



MEMORANDUM

August 9, 2024

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Gail Gilman, Vice President
Hon. Willie Adams
Hon. Stephen Engblom
Hon. Steven Lee

FROM: Elaine Forbes
Executive Director 

SUBJECT: Request Approval of Proposed Rental Assistance Program for Pier 54
Tenants Relocating on Port Property Due to Closure of the Pier.

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 24-37

EXECUTIVE SUMMARY

Port Engineering recommends Pier 54 be closed to the public and tenants for safety reasons. The Pier 54 substructure is deteriorating and the Port has not had any viable plans for repair. This closure will affect a total of 11 tenants who will need to vacate Pier 54 by the end of 2024.

The Pier is not being closed due to a Port capital project; therefore, under California Relocation Assistance Guidelines, the tenants do not meet the definition of displaced, and the Port is not required to pay relocation costs. There is also no requirement mandating the Port provide alternate space. However, Port staff is committed to identifying substitute locations for tenants wishing to remain on Port property, thereby retaining stable long-standing tenants and providing a path to fill smaller vacancies.

Given the condition of Pier 54, parameter rents are much lower than rents for other viable alternative Port locations. Office space at Pier 54 averages \$2.13 per square foot and shed

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space \$0.85 per square foot. Other locations on Port property average \$3.82 per square foot for office and \$1.75 per square foot for shed space. Therefore, for any Pier 54 tenant wishing to remain on Port property, the increase in rent at an alternative Port location will create a hardship. Port staff is seeking the Port Commission's approval of a relocation assistance program to temporarily offset the initial rent increase and gradually increase rent to current parameter rents, over a five-year period. A relocation assistance program will allow tenants additional time to either plan and budget for the higher rent or find space elsewhere at a rental rate sustainable for their business operation.

STRATEGIC OBJECTIVE

The relocation assistance program as proposed supports the Port's following strategic objectives:

Economic Recovery:

Providing rent assistance to Port Pier 54 tenants will stabilize Port rental revenue by avoiding the immediate drop in revenue the Port will experience with the closure of the Pier as tenants will continue paying comparable rent at other Port locations. The program will also facilitate occupancy of currently vacant Port space that has proven difficult to lease.

Equity:

The majority of tenants at the Pier are either small, woman or minority-owned, local business enterprises, non-profits, or arts-related. This relocation assistance program will enable these businesses to remain on Port property, actively fostering equity and diversity along the waterfront.

BACKGROUND

In 2017, the Port retained Moffatt and Nichol Engineers to prepare a Rapid Structural Assessment ("RSA") report detailing the substructural conditions at Pier 54. The RSA was completed in December 2017 and as a result of the findings, portions of the Pier were designated "red," meaning they were unsafe. Port installed barricades to restrict access and posted signs in these areas to warn of the unsafe conditions. The RSA designated all other areas of the Pier as "yellow with green hatching," imposing use restrictions and load limits, noting that continued use would require further review. At that time, the Port advised all Pier 54 tenants that despite the condition, there were no plans for substructure repairs and Port Engineering would continue to monitor the overall condition of the Pier.

In 2023, a new RSA of the Pier was prepared by Ryan Joyce Structural Design which designated additional sections of the Pier as "red." With no plans to repair the substructure, Port Engineering has expressed concerns about the ongoing safety of anyone occupying the Pier. There are also issues with the superstructure (roof leaks, siding issues, etc.) that are estimated to cost approximately \$600,000 to repair which is significantly more than current annual revenue generated through the Pier leases. With these combined issues, it has been concluded that it is in the Port's best interest to close the Pier.

The closure will impact a total of 11 tenants with a combination of uses of office and storage space. Port staff is working to identify possible alternate locations for each tenant; however, due to the dilapidated condition of the Pier, rents are low relative to other Port locations and substantially less than the current parameter for similar-sized space. For tenants wishing to relocate on Port property, this increase in rent will create a financial hardship. The average existing monthly rent paid by the impacted tenants is shown below in Table 1:

Table 1: Average Existing Tenant Rents

Type of Use	Average Monthly Rent \$/SF
Office	\$2.13
Shed	\$0.85

PROPOSED PROGRAM

All leases at the Pier are currently month-to-month. Under the provisions of the Port's standard lease agreements, tenants are not eligible for relocation assistance, and their leases may be terminated with 30 days' written notice. While there is no requirement mandating the Port provide alternate space, Port staff is committed to making every effort to relocate tenants wishing to remain on Port property. A relocation program would assist by delaying rent increases to allow the tenants additional time to budget for the higher rent or allow additional time to find space elsewhere at a rental rate sustainable for the business operation.

Under the proposed program, the rate per square foot for the first year of a new lease would remain the same as the existing lease. This will allow Pier tenants to move into a new space at a rate comparable to what they're currently paying. This benefits the Port by retaining a revenue stream from the tenants that will otherwise end with the termination of all the Pier agreements, as well as help fill smaller vacancies where demand has slowed.

