail Gilman
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational presentation regarding real estate and maritime portfolio management strategies and policies to address current and projected market conditions and support economic recovery

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

Over the course of the last 12 months Port staff have engaged in a number of dialogues with the Port Commission regarding tenant relief policies and programs intended to assist tenants in remaining operational in the face of the economic dislocation and public health restrictions brought on by the COVID-19 pandemic. The Port Commission has been informed of and has approved a number of those programs staff has implemented, as further detailed below, with the ultimate goal being to maximize the number of tenants who are able to resume paying their rent on a current basis and in turn put the Port on the road to recovery.

While Port staff will be occupied with implementing the relief programs over the coming months, it is also important for the Port to focus its efforts toward addressing two other key strategies in managing severe budget impacts: (i) efficiently addressing those situations where tenants are unable to resume operations in a manner sufficient to pay rent (despite the offered relief programs) and (ii) identifying opportunities to increase revenues by filling vacancies and maintaining and extending relationships with key tenants. This staff report provides more detail on these strategies for public and Port Commission feedback; Port staff intends to incorporate this feedback as it brings the relevant strategies back to the Port Commission for action where required.

This staff report includes the following:

I. Strategic Plan Alignment
II. Background
III. Summary of Portfolio Management Strategies
IV. Next Steps

I. STRATEGIC PLAN ALIGNMENT

A successful portfolio management strategy will support two Strategic Plan objectives (2019-2023 Strategic Plan):

Productivity: Attract and retain tenants that build an economically viable Port

Stability: Maintain the Port's financial strength by maximizing the value of Port property and increasing revenue.

II. BACKGROUND

Rent Relief and Repayment Plans

In response to the economic impacts of COVID-19, the Port has taken several actions to provide relief to tenants during the COVID-19 health pandemic. With the intent of providing urgent assistance, the programs authorized by the Port Commission and executed by Port Staff aim to mitigate the crippling financial effects for Port tenants, while balancing the financial impacts to the Port's budget. The Port is committed to maritime, recreational and economic opportunities to serve the public, while applying an equity lens that is critical in achieving the Port's vision of delivering vibrant and diverse waterfront experiences that enrich the City, Region, and State. A core strategy of the Port has been to maintain tenant occupancy of leaseholds to maintain long term revenue and stability and prevent increased operating costs due to vacancies.

The Port has launched several Covid Relief Programs, including: rent deferral, cost of living increase deferral unless otherwise required by lease, rent forgiveness, rent repayment, and LBE loan programs since the shelter in place order was mandated in San Francisco on March 16, 2020. At this time, 72 tenants (with 103 unique agreements) have submitted applications for a variety of the Port Covid Relief Programs and staff from many Port divisions have been working with tenants to implement the programs and properly document the tenant relief. Through the rent repayment program, the Port has been able to secure approximately $729K to date in rent repayments. In 2020, Port staff focused on stabilizing tenants and continue to implement shared prosperity strategies. Staff will continue to monitor the economic health of tenants and keep the Commission apprised of portfolio conditions.

Scale of Portfolio Problem

Moving forward, the unfortunate reality is that a number of businesses will need to either minimize or vacate leasehold premises as their revenues fail to rebound. Since the start of the pandemic, Port staff and roughly 20 tenants representing about 40,000 square feet have mutually terminated leases. The Port's accounts-receivable ledger totaled $20.7 million in outstanding rent at the end of 2020. At the end of 2019, the same metric was $3.5 million. Though the $20.7 million outstanding balance will be significantly reduced as we process rent forgiveness lease amendments and repayment plans, the Port and our tenants are facing an incredible challenge in determining when to remain in leaseholds and work to dig out of this economic hole, and when to pursue and process lease terminations.

There are approximately 165 tenants who do not qualify for rent forgiveness programs and have not resumed normal rent payments or enrolled in the rent repayment program. The challenge for the Port is to manage these situations consistently and efficiently so that spaces can be put into productive, revenue-generating use. Anticipating the work ahead to either bring tenants into lease compliance or terminate and lease newly vacant properties, Port staff have identified a series of new or expanded tools that we believe will prove beneficial in meeting that challenge.

