

Feasibility Analysis: Historic Pier Rehabilitation



April 12, 2017



Bryan Allo
Photography

Port of San Francisco — Public Trust Context



Maritime

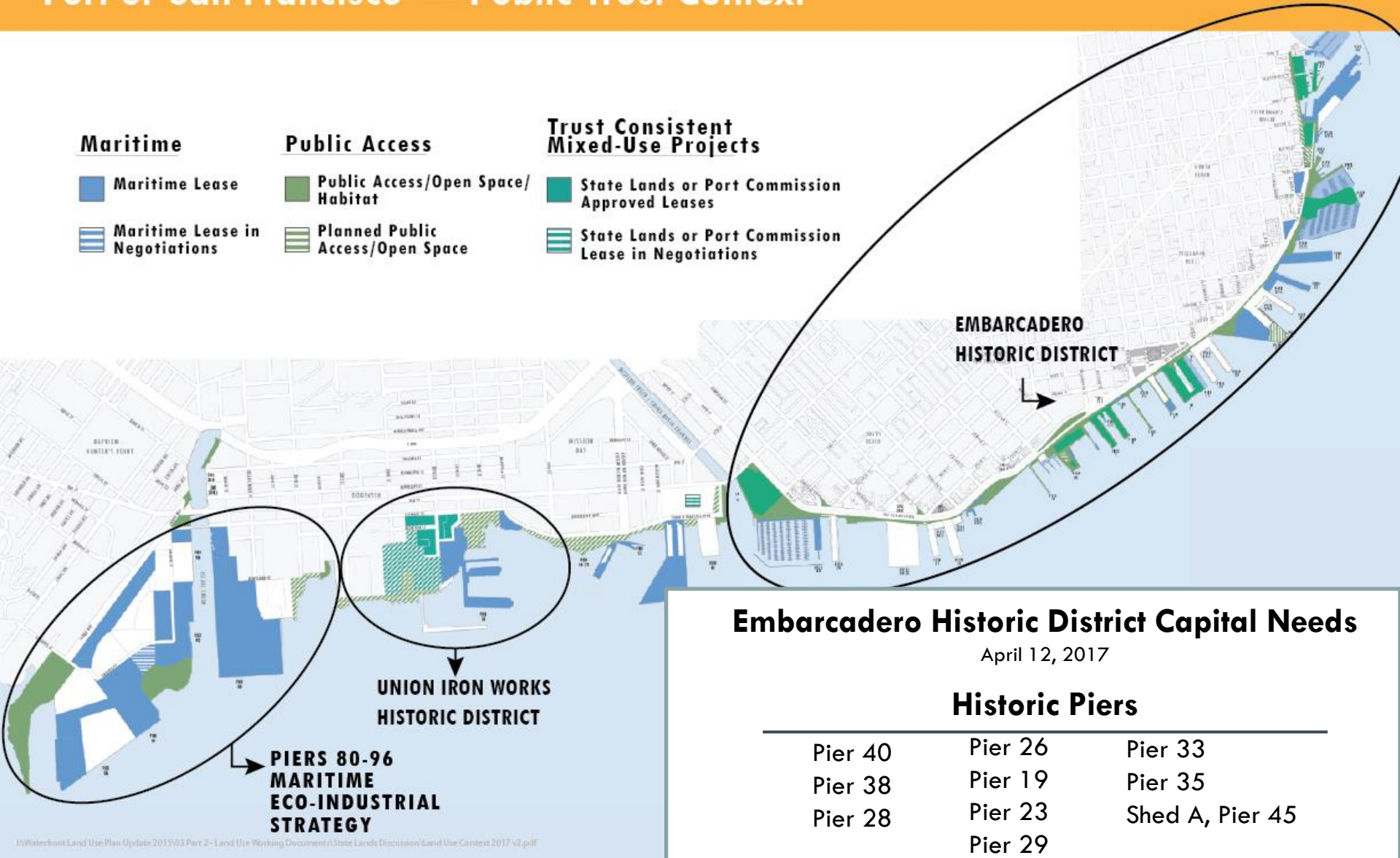
-  Maritime Lease
-  Maritime Lease in Negotiations

Public Access

-  Public Access/Open Space/Habitat
-  Planned Public Access/Open Space

Trust Consistent Mixed-Use Projects

-  State Lands or Port Commission Approved Leases
-  State Lands or Port Commission Lease in Negotiations



