MEMORANDUM

December 6, 2013

TO: MEMBERS, PORT COMMISSION
Hon. Doreen Woo Ho, President
Hon. Kimberly Brandon, Vice President
Hon. Willie Adams
Hon. Leslie Katz
Hon. Mel Murphy

FROM: Monique Moyer
Executive Director

SUBJECT: Award the development opportunity described in the Request for Proposals for the Pier 38 Bulkhead Building Rehabilitation Project to TMG Pier 38 Partners, LLC and authorize staff to initiate lease negotiations for the bulkhead building rehabilitation project at Pier 38, located at Delancey Street and The Embarcadero

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

SUMMARY

On September 25, 2012, the Port Commission expressed its vision for the rehabilitation of Pier 38 and authorized staff to issue a Request for Proposals ("RFP") with the objective to quickly re-tenant the Pier 38 bulkhead building in order to quickly bring it back into economic use and provide an on-going revenue stream to the Port. The Port issued the RFP for the Pier 38 Bulkhead Building Rehabilitation Project ("Bulkhead Rehabilitation") on November 16, 2012.

On March 25, 2013 the Port received proposals from two real estate development teams: 1) San Francisco Waterfront Partners, LLC ("SFWP") and 2) TMG Pier 38 Partners, LLC, a joint venture partnership consisting of TMG Partners and Premier Structures ("TMG"). At the Port Commission's June 11, 2013 meeting, each development team presented its qualifications and visions for the Bulkhead Rehabilitation. On June 18, 2013, an evaluation panel reviewed the written proposals and interviewed the two development teams. At the Port Commission's August 13, 2013 meeting, each development team expanded upon prior presentations and presented visions for the Bulkhead Rehabilitation and potential long-term re-use project of the entire Pier 38. These presentations were not reviewed, evaluated or scored by the evaluation panel.

Port staff has undertaken an extensive evaluation process, including review of the evaluation panel's scoring, and considers both developer teams to be qualified to develop Pier 38. Port staff recommends TMG as the best qualified developer for the Bulkhead Rehabilitation because the TMG proposal is more responsive to the Port Commission's vision to quickly bring the bulkhead building back into use and provide substantial on-going revenue to the Port. TMG possesses significant real estate development experience and project team capability, and proposes a development program that better meets the Port's RFP objectives (see Attachment 2) for the Bulkhead Rehabilitation, particularly in providing greater on-going revenue to the Port.

RFP SUBMITTALS

On September 25, 2012, Port staff received Port Commission approval to issue a RFP to quickly rehabilitate and re-tenant the Pier 38 bulkhead building and a portion of the pier shed (representing approximately one-third of the entire pier) while potentially qualifying this entity to be considered for the long-term reuse of the entire facility or the majority of the pier structure. (Attachment 1 provides further background information; Attachment 2 provides the Port's RFP project objectives for Pier 38.) The Port issued the RFP for the Bulkhead Rehabilitation on November 16, 2012. Note that this RFP did not include long-term development of the entire facility.

On March 25, 2013, the Port received real estate proposals from two development teams: SFWP and TMG, or collectively the Respondents.

Port staff engaged Bay Area Economics ("BAE"), a real estate consultant, to analyze the proposals submitted by each of the development teams and consider the real estate potential for both the Bulkhead Rehabilitation and the long-term reuse of Pier 38. BAE's analysis is shown as Attachment 6.

Port staff also assembled an evaluation panel, described below, to score each of the proposals.

<u>Respondents' Qualifications</u>

SFWP:
In their written submittal, SFWP stated that it would create a development entity for the bulkhead rehabilitation that would be wholly owned by San Francisco Waterfront Partners, LLC, a Delaware limited liability company.

SFWP identified three comparable projects of similar size and scope, including a historic preservation project documented to have met Secretary of Interior's Standards. These projects are: 1) Piers 1 ½ - 5, a $65 million historic tax credit funded rehabilitation project; 2) Pier 24 Annex rehabilitation for 28,000 square feet of gallery and warehouse space; and 3) Bay School redevelopment of a 62,000 square foot historic building in the Presidio of San Francisco, done in partnership with Equity Community Builders.

TMG:
TMG is a joint venture between TMG Partners and Premier Structures, Inc. TMG Partners, a privately-held California corporation headquartered in San Francisco, is a full-service real estate development company that exclusively focuses on Bay Area projects. The TMG team includes Amy Neches who was the Rincon Point-South Beach Area project manager for the San Francisco Redevelopment Agency and, as such, was instrumental in managing projects, including the rehabilitation of Pier 40 and construction of its harbor master's building. Premier Structures is a San Francisco local business enterprise ("LBE") whose principals are Elliot Grimshaw and Paul Osmundson who both worked for Pacific Waterfront Partners and, as such, have overlapping qualifications with respect to Piers 1 ½ - 5 and Pier 24 Annex. Mr. Osmundson is also the former Port deputy director of planning and development and the former Lend Lease project manager for the undeveloped Bryant Street Pier Project at Piers 30-32 and Seawall Lot 330.

TMG identified three comparable projects of similar size and scope: 1) The Landmark at One Market: a 444,000 square foot historic tax credit funded rehabilitation of Class A office space; 2) 680 Folsom Street, done via an Owner Participation Agreement with the San Francisco Redevelopment Agency, and currently under construction for 521,000 square feet of office space with 85% pre-leasing; and 3) 1000 Van Ness, a historic tax credit funded rehabilitation of a former Cadillac dealership into a mixed-use project with a multiplex theater, condominiums, retail and parking.

Based on information provided by each of the Respondents, Port staff judges both Respondents to be qualified to undertake the development of the Bulkhead Rehabilitation, as requested in the Port's RFP. Port staff also judge both Respondents qualified to perform any redevelopment of Pier 38 in its entirety or a substantial portion of Pier 38 ("Total Development") if the Port Commission elects to commence a more comprehensive project at a later date. However, staff's recommendation pertains solely to the Bulkhead Rehabilitation.

Based on its breadth of project development, leasing experience and project staff composition and capacity, Port staff believes that TMG is more qualified to undertake the Bulkhead Rehabilitation.

<u>Development Program</u>

The RFP requested proposals to rehabilitate and re-tenant the Pier 38 bulkhead structure and a limited portion of the Pier 38 shed (collectively, the "bulkhead building"). Both Respondents' floor plans are shown respectively as Attachments 3 & 4 and a comparison of the Respondents' development program square footages are provided as Attachment 5.

SFWP:
SFWP proposes to renovate the first floor of the bulkhead building for restaurant and café uses and the second floor for office uses. SFWP has provided a letter of interest from The Slanted Door Group for the creation of an "Asian fast food" casual café and a business plan for a San Francisco Beer Garden, both on the north side of the bulkhead

building facing the Brannan Street Wharf. For the office area, SFWP has provided a letter of interest from SOMA Central for creation of a “tech hub”. A small portion of the shed would be used for parking with up to 55 valet parking spaces. SFWP would repair the existing dock on the north side of Pier 38 near the Embarcadero to allow short-term and transient small boat berthing. SFWP would enhance the commercial spaces as well as public access by removing a portion of the ground floor office space on the south side of the structure and creating public access that would proceed through the Pier 38 shed from the Brannan Street Wharf to the Pier 38 south apron. SFWP proposes a $10.6 million investment for the Bulkhead Rehabilitation.

TMG:
TMG proposes to limit initial investment to meet accessibility and code requirements in order to quickly activate the bulkhead building with new uses. The southern portion of the bulkhead building’s first floor and the western portion of the second floor would be used for office space. TMG indicates that office uses would be oriented to tech and creative tenants and they have been in discussions with several of the former tenants. The northern portion of the bulkhead building’s first floor would be used as an informal dining area, including an area for a revolving food truck program within the shed. TMG has been in discussions with Off the Grid food truck organization for the proposed operation. A small portion of the pier shed would include approximately 40-60 parking spaces. There would also be a maritime area which would involve reuse of a portion of the pier’s north apron as a visitor-serving guest/water taxi dock. Public access would be provided through the bulkhead building to the parking area and along a portion of the north apron. TMG proposes a $6.9 million investment for the Bulkhead Rehabilitation.
Both proposals meet the design, construction and tenant program criteria in the RFP. SFWP would provide more substantial improvements and slightly more public access, but some of these improvements would need to be demolished in the event of the possible re-use of the entire or majority of Pier 38. TMG would provide less substantial improvements, but would not require demolition of any bulkhead building improvements in the event of a possible Total Development of Pier 38. Port staff believes that both Respondent’s submitted a development program that met the RFP’s criteria.

<u>Financial Capability & Terms</u>

Both Respondents have demonstrated that they have sufficient financial resources and ability to undertake the Bulkhead Rehabilitation. SFWP is expected to invest $10.6 million and TMG is expected to invest $6.9 million, respectively, to complete their proposed bulkhead building improvements.

SFWP:
SFWP’s proposal calls for rent payment to the Port that would total $60,000 per annum during the year-long construction period. Following construction, the base rent to the Port would be set at $0.50 per square foot per year of occupied retail and office space (or $12,600/year). In addition to this amount, the Port would be paid 50% of net parking receipts. There would be no rent credits for infrastructure or other improvements to the Pier 38 bulkhead building. Based on a pro forma for stabilized operations provided by SFWP, BAE has calculated, as shown in Table 1 below, the net present value of SFWP’s proposal to be $460,000 over 20 years.

TMG:
TMG would not make rent payments during the construction period. However, starting with the later of 12 months after lease commencement when occupancy is stabilized, TMG would pay the Port $25,000/month (or $300,000/year) in base rent with a 5% adjustment every five years. TMG proposes a rent credit for its actual hard construction costs, amortized at a negotiated rate of return, and credited against a maximum of one-half of the monthly base rent. Additional rent credits would be provided for substructure maintenance. In its cash flow model, TMG identifies a monthly rent credit of $12,500. BAE has calculated the net present value of TMG's proposal to be $2,240,000 over 20 years.

Both proposals meet the financial terms criteria in the RFP. TMG is more responsive to the criteria of generating revenue to the Port. SFWP proposes a substantial investment in the bulkhead building and greater public access, but offers a significantly lower rent payment to the Port. TMG offers much more rent revenue to the Port, while proposing a lower-cost, less intensive bulkhead building program.

Table 1: Proposed Bulkhead Rehabilitation Financial Terms

	SF Waterfront Partners	**TMG Pier 38 Partners**
Capital Investment	$10.6 million	$6.9 million
Base Rent	$12,600/year	$300,000/year
Rent Adjustments	None	5% every 5 years
Rent Credit	None	Up to 50% of base rent (maximum $150,000 per year)
Percentage Rent	50% of net parking receipts	None
Participation (Lease Sale/Transfer)	Unspecified transfer fee	15% of net proceeds
Security Deposit	None	2 months base rent ($50,000)
Lease Term	20 years	25 years
Net Annual Rent*	$28,947	$150,000
Net Present Value**	$460,000	$2,240,000

**BAE calculation at Year 5*

***BAE calculation over a 20 year Phase 1 term that includes total payments to the Port*

RFP EVALUATION PROCESS

After the Port received proposals from SFWP and TMG, Port staff performed due diligence for these proposals as follows:

1) Engaged Port consultants: BAE analyzed the development programs and financial proposals (see Attachment 6); Carey and Company reviewed the proposals with respect to historic rehabilitation;
2) Convened an evaluation panel that reviewed the written submittals using the consultant information as a resource and scored the proposals;
3) Engaged the Port's finance division staff to review confidential financial statements with the principals of each of the Respondents; and
4) Conducted business reference reviews.

Based on the Respondents' proposals, consultants' analyses, evaluation panel scoring, the financial capability review, and business references, Port staff has formulated its analysis and recommendation, as noted on page 11 below.

EVALUATION PANEL

<u>Membership and Procedures</u>

The Port convened an evaluation panel on June 18, 2013 to evaluate and score the written proposals and interviews based on the evaluation criteria published in the RFP. The evaluation panel consisted of:

- Shelley Carroll – retired Nurse, UCSF and South Beach neighborhood resident
- Charles Higueras – Project Manager, Department of Public Works
- Jennifer Sobol – retired Development Project Manager, Port of San Francisco
- Anne Taupier – Project Manager, Office of Economic and Workforce Development
- Ricky Tijani – Development Project Manager, Port of San Francisco

Panel members were selected for a combined expertise in real estate, development project management and neighborhood representation.

Port staff facilitated the interview and scoring process. Staff collected solicitation participation acknowledgements from each of the evaluation panel members to ensure that the evaluation process would be confidential and that none of the members had conflicts of interest with the two Respondents. Staff outlined the evaluation process to panel members in which written proposals were discussed collectively and then scored individually. Because of confidentiality of financial documents, the evaluation panel did not review the financial capability portion of the written submittals.

Following scoring of the written proposals, the evaluation panel interviewed each of the Respondent teams based on a list of questions that had been provided in advance to both teams. After the interviews were completed, staff asked panelists to discuss and then score each Respondent. Based on the scoring sheets, staff developed the final tabulation and panel averages to determine the highest ranked Respondent.

Evaluation Panel Scoring

The evaluation panel scored both Respondents based on their written submittals and interviews in accordance with the published RFP evaluation criteria. The scores for both Respondents are shown in the summary form below.

Table 2: Evaluation Panel Scoring of Respondents

	Maximum	SFWP	TMG
Written Proposal			
Developer Qualifications	25	24.0	22.8
Financial Capability	-	-	-
Proposed Design, Construction and Tenant Program	40	35.4	36.8
Financial Terms	20	14.4	19.6
Subtotal	**85**	**73.8**	**79.2**
Interview			
Developer Qualifications	25	24.8	24.8
Financial Capability	15	14.4	15.0
Proposed Design, Construction and Tenant Program	40	31.6	37.2
Financial Terms	20	14.0	19.0
Subtotal	**100**	**84.8**	**96.0**
Grand Total	**185**	**158.6**	**175.2**

After the evaluation panel's scores were finalized and reviewed, TMG is the higher ranking respondent for the Bulkhead Rehabilitation.

Please note the evaluation panel did not review the financial capability category for the written submittals. But, the Port's finance division reviewed the Respondents' confidential financial statements independent of the panel's evaluation.

SFWP:
SFWP's funding for the Bulkhead Rehabilitation would be provided by a large pension fund. The Port's finance division concluded that such pension fund's funding obligations for the Bulkhead Rehabilitation would represent only a very small percentage of such pension fund's investment portfolio (less that 0.006% of the pension fund's portfolio of investment assets). The pension fund has more than sufficient financial resources and ability to meet its funding commitment.

TMG:
The Port's finance division acknowledged that TMG expects to self-generate all or substantially all of the funds needed for the Bulkhead Rehabilitation. Specifically, TMG's chairman indicated that in addition to TMG itself, some of the firm's individual partners would, most likely, provide funding for the Bulkhead Rehabilitation. Financial information on these partners, however, was not provided, so their financial capability, if any, was not considered in the financial review of TMG. The Port's finance division concludes that based on the provided financial information, TMG has sufficient financial resources and ability to meet the funding commitment envisioned.

The evaluation panel provided the following comments:

	SFWP	TMG
Strengths	• Successful waterfront development: "excellent team experience" • Successful tenanting of Piers 1 ½ -5 • Overall program meets RFP objectives • Good history of working with public agencies • Good utilization of LBE participation • Retail plan allows for flexibility and concepts well developed • Office plan allows for high-tech office users to return • Supplied market analysis supporting proposed tenant use • Likely source of equity for project • Strong passion for project: "this is what we do"	• Strong team and has large portfolio of large, complicated projects; takes creative approach; brought in team members that have waterfront development experience • Strength is their reputation; excellent track record • Joint venture partner is LBE • Demonstrated ability to attract capital, though bulkhead project will be funded internally • Very articulated design program that emphasizes quick tenanting turn-around • Demonstrates that bulkhead building improvements will not impede with possible long-term development; no tear down of bulkhead building improvements • Responsive to the RFP objectives; focuses on short-term remedies to get re-tenanting done and payments to the Port • Conscious of regulatory issues, including sea-level rise for long-term project • Retail plan, especially food truck program, is flexible/creative • Early re-tenanting program provides good immediate revenue to Port
Weaknesses	• Provided insufficient information to determine Port rent • Rent is very low	• Not very definitive in leasing program: "don't do letter of intent approach until deal is done"

	• Requires demolition of a portion of bulkhead project in order to accomplish re-use project • Closure of short-term occupancy a possible concern • Too much focus on long-term re-use project which is not part of this RFP	• Slightly unclear in providing market analysis support • Proposal for south apron fencing not appealing • No payment of percentage rent

STAFF ANALYSIS

Based on the aforementioned analysis, Port staff considers both Respondents to the RFP to be qualified to develop and undertake the Bulkhead Rehabilitation. Both Respondents have extensive experience in rehabilitation projects of similar scale and complexity and both have team members that have completed successful Port projects.

Both Respondents provide rehabilitation proposals that generally meet the goals and objectives set forth in the RFP, but with specific differences noted below:

- *On-going revenue to the Port:* TMG's lower investment in bulkhead building improvements, including a lesser amount of public access and deferral of certain repairs and improvements until there is a Total Development of Pier 38, allows it to pay considerably more rent to the Port, totaling $1.8 million more over 20 years on a net present value basis. TMG proposed an annual rent of $150,000 to the Port, net of rent credits. In contrast, SFWP proposed annual net rent of $28,947.

- *Re-tenanting:* TMG and SFWP have similar approaches to re-tenant the bulkhead building. SFWP provides more specifics on its future tenants, including its discussions with SOMA Central, the former Pier 38 tech hub tenant, and a letter of interest or business plan from two restaurant operators.

- *Relationship of Bulkhead Rehabilitation improvements to long-term reuse of Pier 38:* SFWP seeks to create more extensive improvements for the Bulkhead Rehabilitation. For example, SFWP invests more into pier apron and public access improvements. TMG seeks to reduce the cost of bulkhead building improvements by deferring some costly items until there is a Total Development of Pier 38 as well as its proposal to implement a food truck program that does not require extensive bulkhead building improvements.

While both Respondents are qualified to undertake the Bulkhead Rehabilitation, both framed the Bulkhead Rehabilitation in terms of an interim use since both desire to develop Pier 38 in its entirety. SFWP's strategy is to construct more extensive improvements during the Bulkhead Rehabilitation, while TMG employs a lighter touch by investing less into the Bulkhead Rehabilitation, deferring certain improvements until there is a Total Development of Pier 38. TMG's approach enables their ability to pay significantly higher rent to the Port and provide greater flexibility for potential future reuse. As such, TMG's approach better reflects the goals and objectives as articulated in the RFP, particularly with respect to completing design, permitting and construction more quickly and providing higher revenue to the Port. Based on its breadth of project development, leasing experience and project staff composition and capacity, TMG team has an advantage in undertaking this Bulkhead Rehabilitation.

Finally, Port staff contacted TMG's business references who uniformly endorsed TMG as a potential development partner. These references cited TMG's level of professionalism and ability to deliver an entitled project on time and on budget.

There are inherent risks that may change the economics of a waterfront development project. These include more detailed understanding of the actual conditions of the Pier 38 substructure and superstructure, regulatory approvals, and market-driven construction costs.

Port staff concurs with the evaluation panel's scoring of the Respondents. Further, Port staff recommends that the Port Commission select TMG as the successful respondent to the RFP and requests authorization from the Port Commission to enter into lease negotiations with TMG for the Bulkhead Rehabilitation.

POTENTIAL FOR A FUTURE TOTAL DEVELOPMENT OF PIER 38

The RFP is intent to solicit a respondent with demonstrated experience in rehabilitating, developing, leasing, and operating projects similar to Pier 38. Additionally, one of the RFP's clear objectives was to ensure that the Bulkhead Rehabilitation "will not inhibit a long-term re-use of Pier 38 (i.e., ensure that the short-term construction and operation would not hinder possible subsequent redevelopment of the entirety or majority of Pier 38)."

The RFP did not request a Total Development proposal, but both Respondents presented an overall vision of such a project at the Port Commission hearing on August 13, 2013. Both Respondents articulated a similar conceptual development program. Both emphasized office use in the pier shed, restaurant use in the bulkhead, maritime uses on the north and south pier aprons, and public access through the pier shed. The only substantive difference is that SFWP would, as part of their bulkhead building project, invest in a seismic joint (which was not included in their written submittal and therefore not considered by the evaluation panel) along the bulkhead building. This might allow restaurant tenants to remain in place during a re-use project construction. However, if there is no Total Development project, it is unclear that there is financial justification for making this improvement.

If the Port were to initiate a Total Development of Pier 38, the Port must follow its planning guidelines under the Waterfront Land Use Plan. This would include a planning process to ensure that there is consultation with appropriate regulatory agencies in order to satisfy a trust consistent finding, maximum public access requirements, and mitigation for sea level rise. The Waterfront Land Use Plan also states that the Port must convene a community advisory group to provide input and guidance on a development concept for a Total Development of Pier 38, including selection of a developer for such a development.

Port staff engaged BAE to provide a preliminary feasibility analysis of a future Total Development of Pier 38. BAE created a theoretical development program for the Total Development and compared it the Bulkhead Rehabilitation. BAE demonstrated that a Total Development would likely yield higher sub-tenant rents to the developer since a complete pier development would include higher finishes, better floor functionality, etc., that would be commensurate with other waterfront developments, such as Pier 1, Piers 1 ½ -5 and the Ferry Building.

As shown in Attachment 7, for the Bulkhead Rehabilitation, BAE projected office space rents of $50 - $55 per square foot per year should be achieved, while a Total Development might attract rents as high as $70 per square foot per year. BAE projected Bulkhead Rehabilitation retail space of at least $48 per square foot NNN per year, while Total Development might attract rents of $60 per square foot NNN per year.

BAE calculated the costs of improvements with the projected revenue stream for a potential Total Development of Pier 38. Assuming development of Pier 38 in its entirety, BAE projects a positive residual value of $15.4 million, assuming capitalized value of $135.7 million and development costs of $120.2 million. If a marina component is needed for public trust consistency, BAE projects a positive, yet slightly lower, residual value of $12.3 million, assuming a capitalized value of $138.5 million and development costs of $126.2 million.

BAE's preliminary analysis shows that a future Total Development of Pier 38 may theoretically be feasible. If directed by the Port Commission, staff could at a later point initiate a planning process that would engage regulatory agencies in determining feasibility and create a local community advisory group to provide input and guidance to the Port Commission. The Port Commission would also need to direct Port staff on how it intends to select a developer for this separate project. As noted, staff considers both Respondents to be qualified to undertake the potential Total Development. However, staff's recommendation hereunder is solely for the Bulkhead Rehabilitation. Staff also understands that the Port Commission has the absolute right to issue a request for proposals, request for qualifications, initiate any other solicitation process or not initiate a selection process, to select a developer of a Total Development opportunity, if at all. A potential timeline for Total Development is shown as Attachment 8.

RECOMMENDATION

Port staff recommends that the Port Commission award the Bulkhead Rehabilitation development opportunity as described in the RFP to TMG. Staff further recommends that the Port Commission authorize staff to initiate lease negotiations with TMG for the Bulkhead Rehabilitation. The Port Commission has an option to direct staff into entering into an exclusive negotiations agreement with TMG. However, since the goal is to rehabilitate and re-tenant the bulkhead building on an interim lease basis only, staff does not believe this is necessary since it would potentially delay project completion.

Once the lease negotiation is completed, the terms of the proposed lease will be presented to the Port Commission for its review and consideration.

NEXT STEPS

Port staff envisions a preliminary Bulkhead Rehabilitation project schedule with the selected developer that would include:

• Port Commission lease approval (6-7 months):	Summer 2014
• Completion of design and permitting (4-6 months):	Winter 2014
• Completion of construction (7-8 months):	Fall 2015
• Tenant Occupancy (3 months):	Early 2016

Prepared by:	John Doll, Project Manager Planning & Development
For:	Byron Rhett, Deputy Director Planning & Development

Attachments:

1 – Background Information
2 – RFP Project Objectives
3 – TMG Bulkhead Building Floor Plan
4 – SFWP Bulkhead Building Floor Plan
5 – Summary of Development Programs for Bulkhead Building
6 – BAE Memorandum: Pier 38 Developer Submittal Evaluation
7 – BAE Memorandum: Pier 38 Financial Feasibility Scenarios
8 – Future Total Development: Next Steps

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 13-51

WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, regulate and control the lands within Port jurisdiction; and

WHEREAS, The Port owns in trust the Pier 38 site, consisting of approximately 68,000 square feet of shed space, 28,000 square feet of apron space, 7,800 square feet of bulkhead office space, and 180,000 square feet of water space, located at Delancey Street and The Embarcadero in the South Beach Harbor Mixed Use Opportunity Area of the South Beach/China Basin Waterfront area of the Waterfront Land Use Plan ("Waterfront Plan') adopted by the Port Commission; and

WHEREAS, On September 25, 2012, the Port Commission, by Resolution 12-74, authorized Port staff to issue a request for proposals ("RFP") for the lease of the Pier 38 bulkhead building and a portion of the shed (collectively, the "bulkhead building"), and manage the solicitation process consistent with the goals and objectives and the selection process as described in the staff report which accompanied that resolution; and

WHEREAS, On November 16, 2012, the Port issued an RFP for the Pier 38 Bulkhead Rehabilitation Project (the "Bulkhead Rehabilitation"); and

WHEREAS, TMG Pier 38 Partners LLC ("TMG") and a team led by San Francisco Waterfront Partners, LLC ("SFWP") submitted timely responses to the RFP and both respondents were found by Port staff to be qualified and their submittals responsive to the RFP requirements; and

WHEREAS, Port staff convened an evaluation review panel of five persons with combined expertise in real estate, development project management and neighborhood representation to review the responses against the objectives and evaluation criteria set forth in the RFP; and

WHEREAS, The evaluation panel scored TMG as the higher ranking respondent for the Bulkhead Rehabilitation; and

WHEREAS, The Port Commission has evaluated the scores of the evaluation panel and reviewed the Port staff analysis and has determined that the TMG proposal for the Bulkhead Rehabilitation is more responsive to the requirements of the RFP; and

WHEREAS, If the Port Commission elects to proceed with a complete redevelopment of Pier 38 in the future ("Total Development"), the Waterfront Land Use Plan states that the Port must initiate a planning process for a Total Development of Pier 38 that would engage regulatory agencies in determining feasibility and create a local community advisory group to provide input and guidance to the Port Commission; and

WHEREAS, Port staff has determined that both respondents are qualified to undertake the Pier 38 Bulkhead Rehabilitation and the Total Development; now therefore be it

RESOLVED, That both TMG and SFWP are deemed qualified to undertake the Pier 38 Bulkhead Rehabilitation; and be it further

RESOLVED, Based on the evaluation panel's scores and Port staff analyses, the Port Commission determines that TMG's proposal for the Bulkhead Rehabilitation is more responsive to the requirements of the RFP; and be it further

RESOLVED, The Port Commission hereby awards to TMG the Bulkhead Rehabilitation opportunity described in the RFP and directs Port staff to negotiate the terms of a lease for the Bulkhead Rehabilitation on terms that do not materially decrease the benefits or otherwise materially increase the obligations or liabilities of the City or Port from the terms proposed by TMG and as described in the staff report accompanying this resolution; and be it further

RESOLVED, That the Port Commission reserves the right, if negotiations with TMG are unsuccessful or the parties are unable to obtain approval of a lease from the Port Commission, and if necessary, the Board of Supervisors, to undertake other efforts including, but not limited to, determining no Pier 38 Bulkhead Rehabilitation will be pursued or negotiating with SFWP, the next highest scoring respondent to the RFP, at the Port's sole discretion; and be it further

RESOLVED, That the direction to staff to negotiate a lease does not commit the Port Commission to approve the terms of the lease or any specific development concept or project proposal, nor will the lease or the project review process it establishes foreclose the possibility of alternative development concepts or deciding not to grant entitlement or approve the lease of the Pier 38 bulkhead building site; and be it further

RESOLVED, That entering into lease negotiations does not commit the Port Commission to approval of a final lease or related documents and that the Port Commission shall not take any discretionary actions committing it to the Bulkhead Rehabilitation until it has reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act ("CEQA"); and be it further

RESOLVED, That the Port Commission will not take action on a comprehensive re-use project of Pier 38 until staff initiates a planning process for a Total Development of Pier 38 that would engage regulatory agencies in determining feasibility and create a local community advisory group to provide input and guidance to the Port Commission; and be it further

RESOLVED, That the Port Commission reserves the right in its sole and absolute discretion to issue a new request for proposals, request for qualifications, initiate any other solicitation process, or not initiate a selection process, to select a developer for a Total Development of Pier 38.