III. SUMMARY OF PORTFOLIO MANAGEMENT STRATEGIES

To provide an overview of available and proposed tools, **Table 1** summarizes:(a) existing policies adopted and now in administration (Rent Relief and Repayment Plans); (b) existing tools Port staff will ramp up to meet this anticipated challenge; and (c) expanded policies and new policies for Port Commission consideration which staff believe will ease the workload and allow staff to efficiently manage the portfolio through this economic crisis.

Note that Port staff's guiding principle for all management tools is to support Port tenants during this crisis while also protecting the Port's solvency. To that end and as shown in the progression of actions in **Table 1**, the Port Commission's adopted policies and Port staff's management of the portfolio seeks first to offer tools for tenants to retain their leasehold and only moves through the process to termination if the parties cannot reach an agreeable settlement.

Table 1. Summary of Portfolio Management
Implemented Policies and Strategies for Discussion Purposes

	Description	Changes to Program or Policy	Implementation
Policies Currently Underway	Rent Deferral and Opt-In Rent Deferral	No changes, program ran from March 2020 to December 31, 2020	Resolutions 20-18 , 20-27,and 20-30
	Rent Relief for Maritime, LBE, Percentage Rent, and Civic Impact Tenants	No changes proposed at this time, program is being administered.	Resolutions 20-41 and 20-55 & Ordinance number 244-20
	Repayment Plans	No changes proposed at this time, program is being administered.	Resolution 20-56
	LBE Loan Program; Shared Spaces licenses	No changes proposed at this time, program is being administered.	Resolutions 20-33, 20-55, and staff authority
Use Existing Staff Authority	Collections: Contacts and Processing	Port staff to put greater efforts into contacting tenants who have neither applied for a program nor contacted staff to settle invoices.	Staff authority
	Delegated Authority for Settlements	No changes, Port staff will continue to use the existing settlement authority to settle disputes below $25,000 and will bring settlements above that threshold for Port Commission consideration.	Resolution 10-01
Potential New Policies	Delegated Authority for Mutual Lease Terminations	Port staff propose returning to the Port Commission with a refined Mutual Lease Termination policy.	Refinements to Resolution 09-04
	Delegated Authority for Uncollectible Balances	Port staff propose returning to the Commission with an Uncollectable Balances policy.	Potential Uncollectable Balances policy
	Strategic Leasing Tactics	Port staff propose returning to the Port Commission to discuss expanded leasing tools to retain existing tenants, fill vacated spaces, and generate revenues with new leasing tactics.	Potential new resolution(s)

STRATEGIES

Moving Tenants into Lease Compliance

Collections

With approximately 165 tenants that have neither come current on rent nor contacted the Port to provide a path to lease compliance, Port staff is preparing a contact strategy to alert tenants to outstanding balances, to assess whether tenants have abandoned their leasehold, and to prioritize tenants for collections proceedings. In addition, Port's Real Estate, Accounting, and Information Technology staff are collaborating to develop a new tenant accounts database to access tenant account balances more quickly and accurately. This database merges data from two separate enterprise software systems, reducing staff time to look up account ledgers.

Settlement Authority

San Francisco Administrative Code Article II authorizes department heads and the City Attorney to settle litigated and unlitigated claims in favor of the City of up to $25,000. The Port Commission adopted Resolution 10-01 in 2010 delegating authority to the Executive Director, with City Attorney concurrence, to settle disputes up to that amount (Port staff authority to settle had previously been $5,000). Port Commission approval is required for settlements exceeding $25,000. Port staff do not propose changes to the authority but note that settlement agreements are a potentially useful tool to resolve disputes through mutually beneficial terms, settle account balances, and keep tenants in place.

Separating from Tenants

Mutual Terminations and Partial Terminations

In 2009, the Port Commission adopted Resolution 09-04 which delegates mutual lease termination authority to staff for leases with fewer than 5 years of term remaining and with monthly lease payments of $10,000 or less, provided that:

1. Port staff has independently verified the tenant's financial condition;
2. Port staff has inspected the subject property, made a record of the condition of the property and documented any unfulfilled tenant obligations for maintenance, repair, tenant improvements, removal of personal property and/or restoration of the premises; and
3. The Port Director determines in her sole discretion that early termination in exchange for payment or other consideration made by the tenant is in the Port's best interests.