To bring the Pier tenants up to parameter, tenants will be given four (4) one-year options to renew. The first option will increase rent by 5%. For the following three options, rent will be increased to 70% of the parameter in year three, 80% in year four, and 100% in year five. This ramp-up mirrors the rent structure for the Port's rent incentive program for office and shed space for lease terms of a minimum of three years. If a tenant chooses not to exercise an option, the rent would be increased to 150% of the current rent based on the holdover provision in the lease. Although the rent may be below the current parameter in some instances, it would be higher than the rent under the ramp-up for the options in years two and three, therefore incentivizing tenants to renew. This structure also provides the tenants flexibility should a more beneficial incentive program be offered in the future or should rental rates decrease. An example of possible rates per square foot based on existing is shown below in Tables 2(a) and 2(b).

Table 2(a): Example of Ramp-Up Rate Per Square Foot with Exercise of Options

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Parameter Rate at New Location	Current Rate at Pier 54	5% Increase (Option 1)	70% Parameter (Option 2)	80% Parameter (Option 3)	100% Parameter (Option 4)
\$3.60	\$2.13	\$2.24	\$2.52	\$2.88	\$3.60

Table 2(b): Example of Rate Per Square Foot without Exercise of Options

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Parameter Rate at New Location	Current Rate at Pier 54	Holdover Rate	Holdover Rate	Holdover Rate	Holdover Rate
\$3.60	\$2.13	\$3.19	\$3.19	\$3.19	\$3.19

So that tenants are not paying for two spaces while they move, tenants will be allowed early occupancy at no cost for up to one month.

To be eligible for the program, each tenant must meet the following criteria:

- A tenant must be a tenant in good standing
- Alternate space must be for the same use (i.e., if a tenant is renting office and storage space but also wants space for parking, the program would only extend to the office and storage use)
- Tenant must complete a renewal application and meet Port’s criteria for a new lease
- Permitted subtenants wishing to enter direct leases with the Port would be eligible for the program
- Subleasing under the program is prohibited

Assuming all tenants find space of equal size, the estimated amount to be waived in Year 1 would be approximately \$177K, keeping the price per square foot the same as in existing leases. This compares to an annual loss in revenue of \$180K if the alternate space was rented to a new tenant following the closure of the Pier as shown in Table 3.

Table 3: Revenue Impact (Loss) to Port with Discount in Year 1 vs Full Pier Closure

SPACE TYPE	AMOUNT TO BE WAIVED IN YEAR 1	ANNUAL REVENUE LOSS FOLLOWING PIER CLOSURE
Office	(\$41,652)	(\$58,775)
Shed	(\$135,062)	(\$120,871)
ANNUAL LOSS TO PORT	(\$176,714)	(\$179,646)

OUTREACH EFFORTS

Port staff have had one-on-one conversations with each tenant and subtenant at the Pier advising them of the upcoming closure. Formal written notice was sent on July 15, 2024 via email, US mail, and certified mail. With the initial discussions, all tenants expressed a desire to remain on Port property but are concerned about a rental increase.

As the next steps, Port staff is actively working to identify potential alternate spaces and are scheduling tours with the tenants to determine if the space is suitable.

RECOMMENDATION

The relocation assistance program as outlined would allow the Port to retain stable long-standing tenants and provide a path to fill smaller vacancies where there has not been high demand. The program would also allow the Port to retain a revenue stream that would otherwise end with the closure of the Pier.

The Port greatly values its tenants and Port staff recommends the Port Commission adopt the attached resolution approving the rental assistance program for Pier 54 tenants relocating to other Port locations as a result of the closure of Pier 54.

Prepared by: Kimberley Beal, Assistant Deputy Director
Real Estate and Development

For: Scott Landsittel, Deputy Director
Real Estate and Development

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 24-37

- WHEREAS, Charter Section B3.581 grants to the Port Commission the authority and duty to use, conduct, operate, maintain, manage, regulate, and control the lands within the Port jurisdiction; and
- WHEREAS, The deteriorating condition of the substructure of Pier 54 (the “Pier”) and with no plans to repair the Pier it is necessary to close the Pier for safety reasons; and
- WHEREAS, Under California Relocation Assistance Guidelines and each tenant’s lease, because the Pier is not being closed due to a project, the tenants are not eligible for relocation costs; and
- WHEREAS, Port desires to implement a rental assistance program to aid Pier tenants wishing to remain on Port property; and
- WHEREAS, Under the rent assistance program during the first year of a new lease, Port would waive the difference between the price per square foot for the new space and what is currently being paid at the Pier; and
- WHEREAS, To bring Pier tenants' rent up to parameter, tenants will be given four (4) one-year options to renew; the first option would increase rent by 5%, rent would increase to 70% of the parameter in year three, 80% in year four and 100% in year 5; and
- WHEREAS, Providing the rent assistance program is intended to allow Port to retain stable long-standing tenants and provide a path to fill smaller vacancies and retain a revenue stream that would otherwise end with the closure of the Pier; now therefore be it
- RESOLVED, That the Port Commission approves the rental assistance program for Pier 54 tenants relocating to other Port locations because of the closure of the Pier; and be it further
- RESOLVED, That the Port Commission authorizes the Executive Director to enter into any leases, amendments, or other modifications to the Port’s lease forms that the Executive Director, in consultation with the City Attorney, determines, when taken as a whole, to be in the best interest of the Port, do not materially increase the obligations or liabilities of the City or the Port, and are necessary or advisable to document the relocation assistance program authorized by this Resolution for Pier 54 tenants and effectuates the purpose and intent of this Resolution, such

determination to be conclusively evidenced by the execution and delivery by the Executive Director of new leases for Pier 54 tenants.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of August 13, 2024.

Secretary