I hereby certify that the Port Commission at its meeting of December 12, 2013 adopted the foregoing Resolution.

____
Secretary

Attachment 1 – Background Information

Recent Port Commission staff reports provide Pier 38 background information:

- **Pier 38 Closure:** Port staff reported on the background regarding the eviction proceedings and site conditions that led to closure of Pier 38 in October 2011.[1] In brief, on August 1, 2011, the Port took possession of Pier 38 from the Pier 38 Maritime Recreation Center and Carl Ernst. On September 2, 2011, the Port's Chief Harbor Engineer declared Pier 38 shed, office spaces, and north apron deck unsuitable for any occupancy due to existing health and safety violations. Occupants were asked to vacate the premises on September 30, 2011. By October 20, 2011, all occupants housed in the Pier 38 bulkhead building and pier shed were vacated.

- **Pier 38 Reuse Options:** In January 2012, Port staff reported on building occupancy options to bring Pier 38 into Code Compliance.[2]

- **Pier 38 Solicitation Options:** On September 11, 2012, Port staff reported on the trade-offs between soliciting a development entity to rehabilitate and re-tenant the Pier 38 bulkhead building only versus an entity to redevelop the entire Pier 38 facility.[3]

- **Port 38 Solicitation Approval:** On September 25, 2013, Port staff received approval to issue a request for proposals for the Pier 38 bulkhead building and limited pier shed improvements for re-occupancy while qualifying this entity to consider the long-term reuse of the entire facility or the majority of the pier structure.[4] The request for proposals was issued on November 16, 2012. Responses were received on March 25, 2013.

- **Port 38 RFP Respondents' Presentations:** On June 11, 2013, the respondents to the request for proposals presented their qualifications and visions for the Pier 38 bulkhead building rehabilitation.[5] This was followed by a second round of developer presentations made on August 13, 2013.[6]

[1] http://www.sfport.com/modules/showdocument.aspx?documentid=2403
[2] http://www.sfport.com/modules/showdocument.aspx?documentid=3231
[3] http://www.sfport.com/modules/showdocument.aspx?documentid=4638
[4] http://www.sfport.com/modules/showdocument.aspx?documentid=4720
[5] http://www.sfport.com/modules/showdocument.aspx?documentid=6313
[6] http://www.sfport.com/modules/showdocument.aspx?documentid=6568

Attachment 2 – RFP Project Objectives

The request for proposals specifically included these project objectives:

- Repair the Pier 38 bulkhead building which may include: remedy structural deficiencies, replace or repair mechanical, electrical and plumbing systems, and construct any other improvements, including egress and ADA, needed to meet the City's building code requirements as well as other regulatory requirements, including consistency with the Secretary Standards.

- Develop the most effective implementation strategy to quickly re-tenant the Pier 38 bulkhead building in order to achieve the Port's goal of bringing it back into economic use and provide an on-going revenue stream to the Port.

- Encourage the re-tenanting of the Pier 38 bulkhead building to include: office, high technology uses, visitor-serving commercial, entertainment and cultural uses, and, maritime uses that complement adjacent waterfront development.

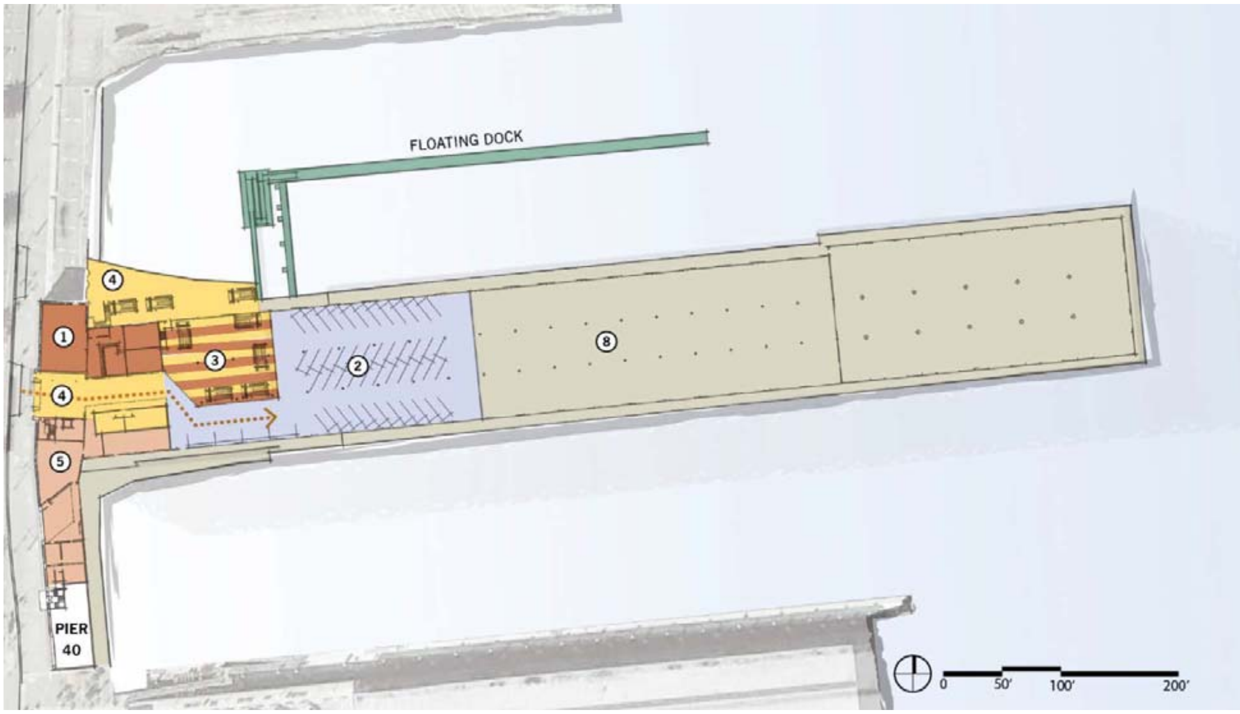
- Continue the redevelopment of the South Beach waterfront from the Bay Bridge to AT&T Ballpark, by reviving this historic structure, and helping knit Pier 38 into the South Beach neighborhood by bringing people and business activity to the waterfront.
- Demonstrate how the short-term Pier 38 bulkhead building rehabilitation will not inhibit a long-term reuse of Pier 38 (i.e., ensure that the short-term construction and operation would not hinder possible subsequent redevelopment of the entirety or majority of Pier 38).
- Develop a plan to improve the physical appearance of the bulkhead building and pier shed.
- Require that any adaptive reuse will be consistent with the Secretary of Interior's Standards for the Treatment of Historic Properties.
- Require a sustainable development program that minimizes the reliance on private automobiles, uses energy efficiently and, as possible, includes alternative energy sources that comply with the City's Green Building Standards.
- Secure private financial investment to rehabilitate and revive the Pier 38 bulkhead building in the near term.

- Provide business and employment opportunities for local workers and businesses during the design, construction and operation phases of the Pier 38 bulkhead building.

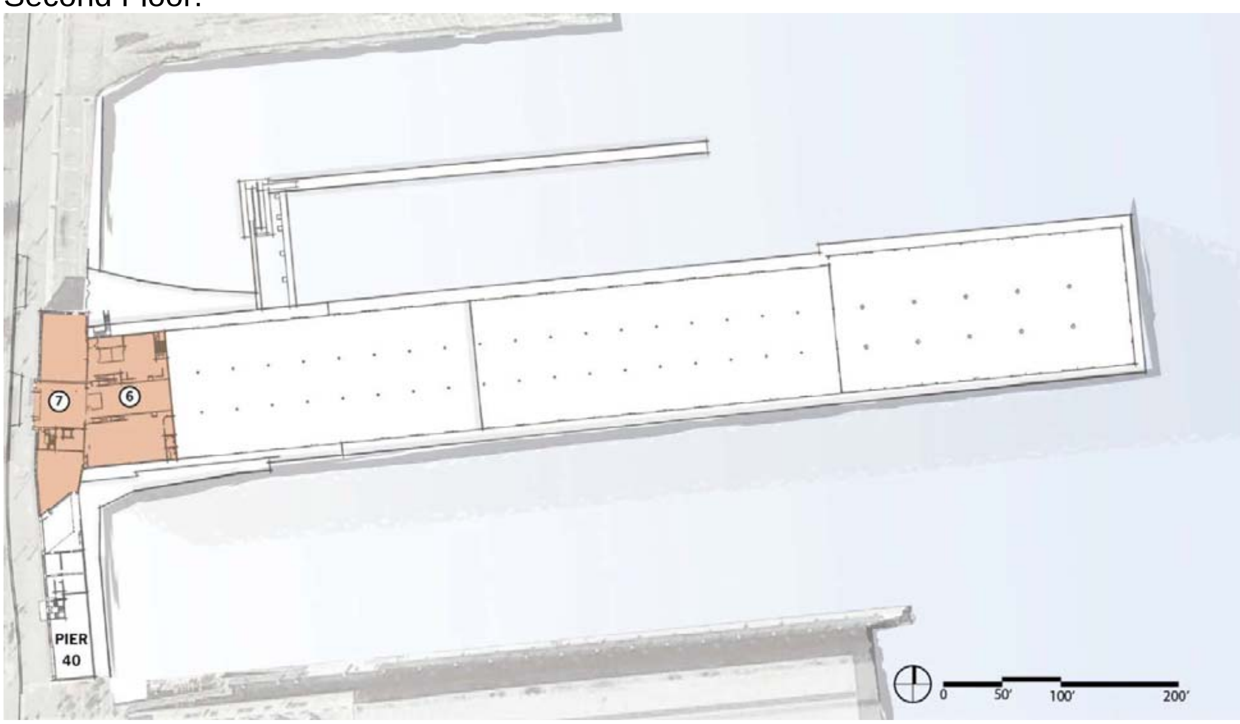
- Provide security for the entire Pier 38.

Attachment 3 -- TMG Bulkhead Building Floor Plan

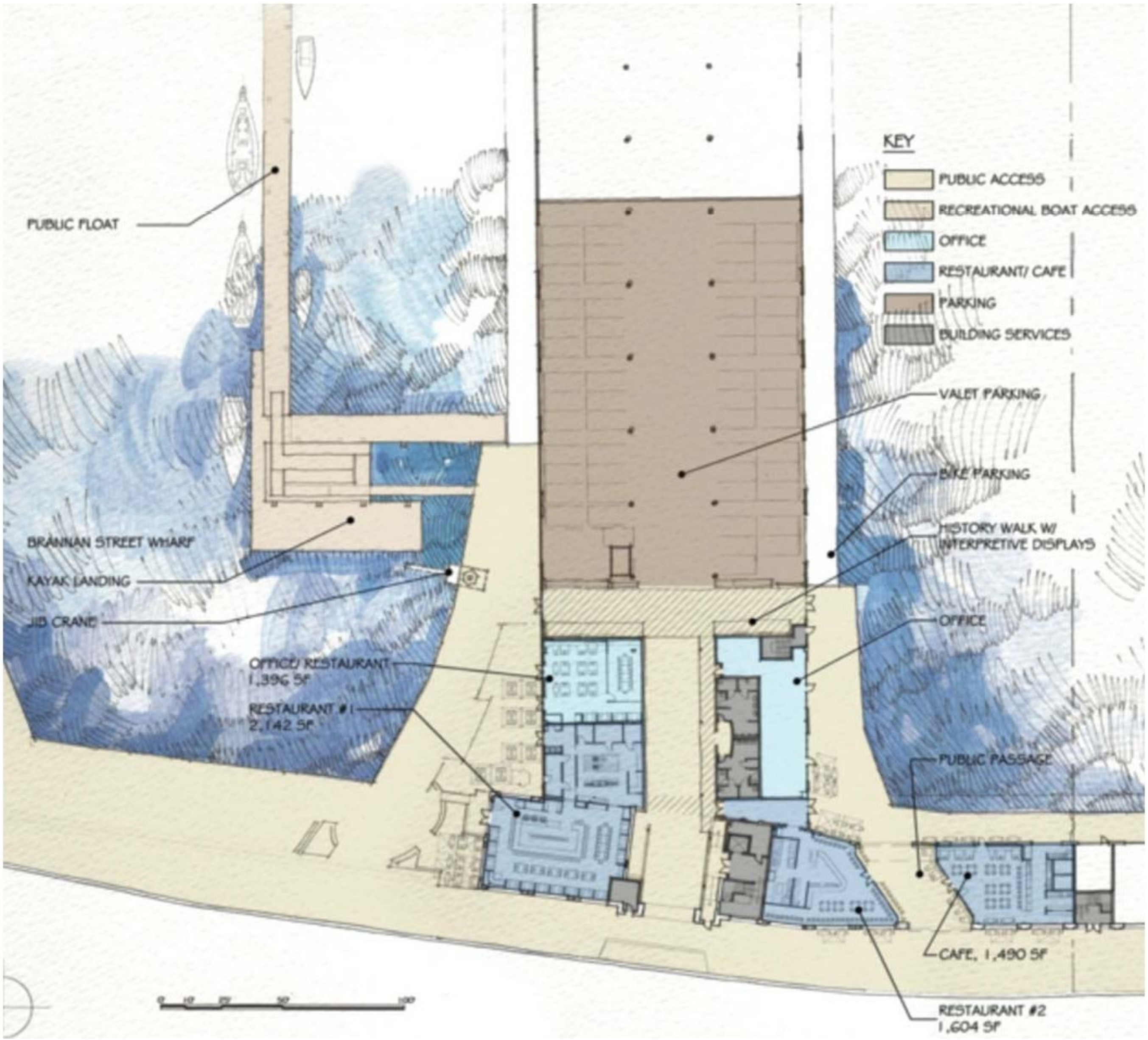
Ground Floor:



Second Floor:



Attachment 4 – SFWP Bulkhead Building Floor Plan



Attachment 5 -- Summary of Bulkhead Building Development Programs

	SFWP	TMG
Occupied Areas:		
Office	19,540	19,515
Retail/Restaurant (a)	8,325	6,800
Subtotal	**27,865**	**26,313**
Other Areas:		
Parking	18,843	22,400
Maritime (approx.)	6,000	2,400
Public Access (b)	15,868	15,400
Total Square Feet:	**68,576**	**66,515**

a) SFWP assumes 1st floor shown as office/ restaurant is leased to restaurant or retail use. TMG proposal is for informal dining area serving food truck patrons.

b) TMG public access includes 6,000 sq. ft. for food truck parking + entry area to food truck parking area.

Attachment 6 – BAE Memorandum: Pier 38 Developer Submittal Evaluation

Attachment 7 -- BAE Memorandum: Pier 38 Financial Feasibility Scenarios

Attachment 8 – Future Total Development: Next Steps

Subject to Port Commission direction, Port staff might take the following steps to determine financial feasibility and regulatory strategy for a re-use project:

• Port Commission creation of a Pier 38 community advisory Group to develop a vision plan for a Total Development:*	Summer 2015
• Port Commission approval of a Pier 38 vision and selection of a Total Development developer:	Winter 2015
• Port Commission approval of exclusive negotiations with Total Development developer:	Winter 2015
• Board of Supervisors Term Sheet approval, demonstrating financial feasibility and regulatory strategy:	Summer 2016
• CEQA environmental review process (18 months):	Winter 2017
• State Lands Commission trust consistency process (6 months):	Winter 2017
• Waterfront Land Use Plan amendment (6 months)	Winter 2017
• WDAC/DRB design review process (3 months):	Winter 2017
• Port Commission LDDA and lease approval:	Spring 2018
• Board of Supervisors lease approval:	Spring 2018
• Bay Conservation and Development Commission permit approval:	Summer 2018
• Completion of Construction (24 months):	Summer 2020
• Tenant Occupancy (3 months):	Fall 2020

Note: **This schedule shows creation of the community advisory group occurring during construction of the bulkhead rehabilitation project, but this could occur earlier or later. The durations of each task should remain roughly constant.*

MEMORANDUM

TO: John Doll, Project Manager, Port of San Francisco
FROM: Janet Smith-Heimer, Managing Principal, BAE
Ron Golem, Principal, BAE
RE: Evaluation of Developer Proposals for Pier 38 Phase 1 Bulkhead Renovation
DATE: June 13, 2013

Purpose

This memorandum presents an analysis of the two submittals received by the Port in response to its Pier 38 RFP. Submittals were received from SF Waterfront Partners, LLC, and TMG Pier 38 Partners, LLC. The analysis contained in this memorandum is limited to proposals for rehabilitation and re-tenanting of the Pier 38 Bulkhead building (also referred to as Phase 1 in this memorandum), and does not evaluate additional concepts and information presented by the two submitters for a second phase to redevelop all of Pier 38 (Phase 2), per the RFP.

This memorandum is organized pursuant to the RFP's Minimum Qualifications and Evaluation Criteria, including as follows:

- The development entities submitting proposals and their qualifications and experience;
- The proposed Rehabilitation Concept and its design, construction and tenant program relative to the RFP's Development Objectives and other RFP criteria (except as noted below); and
- The proposed financial terms and projected rent payments to the Port.

A separate report will be submitted by Carey & Company, a historic architecture firm as subconsultant to BAE, regarding the submitters' design and construction plans and their consistency with City of San Francisco codes and the Secretary of the Interior's Standards for Rehabilitation (Secretary's Standards, RFP Evaluation Criterion 3b). In addition, Port finance staff will separately prepare an analysis of the submitters' financial capability (RFP Evaluation Criterion 2).

Attached to this memorandum is a Summary Chart that provides more details on the each submitter's team, development concept, and information regarding each criteria evaluated by BAE, including Development Objectives. Again, the approach taken by BAE, at the direction of the Port, was to evaluate the submittals only for the Bulkhead renovation (e.g., Phase 1) and not to evaluate information provided in each proposal for Phase 2 (shed renovation).

Overview of Development Teams

Each of the submitters proposes to create a new Limited Liability Company (LLC) to enter into an agreement with the Port. The following section describes the composition of the proposed LLC. Each team also identifies its architectural, engineering, and other professional services (e.g. legal) team; SF Waterfront Partners, LLC identified 12 firms as part of its team, while TMG Pier 38 Partners, LLC. Identified six firms with more to be added.

SF Waterfront Partners III, LLC

San Francisco Waterfront Partners III, LLC is a to-be-formed entity that will be wholly owned by San Francisco Waterfront Partners, LLC, (SFWP), a Delaware corporation. SFWP's Managing Member is Pacific Waterfront Partners, LLC (PWP), with 1% ownership, and the California State Teachers Retirement System (CalSTRS) with 99% ownership.

PWP is 75% owned by Simon W.R. Snellgrove, and 25% owned by Alicia Esterkamp Allbin.

TMG Pier 38 Partners, LLC

TMG Pier 38 Partners, LLC (TMG Pier 38 Partners), is a joint venture between TMG Partners and Premier Structures, Inc. Premier Structures is a San Francisco LBE whose Principals are Elliott Grimshaw and Paul Osmundson) along with other unidentified equity investors. Premier Structures' percentage of equity interest in the joint venture is yet to be negotiated.

It should be noted that Premier Structures' two principals – Elliott Grimshaw and Paul Osmundson – were formerly employed by Pacific Waterfront Partners or subsidiaries, and as such, have overlapping qualifications with respect to completion of Piers 1 ½ - 5.

Satisfaction of Minimum Qualifications Criteria

The RFP sets forth three minimum qualifications that a submitter must meet in order for its proposal to be deemed responsive for consideration of its Rehabilitation Concept: (**1**) a minimum of 10 years' experience in commercial real estate development; (**2**) successful completion of at least three real estate development projects of similar size and scope to the project proposed, at least one of which must be a historic preservation project documented to have met with Secretary Standards; and (**3**) superior credit history and demonstrated ability to finance the project proposed on commercially reasonable terms from equity or debt from bona fide financial institutions.

Both of the submitters have provided information to demonstrate that they meet the first two minimum qualifications. The member entities of both submitters have more than 10 years of experience in commercial real estate development. Port finance staff will separately address the third minimum criterion regarding credit history and demonstrated ability to finance the proposed project.

SF Waterfront Partners

SF Waterfront Partners identified four projects of similar size and scope, including a historic preservation project documented to have met the Secretary's Standards. These projects are: Piers 1½-5, a $65 million historic tax credit funded rehabilitation project (most similar in size and complexity to Pier 38); 8 Washington, a mixed-use development with 134 residential units and 20,000 square feet of commercial space, along with public space and parking scheduled to start construction in 2014; Pier 24 Annex rehabilitation for 28,000 square feet of gallery and warehouse space; and Bay School redevelopment of a 62,000 square foot building in the Presidio of San Francisco (done by the Principals of PWP with another partner, Equity Community Builders).

TMG Pier 38 Partners

TMG Pier 38 Partners identified three projects of similar size and scope: The Landmark at One Market, a 444,000 square foot historic tax credit funded rehabilitation of Class A office space; 680 Folsom Street, done via an Owner Participation Agreement with the San Francisco Redevelopment Agency, and currently under construction for 521,000 square feet of office space with 85 percent pre-leasing; and 1000 Van Ness, a historic tax credit funded rehabilitation of a former Cadillac dealership into a mixed-use project with a multiplex theater, condominiums, retail, and parking (most similar in size and complexity to Pier 38).

Submittal Information Provided Relative to Evaluation Criteria

This section summarizes the information submitted by each team for the following Evaluation Criteria in the RFP. The actual scoring of the submittals will be done by the Port's Pier 38 Evaluation Panel, based on the points allocated to each criterion. More detail on the submitted information for each criterion and its subcriteria is contained in the Appendix to this memorandum.

Evaluation Criterion 1: Developer Qualifications (25 points)

As set forth in the RFP, this criterion includes subcriteria for development track record with comparable projects; experience of team members and key personnel; experience with waterfront and historic preservation projects; experience with transaction structures, leasing and marketing, and managing construction; demonstrated ability to successfully operate completed projects on an ongoing basis; proven ability to work with public agencies; a track record of local hiring and participation of locally owned businesses in prior projects; documented ability to work with local organizations and/or address community concerns; and ability to obtain project approvals in a complex political and regulatory context.

SF Waterfront Partners

SF Waterfront Partners' relevant project experience is described in the section on Minimum Qualifications for most of the Criterion 1 items. It notes that the Pier 1½-5 project has achieved average office rents of $106 per square foot per year on a gross basis, and that the project's rent payments to the Port exceed the minimum and are $1 million ahead of projections (not verified by BAE). Additional information on Simon Snellgrove's development experience while at other entities includes Marina Square in Singapore (700,000 square feet of retail and 2,070 hotel rooms) and the Embarcadero Center mixed-use project in San Francisco (3.2 million square feet), as well as his roles as President of US Lend Lease and Managing Director of Lend Lease International, as well as various roles at the Portman Companies.

SF Waterfront Partners states that it has achieved 22 percent Local Business Enterprise (LBE) participation on the Pier 1½-5 project versus a 15 percent target (verification by Port staff is underway, but may not be achievable).

No specific information is provided to document its ability to work with local organizations and/or address community concerns.

Based on the information submitted, SF Waterfront Partners' member's Pier 1½-5 project appears most relevant to Criterion 1 evaluation. This project has experienced strong success, and demonstrates the ability to redevelop an historic waterfront property within the complex legal and environmental regulatory framework involving Port-owned properties.

Conclusion. Overall, this team meets most subcriteria for this section, and is qualified to undertake this project, except for missing documentation regarding ability to work with local organizations and address community concerns.