This policy allows staff to mutually terminate under the conditions above, even where a concession over $25,000 is made. With approximately 165 tenants out of lease compliance, Port staff anticipate a significant share of those tenants may seek to mutually terminate their lease. Port staff are reviewing how increasing staff's delegated authority for leases with higher monthly rental payments – but which still meet all the thresholds described above in 1-3 – may be an efficient use of scarce staff resources.

An increase of authority to mutually terminate leases up to $15,000 per month broadly reflects increases in the parameter rent schedule since 2009 (office rates have increased at a much faster rate while shed and land have increased at a slower rate).

Potential Uncollectible Balances Policy

In some cases, the Port's only path with a tenant is to recognize that a tenant has abandoned its leasehold or to terminate the lease or license and either pursue rent owed through litigation or determine, through financial investigation, that the amount which may be recovered is less than the costs of pursuit. In these cases, the Port may choose to write off the outstanding balance.[1]

Unlike the other topics described above, the Port does not currently have a clear uncollectible balances policy. Under the current circumstances and the large accounts receivable balance, adoption of a prudent uncollectible balances policy – which requires investigation of tenant assets and likely ability to pay balances – will target staff resources to pursuing claims with a likelihood of success and clearing the Port's accounts of those unrecoverable, delinquent balances.

Under current policy, the City Attorney's Office (Charter §6.102) and the City Controller (SF Admin. Code §10.41-1) must concur in all write-offs. Staff does not have a specific proposal currently but are reviewing potential policies for Port Commission consideration.

Retaining Tenants, Filling Vacancies, and Other Strategic Leasing Tactics

With market conditions poor, Port staff are focused on retaining tenants and strategizing for filling vacancies, as they arise. Based on a review of market conditions and as described further below, Port staff seek Port Commission feedback on:

1. Continuing to lease based upon 2019 parameter lease rates with adjustment for select Maritime tenant categories.
2. Expanding leasing incentives for new tenants, maritime tenants, and renewals.
3. Developing revenue increase concepts including allowing tenants to sublease portions of premises and sharing with the Port in any excess revenues.

Market Overview by Sector

COVID-19 has had an unprecedented effect on the commercial real estate industry globally, and despite San Francisco's previous success in weathering previous economic recessions, the San Francisco commercial real estate market has been severely hit. According to a presentation at the San Francisco Business Times Mayors' Economic Forecast, by Ken Rosen, Chair of the Fisher Center for Real Estate and Urban Economics, leasing activity is down 71%, in comparison to the 2008 recession where leasing activity was down by 32%. Additionally, in the fourth quarter of 2020,

[1] A "write-off" is a sum of money owed that the creditor has determined it cannot collect. Due to the inability to collect, the creditor "writes off" the amount owed in its accounting ledger.

over 7 million square feet of subleasing space was available in San Francisco, up from 1 million in 2019.

COVID-19 has not only threatened our physical health, but it has also penetrated San Francisco's economic health. Our resilience to this health and economic pandemic will be dependent on our ability to respond to problems and opportunities quickly and creatively. In order to gauge when the market will be stable enough to realistically establish a fair market value and assess leasing strategies commercial landlords are employing in San Francisco to retain and attract tenants, the Port has engaged Keyser Marston Associates (KMA), a real estate economics firm, and Maven Properties (Maven), a commercial real brokage firm, to provide a market overview and assess leasing strategies commercial landlords are employing in San Francisco to retain and attract tenants.

Exhibit 1 (tables prepared by KMA & Maven) summarize initial findings for office, industrial, maritime, retail and parking sectors. In addition, KMA & Maven prepared brief sector narratives below. Overall, each sector has experienced various levels of declines in rental rates and occupancy year to date.

Office

As of Q4 2020, the San Francisco office market has surpassed a 15% vacancy rate and 20% availability rate. As a result, the San Francisco office market is experiencing a decrease in minimum rental rates and landlords have implemented an overall change in leasing strategy. As office vacancy continues to surge throughout San Francisco, turnkey spaces are inundating the market in all office classes. Tenant improvement allowances, previously reaching more than $100/PSF, are now substantially lower and often non-existent as tenants absorb spaces that had been renovated within the last few years. In certain cases (and more so in Class B and C office buildings), landlords are offering extended periods of rent abatement to offset the tenant's improvement costs. Maven is also finding that landlords across many asset classes (including office) are relaxing their credit standards, often agreeing to enough security to simply cover their transactional costs.

Industrial

Although the pandemic delivered a jolt to San Francisco's industrial market, the industrial sector is expected to outperform all other asset types. The San Francisco industrial market consists of three major submarkets in addition to the Port: SOMA, 3rd Street/Potrero Hill and Bayview/India Basin. While the rental rates softened in 2020, the lack of new developments and overall supply limitations in San Francisco have created a relatively stable environment in comparison to other property types.

Maritime

With exception to passenger and tourist business, maritime operations continue to be impacted at a far lower rate than that of office, retail and restaurant – perhaps a direct reflection of its "essential nature" and its overall necessity to commerce. The Port of Oakland for example reported only a 6% profit loss at the start of Q4 2020 with expectations that it will continue through most of 2021. Unlike Oakland however, San Francisco is dependent on tourism and passenger business, which has experienced a significant decline. Following the start of the pandemic and the CDC mandated prohibition on cruise operations, 90% of SF ‘s cruise calls were canceled, resulting in $7.3 million in lost tariff revenue to the Port in 2020.

<u>Retail</u>

Thousands of retail businesses temporarily closed in the last year and a startling number of those businesses permanently closed. As a result, vacancy rates across San Francisco have experienced a sharp increase and market rents have softened, even in the most desirable retail areas. Although retailers are limited in general, Maven is seeing certain national tenants enter the market for new space (or for supplementary locations) and smaller retailers looking for opportunities in highly desired neighborhoods such as Hayes Valley and Fillmore Street that have not existed for years.

<u>Restaurants</u>

The far-reaching economic pain that the pandemic has caused the San Francisco restaurant industry is widely acknowledged. In May 2020, the Golden Gate Restaurant Association reported that they expected 50% of restaurants in San Francisco to permanently close. However, while we have seen many restaurants close, including some that are iconic San Francisco businesses, the restaurant industry – although incredibly volatile – has been very active over the last 12 months. Since the start of the pandemic for example, 48.6% of Maven’s lease transactions were food-and-beverage-related transactions.

<u>Parking</u>

Maven interviewed two parking companies that operate a combined 28 locations in San Francisco. Both of these operators have experienced a sharp decrease in sales, generally around 60% less than 2019. In 2019, 70% of their revenue was made up of daily parking and 30% of revenue was generated from monthly parking. In 2020, the numbers were opposite - 70% of their revenue was made up of monthly parking and 30% was generated from daily parking. With the lack of tourists, office workers, and shoppers, this sector has suffered a severe hit to their business operations.

Parameter Rates

Parameter rates are typically adopted by the Port Commission each year based on a qualified third-party assessment of market rents for Port property. The adopted parameter rent schedule sets the rates and other lease terms for which Port staff are authorized to lease Port property for routine leases (i.e., excluding retail and restaurant locations) unless otherwise authorized by the Port Commission. Since the COVID-19 pandemic hit in early 2020, Port have staff focused on tenant relief and refrained from updating the parameter rates set in July 2019, due to the market uncertainty and the likelihood of changes in new tenant demand as public health orders evolved.

While the market data is fluid due to COVID-19, based on this overview and review of market trends, KMA and Maven preliminarily find that a market review of lease rates would not lead to increased parameter rates. Therefore, Port staff believe maintaining the 2019 rates until market conditions stabilize is in the best interests of the Port. It is important to note though that Port staff and the consulting team are evaluating competitive maritime lease rates for the San Francisco Bay Area region and may return to the Commission to discuss parameter rates for maritime uses to put the Port in a strong position for recovery.