TMG Pier 38 Partners

TMG Pier 38 Partners' relevant project experience is described in the section on Minimum Qualifications for most of the Criterion 1 items. Based on the information submitted, TMG Pier 38 Partners member's The Landmark at One Market and 1000 Van Ness projects appear most relevant to Criterion 1 evaluation. The 680 Folsom Street project is not as relevant because it is still in construction and thus has not demonstrated superior long-term results. TMG Partners, a member of TMG Pier 38 Partners, shows extensive development experience throughout the Bay Area, considerably more so than the members of SF Waterfront Partners. However insufficient information is provided to fully evaluate the subcriteria regarding a proven ability to work with public agency, a track record of local hiring and participation, and a documented ability to work with local organizations and/or address community concerns.

TMG Pier 38 Partners Project Manager Amy Neches was previously the San Francisco Redevelopment Agency's manager of the Rincon Point-South Beach Redevelopment Project Areas, and led the Agency's Phase 2 development of the South Beach Harbor including renovation of Pier 40.

In addition to TMG experience, its future partner in Pier 38, Premier Structures, has relevant experience identified as including Development Manager and Project and Construction Manager for the Autodesk facilities at Pier 9 on an interim 10-year lease. Moreover, Premier Principals Paul Osmundson and Elliott Grimshaw were previously at PWP (one of the SF Waterfront Partners entities) and served as Project Manager and Construction Manager for the Pier 24 and Pier 1½-5 projects. Paul Osmundson was also previously the Port's Lead Negotiator and Project Manager for the Ferry Building Renovation Project; Managing Representative for San Francisco Cruise Terminal, LLC; and Director of Development for Lend Lease Development. The combination of these team members' experiences makes it sufficiently qualified for the Pier 38 Phase 1 project.

No specific information is provided to document its ability to work with local organizations and/or address community concerns.

Conclusion. Overall, this team meets most subcriteria for this section, and is qualified to undertake the Pier 38 Phase 1 project, with the exception of missing documentation regarding ability to work with local organizations and address community concerns.

Evaluation Criterion 2: Financial Capability (15 points)
A separate analysis of the submitted information is being prepared by Port finance staff.

Evaluation Criterion 3: Proposed Design, Construction, and Tenant Program (40 points)
As set forth in the RFP, this criterion includes subcriteria for a strategy that quickly re-tenants the Bulkhead building with uses that best meet Port Development Objectives; consistency with City codes and Secretary's Standards; a strategy to obtain approvals per the regulatory context; strength of the real estate market for the proposed uses; and demonstration of how short-term Bulkhead building rehabilitation will not inhibit long-term reuse of Pier 38.

This section of the memorandum addresses the economic and development-related aspects of Criterion 3. Carey & Company is preparing a separate report that addresses consistency with City codes and Secretary's Standards, and other relevant historic architecture considerations.

The table below compares the two submittals' development programs. As shown, both proposals total roughly the same square footage, but each proposes a different concept.

Table 1: Summary of Development Programs for Bulkhead (Phase 1)

	SF Waterfront Partners	TMG Pier 38 Partners
Occupied Areas:		
Office	19,540	19,515
Retail/Restaurant (a)	8,325	6,800
Subtotal	**27,865**	**26,315**
Other Areas:		
Parking	18,843	22,400
Maritime (approx)	6,000	2,400
Public Access (b)	15,868	15,400
Subtotal	**40,711**	**40,200**
Total Sq. Ft.	**68,576**	**66,515**

a) SFWP assumes 1st floor shown as office/ restaurant is leased to restaurant or retail use.
TMG proposal is for informal dining area serving food truck patrons.
b) TMG public access includes 6,000 sq. ft.for food truck parking + entry
area to food truck parking area.

SF Waterfront Partners

The conceptual site plan for SF Waterfront Partners' Phase 1 work is shown on the next page. SF Waterfront Partners proposes that its Phase 1 improvements, costing $10.6 million, will be designed to achieve at least LEED Silver standards, and that it will strive to meet the LEED Gold standard. It envisions a combination of the Port's Reuse Option 1c (per attachments in the RFP for the Port Staff Report for September 20, 2012). This approach would reuse the first floor of the Bulkhead building for casual restaurant and café uses, and the second floor for office uses, with a portion of the parking outlined in Reuse Option 1d used for up to 55 valet parking spaces.

A letter of interest from SOMA Central is provided regarding its interest in working with SF Waterfront Partners to create a tech hub. The mix of office uses that is envisioned includes tech hub/start-ups, established tech firms, and venture capital firms. The market rent information provided by letter in the submittal (from CAC), and more importantly, the rent assumptjon of $40 per square foot per year NNN made by this developer in its cash flow, matches or is less than potential SoMa market rents (note: depends on cost reimbursement formulas, also included in SF Watefront Partners but with insufficient detail to determine total cost of occupancy to tenant for comparison-to-market purposes).

The retail space is envisioned as containing three separate spaces. A letter of interest is provided from The Slanted Door Group (Charles Phan) for creation of an "Asian fast food" casual café. A business plan for the San Francisco Beer Garden is also provided that envisions outdoor dining, but a letter of interest is not provided by a specific operator. While not specified in the submittal, it appears the Beer Garden use would be on the north side of the Bulkhead building, facing the Brannan Street Wharf.

Parking would consist of either 24 self-park or up to 55 valet spaces, priced for short-term use only. Bike lockers for tenants and visitors would also be provided. Maritime uses would include repairs to the existing dock on the north side of Pier 38 to allow short-term and transient small boat berthing; free use by a water taxi; a kayak landing; and a small boat launch. These uses would create a boating activity center that includes a two-ton boat launch crane.

Public access would be enhanced by removing a ground floor office space to create a breezeway that connects the Embarcadero to the south apron of Pier 38. This would create a Port walk that would proceed through the Pier 38 shed, to a reconfigured north apron that is connects with the new Brannan Street Wharf project.

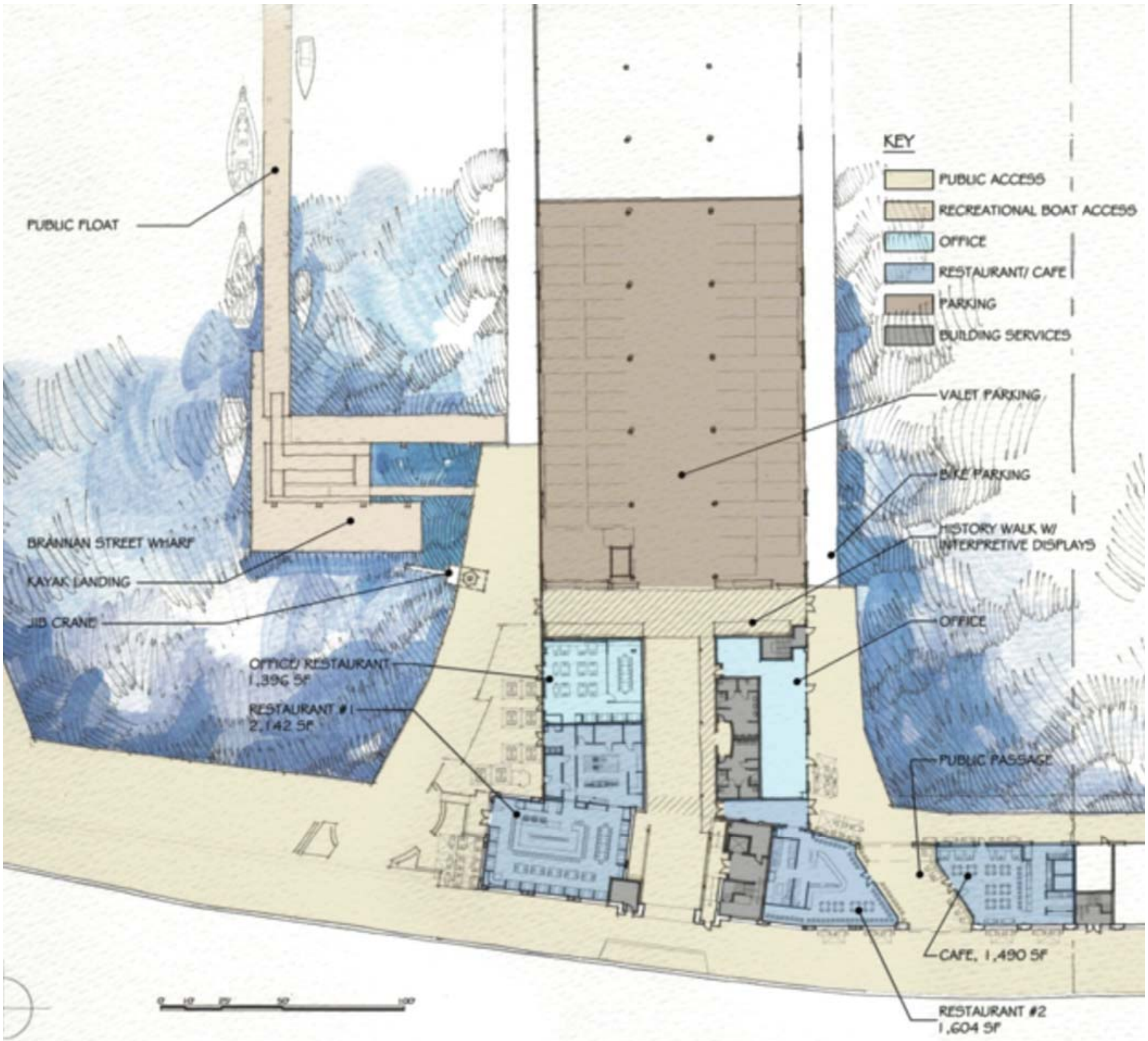
The public access and maritime uses are expected to facilitate regulatory approvals. A CEQA categorical exemption will be sought, although the submittal notes that requirements for temporary pilings on the south apron to support required exiting from the second floor uses may present a risk of a CEQA challenge, leading to delays or other risks for project approval.

A letter is provided from the CAC Group identifying office rents in comparable projects in the Pier 38 area at $60+ per square foot per year, gross. A letter from Terranomics is provided expressing its confidence in its ability to attract high-quality retail tenants from $50 to $60 per square foot per year, triple-net. These figures are at or higher than the rents assumed in the SF Waterfront Partners cash flow mode for base rent; however, for total office rent revenue, the SF Waterfront rent assumption for Pier 38 shown in their cash flow is $40 per square foot NNN, but also includes a very substantial cost pass-thru, resulting in total rent revenues of more than $70 per square foot from office space upon stabilization. .

It should be noted that this proposal by SF Waterfront Partners provides a higher level of improvements and more permanent retail tenants, along with greater public access and a more extensive set of maritime uses in its Phase 1 concept, than the TMG proposal. However, the resulting higher improvement costs ($10.6 million versus $6.9 million for TMG) also result in substantially lower rent payments to the Port (see next section of memo). It also should be noted that this team's approach to Phase 2 (not evaluated herein) means that some improvements made for Phase 1 would need to be demolished, 2nd floor office users would need to be vacated, and the Phase 1 south apron improvements would be removed for the Phase 2 seismic retrofit work. SF Waterfront Partners notes that its Phase 1 project thus creates a challenge because of the additional significant cost burden it places on Phase 2 work.

Conclusion. This project concept meets the criteria in the RFP. It is envisioned in a way that will provide permanent improvements and more extensive public access in Phase 1 than the other proposal. The concept is relatively expensive as portrayed, however, and will likely result in lower rent payments to the Port than the other proposal .Also, as envisioned, some improvements will need to be demolished in the event of a Phase 2, which BAE concludes should be considered carefully to avoid a scheme creating this situation if not necessary.

Figure 1: SF Waterfront Partners Proposed Phase 1 Reuse and Improvements (1st Floor)



TMG Pier 38 Partners

The conceptual plan for TMG Pier 38 Partners Phase 1 work is shown after this narrative section. This proposal shows a cost of $6.9 million for Phase 1, and is focused on a limited initial investment that meets accessibility and code requirements, in order to quickly active the Bulkhead building with new uses. According to the proposal, this approach minimizes Phase 1 costs in order to benefit the overall project economics during Phase 2 (not evaluated herein).

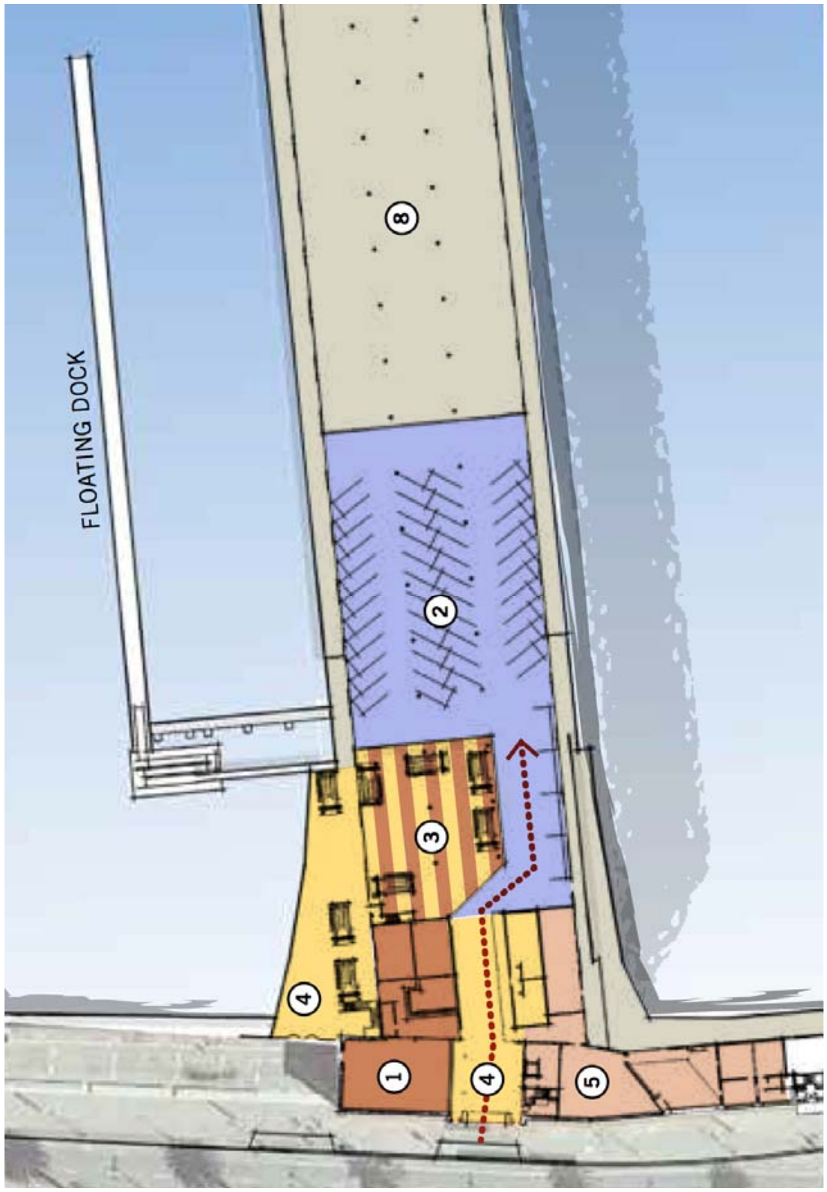
The southern portion of the Bulkhead's first floor, as well as the western portion of the mezzanine, will be used for office space. Office uses will be oriented to tech and creative tenants, and TMG Pier 38 Partners indicates that it is in discussions with several of the former tenants. The northern portion of Bulkhead's first floor will be used as an informal dining area, accessible to patrons of food trucks that would be located inside the shed, adjacent to the north apron. This informal dining area will be open to the public, with outdoor seating, and will also be available for occasional live music programming. The food truck area will involve a revolving program of different operators, and TMG Pier 38 Partners is in discussions with the Off the Grid food truck organization for its operation. Parking would be incorporated by using a portion of the shed for approximately 40 to 60 spaces to serve new office tenants (note: proposal states that this use of the shed is scaled to avoid seismic retrofit), with egress through the main entrance to the Bulkhead building. The maritime area will involve reuse of the northern finger pier as a visitor-serving guest dock as well as a location for the San Francisco Water Taxi.

The proposal envisions generally pursuing the Port's Reuse Option 1 (closest to 1d, but with less parking). However TMG identifies a specific list of improvements from the Port's Reuse Option that would not be performed in Phase 1; these would instead be deferred to Phase 2. TMG Pier 38 Partners states that even with these exceptions, the proposed Phase 1 improvements will meet code requirements. Notable exceptions are that Phase 1 would not include reuse of the south apron, fire sprinklers would not be extended into the unused portion of the shed, and one Limited Use/Limited Accessibility elevator would be provided.

This proposal includes a discussion of the context and issues for regulatory approvals from various agencies. It envisions that a CEQA Categorical Exemption will be sought for the interim leasing (Phase 1), and if required a Mitigated Negative Declaration. The discussion of market support is more limited than in the other submittal, with a brief discussion of the current office market vacancy rate in the South Beach submarket in 2012 being under five percent, with the highest average rent of any submarket at $46 per square foot per year, gross. The actual cash flow from TMG shows base rents of $40 per square foot, and small cost reimbursements in addition, totaling $50 per square foot for the office space component.

Conclusion. This concept meets the RFP criteria, although it does so with the caveat that TMG's proposed Phase 1 improvements diverge in several ways from the visions put forth by the Port, resulting in a lower-cost Phase 1 with the added flexibility of not requiring demolition of any Phase 1 improvements to effect a future Phase 2. The separate report from Carey & Company will provide an opinion as to whether the TMG list of Phase 1 improvements will likely meet all applicable code requirements. If the TMG approach is feasible, then it provides a lower-cost, higher rent situation to the Port for Phase 1 reuse.

Figure 2: TMG Pier 38 Partners Proposed Phase 1 Reuse and Improvements (1st Floor)



	PUBLIC TRUST USES	
1	RETAIL / DINING	6,800 SF
2	PARKING (+/- 45 SPACES)	22,400 SF
3	PUBLIC ACCESS / FOOD TRUCK	6,000 SF
	SUBTOTAL	35,200 SF
4	PUBLIC ACCESS	9,400 SF
	GUEST DOCK	2,400 SF
	TOTAL	47,000 GSF

	OTHER USES	
5	1ST LEVEL OFFICE	6,600 SF
6	2ND LEVEL OFFICE (SHED)	7,415 SF
7	2ND LEVEL OFFICE (BULKHEAD)	4,887 SF
	TOTAL OFFICE	18,902 SF
8	NOT ACCESSIBLE / NO IMPROVEMENTS	78,300 SF
	TOTAL	97,202 GSF

Evaluation Criterion 4: Proposed Financial Terms (20 points)

As set forth in the RFP, this criterion includes subcriteria for cash flow projections that demonstrate the ability to meet all lease, debt service, and operating expenses (e.g., feasibility to developer); and the proposed annual rent structure to the Port. A summary of the deal terms proposed by each submittal are shown below:

Table 2: Comparison of Proposed Phase 1 Term Sheets, Pier 38 RFP Submittals

	SF Waterfront Partners (a)	TMG Pier 38 Partners
Lease Term (years)	20	25
Proposed Rent		
Base Rent	$5,000 per month during construction; thereafter $0.50 per square foot per year for office & retail areas	$300,000 per year
Rent Adjustments	None	5% every 5 years
Rent Credit	None	Hard costs amortized at mutually agreed rate of return, credited against up to 50% of base rent (maximum $150,000 per year)
Percentage Rent	50% of net parking receipts	None
Participation Rent	Transfer fee (not specified) on sale to be paid to Port or affordable housing developer at Port's discretion.	15% of net proceeds from sale or transfer of Lease (excluding transfer to affiliated entities)
Other Consideration	Ongoing transit impact fees, parking surplus fee, subsidized junior sailing, discounted Port use of public space (amounts for all are unspecified)	
Lease Commencement	Issuance of a Temporary Certificate of Occupancy	Upon Board of Supervisors approval and receipt of all approvals and building permits
Rent Commencement	Construction	Later of 12 months following Lease Commencement or stabilization
Security Deposit	None identified	2 months base rent

(a) Revised proposal by SF Waterfront Partners as described in memorandum.

Note: BAE made adjustments to these proposed terms as noted in the next section and in Appendix B, to conduct its cash flow analysis.

Sources: SFWP; TMG; BAE, 2013.

BAE Cash Flow Analysis
The proposed terms and cash flow model assumptions provided by the submitters were used, except that in order to provide a comparable "apples to apples" evaluation of financial terms, certain common assumptions were used by BAE irrespective of the submittals for the financial analysis of Phase 1, including:

- A Phase 1 lease term of 20 years;
- Rent increases of three percent per year, effective every five years (i.e. when tenants renew leases or vacate their premises);
- Office vacancy factor of five percent; and
- Operating expense increases of three percent per year; two percent increase per year in property taxes (possessory interest tax).

The proposed participation rent (other than parking) and other lease consideration was not evaluated, due to either the speculative nature of any assumptions as to when a sale might occur, and/or a lack of sufficient information to calculate net proceeds.

The adjusted cash flows prepared by BAE are shown as Appendix Bto this memo. The following describes the financial analysis for each submittal.

SF Waterfront Partners
SF Waterfront Partners provided a pro forma for stabilized operations in its submittal per RFP requirements, while the other submitter provided a 25-year cash flow projection. Subsequent discussions with SF Waterfront Partners to obtain information needed for BAE to develop a cash flow model led to SF Waterfront Partners providing the Port with its full cash flow model, and also identifying an alternate proposed rent structure from what is described in its submittal. SF Waterfront Partners identified that the reason for the change in the proposed rent structure is to ensure that the Port receives rent every year; otherwise the rent structure in its submittal, less rent credits to amortize infrastructure costs, would have resulted in the Port receiving no rent prior to Year 11. SF Waterfront Partners in subsequent communications indicated that Phase 1 is likely infeasible from their point of view, and notes in its written submittal that one of the challenges for Phase 1 is the impact of its cost upon the feasibility of the Phase 2 project (this issue is also identified in the other submittal).

SF Waterfront Partners proposes rent to the Port that would total $60,000 during the construction period. Following construction, the base rent would be set at $0.50 per square foot per year of occupied space (retail and office). In addition to this amount, the Port would be paid 50 percent of net parking receipts. There would be no rent credits for infrastructure or other improvements to the Pier 38 Bulkhead building.

Despite these conditions, the BAE analysis indicates that the project would achieve a substantial return on costs, achieving just under 10% return in early stabilized years, and exceeding 20% in out years. This level of return on costs indicates feasibility to the developer, and suggests that additional rent payments could be made to the Port, depending on final negotiations.

Conclusion. This proposal meets the criteria in the RFP, offering a substantial investment in the Bulkhead building, and providing more public access than the other proposal. However, it has the drawback of aiming at relatively high office rents, making certain improvements that would need demolition (according to the submittal) in the event of a Phase 2 project, and results in much lower rent payments to the Port than the other proposal. It is feasible from the developer's standpoint, when considering overall return on costs, and improves substantially in later years, indicating potential for some additional rent payments to the Port not offered by this team.

TMG Pier 38 Partners

TMG Pier 38 Partners provided a cash flow model in its submittal. It would not make payments during the construction period; however, starting with the later of 12 months after Lease Commencement or stabilization of occupancy, the developer would pay the Port $25,000 per month in base rent, with a five percent adjustment every five years. TMG Pier 38 Partners proposes that it receive a rent credit for its actual hard construction costs, amortized at a negotiated rate of return, and credited against up to one-half of the monthly base rent. Additional rent credits would be provided for substructure maintenance. In its cash flow model, TMG Pier 38 Partners identifies a monthly rent credit at $12,500. It should be noted that because a proposal for calculation of the rent credit is not identified, only a cap, it is not possible to determine whether the $12,500 per month rent credit figure would be sufficient to amortize the dollar value of the improvements for which TMG Pier 38 Partners proposes to receive a rent credit by the end of the proposed Phase 1 lease term. However, BAE assumed that this is the proposed rent payment/rent credit, and a negotiated agreement would stick with this cash flow to the Port, even in the event that it did not amortize all costs.

It should be noted that the TMG Pier 38 Partners cash flow showed an unexplained decline in office rent revenue on one "out year"; from $859,000 in 2019 to $699,000 in 2020. Thereafter rent increases and exceeds the 2019 figure by 2030. BAE assumed this was an error, and this discrepancy nonetheless disappeared when BAE smoothed the cash flows out for comparison purposes.

Conclusion. This proposal offers more rent revenue to the Port, while also providing a lower-cost, less intensive program of Phase 1 improvements. It is feasible from the developer's standpoint, when considering overall return on costs.

Comparison of Rent Proceeds to Port

The following table compares the rent payments to the Port based on the information provided by each of the submitters:

Table 3: Comparison of Phase 1 Proposed Rent Payments to the Port, 2014 - 2033

	SFWP	TMG
Construction Period Rent	**$60,000**	**$0**
Lease Term Rent Calculations		
Total Base Rent - 20 Years	$299,980	$6,165,188
Percentage Rent (on Parking)	375,035	0
	$675,014	$6,165,188
Less Proposed Rent Credits	0	(2,850,000)
Total Current Dollar Rent to Port Through Year 20	**$675,014**	**$6,165,188**
Net Present Value at 4% Discount Rate	**$457,989**	**$2,244,920**

Notes:
- See worksheets for assumptions and details of calculations.
- Excludes any participation rents from sale or transfer of leasehold interest.

Sources: SFWP; TMG; BAE, 2013.