Leasing Tactics

Reviewing the consultant team's summary of tactics commercial landlords have undertaken retain and attract tenants (summarized more fully in **Exhibit 2**) Port staff seek Port Commission feedback.

1. Extend buildout time frames to account for longer planning, permitting and construction
2. Offer rent abatement for new credit worthy tenants, capped at an agreed-upon deviation from the previously approved net effective rate for that specific space or facility
3. Authorize tiered rents (i.e., rates begin slightly below parameter and end slightly above parameter) that reflect current market conditions and an eventual recovery, capped at an agreed-upon deviation from the previously approved net effective rate for that specific space or facility
4. Authorize a "blend & extend" lease renewal for current tenants who have remained in good standing where the Port provides a 2 to 5 year extension, capped at an agreed-upon deviation from the previously approved net effective rate for that specific space or facility
5. Targeted reductions to parameter rates for specific types of maritime uses. In particular, Port staff is evaluating a potential incentive for Harbor Services tenants which require office, shed and apron space in close proximity in higher-demand locations on Port property. Port staff is performing a review of competitive Bay Area maritime locations and will include that in a potential future proposal for Port Commission action.

In reviewing these tactics, note that: (i) many of private-sector tactics require capital expenditures or tenant allowances and the Port is not in a position to use these sorts of tactics so those are not included and (ii) Port staff view these tactics as important to leasing recovery and would anticipate adjusting them as the market improves.

Leasing Strategies

The Port has engaged KMA / Maven for further analysis and recommendations as follows:

1. Assist in Port's 5-year financial forecast and internal projections. Review Port historic budget and rent roll information to define Port lines of business. Assess the linkages of different Port property types (restaurant/retail, office, shed) to key economic drivers (leisure tourism, business tourism, commuters, construction demand) and develop fiscal year annual projection factors based upon appropriate recovery rates in those sectors.
2. Identify SF based businesses and specific sectors that are actively in the market or potentially could be in 2021, to target sectors in our leasing efforts.
3. Survey conditions of current vacancies and potential future vacancies the Port anticipates (up to 5 spaces total) and indicate which spaces are:
    a. Ready to lease

b. Requires cleaning only
c. Requires minor, mid-sized, or major improvements

4. Review Port's recent RFPs for restaurant spaces and provide advice on RFP structure, requirements, and marketing.
5. Develop marketing materials in template form that could be used for a variety of spaces

Excess Sublease Rent Split

In addition to marketing vacant space to new tenants, Port staff has also been looking at additional ways to maximize revenues from existing leases. One such opportunity is the "Excess Rent" provision of the Port's standard lease. This provision generally requires 100% of all sublease revenues in excess of a tenant's rent obligation to Port's to be conveyed by the tenant to the Port. Feedback from several tenants as well as from Maven's review and experience in the current environment indicates that tenants experiencing economic pressure are interested in subleasing space but have no incentive to sublease for more than they are paying due to this provision.

Staff intends to explore amending the Excess Rent provision and allowing a split of these excess funds subject to a cap of 50% on a pilot basis. This incentive may result in additional subleasing and an increase in revenues, with limited Port staff effort. Such an amendment would create no additional risk exposure for the Port as such subleases would be subject to the same Port approval processes as before.

XI. NEXT STEPS

Port staff have brought this informational item to the Port Commission to raise awareness about the scale of the leasing workout workload ahead and to gain feedback on potential strategies to work with tenants or move towards lease terminations and releasing of vacated property. Port staff seek feedback on the strategies and will return to the Port Commission for action on favored strategies.