Port's Development Objectives

A separate analysis by Carey and Company of how the submitters' Rehabilitation Concepts will repair the Pier 38 Bulkhead building and meet the Secretary's Standards to satisfy the Port's first development objective is being separately prepared. Both submittals provide Rehabilitation Concepts that outline in a general manner how the Port's other Development Objectives will be advanced, although based on the level of detail at this point much of this is stated as general commitments and intentions rather than specific courses of action. Both submittals appear to have the potential to advance the Port's Development Objectives to approximately the same extent, with selected differences as noted below:

- *Ongoing revenue to the Port*. TMG Pier 38 Partners' lower investment in improvements, including a lesser amount of public access and deferral of certain repairs and improvements to Phase 2, along with a considerably lower development return (based on BAE's calculations), allows it to pay considerably more rent to the Port, totaling $1.8 million more over 20 years on a Net Present Value basis.
- *Re-tenanting*. SF Waterfront Partners provides more specifics on its future tenants, including its discussions with SOMA Central, the former Pier 38 tech hub tenant, and a letter of interest or business plan from two restaurant operators.
- *Relationship of Phase 1 improvements to long-term reuse of Pier 38.* SF Waterfront Partners seeks to create more extensive permanent improvements during Phase 1, while TMG Pier 38 Partners seeks to reduce the cost of Phase 1 improvements by deferring some items the Port identified until Phase 2, as well as by the nature of its reuse program (e.g., food trucks not requiring extensive improvements to implement now). The TMG approach reuses the Bulkhead more quickly, at lower cost, and with fewer future demolition of Phase 1 improvements if a Phase 2 were undertaken. This approach by TMG results in the ability to pay rent to the Port at a substantially higher level. The onlyl potential downside to TMG's scheme is if the Port desires more permanent improvements to be made now, and/or if aspects of TMG's scheme prove unworkable according to City codes and ordinances.
- *Sustainable development program.* While both submitters commit to sustainable development principles, SF Waterfront Partners provides more specifics, including use of solar panels and outside air; recycling facilities; a "green" program for restaurants (e.g, compositing, energy-efficient appliances, etc.); and bicycle lockers and racks. No monthly parking would be provided on-site to its office tenants (TMG Pier 38 Partners would provide on-site parking in a portion of the pier shed to tenants).

Summary

This section provides a summary comparison of the information from both submitters for the evaluation criteria, except for the criteria for financial capacity and financing strategy being evaluated by Port finance staff; and the criteria for code, historic compliance, and architectural issues being evaluated by Carey & Company.

- Qualifications. Both submitters, SF Waterfront Partners and TMG Pier 38 Partners, demonstrate that they meet the minimum qualifications for length of experience in commercial real estate development and successful completion of similar projects (Criterion 1).

- Design Concept. The two submitters take substantially different approaches to their proposed design, construction, and tenant program (Criterion 3). SF Waterfront Partners envisions a Phase 1 improvement program with a $10.6 million investment that provides three first floor casual café and dining uses (with information from two potential restaurant operations), a new "PortWalk" that consists of a breezeway through the first floor of the Bulkhead building connected to a repaired south apron that proceeds through the shed to the north apron. TMG Pier 38 Partners envisions a Phase 1 improvement program with a lower $6.9 million investment, premised upon deferral of certain Port-identified code upgrades while still achieving code compliance, that will provide an informal dining area and food truck court, and access to only the north apron. This program will come on-line some months sooner, and also enables a higher rent payment to the Port.

  TMG Pier 38 Partners envisions office use in the first floor of the southern portion of the Bulkhead building; both submitters envision using the second floor of the building and a portion of the mezzanine for office space. SF Waterfront Partners envisions a more extensive reuse of the northern finger pier and addition of facilities to support a range of boating activities, while TMG Pier 38 Partners envisions reuse of the existing finger pier for a guest dock. Both submitters will provide a stop for the San Francisco Water Taxi.

- Regulatory Approvals. Both submitters identify strategies for regulatory approvals, and their reuse programs are both supported by current market conditions.

- Financial Feasibility. Both submitters are clear in identifying the cost of Phase 1 improvements as a challenge for the feasibility of overall redevelopment of Pier 38, and have either stated or implied that their Phase 1 improvement programs are ultimately feasible only if they are linked to the ability to plan and implement the overall redevelopment of Pier 38. However, independent cash flow analysis by BAE suggests that both proposals achieve at least a nearly 10% return on cost at stabilization, with greater returns in subsequent years, indicating likely feasibility to the developers in both cases.

- **Rent Revenue to the Port.** Proposed rent payments to the Port (Criterion 4) vary substantially between the two submitters, with total dollar rental payments on a Net Present Value basis over the 20-year term of a Phase 1 lease at nearly $460,000 from SF Waterfront Partners, and $2.2 million from TMG Pier 38 Partners. Much of this difference can be accounted for the much more expensive Phase 1 improvements envisioned by SF Waterfront Partners (nearly $4 million more than TMG Pier 38 Partners). Subsequent years of SF Waterfront's project appear to provide higher returns, suggesting that an agreement with the Port could accommodate include increased rent payments above what has been proposed by this developer, over time.

APPENDIX A: SUMMARY CHART OF EVALUATION CRITERIA

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
OVERVIEW		
Development Entity	San Francisco Waterfront Partners III, LLC (SFWPIII), to be formed, and wholly owned by San Francisco Waterfront Partners, LLC, (SFWP), whose Managing Member is Pacific Waterfront Partners, LLC (PWP) with a 1% ownership; CalSTRS is 99% owner of SFWP. PWP is 25% owned by Alicia Esterkamp Albin; 75% by Simon W.R. Snellgrove.	TMG Pier 38 Partners, LLC, a joint venture with TMG Partners and Premier Structures, Inc. (a Francisco LBE, Principals are Elliott Grimshaw and Paul Osmundson) and other equity investors. Premier Structures percentage of equity interest to be negotiated.
Development Team *(Note that for both submittals this list may include team members who are only involved in Phase 2 work – neither submittal breaks out its team by phase.)*	<u>Core PWP Team Members</u>: • Acquisition & Entitlements: Alicia Esterkamp Albin, Simon Snellgrove • Design & Construction: Simon Snellgrove & Julian Snellgrove • Finance and Compliance: Darren Bradley • Financial Underwriting: Debra Viall • Marketing & Leasing: Alicia Esterkamp Albin • Property Management: Europa Baldevia <u>Development Team:</u> • Architect of Record/Historic Preservation Architect: Page & Turnbull • Interior Architect: Lundberg Design • Design Architect: Moss Wong Associates • Structural Engineer: Rutherford + Chekene • Maritime Engineering: Moffat & Nichol • Mechanical & Electrical Engineer: Glumac • Contractor: Cahill Contractors, Inc. • Substructure Contractor: Power Engineering	<u>Core TMG Team Members</u>: Project Manager: Amy Neches, TMG Partner Negotiations: Matt Field, TMG Managing Director Leasing: Tom Stubbs, TMG Partner <u>Development Team</u>: • Architect: Perkins + Will • Structural Engineer/Fire: Holmes Culley/Homes Fire • Contractor: Plant Construction • Legal: Gibson Dunn Additional consultants to be added, including: • Historic Preservation Consultant: Architectural Resources Group • MHC Engineers (SF Certified LBE)

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
	Construction Co. • Other Subcontractors: ACCO, Decker Electric • Legal/Land Use: Gibson Dunn & Crutcher • Legal/CEQA: Remy Moose Manley • Legal/Historic Tax Credits & Land Use: Farella Braun and Martell	
Development Program Summary (Phase 1) (See discussion for Evaluation Criteria 2a for more information on Rehabilitation Concept , and Appendix for relationship to Port's Development Objectives)	<u>Occupied Area</u> (sf): Office 19,540 Restaurant/Café <u>8,325</u> Total 27,865 <u>Other Areas</u> (sf): Parking (up to 55 valet) 18,843 Maritime (approx.) 6,000 Public Access (PortWalk, Aprons) <u>15,868</u> Total 40,711 **Total Lease Area (sf) 68,576**	<u>Occupied Area</u> (sf): Office 19,515 Food Truck Dining Court <u>6,800</u> Total 26,315 <u>Other Areas</u> (sf): Parking (40 – 60 spaces) 22,400 Maritime (approx.) 2,400 Public Access/Food Truck Parking 6,000 Public Access – Apron, Entry <u>9,400</u> Total 40,200 **Total Lease Area (sf) 66,515**
RFP CRITERIA		
MINIMUM QUALIFICATIONS		
1. 10 years experience in commercial real estate development	Yes	Yes
2. Successful completion of at least 3 projects of similar size and scope, at least 1 historic preservation project documented to have met the Secretary of Interior's Standards	Yes • Piers 1½- 5 - $65M historic tax credit rehab • 8 Washington – construction to start 2014 • Pier 24 Annex • Bay School – 62,000 sf building in Presidio (with Equity Community Builders)	Yes • The Landmark at One Market – 444,000 sf Class A office historic tax credit rehab • 680 Folsom St., current construction of 521,000 sf office buildings with 85% preleased, including addition of 110,000 sf,

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
		via OPA with SFRA • 1000 Van Ness – historic tax credit rehab of Cadillac dealership into mixed-use with multiplex, condos, retail, and parking.
3. Superior credit history and demonstrated ability to finance the proposed project on commercially reasonable terms from bona fide financial institutions	*(Review by Port finance staff)*	
EVALUATION CRITERIA		
1. <u>Developer Qualifications</u> (25 points)		
A. Track record in successful rehab and development of projects of comparable size, land use, visibility, and expense, especially in the Bay Area.	Yes SFWP is Developer for Piers 1½,3,5. PWP is Development Manager for Pier 24; Co-Development Manager for Bay School. Snellgrove was Development Director for Marina Square (700K sf retail, 2,070 hotel rooms in Singapore), Embarcadero Center mixed-use office (3.2M sf). Piers 1½,3,5 has achieved average office rents of $106 psf gross. Rent to port exceeds minimum, and is $1M ahead of projections.	Yes TMC is Developer for The Landmark at One Market; 680 Folsom St; and 1000 Van Ness. Premier Structures is Development Manager and Project and Construction Manager for Autodesk facilities at Pier 9 on interim 10 year lease. Premier Principals Paul Osmundson and Elliott Grimshaw were previously at PWP and served as Project Manager and Construction Manager for Pier 24 and Piers 1½,3,5. Paul Osmundson was Port's Lead Negotiator and Project Manager for the Ferry Building Renovation Project; he was also Managing Representative for San Francisco Cruise Terminal LLC and Director of Development for Lend Lease Development.

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
B. Experience of team members and key personnel.	Yes Simon Snellgrove was President of US Lend Lease and Managing Director of Lend Lease International. He was previously at the Portman Companies, including Development Director for Marina Square (700K sf retail, 2,070 hotel rooms in Singapore), Embarcadero Center mixed-use office in San Francisco (3.2M sf).	Yes Project Manager: Amy Neches, previously SFRA manager of Rincon Point-South Beach Redevelopment Project Areas, led Phase 2 development of South Beach Harbor, including renovations of Pier 40. Premier principals Paul Osmundson and Elliott Grimshaw were previously at PWP and served as Project Manager and Construction Manager for Pier 24 and Piers 1½,3,5. Paul Osmundson was Port's Lead Negotiator and Project Manager for the Ferry Building Renovation Project; he was also Managing Representative for San Francisco Cruise Terminal LLC and Director of Development for Lend Lease Development.
C. Experience with waterfront and/or historic preservation projects, particularly those meeting Secretary's Standards.	Yes Redevelopment of Piers 1½-5; Pier 24.	Yes TMG Project Manager: Amy Neches, previously SFRA manager of Rincon Point-South Beach Redevelopment Project Areas, led Phase 2 development of South Beach Harbor, including renovations of Pier 40. Premier principals Paul Osmundson and Elliott Grimshaw were previously at PWP and served as Project Manager and Construction Manager for Pier 24 and Piers 1½,3,5. Paul Osmundson was Port's Lead Negotiator and Project

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
		Manager for the Ferry Building Renovation Project.
D. Experience with projects identifying and securing target tenants, defining scope, structuring transactions, securing necessary approvals, and managing the construction process.	Yes Redevelopment of Piers 1½-5.	Yes The Landmark at One Market; 1000 Van Ness.
E. Demonstrated ability to operate and maintain real estate projects once completed, including sustaining occupancy and addressing on-going operational needs.	Yes Redevelopment of Piers 1½,3,5.	Yes The Landmark at One Market; 1000 Van Ness.
F. Proven ability to work with public agencies to achieve development	Yes Projects shown under experience all involve work with public agencies.	Yes Many projects shown under experience include those involving public agencies.
G. Track record of local hiring and participation of locally owned businesses in prior projects	Need to verify Claimed to have achieved 22% LBE participation on Piers 1½-5 vs. 15% target.	Not provided in submittal.
H. Documented ability to work with local organizations and/or address community concerns.	Not provided in submittal.	Not provided in submittal.
I. Demonstrated understanding, ability, and flexibility to obtain key approvals in a complex political and regulatory context.	Yes Redevelopment of Piers 1½- 5	Yes The Landmark at One Market; 1000 Van Ness. TMG does not describe experience with Port or BCDC, but its future partner Premier Structures does have this experience.

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
2. Financial Capability (15 points)	*(Review by Port finance staff)*	
3. Proposed Design, Construction, Tenant Program – Phase 1 (40 points)		
A. Strategy to re-tenant the Bulkhead building with uses that best meet Development Objectives.	See Detailed Development Objectives Chart.	See Detailed Development Objectives Chart.
B. Design & construction plan consistent with City codes and Secretary's Standards.	*(Separate review by Carey & Company)*	*(Separate review by Carey & Company)*
C. Strategy to obtain approvals for proposed design and construction per Regulatory Context.	Yes Proposal includes new Port Walk, removal of ground floor office to provide access from the Embarcadero to the south apron of Pier 38, adaptation of the south apron to provide access through the repaired Shed to the apron on the north side of Pier 38. he dock and marina will be repaired and put back into use. Phase 1 would seek CEQA categorical exemption (Class 1, 2, 31, and/or 32). Anticipates need for new BCDC permit due to previous tenant non-compliance with current permit. Requirements for temporary piling on the south apron to support second floor exiting requirements may present a risk to the CEQA analysis.	Yes Interim leasing is per Port practices. Will seek CEQA Categorical Exemption for interim use (Class 31 and/or Class 32), and if required a Mitigated Negative Declaration. Interim leasing program is consistent with Waterfront Land Use Plan. BOS approval required for interim lease. Assumes assignment of existing BCDC permit to the developer for short-term reuse via a minor amendment.

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
D. Demonstrated strength of real estate market for proposed use.	Yes Letter from CAC Group identifying rents at comparable projects in $60+ per sf/yr range. Letter from Terranomics expressing confidence in ability to attract high-quality tenants at rents of $50 - $60/sf NNN	Yes Discussion of office vacancy rate for South Beach submarket in 2012 was under 5%, lowest of any SF submarket, with highest average rent at $46 psf/yr.
E. Demonstration of how short-term Bulkhead building rehab will not inhibit long-term reuse of Pier 38.	Partial Demonstration Temporary facilities (cafes); use of minor moment frames & shear walls in Phase 1 that will contribute to Phase 2 development but not hinder it. Other interim improvements, such as a new apron, would need to be removed for Phase 2 seismic upgrading.	Partial Demonstration Phase 1 improvements have been designed to reduce costs in order to minimize removal of improvements for Phase 2 work. All uses that would impact long-term renovation have been deferred to the Phase 2 renovation program.
4. Proposed Financial Terms (20 points)		
A. Cash flow projections the demonstrate ability to meet all lease, debt service, and operating expenses.	Not provided in submittal. Cash flow was subsequently provided on request, and then further refined by BAE. Note that BAE reworking of cash flow shows feasibility of Phase 1, but with low rent payments to Port.	Yes Provided with submittal for Phase1 Bulkhead. BAE modified for analysis.(shortened lease term to 20 years for comparison purposes). Note: Phase 1 is feasible as proposed, with high rent payments to Port. Due to lower improvement costs in TMG scheme.
B. Proposed annual rent structure to Port	Yes–Lower rent payments to Port (see memo)	Yes–Higher rent payments to Port (see memo).

Source: BAE Urban Economics, 2013.

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

Detailed Evaluation of Development Objectives

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
• Repair the Pier 38 bulkhead building which may include: remedy structural deficiencies, replace or repair mechanical, electrical and plumbing systems, and construct any other improvements, including egress and ADA, needed to meet the City's building code requirements as well as other regulatory requirements, including consistency with the Secretary Standards.	*(Separate review by Carey & Company)*	
• Develop the most effective implementation strategy to quickly re-tenant the Pier 38 bulkhead building in order to achieve the Port's goal of bringing it back into economic use and provide an on-going revenue stream to the Port.	Partial (see below) The Rehabilitation Concept re-tenants Pier 38, but may take longer due to more extensive rehab improvements. This more complex development program means occupancy occurs in mid-2015, and lease-up allows up to 3 years according to submittal. The higher cost of improvements results in a lower rent payment to Port.	Yes – Meets most effectively The Rehabilitation Concept re-tenants Pier 38 more quickly and at greater return to Port. This team's simpler development program means occupancy occurs by the beginning of 2015, and full rental revenues are realized from the project's opening. However, less comprehensive rehab program provides smaller public access footprint for Phase 1.
• Encourage the re-tenanting of the Pier 38 bulkhead building to include: office, high technology uses, visitor-serving commercial, entertainment and cultural uses, and, maritime uses that complement adjacent waterfront development.	Yes The Rehabilitation Concept brings in all of these uses except for entertainment and cultural uses. It provides more visitor serving commercial uses with three restaurants/cafes, and a more extensive array of maritime uses, including a small boating center.	Yes The Rehabilitation Concept brings in all of these uses except for entertainment and cultural uses (aside from an unspecified amount of live musical and other events). Its visitor serving uses are limited to the food truck court, and maritime uses are limited to a guest dock and water taxi stop.

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
• Continue the redevelopment of the South Beach waterfront from the Bay Bridge to AT&T Ballpark, by reviving this historic structure, and helping knit Pier 38 into the South Beach neighborhood by bringing people and business activity to the waterfront.	Both Rehabilitation Concepts would advance this Development Objective. Based on the level of development of the concepts and detail that is provided in the submittal, both submittals at this point appear likely to provide a comparable boost to South Beach waterfront redevelopment, albeit with a different mix of uses and activities.	
• Demonstrate how the short-term Pier 38 bulkhead building rehabilitation will not inhibit a long-term reuse of Pier 38 (i.e., ensure that the short-term construction and operation would not hinder possible subsequent redevelopment of the entirety or majority of Pier 38).	Yes Physical improvements, to the extent possible, will be designed so that they can be reused in a Phase 2 project, and alternative approaches to Phase 2 seismic retrofit are under consideration. Some improvements, such as south apron repairs, would need to be removed but are needed to accomplish Phase 1 goals for public access. Office leases will provide for termination for Phase 2 work, and restaurant leases will contain provisions to allow suspension of operations for Phase 2 work.	Yes Uses are proposed that require considerably less improvement to Bulkhead (i.e. food trucks instead of restaurants); South Apron is closed off to public use rather than repaired; and a number of near-term repairs and improvements identified by the Port in its Reuse Option 1 are deferred to a Phase 2 project.
• Develop a plan to improve the physical appearance of the bulkhead building and pier shed.	Partial – Elevations not provided	Partial – Elevations not provided Note: fencing off of South Apron may be detrimental to overall appearance.
• Require that any adaptive reuse will be consistent with the Secretary of Interior's Standards for the Treatment of Historic Properties ("Secretary Standards").	*(Separate analysis by Carey & Company)*	

Appendix A: Summary Evaluation of Pier 38 Phase 1 Submittals

	SF Waterfront Partners, LLC	TMG Pier 38 Partners, LLC
• Require a sustainable development program that minimizes the reliance on private automobiles, uses energy efficiently and, as possible, includes alternative energy sources that comply with the City's Green Building Standards.	Yes The Rehabilitation Concept will be designed to LEED Silver and possibly LEED goal, and will meet the City's Green Building Standards. Mentions alternative power sources such as solar panels and 100% outside air. Mentions Green Restaurant program with tenants. No commuter parking will be provided, and parking will be priced to encourage short-term use. Bike lockers and free parking racks will be provided. A transportation and education program will be prepared for tenants.	Partial (not fully detailed in submittal) Energy and water efficiency will be incorporated into improvements where appropriate. The feasibility and financing of onsite renewable energy will be studies. Low emission and recycled building materials will be used where possible. Parking impacts will be minimized.
• Secure private financial investment to rehabilitate and revive the Pier 38 bulkhead building in the near term.	Not detailed in submittal.	Not detailed in submittal.
• Provide business and employment opportunities for local workers and businesses during the design, construction and operation phases of the Pier 38 bulkhead building.	Not detailed in submittal.	Not detailed in submittal.
• Provide security for the entire Pier 38.	Yes- utilizes existing Security Director	Yes – will hire private security firm

Source: BAE Urban Economics, 2013.

APPENDIX B: CASH FLOW ANALYSES OF EACH SUBMITTAL

Comparison of Phase 1 Cash Flow Model Assumptions, Pier 38 RFP Submittals

6/12/12

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PROPOSAL ASSUMPTIONS *Note: Phase 2 proposals excluded.*	**San Francisco Waterfront Ptrs III, LLC**	**TMG Pier 38 Ptrs, LLC**	***BAE Notes / Modeling Assumptions***
Lease Term - Years	20	25	*Assume leases start 1/1/14, base rent payments start 1/1/15 for both. Cash flow model only for 20 years, through 2033, to allow consistent comparison.*
Commencement	Permit issuance	Later of 12 mo. after Lease Commencement or Stabilization. Assume Jun-14 start.	*TMG rent payments therefore assumed to start 1/1/15 as later of commencement or stabilization.*
Proposed Development Program			
Office - sf	16,936	19,515	*SFWP figures are from clarification post-submittal, rentable area (does not include common areas in gross sf)*
Retail - sf (a)	8,325	6,800	*Use smaller of two figures for dining area provided by TMG. SFWP figure excludes adjacent Pier 40 area in proposal - their cash flow shows 8,325 sf retail (1,478 sf total).*
Subtotal - Occupied Area	25,261	26,315	
Maritime - sf	6,000	2,400	
Parking for tenants - spaces (b)	0	60	
Parking for events - spaces (b)	24 self-park / 55 valet	40	
Development Hard Costs		$3,101,249	
Impact fees			*TMG assumes no office impact fees are paid.*
Total Development Costs	$10,572,480	$6,877,401	*Calculation by BAE per information provided in submittals, includes leasing commissions during term.*
Revenue Assumptions			
Office - rent psf/yr NNN	$40	$40	*SFWP assumes occupancy May 2015, pro-rates rent that year at 33%.TMG assumes full rent for 2015 due to shorter construction schedule.*
Office - increases	3% per year, increased every 5 years.	5 year term; $1/yr increase; TI at vacancy $30/sf; Leasing $15.75; Market 3%/yr growth.	*Re TMG, formula has 2.5% annual increases, with reset every 5 years to figure based on 3% per year market rent growth (actual TMG figures used, lower than calculation per assumptions with 3% CPI). TI allowance assumed to cover all TI costs. Leasing commissions applied every 5 years with 3% per year escalation. BAE model does not account for TMG's unexplained office rental revenue decrease starting in 2020.*
Office reimbursements	Shown in cash flow, no explanation in text.	Shown in cash flow, no explanation in text.	*Use TMG 2015 starting figure, increase 3% per year, differs slightly from figures in TMG proforma.*
Retail - rent psf/yr NNN	$50	$5,000 food truck rent/month	*Lump sum - no detail on # of trucks or rent per truck.*
Retail - increases	3% per year	3% per year	
Maritime - rent psf/yr			*No rent assumption for TMG.*
Parking Revenue - Monthly	Shown in cash flow.	$200	*Assume 3% per year escalation*
Parking Revenue - Events	Shown in cash flow.	$35/game * 68 non-weekday games	*Assume 3% per year escalation*
Office vacancy	3%	5%	*Used 5% for both for consistency.*

Comparison of Phase 1 Cash Flow Model Assumptions, Pier 38 RFP Submittals

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PROPOSAL ASSUMPTIONS *Note: Phase 2 proposals excluded.*	**San Francisco Waterfront Ptrs III, LLC**	**TMG Pier 38 Ptrs, LLC**	***BAE Notes / Modeling Assumptions***
Operating Expense Assumptions			
General	Lump-sum figure identified in cash flow model.	Line item figures provided in cash flow model.	*Assume all construction period utilities, other operating costs are (2014) are covered by development budget.*
CPI Adjustment	None identified	3% per year, 2% for property tax.	*TMG assumptions applied to SFWP for consistency.*
Rental Payments to Port			
Monthly Base Rent	$5,000 during construction (12 mos); $.50/sf/yr for occupied (office+retail) areas thereafter.	$25,000	
Base Rent Increases	None	5% ea. 5 years.	*For SFWP assume minimum CPI increase.*
Rent Credit Formula (c)	None	Hard cost (including substructure) at negotiated rate, monthly credit against 50% base rent.	
Rent Credit Monthly Calculation Exercise: Calculated Straight-Line During Term *(information only, provided as comparison with figures presented by submitters).*	$16,162	$10,337	*(BAE calculation for comparison purposes) SFWP is based on $3,878,900 amortization amount indicated in post-submittal communication. TMG amortization based on hard costs, rate in footnote (e), calculated for 20 years for consistency with term of SFWP proposal; apply lower of this amount or $12,500 at 50% of base rent per TMG submittal.*
Amortization - Monthly: Proposed	$0	$12,500	
Amortization Ends	N/A (no rent credit)	After lease expiration.	
Percentage Rent	50% of gross parking receipts.	0%	*SFWP per post-submittal communications. Excludes SFWP proposed "transfer fee" in an unspecified amount. For TMG, excludes calculation of participation rent of 15% of net proceeds proposed in event of sale/transfer of interest.*
Discount Rate for NPV Calculation (BAE Assumption)			*4%*
Other			
ENA Payments	None in Phase 1 (identified for Phase 2)	$15,000	*TMG ENA payment shown as 2014 base rent. Security deposit excluded from cash flow model.*
Security Deposit	None identified	2 months rent	

(a) Assumes larger area of range identified for restaurants spaces #1, #2, but smaller space for #3 (otherwise # 3 assumes combination with existing Pier 40 restaurant space leased to another tenant).

(b) Assumes smaller number of range of identified parking spaces.

(c) Assume rate of return for amortization at: **0%**

Sources: SF Waterfront Partners III, LLC; TMG Pier 38 Partners, LLC; BAE, 2013.

Pier 38 Phase 1 Development Budget Comparison

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	SFWP	per sf	%	TMG	per sf	%
Development Program (a)						
Office	16,936			19,515		
Retail	8,325			6,800		
	25,261			**26,315**		
Development Budget (b)						
Hard Construction	$6,591,866	$261	62%	$3,101,249	$118	45%
Soft Construction (c)	2,173,265	$86	21%	1,360,572	$52	20%
Tenant Improvements	738,678	$29	7%	603,014	$23	9%
A&E (w/ Contingency)	756,061	$30	7%	444,000	$17	6%
City Fees	0	$0	0%	216,000	$8	3%
Leasing Commissions	252,610	$10	2%	1,152,566	$44	17%
Port Rent - Constr.	60,000	$2	1%	0	$0	0%
	$10,572,480	$419	100%	**$6,877,401**	$261	100%

(a) Includes occupiable areas only, excludes service areas such as parking, breezeway apron, docks.
(b) Per sf costs calculated on total occupiable area.
(c) TMG does not break-out developer fee or costs, so SFWP figures included in soft costs.

Sources: SFWP; TMG; BAE, 2013.

SFWP Cash Flow: **Projected Phase 1 Project Cash Flow, 2014 - 2033, San Francisco Waterfront Partners III, LLC**

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	Total	1	2	3	4	5	6	7	8	9
DEVELOPMENT										
Sources of Funding										
Equity	**$10,572,480**	$9,328,582	$465,519	$778,379						
Debt	**0**									
Other	**0**									
	$10,572,480	$9,328,582	$465,519	$778,379	$0	$0	$0	$0	$0	$0
Uses of Funding										
Hard Construction	**$6,591,866**	$6,591,866								
Soft Construction	**2,173,265**	2,173,265								
Tenant Improvements	**738,678**	0	212,909	525,769						
A&E (w/ Contingency)	**756,061**	503,451		252,610						
City Fees	**0**	0								
Leasing Commissions	**252,610**	0	252,610							
Port Rent - Constr.	**60,000**	60,000								
	$10,572,480	$9,328,582	$465,519	$778,379	$0	$0	$0	$0	$0	$0
OPERATIONS										
Revenues										
Office Base Rent	**$16,756,075**	$0	$225,813	$677,440	$677,440	$677,440	$677,440	$785,339	$785,339	$785,339
(Less Vacancy)	**(837,804)**	0	(11,291)	(33,872)	(33,872)	(33,872)	(33,872)	(39,267)	(39,267)	(39,267)
Office Exp. Reimb.	**12,721,578**	0	171,724	535,988	552,068	568,630	585,688	603,259	621,357	639,998
Retail Rent	**9,607,531**	0	138,750	416,250	416,250	416,250	416,250	482,548	482,548	482,548
Maritime	**1,507,012**	0	60,000	61,800	63,654	65,564	67,531	69,556	71,643	73,792
Parking - Tenants	**0**	0	0	0	0	0	0	0	0	0
Parking - Events	**1,250,116**	0	49,772	51,265	52,803	54,387	56,019	57,699	59,430	61,213
Other	**0**	0	0	0	0	0	0	0	0	0
	$41,004,508	$0	$634,769	$1,708,871	$1,728,343	$1,748,398	$1,769,056	$1,959,134	$1,981,050	$2,003,623
Expenses										
Expenses (Lump Sum)	**($14,796,557)**		($269,717)	($635,026)	($652,182)	($669,853)	($688,054)	($706,801)	($726,111)	($745,999)
Janitorial	**0**									
Repairs & Maint.	**0**									
Security	**0**									
Insurance	**0**									
Property Taxes	**0**									
Mgt. & Admin.	**0**	0	0	0	0	0	0	0	0	0
Port Base Rent	**(299,980)**	(60,000)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)
(Less Amortization)	**0**	0	0	0	0	0	0	0	0	0
Port % Rent (Parking)	**(375,035)**	0	(14,932)	(15,380)	(15,841)	(16,316)	(16,806)	(17,310)	(17,829)	(18,364)
	($15,471,571)	($60,000)	($297,279)	($663,036)	($680,654)	($698,800)	($717,490)	($736,741)	($756,570)	($776,994)
Net Operating Income	**$25,532,937**	**($60,000)**	**$337,490**	**$1,045,835**	**$1,047,689**	**$1,049,599**	**$1,051,566**	**$1,222,393**	**$1,224,480**	**$1,226,629**
Return Calculations										
Unrealized Rent Credit	n/a									
NPV Port Rent/Ann'l Rent	$457,989	$60,000	$27,562	$28,010	$28,471	$28,947	$29,436	$29,940	$30,460	$30,994
Unlever'd IRR/Net Cash	10.6%	($9,328,582)	$337,490	$1,045,835	$1,047,689	$1,049,599	$1,051,566	$1,222,393	$1,224,480	$1,226,629
% Return on Total Cost			3.2%	9.9%	9.9%	9.9%	9.9%	11.6%	11.6%	11.6%

See assumptions worksheet for development program, rental rates, proposed lease terms, and other key assumptions for cash flow model.

Sources: SFWP; BAE, 2013.

SFWP Cash Flow:

CONFIDENTIAL

	10	11	12	13	14	15	16	17	18	19	20
DEVELOPMENT											
Sources of Funding											
Equity											
Debt											
Other											
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Uses of Funding											
Hard Construction											
Soft Construction											
Tenant Improvements											
A&E (w/ Contingency)											
City Fees											
Leasing Commissions											
Port Rent - Constr.											
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
OPERATIONS											
Revenues											
Office Base Rent	$785,339	$785,339	$910,423	$910,423	$910,423	$910,423	$910,423	$1,055,429	$1,223,532	$1,418,409	$1,644,325
(Less Vacancy)	(39,267)	(39,267)	(45,521)	(45,521)	(45,521)	(45,521)	(45,521)	(52,771)	(61,177)	(70,920)	(82,216)
Office Exp. Reimb.	659,198	678,973	699,343	720,323	741,933	764,191	787,116	810,730	835,052	860,103	885,906
Retail Rent	482,548	482,548	559,405	559,405	559,405	559,405	559,405	648,504	648,504	648,504	648,504
Maritime	76,006	78,286	80,635	83,054	85,546	88,112	90,755	93,478	96,282	99,171	102,146
Parking - Tenants	0	0	0	0	0	0	0	0	0	0	0
Parking - Events	63,050	64,941	66,889	68,896	70,963	73,092	75,285	77,543	79,869	82,265	84,733
Other	0	0	0	0	0	0	0	0	0	0	0
	$2,026,873	$2,050,820	$2,271,174	$2,296,580	$2,322,748	$2,349,701	$2,377,463	$2,632,913	$2,822,063	$3,037,532	$3,283,398
Expenses											
Expenses (Lump Sum)	($766,485)	($787,585)	($809,318)	($831,703)	($854,759)	($878,507)	($902,968)	($928,162)	($954,113)	($980,842)	($1,008,372)
Janitorial											
Repairs & Maint.											
Security											
Insurance											
Property Taxes											
Mgt. & Admin.	0	0	0	0	0	0	0	0	0	0	0
Port Base Rent	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)	(12,631)
(Less Amortization)	0	0	0	0	0	0	0	0	0	0	0
Port % Rent (Parking)	(18,915)	(19,482)	(20,067)	(20,669)	(21,289)	(21,928)	(22,585)	(23,263)	(23,961)	(24,680)	(25,420)
	($798,030)	($819,698)	($842,015)	($865,002)	($888,679)	($913,065)	($938,184)	($964,056)	($990,704)	($1,018,152)	($1,046,423)
Net Operating Income	**$1,228,843**	**$1,231,123**	**$1,429,159**	**$1,431,578**	**$1,434,069**	**$1,436,636**	**$1,439,279**	**$1,668,857**	**$1,831,359**	**$2,019,380**	**$2,236,975**
Return Calculations											
Unrealized Rent Credit											
NPV Port Rent/Ann'l Rent	$31,545	$32,113	$32,697	$33,299	$33,919	$34,558	$35,216	$35,893	$36,591	$37,310	$38,051
Unlever'd IRR/Net Cash	$1,228,843	$1,231,123	$1,429,159	$1,431,578	$1,434,069	$1,436,636	$1,439,279	$1,668,857	$1,831,359	$2,019,380	$2,236,975
% Return on Total Cost	11.6%	11.6%	13.5%	13.5%	13.6%	13.6%	13.6%	15.8%	17.3%	19.1%	21.2%

See assumptions workshe

Sources: SFWP; BAE, 2013.

TMG Cash Flow:		Projected Phase 1 Project Cash Flow, 2014 - 2033, TMG Pier 38 Partners, LLC									
CONFIDENTIAL		*CONSULTANT DRAFT - FOR INTERNAL USE ONLY*									
	Total	1	2	3	4	5	6	7	8	9	10
DEVELOPMENT											
Sources of Funding											
Equity	**$0**										
Debt	**0**	*No funding information provided in submittal.*									
Other	**0**										
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Uses of Funding											
Hard Construction	**$3,101,249**	$3,101,249									
Soft Construction	**1,360,572**	1,315,688	25,293					5,592			
Tenant Improvements	**603,014**	603,014									
A&E	**444,000**	444,000									
City Fees	**216,000**	216,000									
Leasing Commissions	**1,152,566**	316,582					238,635				
Port Rent - Constr.	**0**										
	$6,877,401	$5,996,533	$25,293	$0	$0	$0	$238,635	$5,592	$0	$0	$0
OPERATIONS											
Revenues											
Office Base Rent	**$19,240,090**	$0	$780,600	$800,115	$819,630	$839,145	$858,660	$904,929	$924,444	$943,959	$963,474
(Less Vacancy)	**(962,004)**	0	(39,030)	(40,006)	(40,982)	(41,957)	(42,933)	(45,246)	(46,222)	(47,198)	(48,174)
Office Exp. Reimb.	**4,488,560**	0	178,707	184,068	189,590	195,278	201,136	207,170	213,386	219,787	226,381
Retail (Food Truck)	**1,552,222**	0	61,800	63,654	65,564	67,531	69,556	71,643	73,792	76,006	78,286
Maritime	**0**	0	0	0	0	0	0	0	0	0	0
Parking - Tenants	**301,402**	0	12,000	12,360	12,731	13,113	13,506	13,911	14,329	14,758	15,201
Parking - Events	**2,391,126**	0	95,200	98,056	100,998	104,028	107,148	110,363	113,674	117,084	120,597
Other	**0**	0	0	0	0	0	0	0	0	0	0
	$27,011,396	$0	$1,089,277	$1,118,247	$1,147,531	$1,177,137	$1,207,074	$1,262,771	$1,293,402	$1,324,397	$1,355,765
Expenses											
Utilities	**($3,923,657)**	$0	($156,216)	($160,902)	($165,730)	($170,701)	($175,822)	($181,097)	($186,530)	($192,126)	($197,890)
Janitorial	**(2,589,599)**	0	(103,102)	(106,195)	(109,381)	(112,662)	(116,042)	(119,523)	(123,109)	(126,802)	(130,607)
Repairs & Maint.	**(3,138,930)**	0	(124,973)	(128,722)	(132,584)	(136,561)	(140,658)	(144,878)	(149,224)	(153,701)	(158,312)
Security	**(1,020,147)**	0	(40,616)	(41,834)	(43,090)	(44,382)	(45,714)	(47,085)	(48,498)	(49,953)	(51,451)
Insurance	**(778,045)**	0	(30,977)	(31,906)	(32,863)	(33,849)	(34,865)	(35,911)	(36,988)	(38,098)	(39,241)
Property Taxes	**(416,520)**	0	(18,236)	(18,601)	(18,973)	(19,352)	(19,739)	(20,134)	(20,537)	(20,947)	(21,366)
Mgt. & Admin.	**(2,010,404)**	0	(80,042)	(82,443)	(84,917)	(87,464)	(90,088)	(92,791)	(95,574)	(98,442)	(101,395)
Port Base Rent	**(6,165,188)**	0	(300,000)	(300,000)	(300,000)	(300,000)	(315,000)	(315,000)	(315,000)	(315,000)	(315,000)
(Less Amortization)	**2,850,000**	0	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Port % Rent	**0**	0	0	0	0	0	0	0	0	0	0
	($17,192,491)	$0	($704,162)	($720,605)	($737,537)	($754,973)	($787,929)	($806,419)	($825,460)	($845,069)	($865,261)
Net Operating Income	**$9,818,906**	**$0**	**$385,115**	**$397,643**	**$409,994**	**$422,164**	**$419,146**	**$456,351**	**$467,942**	**$479,328**	**$490,504**
Return Calculations											
Unrealized Rent Credit	$3,277,401	106%									
NPV Port Rent/Ann'l Rent	$2,244,920		$150,000	$150,000	$150,000	$150,000	$165,000	$165,000	$165,000	$165,000	$165,000
Unlever'd IRR/Net Cash	3.9%	($5,996,533)	$359,822	$397,643	$409,994	$422,164	$180,511	$450,759	$467,942	$479,328	$490,504
% Return on Total Cost			6.4%	6.6%	6.8%	7.0%	6.7%	7.3%	7.5%	7.6%	7.8%

See assumptions worksheet for development program, rental rates, proposed lease terms, and other key assumptions for cash flow model.

Sources: SFWP; BAE, 2013.

TMG Cash Flow:
CONFIDENTIAL

	11	12	13	14	15	16	17	18	19	20
DEVELOPMENT										
Sources of Funding										
Equity										
Debt										
Other										
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Uses of Funding										
Hard Construction										
Soft Construction		6,483					7,516			
Tenant Improvements										
A&E										
City Fees										
Leasing Commissions	276,643					320,706				
Port Rent - Constr.										
	$276,643	$6,483	$0	$0	$0	$320,706	$7,516	$0	$0	$0
OPERATIONS										
Revenues										
Office Base Rent	$982,989	$1,049,061	$1,068,576	$1,088,091	$1,107,606	$1,127,121	$1,216,149	$1,235,664	$1,255,179	$1,274,694
(Less Vacancy)	(49,149)	(52,453)	(53,429)	(54,405)	(55,380)	(56,356)	(60,807)	(61,783)	(62,759)	(63,735)
Office Exp. Reimb.	233,172	240,167	247,372	254,793	262,437	270,310	278,420	286,772	295,375	304,237
Retail (Food Truck)	80,635	83,054	85,546	88,112	90,755	93,478	96,282	99,171	102,146	105,210
Maritime	0	0	0	0	0	0	0	0	0	0
Parking - Tenants	15,657	16,127	16,611	17,109	17,622	18,151	18,696	19,256	19,834	20,429
Parking - Events	124,214	127,941	131,779	135,732	139,804	143,999	148,318	152,768	157,351	162,072
Other	0	0	0	0	0	0	0	0	0	0
	$1,387,519	$1,463,897	$1,496,455	$1,529,434	$1,562,845	$1,596,703	$1,697,058	$1,731,849	$1,767,127	$1,802,908
Expenses										
Utilities	($203,826)	($209,941)	($216,239)	($222,727)	($229,408)	($236,291)	($243,379)	($250,681)	($258,201)	($265,947)
Janitorial	(134,525)	(138,560)	(142,717)	(146,999)	(151,409)	(155,951)	(160,630)	(165,448)	(170,412)	(175,524)
Repairs & Maint.	(163,061)	(167,953)	(172,992)	(178,182)	(183,527)	(189,033)	(194,704)	(200,545)	(206,561)	(212,758)
Security	(52,995)	(54,585)	(56,222)	(57,909)	(59,646)	(61,435)	(63,278)	(65,177)	(67,132)	(69,146)
Insurance	(40,418)	(41,630)	(42,879)	(44,166)	(45,491)	(46,855)	(48,261)	(49,709)	(51,200)	(52,736)
Property Taxes	(21,794)	(22,230)	(22,674)	(23,128)	(23,590)	(24,062)	(24,543)	(25,034)	(25,535)	(26,045)
Mgt. & Admin.	(104,437)	(107,570)	(110,797)	(114,121)	(117,544)	(121,071)	(124,703)	(128,444)	(132,297)	(136,266)
Port Base Rent	(330,750)	(330,750)	(330,750)	(330,750)	(330,750)	(347,288)	(347,288)	(347,288)	(347,288)	(347,288)
(Less Amortization)	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Port % Rent	0	0	0	0	0	0	0	0	0	0
	($901,806)	($923,219)	($945,271)	($967,980)	($991,366)	($1,031,986)	($1,056,786)	($1,082,326)	($1,108,626)	($1,135,711)
Net Operating Income	**$485,713**	**$540,678**	**$551,184**	**$561,454**	**$571,480**	**$564,717**	**$640,272**	**$649,523**	**$658,501**	**$667,196**
Return Calculations										
Unrealized Rent Credit										
NPV Port Rent/Ann'l Rent	$180,750	$180,750	$180,750	$180,750	$180,750	$197,288	$197,288	$197,288	$197,288	$197,288
Unlever'd IRR/Net Cash	$209,070	$534,195	$551,184	$561,454	$571,480	$244,011	$632,756	$649,523	$658,501	$667,196
% Return on Total Cost	7.4%	8.3%	8.4%	8.6%	8.7%	8.2%	9.3%	9.4%	9.6%	9.7%

See assumptions workshe

Sources: SFWP; BAE, 2013.

bae urban economics

Pier 38 Bulkhead and Whole Building Feasibility Analysis

Prepared for Port of San Francisco
August 2013

bae urban economics

August 20, 2013

John Doll
Development Project Manager
Port of San Francisco
Pier 1, The Embarcadero
San Francisco, CA 94111

Dear John:

Enclosed please find a full report analyzing the financial feasibility of scenarios related to Pier 38 renovation and reuse. Per your request, we have analyzed the feasibility and likely Port revenue from renovating the Historic Bulkhead only (also known as Bulkhead-Only) as well as renovating the entire building.

We have enjoyed working with you and other Port staff.

Please let us know if you have any questions or comments.

Sincerely,

Janet Smith-Heimer, MBA
Managing Principal, BAE

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INTRODUCTION AND STUDY METHODOLOGY

Introduction

Pier 38, located on the San Francisco waterfront near the renowned South of Market (SoMa) neighborhood, consists of a small historic Bulkhead building visible from the Embarcadero, and a large non-historic “shed” structure resting on a pier substructure. Pier 38 has a long history of waterfront commerce, and was one of the primary early transfer points between ocean cargo carriers and rail transport, with the shed portion of the Pier 38 structure serving as an indoor rail transfer point (with rail cars entering onto the pier to receive cargo).

The Port of San Francisco has issued a Request for Proposals for Pier 38, specifically for renovation of only the historic Bulkhead portion of the structure. This approach would grant rights to renovate only the historic Bulkhead, with the larger non-historic shed structure remaining partially mothballed. This approach was taken by the Port due to concerns that renovating the shed portion of Pier 38 would trigger high substructure repair costs, high building and pier seismic retrofit costs, and may be premature given planning underway to resolve climate change adaptation policies regarding the waterfront.

In early 2013, two developer submittals were received by the Port for Pier 38 in response to the RFP. While both developers proposed a Bulkhead-Only renovation scheme per the RFP, both developer submittals also envisioned the larger opportunity of full structure renovation and occupancy as more enticing. Moreover, both submitters have requested to a long-term lease for the entire property if the Port elected to make it all available. Thus, each of the developer submittals framed their reuse strategy for the Bulkhead in terms of a more-or-less interim use, with suggestions of greater feasibility if the shed were included in the offering as a Whole Building.

BAE was engaged to assist the Port and its stakeholders in evaluating the developer submittals for the Bulkhead-only proposals, as well as assess whether to limit the planned lease of Pier 38 to just the Bulkhead or to relax this objective and consider leasing the entire property. A separate memorandum has been finalized regarding BAE’s evaluation of the RFP submittals. This report provides a summary of BAE’s feasibility analysis for the Pier 38 reuse project, and directly addresses the question of how the Port’s revenue is affected by the choice of a Bulkhead-Only or Whole Building renovation project from a financial standpoint. While this report borrows some development cost data from the developer submittals, it otherwise takes a “clean slate” approach to formulating reuse scenarios for Bulkhead-Only and Whole Building project concepts and analysis.

Definition of Two Scenarios

For purposes of this report, it is important to distinguish between the Bulkhead-Only and Whole Building scenarios being analyzed.

Bulkhead-Only

The Bulkhead-Only takes the approach that the Port wishes to maximize revenue and renovation quality for the Bulkhead, but mothball the shed of Pier 38 and not undertake renovation to this portion of the building or its pier substructure, for an indeterminate period of time. Thus, in this scenario, the developer would invest in the Bulkhead only, to full Secretary's Standards for historic preservation, but likely under the terms of a 10 to 20 year leasehold, which is insufficient length of lease to package and sell historic tax credits. This approach would also limit occupancy of the property to less than the occupancy threshold which would trigger the requirement for a seismic retrofit, an expensive undertaking for Pier 38. Moreover, although this scenario would result in adequate finishes and a rentable space in the Bulkhead, the scale of the Bulkhead and the remaining mothballed shed used only as an indoor parking garage (see below), will diminish the top Class A competitiveness of this facility for office users. The Bulkhead-only scenario would result in marketable space, but may not likely achieve top-end office rents for signature space related to other projects on the San Francisco waterfront. Fenced off portions, lack of scaled project amenities, and other limits on investment under this scenario would result in this situation.

It should be noted that this type of office space and accompanying retail space is also in high demand in San Francisco, and would experience market absorption at Pier 38. The question becomes one of how the level of investment in finishes, floor plan functionality, and ancillary uses is organized in a Bulkhead-Only scenario. Put another way, there is a difference in a 10 or 20 year leasehold improvement for a portion of a building only, without historic tax credit funding, and a full renovation scheme with all improvements needed to fully occupy the building to maximum use meeting seismic threshold conditions.

While the two developer submittals dealt with this Bulkhead-Only request differently, with one developer proposing more or less fully leasable, fully improved Bulkhead space to a finish quality commensurate with the mid-lease rate level implied, the other developer downscaled initial improvements, proposing some office and a food truck area, with commensurately less investment. This approach makes sense if the Bulkhead is considered a first-phase and a more or less interim use.

The BAE analysis in this report does not assess interim uses for the Bulkhead. Instead, it approaches this question as two distinct scenarios – Bulkhead-Only or Whole Building, to draw the comparison of how these two distinct asset management strategies would play out for the Port's revenue stream. It assumes one-time Bulkhead-Only building renovation, to the level sufficient to lease the space to start-ups, co-working facilities, and other users typical of a 10 year lease deal without signature building finishes and amenities such as those present at Pier 1 and Pier 1.5 -5.

Whole Building
In contrast to the above scenario for the Bulkhead-Only, this scenario assumes that the Port allows a Whole Building lease, with the whole building including its pier substructure as the subject property of a long-term lease arrangement. In this scenario, the long-term lease would be of sufficient length to operationalize historic tax credits as a financing mechanism, and the developer would set about to improve the Bulkhead, the Shed, and the underlying pier structure fully, according to all repair and seismic reinforcement tasks outlined in prior analyses commissioned by the Port for Pier 38. This scenario would also include a small marina, if feasible, to enhance long-term maritime use.

The Whole Building scenario has higher development costs per square foot than the Bulkhead-Only scenario, due to the seismic retrofitting, substructure repair, and logical high office and retail finishes. This scenario would likely yield commensurately higher rents to the developer (due to full finishes, better floor plan functionality, and the ability to offer a signature waterfront address with all on-site amenities).

Methodology

The methodology used to evaluate the feasibility of a Bulkhead-Only and a Whole Building reuse of Pier 38 involved the following steps:

- Conduct overview of current and future market conditions for office, retail/restaurant, marina, and parking garage uses
- Review a Pier 38 seismic retrofit and cost study completed by Structus, Inc. dated February 2013
- Develop project concepts for the Bulkhead-Only and Whole Building scenarios which optimize market demand and minimize other development constraints
- Formulate pro formas to analyze the financial feasibility and potential Port lease revenue for the Bulkhead-Only and Whole Building scenarios
- Draw conclusions regarding feasibility of Bulkhead-Only and Whole Building reuse for Pier 38 from the Port's perspective

Description of Site and Vicinity

Location and Surrounding Land Uses
Pier 38 is located at 801 The Embarcadero at Townsend Street, at the edge of the South of Market (SoMa) mixed-use district. As shown in Appendix A, Pier 38 is within a quarter mile of both AT&T Park to the south, and Piers 30-32 to the north (location of the proposed Warrior's Arena complex).

Current land uses surrounding Pier 38 contain a mix of residential, commercial, maritime, and sports-related uses. To the immediate north, the neighborhood includes the Embarcadero Promenade and 1.5-acre Brannan Street Wharf, which has recently been constructed on the former sites of Pier 34 and Pier 36. This park will feature a public green and interpretive exhibits. Together, the Promenade and the new Park will attract visitors and local residents to the waterfront for weekday and weekend recreational activities.

The neighborhood known as South of Market (SoMa) is located to the west of Pier 38, consisting primarily of a mix of older and newly-developed mixed-use residential and commercial buildings and projects. To the south of Pier 38 lies Pier 40, which has additional retail and maritime-oriented commercial enterprises as well as the 700-slip marina known as South Beach Harbor.

Transportation Access

In addition to the Embarcadero, a major arterial running along the front of Pier 38, the site at present is well-served by MUNI bus service (80X and 82X lines) as well as the “T” and “N” surface Muni lines. Both the bus and MUNI lines stop at the Brannan Station just to the north of the property. With the completion of the Brannan Street Wharf and potential development of the Warriors complex, it is likely that the Brannan light rail station will be heavily used, with retail/restaurant space at Pier 38 benefiting from high visibility and strong transit access.

Area Improvements

Several emerging improvements to the area will strengthen the market demand for office, retail/restaurant, and parking at Pier 38. On a citywide level, the draft One Bay Area Plan anticipates that San Francisco will generate an additional 190,740 jobs by 2040, a 38 percent increase over current employment levels. In addition, the same Plan envisions that housing production will add 92,410 units over the same period, increasing demand for retail and recreation in San Francisco.