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Exhibit 1: Market Overview Tables

Table 1
Summary of San Francisco Office Market Conditions
Source: JLL

	4th Quarter 2020						Change, 2019 to 2020			
	Inventory Sf	Avg. Per SF Direct Asking Rent, FSG	Weighted Avg. Overall Effective Rent (per Colliers)	Total Vacancy Rate	Vacant Space	YTD Total Net Absorption, SF	Avg. Direct Asking Rent, FSG	Vacant Space	Total Vacancy Rate	YTD Total Net Absorption, SF
All SF	79,815,814	$86	$75	14%	10,854,951	-6,207,605	-8%	6,760,266	8%	-8,926,369
Class A	57,917,745	$91	$77	12%	6,718,458	-3,384,915	-7%	3,926,820	7%	-5,344,077
Class B	20,042,831	$75	$60	19%	3,828,181	-2,632,433	-8%	3,828,158	14%	-3,259,825
Class C	1,855,238	$68	NA	17%	307,970	-190,257	-6%	178,103	10%	-322,467

Fundamentals			Forecast
YTD net absorption	-6,207,605		Decreasing
Under construction	3,760,952		Flat
Total Vacancy	10,854,951	13.60%	Increasing
Total Space Available	17,800,000	22.30%	Increasing
Direct asking rent	$85.87		Decreasing
Sublease asking rent	$69.68		Decreasing
Concessions			Increasing

Rental rates peaked in 1st Qtr. 2020.
2020 was lowest year of new leasing since the 1990's.
Life science sector demand is growing sector
1st time in decade that asking rents have declined for 3 consecutive quarters. Subleasing market is driving the overall vacancy.

Table 2
Summary of Industrial Market Conditions

Source: CBRE

	2020, First Half					Change, 2019 to 2020	
	Net Rentable Area, SF	**Asking Lease Rate, Wtd. Avg., IG**	**Total Vacancy Percent**	**Total Available Percent**	**Ytd. Net Absorption, SF**	**Asking Lease Rate, Wtd. Avg., IG**	**Total Vacancy Percent**
Total Industrial Market	23,438,459	$2.47	2.4%	5.6%	-152,548	-6.8%	0.5%
Manufacturing	3,561,398	$3.06	2.3%	4.4%	-32,783		
Warehouse	19,877,061	$2.39	2.4%	5.8%	-119,765		

Fundamentals	Forecast
YTD net absorption	Decreasing
Total Vacancy	Increasing
Total Availability	Increasing
Direct asking rent	Increasing
Sublease asking rent	Flat

Industrial is strongest market
Online shopping is pushing logistics as a growth sector
Price sensitive office tenants are moving to industrial space

Table 3
Summary of Maritime Lease Rates and Charges
Source: Port of Oakland and Port of Richmond

	Port of Oakland			Port of Richmond	
	Monthly, Per SF NNN Rates				
Unpaved Land	$0.144			$0.09	
Rocked Land					
"Lighting or Fencing	$0.179				
Lighting and Fencing	$0.201				
Paved Land					
Covered				$0.17	$220 min. mo.
Uncovered				$0.10	$106 min.mo.
Lighting or Fencing	$0.213			$0.15	uncovered
Lighting and Fencing	$0.264				
Submerged Land	$0.14				
Warehouse Space	$0.42				
In Bond Storage	$0.45				
Office Space					
Non-Air Conditioned	$1.40			$0.70	
Air Conditioned	$1.57			$0.80	
Terminal Office building				$1.33	
	Truck Parking, Monthly per stall				
Tractor	$200				
Chassis	$375				
Other	$400				
	Other				
Mobile Food Vendor	$171.00	min. monthly			
Special Events Held at Park Rental		Security Deposit			
Large Event	$18,000		$8,000		
Small Event	$8,000		$5,000		
Port Park Manager oversight	$250	per hour			
Vendor /Concession Permit	$100	per day			

Table 4

Summary of Recent Restaurant Transactions

Source: Maven

Fundmentals	***Metric***
Average base rent per sf	$3.96 PSF
% deals with tiered rent structure	25.90%
% of lease containing COVID language in event of full or partial gov't shutdown	85.20%
Average % rent	5.50%
% of As-is Deals	59.30%
Average lease term	8.5 years
Average tenant improvement allowances	$39.39/PSF
% of transactions with TI allowance	18.50%
Average number of months of free rent	3.8 Months
% of transactions with guarantees	78.6 % of transactions involved personal guarantees, but not that a significant portion of those
Total number of leases that you brokered; and sf brokered	32 restaurant leases since Jan 1, 2020
Percentage of NNN Lease Structures	74.10%
Restaurant market has been devastated by the pandemic	*Food and beverage taxable sales in San Francisco during the first 3 quarters of 2020 declined $2.1 billion or 57% relative to the same period in 2019.*

Exhibit 2. Potential Leasing Incentives Summary

Maven has provided summary of range of tenant incentives commercial landlords offering during these health and economic conditions, summarized by type of space and recommendations for Port to pursue as shown in the tables below.