The proposed Warriors arena complex for Piers 30-32 (and Seawall Lot 330) envisions a 17.500-seat sports and entertainment arena with 105,000 square feet of retail and restaurants, 830 to 930 parking spaces, a practice training facility, a community room, 100 to 130 residential units, and a 200 to 250 room hotel. This new stadium arena, planned to hold more than 200 events per year, along with the already well-established AT&T Park for the San Francisco Giants, will generate substantial visitor traffic to the area, positioning retail/restaurant uses at Pier 38 for excellent market capture.

In sum, Pier 38’s location on the water within SoMa between a popular AT&T Park and the planned Warrior’s arena, along with the construction of the Brannan Street Wharf, will create very strong market potential for this property. These changes to the waterfront in 2013, have focused both the Port and the greater real estate community on this formerly underutilized segment of the waterfront.

MARKET OVERVIEW

Office Market

Market Position

Pier 38 is located at the eastern end of the South of Market office submarket, as defined by Collier's International, a leading real estate brokerage firm. The SOMA East submarket is generally bounded by Spear Street to the east, the Embarcadero on the east and south, Fourth Street to the west, and Harrison and Folsom to the north. (See Appendix A for map).

Office Market Trends

Office Inventory

As of the end of the first quarter 2013, downtown San Francisco had an inventory of 88.2 million net rentable square feet of office space. Of the total downtown market, approximately 5.2 million net rentable square feet were located in the SoMa East submarket. According to Collier's International, this submarket accounts for 5.9 percent of the total downtown San Francisco office space inventory. Outside San Francisco's Financial District, the South of Market East submarket is the second largest submarket after the Civic Center area.

Table 1: Office Inventory for Downtown San Francisco, Q1 2013

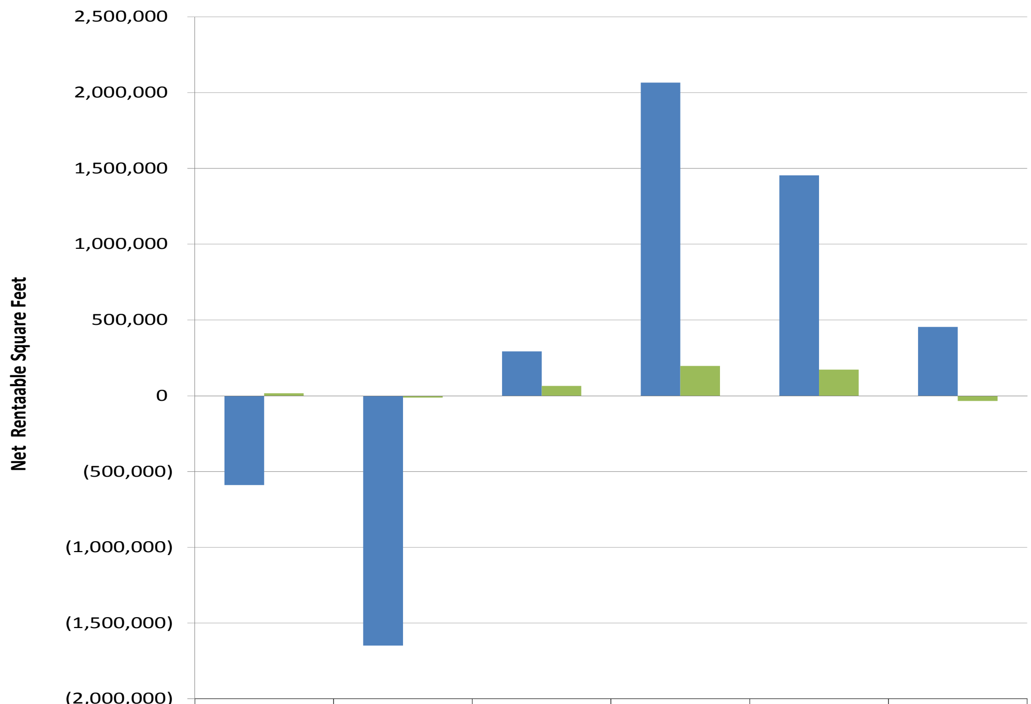
	Buildings		Net Rentable Sq. Ft.	
	Number	% of Downtown	Sq. Ft.	% of Downtown
SoMa East	56	9.2%	5,229,966	5.9%
San Francisco Downtown	610	100.0%	88,172,821	100.0%

Sources: Collier's International, Inc.; BAE 2013.

Net Absorption

Trends in net absorption demonstrate that the San Francisco office market has fully recovered from the Great Recession, making it one of the most dynamic and attractive office market for developers and investors in the nation[1]. After two years of negative or flat net absorption, the San Francisco office market recovered dramatically in 2011. Specifically, as shown below, net absorption was significantly negative in 2009 when a lack of leasing activity resulted in 1.7 million net rentable square feet added back to available inventory. In contrast, over the past full two years, the San Francisco office market has absorbed nearly 3.5 million net rentable square feet. As of the end of the first quarter 2013, the market has absorbed an additional 454,000 net rentable square feet, indicating continuing demand.

Figure 1: Office Absorption, Downtown San Francisco and SoMa East, 2008 through Q1-2013



	2008	2009	2010	2011	2012	2013-YTD
All Downtown	(589,805)	(1,649,181)	292,297	2,066,691	1,453,433	453,802
SOMA East	16,206	(13,161)	64,825	195,996	171,271	(34,303)

Sources: Colliers International; BAE 2013.

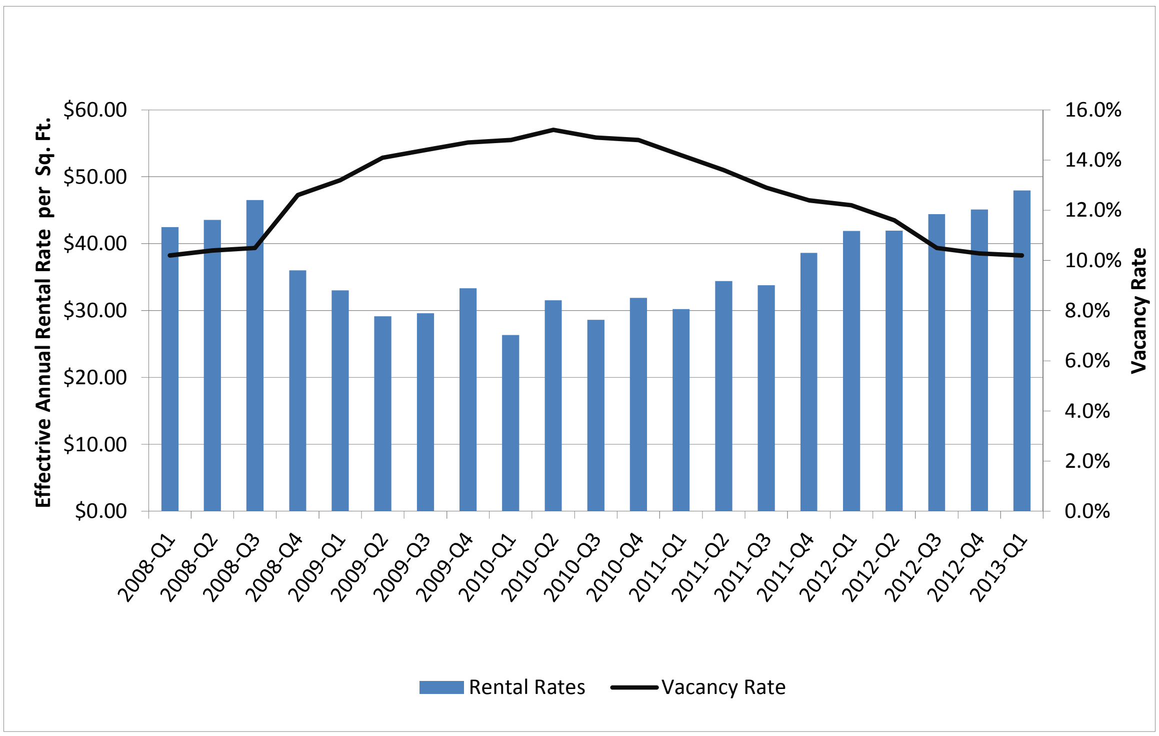
[1] Net absorption is defined as the amount of office space occupied at the end of a period minus the amount occupied at the beginning of a period, taking into consideration office space vacated during the period. It is the best indicator of overall market demand for office space.

While the SOMA East office submarket comprised a small component of net absorption, it performed well during the great recession and recovery. During the recessionary years, net absorption was slightly positive or flat while the rest of the San Francisco market gave up large quantities of space. In the recovery years, SoMa East has experienced strong net absorption relative to its size.

Vacancy and Rental Rates

The strength of downtown San Francisco and SoMa East office markets is evidenced in changes in vacancy and effective rental rates. As shown below, effective rental rates across downtown San Francisco have sharply escalated as vacancy rates have fallen, reflecting strong net absorption and lack of new supply. As of the end of the first quarter 2013, the average effective rental rate was $47.97 per net rentable square foot – up by 82.0 percent from the average effective rental rate of $26.35 recorded at the bottom of the market in the first quarter of 2010.

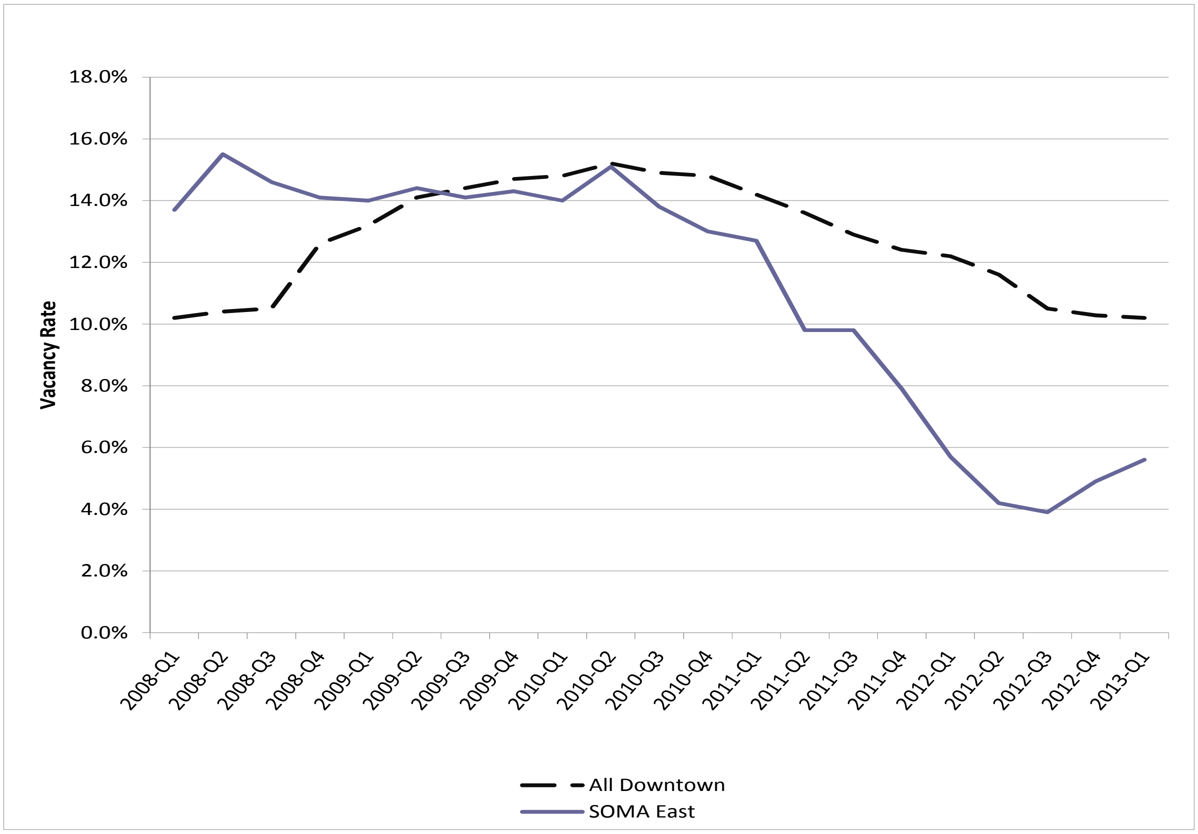
Figure 2: Vacancy & Rental Rate Trends for Downtown San Francisco, 2008 through Q1-2013



Sources: Colliers International; BAE 2013.

In terms of vacancy rates, the SoMa East submarket is among the best performing submarket within the downtown office market. At 5.6 percent vacancy as of the end of Q1 2013, SoMa East's rates dropped significantly below the average vacancy rate of 10.2 percent for office space across all of downtown San Francisco. This low vacancy rate for SoMa East reflects growth and strength of tech firms and other "creative" industries, and their preference for loft-style office facilities. Colliers does not publish lease rate trends for the SoMa East submarket, but these are assessed more specifically by BAE in the next section.

Figure 3: Vacancy Rates, Downtown and SoMa East, 2008 through Q1 2013



Sources: Colliers International; BAE 2013.

Office Lease Rates for SoMa East

For this report both recent actual lease rates, as well as asking lease rates on available spaces in SoMa East, were collected and analyzed. Recent actual office lease rates for several buildings in the vicinity of Pier 38 are shown in Appendix B. In summary, these lease transactions indicate a range of full service office rents occurring throughout 2012, from approximately $45 per square foot at 2 Bryant Street, up to $80 per square foot at recent higher-floor One Market office towers.

Current asking lease rates for vacant available office space throughout SoMa East are also shown in Appendix B. These rates, reflecting current 2013 values, likely more accurately reflect achievable rents for the Bulkhead-Only scenario than prior signed leases for this area. Asking rents cluster around the $48 to $52+/- per square foot range for recently renovated spaces in former loft-style industrial buildings. This rental range represents the likely rents that could be achieved in a renovated Bulkhead-Only scenario.

Perhaps most relevant as the upper bound of recent office leases is the expansion lease at the Ferry Building, for $77 per square foot. Both Ferry Building and Piers 1.5- 5 management have suggested to BAE that when other blocks of space are available in early 2014, they hope to achieve from $75 to nearly $90+ per square foot on a full service basis. In addition, the leasing representative for ProLogis described asking rent for 15,000 square feet of space available at Pier 1 at $68 per square foot full service. Thus, when the segment of the waterfront surrounding Pier 38 is fully redeveloped with the Warriors complex or another use on Piers 30-32, it is likely that Pier 38 will be able to compete with these higher-end office rates, with the Ferry Building and Piers 1.5 – 5 setting the upper boundary for this class of prime waterfront space. If a single or small number of signature companies were attracted to the full building renovation, achievable long-term full service office rents may approach $70+ per square foot per year for a Whole Building concept at Pier 38.

Conclusions

Based on the above market indicators for office space in SoMa East, considered along with the benefits of the waterfront ambiance, BAE believes that the Bulkhead-Only project will experience strong market demand for suitably renovated office space. Achievable near-term full service office rents within the next 12 months or less (time frame for improvements envisioned) for the Bulkhead-Only project would likely be approximately $50 to $55 per square foot after updating and code compliance improvements are completed.

The Whole Building scenario would take 18 to 24 months to implement, with this time frame bringing more certainty regarding the Warrior's planned project at Piers 30-32 project, as well as leasing for the Whole Building commencing after the Brannan Street Wharf has established itself as an attraction for residents and visitors. Thus, with this newly-revitalizing segment of the waterfront, and a whole building under renovation to high finishes, it is likely that a Whole Building scenario could achieve higher rent levels in keeping with or just below signature office spaces such as those at Pier 1, Pier 1.5 -5, and the Ferry Building. Thus, BAE's analysis for the Whole Building scenario assumes a relatively conservative signature office space rent of $70 per square foot.

Retail Market

Market Position

According to Terranomics (a leading retail brokerage firm in the Bay Area, Pier 38 is located the City Center submarket. Existing retail most immediate to Pier 38 is concentrated to the west between Second and Fourth Streets from Folsom to King, and along King near AT&T Park. There is limited neighborhood serving retail along a block-long stretch of Brannan between the Embarcadero and Delancy Street.

Retail Market Trends

San Francisco enjoys an exceptionally strong retail market; Terranomics reports that San Francisco had a total inventory of approximately 4.1 M square feet of retail space with a 4.3 percent vacancy rate at the end of Q1 2013.

Table 2: Retail Space Inventory, San Francisco by Submarket, Q1 2013

Submarket	Total Inventory	Total Vacant	Percent Vacant	Average Asking Rate
City Center	2,064,584	124,419	6.0%	$52.84
Southwest	1,565,885	50,204	3.2%	$31.43
Southeast	465,531	1,987	0.4%	$66.00
Total	**4,096,000**	**176,610**	**4.3%**	**$46.15**

Sources: Terranomics, Inc. 2013; BAE 2013.

Pier 38's retail competitive position is most likely to be maximized through a range of casual to possibly fine dining, serving nearby residents, sports event-goers, workers, and tourists. Due to the distance between Pier 38 and concentrations of employment in SoMa and beyond, Pier 38 is likely to attract some lunch-time dining, but is more likely to position itself as a dining /bar spot for after work hours, as well as before and after sports events at AT&T Park and at the future Warriors arena site. In addition, daytime casual food service for Brannan Street Wharf visitors during both weekday and weekend periods is likely to experience moderate to strong demand.

There is limited information available regarding current retail and restaurant rents achievable at Pier 38's prime waterfront location. Although asking retail rents in the SoMa area ranged from $28 to $50 per square foot per year in 2012, landlords of recently leased restaurant spaces at Pier 1 and Piers 1.5 – 5 report rents approaching $100 per square foot per year[2]. BAE also compiled asking retail and restaurant rents as shown in Appendix D. Due to the low vacancy rates and limited supply, the area representing SoMa has few available retail/restaurant spaces. Asking rents range from $28 to $50 per square foot (terms unknown).

A potential Pier 38 tenant for the Whole Building concept (with more extensive space available for this use) might include a large restaurant catering to sports enthusiasts serving modern-upscale food. An example of this concept is a popular restaurant located in the LA Live complex in downtown Los Angeles, called The Yard House. This facility illustrates how a relatively large restaurant/entertainment concept with sports theme, also offering strongly conceived, quality restaurant meals and lively nighttime bar ambiance within its footprint, can become a major destination. This Yard House combination concept has an average footprint of 10,500 square feet, according to investor reports, which could be accommodated in the existing retail space at the north end of the pier, with outdoor seating facing the Brannan Street Wharf. According to investor reports, The Yard House typically generates $8.5 million in revenue annually, equivalent to almost $810 in sales per square foot for the company's average restaurant unit. If this tenant type were attracted to

[2] These could not be verified for this analysis of Pier 38 with leasing agents.

Pier 38, it is likely that rents of at least $60 per square foot NNN could be achieved, and are assumed in the Whole Building's pro formas[3].

Conclusions
Due to current strong high demand, low vacancy rates, and strong locational advantages of the Pier 38 site, BAE has concluded that Bulkhead-Only reuse for restaurants and cafes should be in demand and able to achieve rents of at least $48 per square foot NNN.

If the Whole Building scenario were offered, with full renovation of the facility including the shed, and commensurate signature office users, higher rent levels of $60 per square foot or more for restaurant space in the project should be achievable. These rent levels will be further supported once this segment of the waterfront is fully redeveloped, driving demand for a sports-entertainment related venue such as The Yard House example.

Parking Garage Market

For this report indoor parking garage rents were also compiled because the Bulkhead-Only format allows for parking in the shed structure today, even if no other renovation to the shed were undertaken. BAE calculations, described below in more detail, estimate that up to 80 indoor spaces could be accommodated along with bulkhead reuse, without triggering seismic upgrade requirements.

A comprehensive list of existing parking garages throughout SoMa is shown in Appendix E. As indicated, while rates vary depending on circumstances in general daily rates are $15 to $25, with game days for garages attracting AT&T attendees increasing to $30 to $50 or more. Monthly rates range from $250 to $400, with One Market charging up to $600 per month for premium spaces.

Conclusions
Pier 38 is likely to experience moderate to strong demand for daily and monthly rentals, with very strong demand on game days and other waterfront event days if open for business at those times. This use is only assumed for the Bulkhead-Only project, where it offsets renovation costs and can provide a much-needed stream of cash flow to the developer, supporting rent payments to the Port.

[3] It should be noted that this rent assumption, which would likely include base rent and percent of sales rent in its total, is less than 7.5% of the average sales per square foot cited by The Yard House. This relationship between rent costs and sales revenue, is directly in line with typical restaurant who report that rent costs should be less than 9% of revenue to maintain overall feasible operating costs for the restaurant operator.

Marina Market

A small marine for private-owned boats in the 44’ to 60’ length has been suggested by both developer submittals as a good adjunct use for the Whole Building reuse scenario. This use would enhance existing maritime facilities at Pier 38, retain a Trust-consistent use, and continue maritime access. Due to the expense of creating a new marina, this use is considered only as part of the Whole Building reuse scenario.

Marina Demand

Demand for boating slips is high in San Francisco. According to the San Francisco Port Maritime Division, all four marinas in the City, including South Beach Harbor at Pier 40, the San Francisco Marina, Fisherman’s Wharf at Pier 39, and the commercial fishing marina report very high occupancy rates. At South Beach Harbor, directly south of Pier 38, there are 700 slips, with almost all slips rented on a monthly basis. According to an interview conducted by BAE with South Beach Harbor management, the monthly slips have a current waiting list of over 1,350 people, and are in very high demand. According to the Harbor Master, the average turnover is approximately 4 slips per month, and the average wait time can range from eight to 12 years for a permanent slip at the marina. Demand for both monthly and daily slip rentals is particularly high at South Beach because its waters are relatively well protected from waves and wind, in contrast to marina locations to the north of the Bay Bridge.

In addition, Pier 38’s position between AT&T Park and the proposed Warriors arena makes this an ideal location for transient users, who typically stay for a day or weekend. At South Beach Harbor, there are only 20 guest slips set aside for transient use, while over 275,000 transient users are reported to stop at South Beach Harbor annually. The Harbor Master maintains that reservations for guest slips fill up quickly, especially during Giants home games and on weekends, and demand is likely to increase year-round if the Warriors arena is built. In addition, transient users pay higher rates than are typically charged for monthly rentals, and represent a lucrative market for a Pier 38 marina.

Rental Rates

For permanent slips, rents are charged per linear foot per month, with rates for 40’ to 60’ boats at South Beach Harbor ranging from $13.16 to $16.10 per linear foot per month (i.e., $550 to $966 per month). Rates are generally higher for guest users, who pay hourly or daily. Daily rates at South Beach range from $50 to $75 per day. The Harbor Master estimates that the market could support a 20 percent increase in prices at Pier 38, especially a new floating dock with state-of-the-art facilities. Thus, the pro forma with a marina shown in the next section assumes a 20 percent increase above South Beach Harbor’s current rates, applied to both daily and monthly rental rates.

FINANCIAL FEASIBILITY OF BULKHEAD-ONLY PROJECT

Concept for Bulkhead-Only Reuse

This chapter examines the financial feasibility and potential revenue stream to the Port of San Francisco for a Bulkhead-Only reuse. The analysis below explicitly address the question of the highest and best use in financial terms, of a Bulkhead-Only project, with no other reuse of the shed except limited indoor garage parking and a public access passageway.

Special care was taken in formulating the BAE Bulkhead-Only scenario. BAE evaluated both developer submittals to the Request for Proposals and is very familiar with the concepts proposed by both San Francisco Pacific Waterfront Partners (PWP), and TMG. In PWP's case, the proposal essentially sought to improve the Bulkhead with semi-permanent interior renovations, while also allowing for a mix of uses and parking, resulting in total occupancy calculations which fall just below the threshold that would trigger seismic upgrades to the pier and structures. However, the PWP scenario does not appear to maximize parking garage efficiency, reducing potential revenue streams. In addition, this proposal envisions relatively high office rents above $70 per square foot in the Bulkhead-Only only scenario, which are not clearly achievable at the level of investment offered. In contrast, the TMG scenario proposes far lower improvement costs, also carefully allowing for occupancy and load factors that were proposed to fall below seismic improvement thresholds. This lower cost scenario envisioned modest office rents of $48 per square foot, and an anchor food truck and eating complex.[4] Both proposals envisioned a similar configuration of office space in the Bulkhead, including all of the second floor and mezzanine levels as had been previously occupied. TMG has a more efficient parking garage layout, allowing for more spaces than PWP's garage portion.

BAE analyzed both of these scenarios, and constructed an occupancy and load model to calculate maximum square footage possible while avoiding seismic upgrade requirements. BAE also devoted space in the Bulkhead to higher-value uses. In essence, BAE borrowed the "best of both" developer proposals, with less restaurant space than PWPs (just the existing restaurant-style room with 6,800 square feet), maximum office space, public access through the back end of the garage area in the shed (rather than further back around the entire structure), and the TMG layout for parking garage spaces (which generate maximum revenue at minimum development cost). Rents for office space (at $52 per square foot) and restaurant space (at $48 per square foot) are in keeping with modestly-finished space throughout the SoMa area, but do not reflect signature office or large-scale destination restaurants. The Bulkhead-Only scenario floorplan is shown on the following two pages, followed by a detailed pro forma financial analysis.

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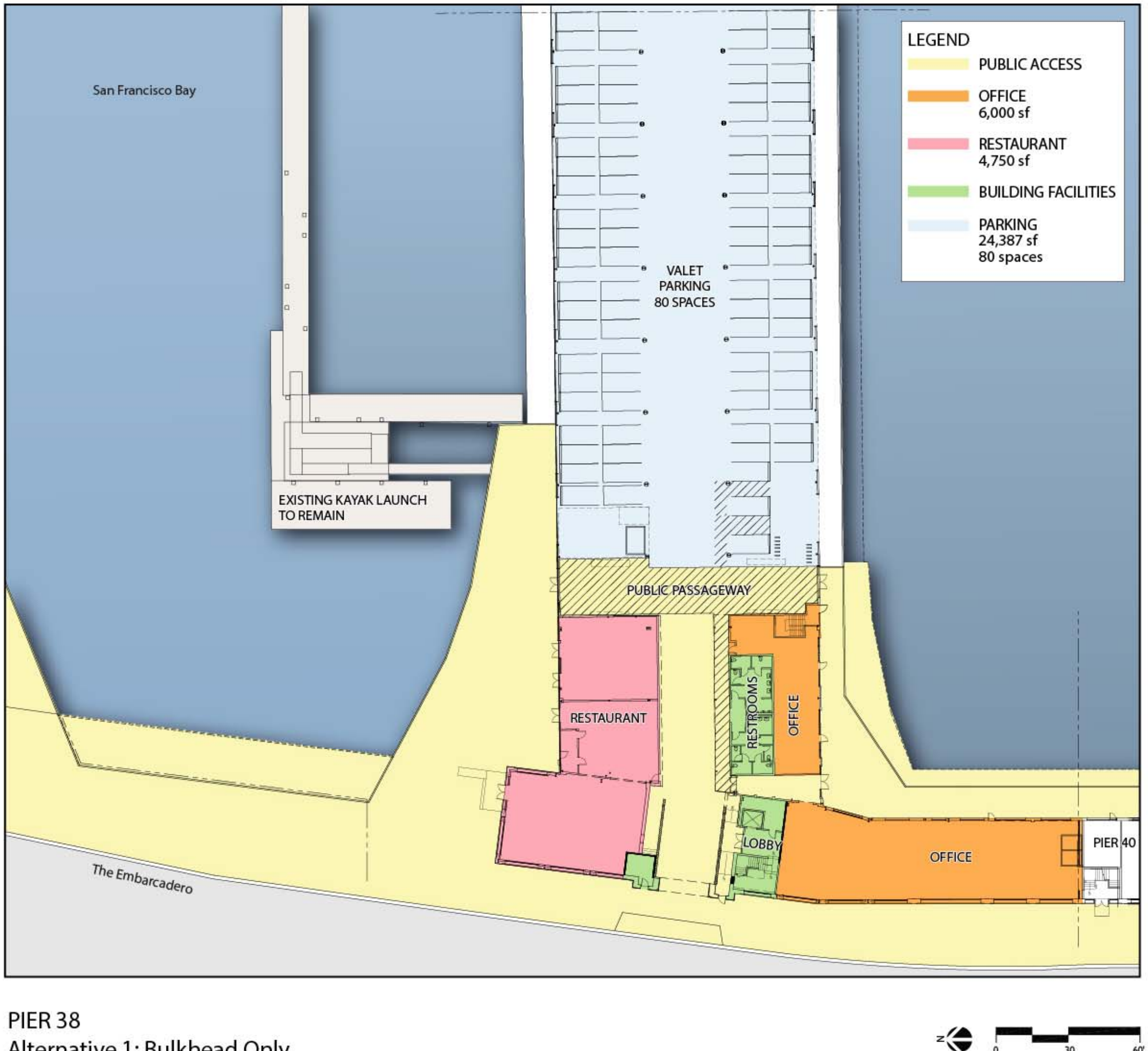
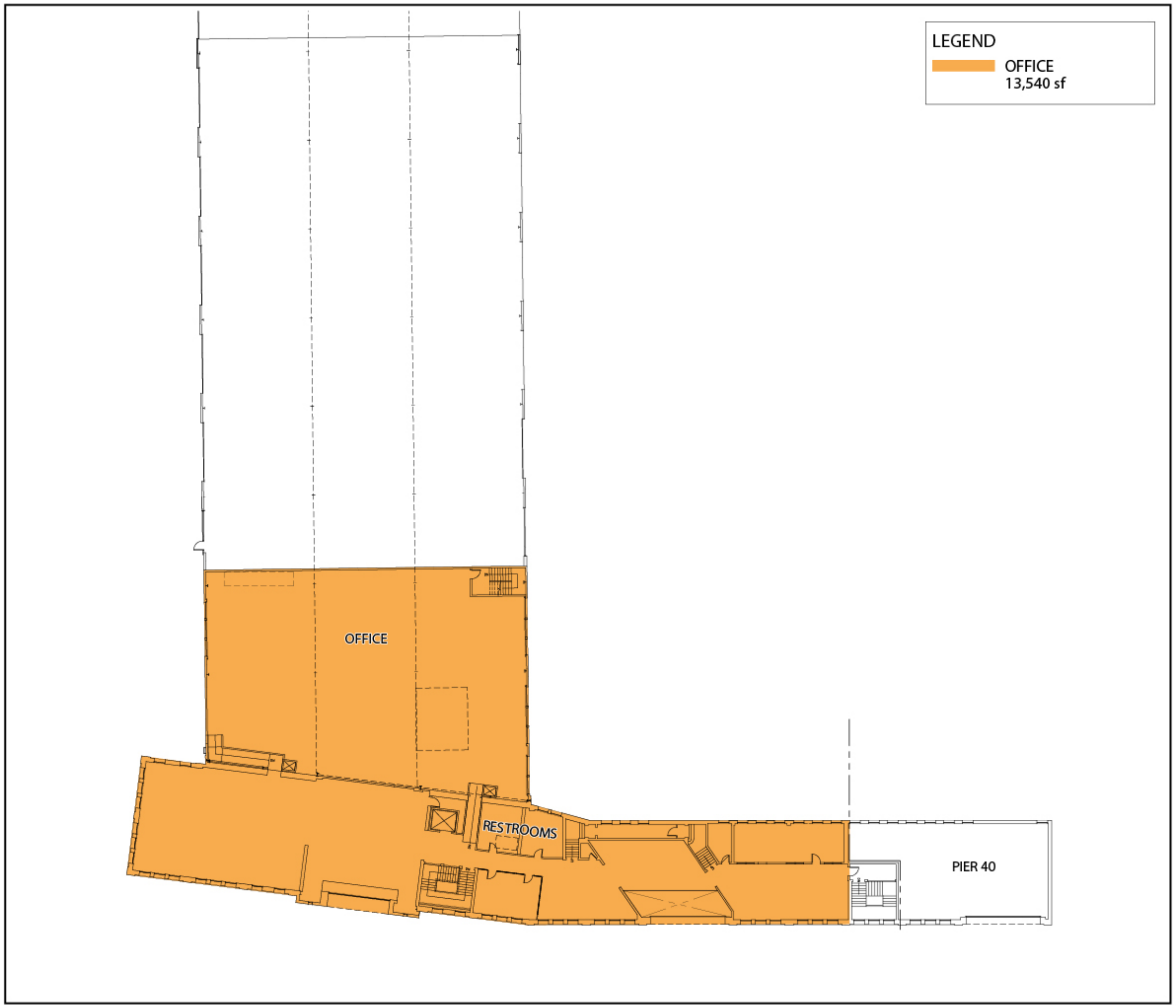
[4] It should be noted that TMG stated in their interview that if truly just Bulkhead-Only is offered, they may revisit this proposal and go to an upgraded more permanent improvement concept, with more finished restaurant spaces assuming that this does not trigger a seismic upgrade.



PIER 38
Alternative 1: Bulkhead Only
Level I



PIER 38
Alternative 1: Bulkhead Only
Level 2

Pro Forma Financial Analysis

As shown on the next page, the Bulkhead-Only only scenario with a mix of office, restaurant, and parking garage uses, while also optimizing existing space and avoiding the threshold for triggering seismic retrofit to the property, can generate substantial income to the Port of San Francisco.

Depending on the rent credits negotiated and the lease term for a Bulkhead-Only only scenario, the Port could earn upwards of $690,000 per year on this project. This assumes the ground lease value is 10 percent of the project's residual value, and the rent credit against this amount is an amortization of a 20 lease for full development costs excluding profit.

This project scenario provides an affirmative answer to the question of "can a Bulkhead-Only only project make financial sense" while the majority of the shed is mothballed and not upgraded over a 20 year period. However, as a practical matter, it is challenging to envision a project with this set of limitations for a 20-year period, particularly the unused shed building without pier substructure or shed seismic improvements.

If the lease term were for just 10 years, and maximum rent credits were granted, the rent credit amount would double the amount shown, leaving approximately just $105,000 per year in rent revenue to the Port.

Table 3: Pro Forma for Bulkhead-Only Project

Development Program Assumptions	
Site Area (Acres)	3.40
Site Area (sq. ft.)	148,104
Development Project Components	
Office/Retail MXD (gross sq.ft.)	
Ground Floor Office	6,000
2nd Floor Office	6,205
2nd Floor Mezzanine Office	7,335
Total Office	19,540
Ground Floor Restaurant	4,750
Total Office/Retail MXD	**24,290**
Parking (gross sq.ft.)	
Area Available for Parking (a)	24,387
Parking Space Size (b)	300
Number of Spaces	80
Public Access (gross sq.ft.) (c)	
North Apron	8,500
South Apron	5,500
Public Walkway through Shed	1,400
Maritime (gross sq.ft.)	
Marina (d)	-

Cost & Income Assumptions		
Office/Retail MXD Costs:		
Hard Construction Costs (per sq. ft.) (e)	$	260
Soft Costs as % of Hard Costs (f)		25%
Developer Profit (% of Hard & Soft Costs)		15%
Tenant Improvements, Restaurant (per sq.ft.)		
Office Rent / Year (full service)	$	52.00
Office Vacancy		5%
Office Expenses (% of Gross Rev)		35%
Cap Rate (g)		6.0%
Retaill Rent /Year (NNN)	$	40.00
Retail Vacancy		5%
Retail Mgt Exp (% of Rent)		3%
Cap Rate (h)		5.5%
Parking Costs:		
Cost per space (i)	$	3,750
Parking Rent (per month/space)	$	400
Parking Rent (per day/space)	$	25
% of parking spaces rented monthly		50%
% of parking spaces rented daily		50%
Parking Vacancy		20%
Parking Expenses (per year)	$	30,000
Cap Rate (j)		5.0%
Public Access Costs:		
Apron (per sq.ft.) (k)	$	53
Public access/walkway (per sq.ft.) (l)	$	100
Financing (All Components)		
Loan to Cost Ratio		85%
Interest Rate		6.5%
Period of Initial Loan (Months)		12
Initial Construction Loan Fee (Points)		2.0%
Average Outstanding Balance		60%

Development Costs				
Office/Retail MXD:				
Hard Costs			$	6,315,400
Soft Costs			$	1,578,850
Developer Profit			$	1,184,138
Loan:	$	6,710,113		
Points			$	134,202
Interest			$	261,694
Subtotal Office			**$**	**9,474,284**
Parking & Public Access				
Parking			$	300,000
Aprons			$	742,000
Public Walkway			$	140,000
Marina			$	-
Subtotal			$	1,182,000
Developer Profit			$	177,300
Loan:	$	1,004,700		
Points			$	20,094
Interest			$	39,183
Subtotal Parking & Public Access			**$**	**1,418,577**
Total Development Costs			**$**	**10,892,861**

Value Analysis		
Retail/Office MXD:		
Gross Income - Office	$	1,016,080
Less: Vacancy - Office	$	(50,804)
Less: Op Expenses - Office	$	(355,628)
NOI - Office	$	609,648
Capitalized Value - Office	**$**	**10,160,800**
Gross Income - Retail	$	190,000
Less: Vacancy - Retail	$	(9,500)
Less: Op Expenses - Retail	$	(5,700)
NOI - Retail	$	174,800
Capitalized Value - Retail	**$**	**3,178,182**
Gross Income - Parking	$	557,000
Less: Vacancy - Parking	$	(111,400)
Less: Op Expenses - Parking	$	(30,000)
NOI - Parking	$	415,600
Capitalized Value - Parking	**$**	**8,312,000**
Total Capitalized Value	$	21,650,982
Less Total Dev Costs	$	(10,892,861)
Residual Value of Pier	**$**	**10,758,120**
Residual Value Per Acre	*$*	*3,164,153*
Residual Value Per Sq. Ft. of Pier	*$*	*72.64*
Ground Lease Rev / Year @10% of Valu	**$**	**1,075,812**
Potential Rent Credits		
Development Costs	$	10,892,861
Less: Profit	$	(1,184,138)
Dev Costs Net of Profit	**$**	**9,708,724**
Annual Rent Credit (m)	$	485,436
Net Rent Payment to Port	**$**	**590,376**

Notes:

a) The area available for parking was calculated to keep the occupancy load of the project below 634 occupants, in order to avoid triggering a seismic upgrade of the bulkhead and the pier. The occupancy load factors are based on Table 1004.1.1. of the California Building Code.

of the California Building Code.	Area (sf)	Occupancy load	Total occupants
Office	19,540	100	195
Restaurant	4,750	15	317
Subtotal			**512**
Balance Available for Parking	24,387	200	122

b) The average square foot per parking space was calculated based on TMG's proposal, which had a similar parking program.

c) Public access improvements include a continous walkway along the North and South aprons, connected by a public pathway through the interior of the shed. Improvements along the North and South apron include replacing the decking and asphalt up to the existing chain link fence. The public pathway through the shed will be illuminated and be accessible to the public at all times.

d) No maritime improvements are currently envisioned under this development program.

e) Hard costs include all costs associated with upgrading the bulkhead for accessibility and code compliance, improvements within the shed to mitigate life safety hazards, and minor tenant improvements for office space. The hard cost estimate was based on the figures for hard cost per square foot from the San Francisco Waterfront Partner's submittal, adjusted downward to reflect no breezeway and less restaurant space.

f) Soft costs include architect, legal fees, city fees, and other professional services and are expressed as percentage of total hard costs.

g) The office cap rate was based on CBRE's Cap Rate Survey dated Feburary 2013 for San Francisco Class A, value-added office.

h) The retail cap rate was based on CBRE's Cap Rate Survey dated Feburary 2013 for San Francisco Class A, high street retail, which includes specialty retail.

i) Based on the average cost per parking space shown in TMG's proposal

j) Based on estimate by BAE

k) Apron repair costs were based on an estimate prepared by M. Lee Coproration and attached to the Creegan & D'Angelo report dated January 13, 2012.

l) Based on estimate by BAE from other San Francisco Port projects

m) Assumeds total development costs net of profit, amortized over 20 year lease term.

Source: BAE, 2013

WHOLE BUILDING FEASIBLITY ANALYSIS

Concept for Whole Building Reuse

The concept for Whole Building reuse of Pier 38 was developed with the aim of maximizing the return to the Port, while optimizing market demand and locational advantages of the property to attract signature office and restaurant tenants, and also meeting all public approvals requirements. In developing this program, BAE utilized the market information profiled earlier in this report. This resulted in assumptions for reuse including high-quality first-floor and mezzanine office space, ground floor large restaurant tenant suc as the Yard House, a marina, and public access. Specific additional assumptions and background information used to develop the program and the pro forma are provided below.

Seismic Retrofit Program and Costs

Rehabilitation of the entire Pie 38 property will require a seismic upgrade, with considerable cost[5]. To formulate these costs, BAE reviewed a report completed by Structus, Inc. that evaluated the costs associated with a seismic retrofit of Pier 38, including an upgrade to the pier substructure, shed structure, and bulkhead, along with additional repairs below the deck to fix structural deficiencies and the creation of a new mezzanine in the shed to allow for second floor uses.[6] Accounting for these core improvements, the Structus report estimated that the construction costs would be approximately $27.8 million.[7] Factoring in design and other soft costs, the total cost of the seismic retrofit and structural improvements was estimated at $41.1 million. This estimate is incorporated in the pro forma in the following section.

Public Access

Since this project will require a Bay Conservation and Development Commission permit, it will require "maximum feasible public access." Accordingly, public access improvements must be incorporated into the development program. This project will also require approval from the California State Lands Commission which must affirm a development's consistency with the public trust. Generally, the public trust doctrine prohibits certain uses, including office and housing in favor of maritime, open space, and environmental restoration as well as retail that attracts people to the waterfront. However, in other Port rehabilitation projects, the State Lands Commission has been willing to accept non-trust uses balanced by historic preservation of key structures as well as incorporation of sufficient public trust uses that attract people to the waterfront. For these reasons, the reuse

[5] The Port of San Francisco Building Code requires for pier structures and the supporting substructure to be seismically upgraded when a change of use triggers the occupant load to increase by more than 10 percent above its prior use, and the occupancy count to rise by more than 100.

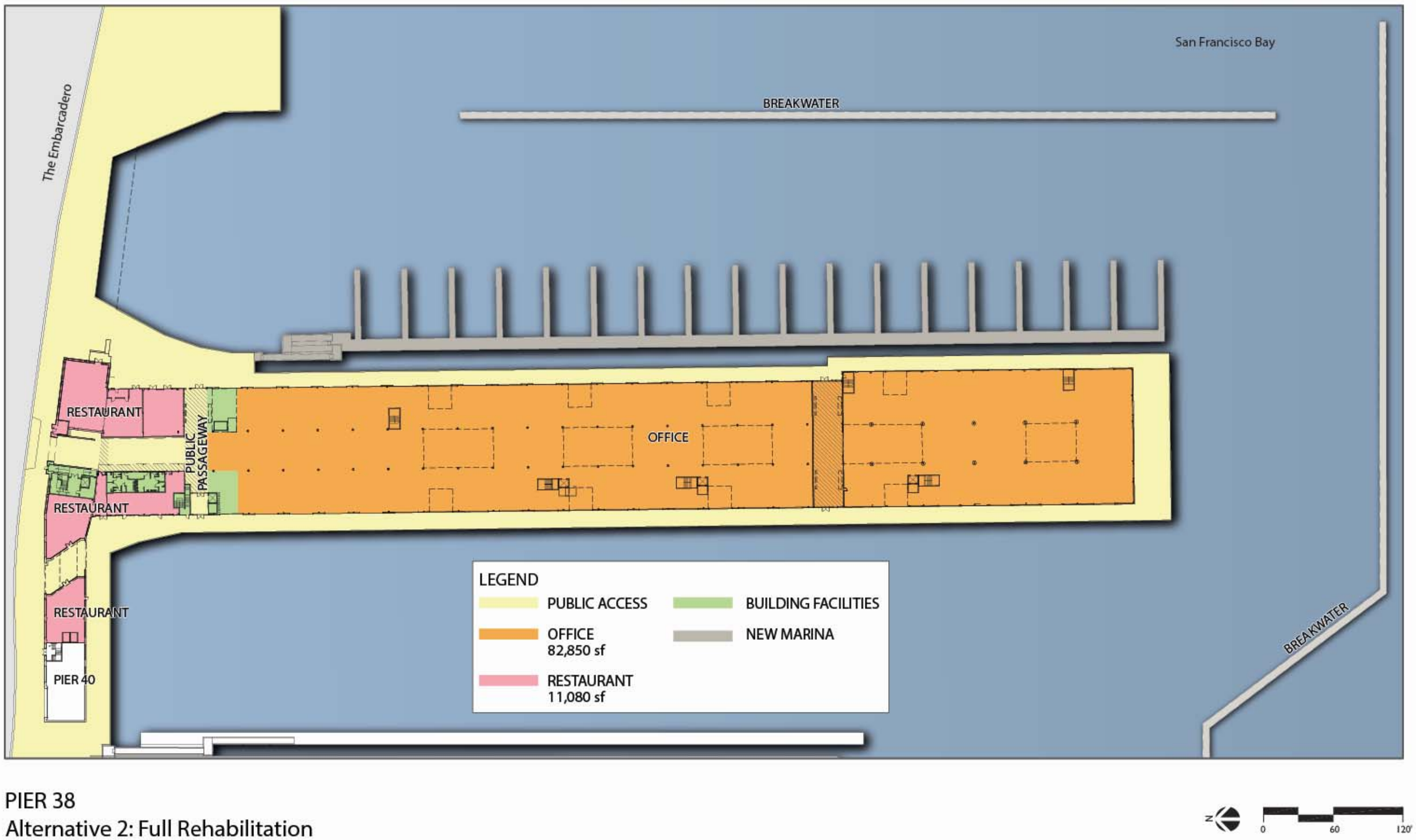
[6] Structus Inc., *Pier 38 Substructure/Shed Structure & Bulkhead Structure Seismic Evaluation and Conceptual Retrofit Report*, February 19, 2013

[7] This estimate excludes interior renovations, mechanical, electrical, and plumbing improvements, and design, which are calculated separately in the development pro forma.

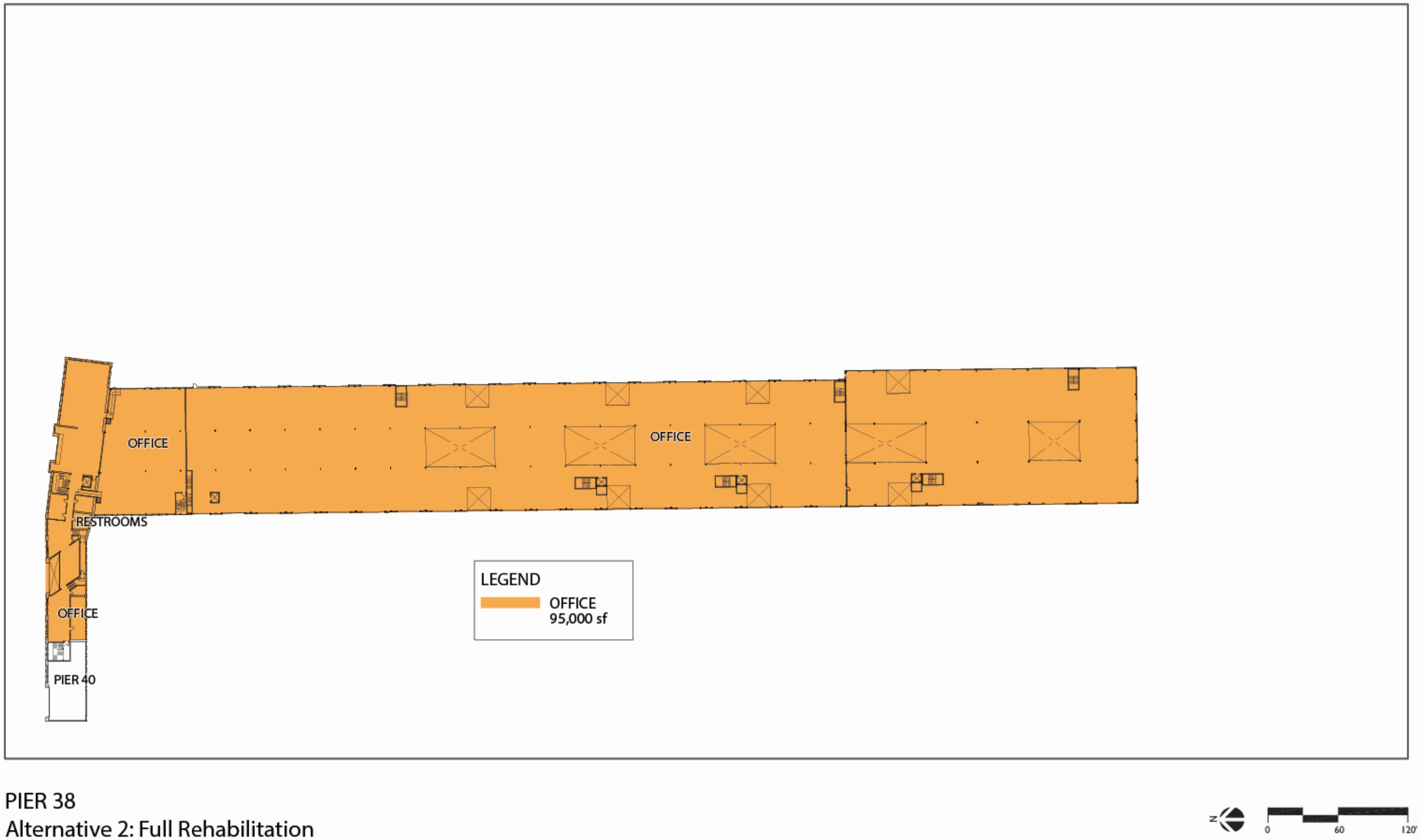
scenario analyzed here includes trust and non-trust uses as well as a public access program, including both a breezeway through the building with public access (between the bulkhead and shed portions of the structure), as well as a full, publicly-accessible perimeter walkway.

Marina Development Costs

Based on the existing depths at Pier 38, the Port Maritime Division estimates that a new floating dock of 750 feet could be constructed along the north side of the pier to accommodate 34 new slips, of which 60 percent could be sized for boats between 40' to 44', and 40 percent could be set aside for 50' to 60' vessels. A dock of this size would stretch the entire length of the north side of Pier 38, and would also require the construction of a floating wave attenuation device to protect boats from tidal motions. Power Engineering Construction Company, an expert on marina and dock construction, was consulted for this report; its staff estimated that the cost to build a new dock and wave attenuator is approximately $4.05 million (see Appendix F for preliminary cost estimate).



PIER 38
Alternative 2: Full Rehabilitation
Level I



PIER 38
Alternative 2: Full Rehabilitation
Level 2

Pro Forma Financial Analysis

Based on the development program described above, two pro formas were developed for the Whole Building concept – Scenario A with a marina included, and Scenario B without a marina.

The pro formas illustrate that the Whole Building reuse of Pier 38 is feasible and results in a positive residual value ranging from $12.3M to $15.4 M, depending on whether the project includes a marina component. Scenario B, without the marina component, offers better financial performance for the developer and the Port.

Both scenarios are feasible and result in capitalized values that exceed the development costs, resulting in net positive residual values for the pier. Scenario A includes a marina component and has a capitalized value of $138.5 million and development costs of $126.2 million, which leads to a positive residual value of $12.3 million. Scenario B, which does not include a marina component, results in a higher residual value. While the capitalized value is lower at $135.7 million, the cost savings from not having to build a marina reduce development costs to $120.2 million, and leads to a higher residual value of $15.4 million.

Scenario B without the marina offers a better financial project to the Port because the marina and floating breakwater are expensive to construct, and the cash flow generated from marina operations, although positive each year, is not sufficient to cover the high upfront costs of construction. Programmatic changes to the marina, including allocating more slips for guest users or accommodating charter boats, could potentially boost revenue and increase the residual value for Scenario A.