Office	
Tenant Incentives	Trends & Leasing Strategies
Extended rent abatement period	Tiered rent structure
Reduced Year 1 & 2 rent	Increased procuring broker commissions ($3.00 PSF/YR)
Shorter lease terms	Shorter lease terms
Favorable terms in exchange for lease extensions	Rent abatement
	More abated rent/ less TI allowance
	Softer approval process on as-is deals
	Blend & Extend (rent adjustment in exchange for lease extensions)
	Active submarket - large discounts on sublease deals
	Emphasis of private offices / private entrances / outdoor areas
	Quoting pre-Covid rents coupled with "Make an Offer"
	Smaller, neighborhood office spaces are more active

Recommendations for Office

The Port inventory contains office properties with outside area and nearby parking, these properties should be showcased. The Port should work on retaining existing office tenants and assess existing vacancies and asking rents; extend rent abatement schedules and/or offer shorter term leases to compete with comparable spaces.

Industrial	
Tenant Incentives	Trends & Leasing Strategies
Abated rent	Reduced rent, but shorter lease term
Soft approval process on 'as-is' deals	More abated rent/ less TI allowance
	Shorter lease terms
	As-is / less landlord work

Recommendation for Industrial

Although the overall industrial vacancy has increased over the last year, we have not seen enough of a dip in the market rents to recommend any reduction in asking rates and would therefore recommend that asking rents remain unchanged. However, the Port should consider increasing rent abatements in lieu of tenant improvement allowances to compete with the marketplace.

Maritime	
Tenant Incentives	Trends & Leasing Strategies
Rent relief packages in the form of deferred rent	Right to relocate or downsize tenant footprints throughout lease term
No rent increases on short-term extension	Provide substantial TI allowance in the form of amortized rent abatement to off-set necessary improvements.
TI Allowance in form of Rent Abatement	Keep tenants at their current locations or relocate elsewhere in the Port inventory

<u>Recommendation for Maritime</u>

We recommend that the Port place emphasis on retaining tenants by offering rent relief packages and extending lease terms. The Port should consider offering additional rent abatement to offset the cost of necessary tenant improvements in exchange for lease extensions.

Retail	
Tenant Incentives	Trends & Leasing Strategies
Tiered rent years 1-3	Percentage rent (often coupled with the lesser of base rent or % rent, etc)
Extended rent abatement period	Pop-ups
Limited personal guarantees	Short term leases with longer options
COVID clauses to protect against shutdowns	Extended permitting contingency periods
Delayed lease/rent start dates	Current focus is on neighborhoods / close to home
Bonus commissions for brokers	Landlords performing more base building work (ADA, vanilla shell)
	Early termination clauses / often based on sale performance
	COVID Clauses / Often based on allowable occupancy
	As-is delivery condition (with or without TI Allowance)
	Offsetting TI allowance with abated rent
	Longer permit contingency periods due to City delays
	Softer approval process on as-is deals
	Gross leases in short term deals
	CAM/NNN Caps

<u>Recommendation for Retail</u>

The Port inventory includes spaces that would accommodate pop-ups and short-term leases, and spaces that feature outdoor area that could benefit uses such as art-related businesses and fitness. The Port should work on extending current retail leases and perhaps restructuring such leases to provide tenants with an easier path through the current economic downturn. Consider early termination clauses and flat rent structures during the first few years. Delayed rent start dates and extend abated rent periods to offset tenant improvement costs. Take credit risks on good concepts with experienced businesspeople.

Prepared by Maven Properties