Both scenarios analyzed above do not account for either rent credits to amortize capital costs, or the potential equity contribution offered by an historic tax credit, which is generally 20 percent of eligible costs (not known if this could include substructure repair and seismic retrofit costs to the piers). Due to the long-term nature of the lease required for the historic tax credits (generally at least 50 years), the concept of rent credits would likely become less necessary in a long-term lease situation, since the developer would have 50 years to earn return (assumed above to be 15% of costs per year). In addition, if the lease were 50 years or more, it is likely that historic tax credits could be utilized, offering the ability to offset costs and raise return even higher.

Table 4: Scenario A- Pro Forma for Whole Building with Marina Component

Does not account for potential historic tax credits

Development Program Assumptions		
Site Area (Acres)		3.40
Site Area (sq. ft.)		148,104
Development Project Components		
Office/Restaurant MXD (gross sq.ft.)		
Ground Floor Office - Bulkhead		0
2nd Floor Office - Bulkhead		14,145
Ground Floor Office - Shed		82,850
2nd Floor Office - Shed		80,855
Total Office		177,850
Ground Floor Restaurants		11,080
Total Office/Retail MXD		**188,930**
Public Access (gross sq.ft.)		
North Apron (a)		18,500
South Apron (a)		18,500
Public Walkways (b)		6,200
Marina (c)		
Marina (linear ft.)		750
Slips (linear feet/slip, total)	44	20
Slips (linear feet/slip, total)	60	14
Total Slips		34
Percent of slips for monthly users		50%
Percent of slips for daily users		50%

Cost & Income Assumptions	
Office/Restaurant MXD Costs:	
Hard Construction Costs (per sq. ft.) (d)	$ 260.00
Soft Costs as % of Hard Costs (e)	25%
Office Rent / Year (full service) (f)	$ 70.00
Office Vacancy	5%
Office Expenses (% of Gross Rev)	35%
Cap Rate (g)	6.0%
Restaurant Rent /Year (NNN)	$ 60.00
Restaurant Vacancy	5%
Restaurant Mgt Exp (% of Rent)	2%
Cap Rate (h)	5.5%
Marina Costs:	
Hard Construction Costs (per linear ft.) (i)	$ 5,400
Soft Costs as % of Hard Costs (e)	20%
44' Marina Monthly Rental / Slip (j)	$ 792.00
60' Marina Monthly Rental / Slip (j)	$ 1,080.00
Marina Daily Rental / Slip (j)	$ 75.00
Marina Vacancy (monthly users)	5%
Marina Vacancy (transient users)	30%
Marina Expenses (per slip/yr) (k)	$ 8,250
Cap Rate (l)	8.0%
Public Access Costs:	
Apron (per sq.ft.) (m)	$ 53
Public access/walkway (per sq.ft.) (n)	$ 100
Financing (All Components)	
Loan to Cost Ratio	70%
Interest Rate	6.5%
Period of Initial Loan (Months)	24
Initial Construction Loan Fee (Points)	2.0%
Average Outstanding Balance	60%
Developer Profit (hard + soft only)	15.0%

Development Costs		
Office/Restaurant MXD:		
Hard Costs		$ 49,121,800
Soft Costs		$ 12,280,450
Subtotal		***$ 61,402,250***
Loan:	$ 42,981,575	
Points		$ 859,632
Interest		$ 3,352,563
Development Costs		**$ 65,614,444**
Marina		
Hard Costs		$ 4,050,000
Soft Costs		$ 810,000
Subtotal		***$ 4,860,000***
Loan:	$ 3,402,000	
Points		$ 68,040
Interest		$ 265,356
Development Costs		**$ 5,193,396**
Public Access:		
Hard Costs		$ 2,581,000
Soft Costs		$ 516,200
Subtotal		***$ 3,097,200***
Loan:	$ 2,168,040	
Points		$ 43,361
Interest		$ 169,107
Subtotal Office		**$ 3,309,668**
Seismic: Substructure & Superstructure		
Hard Costs (o)		$ 27,777,680
Soft Costs		$ 5,555,536
Subtotal		***$ 33,333,216***
Loan:	$ 23,333,251	
Points		$ 466,665
Interest		$ 1,819,994
Subtotal Substructure + Seismic		**$ 35,619,875**
Total Dev Costs with Substructure		**$ 109,737,383**

Value Analysis	
Gross Income - Office	$ 12,449,500
Less: Vacancy - Office	$ (622,475)
Less: Op Expenses - Office	$ (4,357,325)
NOI - Office	$ 7,469,700
Capitalized Value - Office	**$ 124,495,000**
Gross Income - Restaurant	$ 664,800
Less: Vacancy - Restaurant	$ (33,240)
Less: Op Expenses - Restaurant	$ (13,296)
NOI - Restaurant	$ 618,264
Capitalized Value - Restaurant	**$ 11,241,164**
Gross Income - Marina	$ 650,444
Less: Vacancy - Marina	$ (148,866)
Less: Op Expenses - Marina	$ (280,500)
NOI - Marina	$ 221,078
Capitalized Value - Marina	**$ 2,763,473**
Total Capitalized Value	**$ 138,499,637**
Less Total Dev Costs	$ (109,737,383)
Less: Developer Profit	$ (16,460,607)
Residual Value of Pier	**$ 12,301,646**
Residual Value Per Acre	*$ 3,618,131*
Residual Value Per Sq. Ft. of Pier	*$ 83.06*
Ground Lease Rev / Year @10% of Value	**$ 1,230,165**

Notes:
a) Public access improvements include a continous walkway along the entire perimeter of Pier 38.
b) Public walkways include a passageway through the bulkhead at the south side of Pier 38, and a walkway between the bulkhead and shed connecting the North and South aprons, which will be illuminated and accessible to the public at all times.
c) This assumes a new, 750' marina running the entire length of the north side of Pier 38, which will include 34 slips for recreational boats ranging from 40' to 60' in length. This assumes the construction of a precast concrete dock system, 24" precast concrete piles, 4 new gangways, and two floating breakwaters to protect boats from incoming waves set 55' off the east end of Pier 38.
d) Hard costs include all costs associated with buildout of the bulkhead and shed to accommodate end users, including tenant improvements, and was based on the estimate from the San Francisco Waterfront Partners' submittal. This excludes all seismic retrofit costs and other public improvements.
e) Soft costs include architect, legal fees, city fees, and other professional services and are expressed as percentage of total hard costs.
f) Office rents based on market research conducted by BAE for comparable waterfront Class A office properties in signature waterfront buildings.
g) The office cap rate was based on CBRE's Cap Rate Survey dated Feburary 2013 for San Francisco Class A, value-added office.
h) The retail/restaurant cap rate was based on CBRE's Cap Rate Survey dated Feburary 2013 for San Francisco Class A, high street retail, which includes specialty retail.
i) Marina estimated construction costs were provided by Power Engineering Construction Company, a contractor that specializes in marina and dock construction. These costs were corroborated by Dutra Group, another marina construction company active in the San Francisco Bay Area.
j) Marina monthly and daily rental fees are based on a 20% markup from rates at South Beach Harbor at Pier 40, directly south of Pier 38. The South Beach Harbormaster believes these rates are reasonable, given the current wait list of 1,350.
Marina Monthly Rental / Lin. Ft of Slip $ 18.00
k) Marina operating costs were based on the annual operating budget at South Beach Harbor, and excludes the cost of utilities, which are passed through to users.
l) Based on estimate by BAE.
m) Apron repair costs were based on an estimate prepared by M. Lee Coproration and attached to the Creegan & D'Angelo report dated January 13, 2012.
n) Based on estimate by BAE from other San Francisco Port projects
o) Includes seismic upgrades of the pier substructure, bulkhead, and shed, including a new mezzanine for a second floor in the shed. This excludes the costs of interior tenant improvements, which are accounted for separately in this proforma. The cost estimates were based on figures by M. Lee Corporation, which were attached to the Structus, Inc report dated February 19, 2013.
p) Assumes total development costs net of profit, amortized over 30 year lease term.
Source: BAE, 2013.

Table 5: Scenario B - Pro Forma for Whole Building without Marina Component

Does not account for potential historic tax credits

Development Program Assumptions		
Site Area (Acres)		3.40
Site Area (sq. ft.)		148,104
Development Project Components		
Office/Restaurant MXD (gross sq.ft.)		
Ground Floor Office - Bulkhead		0
2nd Floor Office - Bulkhead		14,145
Ground Floor Office - Shed		82,850
2nd Floor Office - Shed		80,855
Total Office		177,850
Ground Floor Restaurants		11,080
Total Office/Retail MXD		**188,930**
Public Access (gross sq.ft.)		
North Apron (a)		18,500
South Apron (a)		18,500
Public Walkways (b)		6,200
Marina (c)		
Marina (linear ft.)		-
Slips (linear feet/slip, total)	44	-
Slips (linear feet/slip, total)	60	-
Total Slips		-
Percent of slips for monthly users		50%
Percent of slips for daily users		50%

Cost & Income Assumptions		
Office/Restaurant MXD Costs:		
Hard Construction Costs (per sq. ft.) (d)	$	260.00
Soft Costs as % of Hard Costs (e)		25%
Office Rent / Year (full service) (f)	$	70.00
Office Vacancy		5%
Office Expenses (% of Gross Rev)		35%
Cap Rate (g)		6.0%
Restaurant Rent /Year (NNN)	$	60.00
Restaurant Vacancy		5%
Restaurant Mgt Exp (% of Rent)		2%
Cap Rate (h)		5.5%
Marina Costs:		
Hard Construction Costs (per linear ft.) (i)	$	5,400
Soft Costs as % of Hard Costs (e)		20%
44' Marina Monthly Rental / Slip (j)	$	792.00
60' Marina Monthly Rental / Slip (j)	$	1,080.00
Marina Daily Rental / Slip (j)	$	75.00
Marina Vacancy (monthly users)		5%
Marina Vacancy (transient users)		30%
Marina Expenses (per slip/yr) (k)	$	8,250
Cap Rate (l)		8.0%
Public Access Costs:		
Apron (per sq.ft.) (m)	$	53
Public access/walkway (per sq.ft.) (n)	$	100
Financing (All Components)		
Loan to Cost Ratio		70%
Interest Rate		6.5%
Period of Initial Loan (Months)		24
Initial Construction Loan Fee (Points)		2.0%
Average Outstanding Balance		60%
Developer Profit (hard + soft only)		15.0%

Development Costs				
Office/Restaurant MXD:				
Hard Costs			$	49,121,800
Soft Costs			$	12,280,450
Subtotal			***$***	***61,402,250***
Loan:	$	42,981,575		
Points			$	859,632
Interest			$	3,352,563
Development Costs			**$**	**65,614,444**
Marina				
Hard Costs			$	-
Soft Costs			$	-
Subtotal			***$***	***-***
Loan:	$	-		
Points			$	-
Interest			$	-
Development Costs			**$**	**-**
Public Access:				
Hard Costs			$	2,581,000
Soft Costs			$	516,200
Subtotal			***$***	***3,097,200***
Loan:	$	2,168,040		
Points			$	43,361
Interest			$	169,107
Subtotal Office			**$**	**3,309,668**
Seismic: Substructure & Superstructure				
Hard Costs (o)			$	27,777,680
Soft Costs			$	5,555,536
Subtotal			***$***	***33,333,216***
Loan:	$	23,333,251		
Points			$	466,665
Interest			$	1,819,994
Subtotal Substructure + Seismic			**$**	**35,619,875**
Total Dev Costs with Substructure			**$**	**104,543,987**

Value Analysis		
Gross Income - Office	$	12,449,500
Less: Vacancy - Office	$	(622,475)
Less: Op Expenses - Office	$	(4,357,325)
NOI - Office	$	7,469,700
Capitalized Value - Office	**$**	**124,495,000**
Gross Income - Restaurant	$	664,800
Less: Vacancy - Restaurant	$	(33,240)
Less: Op Expenses - Restaurant	$	(13,296)
NOI - Restaurant	$	618,264
Capitalized Value - Restaurant	**$**	**11,241,164**
Gross Income - Marina	$	-
Less: Vacancy - Marina	$	-
Less: Op Expenses - Marina	$	-
NOI - Marina	$	-
Capitalized Value - Marina	**$**	**-**
Total Capitalized Value	**$**	**135,736,164**
Less Total Dev Costs	$	(104,543,987)
Less: Developer Profit	$	(15,681,598)
Residual Value of Pier	**$**	**15,510,578**
Residual Value Per Acre	*$*	*4,561,935*
Residual Value Per Sq. Ft. of Pier	*$*	*104.73*
Ground Lease Rev / Year @10% of Value	**$**	**1,551,058**

Notes:

a) Public access improvements include a continous walkway along the entire perimeter of Pier 38.
b) Public walkways include a passageway through the bulkhead at the south side of Pier 38, and a walkway between the bulkhead and shed connecting the North and South aprons, which will be illuminated and accessible to the public at all times.
c) This assumes a new, 750' marina running the entire length of the north side of Pier 38, which will include 34 slips for recreational boats ranging from 40' to 60' in length. This assumes the construction of a precast concrete dock system, 24" precast concrete piles, 4 new gangways, and two floating breakwaters to protect boats from incoming waves set 55' off the east end of Pier 38.
d) Hard costs include all costs associated with buildout of the bulkhead and shed to accommodate end users, including tenant improvements, and was based on the estimate from the San Francisco Waterfront Partners' submittal. This excludes all seismic retrofit costs and other public improvements.
e) Soft costs include architect, legal fees, city fees, and other professional services and are expressed as percentage of total hard costs.
f) Office rents based on market research conducted by BAE for comparable waterfront Class A office properties in signature waterfront buildings.
g) The office cap rate was based on CBRE's Cap Rate Survey dated Feburary 2013 for San Francisco Class A, value-added office.
h) The retail/restaurant cap rate was based on CBRE's Cap Rate Survey dated Feburary 2013 for San Francisco Class A, high street retail, which includes specialty retail.
i) Marina estimated construction costs were provided by Power Engineering Construction Company, a contractor that specializes in marina and dock construction. These costs were corroborated by Dutra Group, another marina construction company active in the San Francisco Bay Area.
j) Marina monthly and daily rental fees are based on a 20% markup from rates at South Beach Harbor at Pier 40, directly south of Pier 38. The South Beach Harbormaster believes these rates are reasonable, given the current wait list of 1,350.
Marina Monthly Rental / Lin. Ft of Slip $ 18.00
k) Marina operating costs were based on the annual operating budget at South Beach Harbor, and excludes the cost of utilities, which are passed through to users.
l) Based on estimate by BAE.
m) Apron repair costs were based on an estimate prepared by M. Lee Coproration and attached to the Creegan & D'Angelo report dated January 13, 2012.
n) Based on estimate by BAE from other San Francisco Port projects
o) Includes seismic upgrades of the pier substructure, bulkhead, and shed, including a new mezzanine for a second floor in the shed. This excludes the costs of interior tenant improvements, which are accounted for separately in this proforma. The cost estimates were based on figures by M. Lee Corporation, which were attached to the Structus, Inc report dated February 19, 2013.
p) Assumes total development costs net of profit, amortized over 30 year lease term.
Source: BAE, 2013.

APPENDIX A: SITE LOCATION AND OFFICE SUBMARKET

Note: Flag data refers to prior period than data presented in the market overview for this report. Map included just to indicate Downtown and SoMa east boundaries per Collliers.

San Francisco Submarket Map

Colliers INTERNATIONAL

APPENDIX B: RECENT OFFICE LEASES IN VICINITY

Name/Address Stories/Year Built	Sq. Ft. Leased	Rent/Sq.Ft./Year	Water View	Details	Source	Notes
Ferry Building						
	2,000	$77.00 Full service 3-year term	NA	Expansion of existing tenant space (Coblentz) No Tis.	BAE	Signed July 2012.
188 Spear Street						
	9,810	$59.68 Full service 7-year term	Yes	4th floor TI allowance $10.00/sq.ft.	CAC Group BAE	Signed March 2012
	55,006	$60.00 Full service 7-year term	Yes	10 through 12nd Floor TI allowance $52.50/sq.ft.	CAC Group BAE	Signed July 2013.
	83,154	$54.95 Full service 7-year term	Yes	Floors 3, 4, 7 & 8 TI allowance $60.00/sq.ft.	CAC Group BAE	Signed June 2012.
One Market						
	116,620	$60.26 Full Service 78-month term	Yes	Floors 7&8 and 10&11 Steuart Street Tower TI allowance $50/sq.ft. on 10th floor TI allowance $15/sq.ft. on 11th floor	CAC Group BAE	Signed March 2012
	17,860	$72.54 Full service 10 year term.	Yes	22nd Floor Steuart Street Tower TI allowance $75/sq.ft.	CAC Group BAE	Signed February 2012
	7,462	$73.92 Full service 10-year term	Yes	41st Floor Spear Street Tower TI allowance $70/sq.ft.	CAC Group BAE	Signed February 2012
	6,360	$80.37 Full service 26-month term	Yes	12th Floor Steuart Street Tower TI allowance $6.83/sq.ft.	CAC Group BAE	Signed December 2012
	16,264	$72.00 Full service 3-year terem	Yes	24th Floor Steuart Street Tower TI allowance None/sq.ft.	CAC Group BAE	Renewal signed June 2012
2 Bryant Street						
	4,490	$46.50 Full service 48-month term	Yes	2nd Floor TI allowance None/sq.ft.	CAC Group BAE	Signed May 2012
	4,961	$45.50 Full service 2-year term	Yes	2nd Floor TI allowance $15.00/sq.ft.	CAC Group BAE	Signed April 2012

Sources: CAC Group; Loopnet; BAE 2013.

APPENDIX C: CURRENT OFFICE ASKING LEASE RATES

					
Address	625 Second Street San Francisco,CA94107	21 South Park San Francisco,CA94107	463 Bryant San Francisco,CA94107	111 Townsend Street San Francisco,CA94107	501 2nd Street San Francisco,CA94107
Property Type	Office	Office	Office	Office	Office
Property Subtype	Creative/Loft	Office Building	Creative/Loft	Creative/Loft	Office Building
Zoning	SSO			M-2	
Building Size	106,906 SF Bldg	24,000 SF Bldg	3,000 SF Bldg	22,500 SF Bldg	207,809 SF Bldg
Year Built	1906				1908
No. Stories					
Lot Size					
APN / Parcel ID					
Space Available	2,817 - 11,301 SF	5,797 SF	1,500 SF	6,000 - 10,500 SF	2,997 - 16,630 SF
Asking Rent	$48 /SF/Yr	$52 /SF/Yr	$48 /SF/Yr	$50 /SF/Yr	$52 - 58 /SF/Yr
Spaces	4 Spaces	1 Space	1 Space	3 Spaces	3 Spaces
Property Description	Built in 1906, the four-story building features a brick exterior and exposed timber beams and brick walls on its interior and offers below grade pa...	A fully renovated Brick and Timber building with elevator, handicap bathrooms, skylights.	463 Bryant Street (between 2nd and 3rd street)" Free standing, contemporary designer space" 1500 sq. ft. second floor" Open floor plan with s...	Full building opportunity in the heart of SOMA.	501 Second Street is a Class A building, fully renovated in 1986 with 7 floors plus basement covered parking, and terrace level storage. The build...
Location Description	1 block to South Park & AT&T Ball Park. On-site covered parking. Close proximity to MUNI/Caltrain, Bay Bridge & Interstate 280	Property is located directly on highly desirable South Park, San Francisco.	1/2 a block away from South Park2 minutes from Bay Bridge5 minutes from 280/101 SouthEpicenter of tech/service/design real estate3 blocks from Cal Train Station	SOMA EastTownsend between Second & Third	The building is conveniently located in the Second Street corridor. Located in the multi-media gulch and immediately adjacent to South Park, this building has four sides of natural light.

Sources: Loopnet, July 3, 2013; BAE, 2013.

APPENDIX D: ASKING RETAIL / RESTAURANT RENTS

					
Address	326 First Street San Francisco,CA94105	25 Essex St San Francisco,CA94105	111 Townsend Street San Francisco,CA94107	217 King St San Francisco,CA94107	70 Pier Bldg 102 San Francisco,CA94107
Property Type	Retail	Retail	Office	Retail	Retail
Property Subtype	Restaurant	Retail (Other)	Creative/Loft	Retail (Other)	Restaurant
Zoning			M-2		
Building Size	2,880 SF Bldg	1,804 SF Bldg	22,500 SF Bldg	1,418 SF Bldg	
Year Built					
No. Stories					
Lot Size					
APN / Parcel ID					
Space Available	2,880 SF	720 - 1,804 SF	6,000 - 10,500 SF	1,418 SF	8,500 SF
Asking Rent	$28.75 /SF/Yr	$30 /SF/Yr	$50 /SF/Yr	$42 /SF/Yr	
Spaces	1 Space	3 Spaces	3 Spaces	1 Space	1 Space
Property Description	**Temporarily off-market, please inquire with broker for details**Owner desires an established, well-funded operator who can fully appreciate thi...	3 ground floor retail/office spaces available.Space 1 is 720 SF Space 2 is 1,804 SF Space 3 is 871 SF.Brand new constructionCorner location...	Full building opportunity in the heart of SOMA.		
Location Description	Directly across the street from The Metropolitan Towers & Rincon Hill a stone' s throw away!	Located in SoMa / Lower Financial District	SOMA EastTownsend between Second & Third	San Francisco	Peninsula

Source: Loopnet, June 21, 2013; BAE, 2013.

APPENDIX E: PARKING GARAGE RENTS

Name/Location	Owner	Type	Rates	Number of Spaces	Notes
Towsend Parking 148 Towsend St	Priority Parking	Parking Garage 1 story covered	Early bird (in by 10) $10/day After 10 $15-$20/day After 10 full size vehicle $30/day Game days $20-$30/day up to $80-$100/day Monthly rate $250 or $400 includes access during games days	70	Closed on Weekends $400/month includes access on game days
Giants Parking 680 2nd St	Priority Parking	Parking Garage 1 story covered	Early bird (in by 10) $10/day After 10 $15-$20/day After 10 full size vehicle $30/day Game days $20-$30/day up to $80-$100/day $250-$400/month	30	Closed on Weekends $400/month includes access on game days
270 Brannon St	Pacific Park Management	Surface Parking	$12/day $200/month	112	24 hour parking 7 days a week
501 Second Garage 501 2nd St	City Park				Swig company Available or building tenants only
303 2nd St	ABM	Parking Garage	$2 for 15 min $25 for 24 hours Early Bird $17 Monthly $325	318	M-F 5am-9pm
The Beacon 250 King St	City Park	Parking Garage covered surface and one leve underground	$3/20 min up to $20 within 24 hrs Game day flat rate $35-$60 Public unrestricted $350/month	200	Open everyday 24 hrs
475 Brannon Street	ABM	Parking Garage 2 story	$2.50/20 min 12 hr max $15/day Event $30-$60	100	No overnight parking
Pier 39 Garage 2550 Powell St	ABM	Parking Garage	$8/hr $40 for 24 hours	90	No overnight parking
One Market Plaza Parking 1 Market St	ABM	Parking Garage	$6 for 30 min Daily max $44 Evening (in by 4pm out by 8pm) $18 Monthly $495-600	170	Subterranean
China Basin 185 Berry Street #3512	Ace Parking 415-625-0755	Parking Garage 1 story	$3 for 20 min $20 max Event $30-$100 $280/month $350/month reserved	255	Closed in evenings except on game days
1888 The Embarcadero	Paring Concepts Inc.	Parking Garage Covered 1 story	Early bird (In before 8:30) $14/day $3 for 15min max of 28 min $50 for 24 hrs $365/month	40	Survellienced 7am-7pm 7 days a week
401 Main Street	Host Parking Services	Parking Garage 2 story	Early bird (In before 9am) $16/day $20/day after 9am $30/hr for max of 4hrs $265/month	No answer	No overnight Full valet they park for you Below a condo building
Hill Plaza Garage 345 Spear St	Propark	Parking Garage 2 story	$3.00 ea. 15 min. (Mon-Fri) Daily Max $25.00 (Mon-Fri) $10.00 (Sat-Sun) $345/month	314	No valet Mon-Fri 6am-11pm Sat-Sun 3pm-11pm Prices don't change on game days

Source: BAE, 2013

APPENDIX F: MARINA CONSTRUCTION COST ESTIMATE

POWER
ENGINEERING CONSTRUCTION CO.

Pier 38 - Northside Floating Dock and Breakwater
San Francisco, CA

Budget Pricing

Date: July 15, 2013

Item	Description	Quantity	Units	$/Unit	Sub Total	Total	Comments
1.	**New Guest Boat Dock on North Side of Pier 38:**					**$ 2,801,500**	
a.	Supply and install 750' L x 10' W Precast Concrete Dock System	8,460	SF	$ 200	$ 1,692,000		Supply and install precast concrete floating docks, dock accessories, electrical, potable water and fire. Includes 4 floats (10' x 24') for Gangway Landings.
b.	Supply and Install 80 foot gangways	4	EA	$ 75,000	$ 300,000		Purchase, deliver, and set 4' x 80' gangway, gangway access platform, and mounted utility chases.
c.	New 24" Precast Concrete Piling	38	EA	$ 20,250	$ 769,500		Fabricate, deliver, and drive 24" precast concrete piling. Assume piling at 20 feet O.C.
d.	Sewer Pumpout Station	1	EA	$ 40,000	$ 40,000		
2.	**Floating Breakwater - Assume Two (2) Floats at 55 feet long off the East end of Pier 38:**					**$ 873,000**	
a.	Supply and Install 15' x 55' Precast Floating Breakwater	1,800	SF	$ 325	$ 585,000		Supply and install precast concrete floating breakwater modules. Assume floats are 9 foot deep. 84 ton max weight on float due to precast fabrication limitation.
b.	New 24" Precast Concrete Piling	12	EA	$ 24,000	$ 288,000		Fabricate, deliver, and drive 24" precast concrete piling. Assume 6 piles per 55' float (3 per side). Assume longer piles than guest dock.
			Budgeted Cost:			**$ 3,674,500**	
3.	**Contingency:**				10%	$ 367,450	Construction contingency for geotechnical and regulatory unknowns.
			Total Budget:			**$ 4,041,950**	