Embarcadero Historic District Capital Needs

April 12, 2017

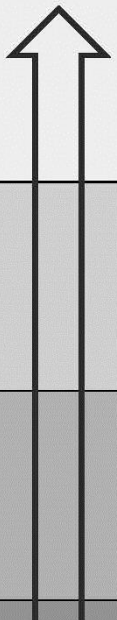
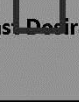


Historic Piers

Pier 40	Pier 26	Pier 33
Pier 38	Pier 19	Pier 35
Pier 28	Pier 23	Shed A, Pier 45
	Pier 29	

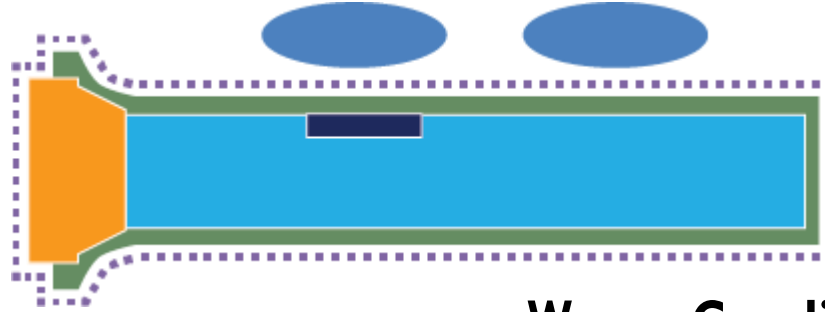
Historic Building

Agriculture Building

Trust Objectives for Finger Piers

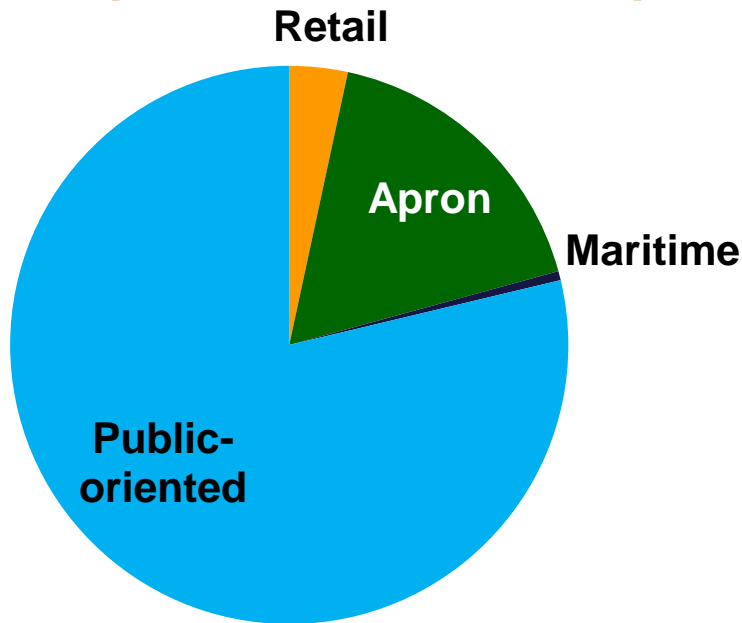
	Historic Preservation of the Trust Asset	Seismic/Life Safety Improvements to the Trust Asset	Exterior Public Access and/or Maritime	Trust revenue/ investment	Interior Uses Serving Trust Purposes - quality	Interior Uses Serving Trust Purposes – quantity	Lease Term
Most Desirable 	Full historic rehabilitation to Sec. Int. Standards	Full substructure and superstructure repair and seismic upgrade	Full repair and improvement of apron for public access and/or maritime use	High yield uses	Traditional trust uses: maritime office, visitor-serving retail/restaurant, water-related recreation, public access	Entire bulkhead building and pier shed	Public use, No lease (Most flexibility to change uses to meet trust objectives)
	Partial historic rehabilitation (bulkhead only; or bulkhead + partial shed)	Superstructure repair, but no or partial substructure repair; partial seismic upgrade (joint at shed)	Repair and improvement substantial portion of apron for public access and/or maritime use	Medium yield uses	Public attraction uses: museum/gallery, regional-serving indoor recreation, entertainment, specialty (local/maker) retail/manufacture	Entire ground floor of bulkhead building; portions of shed and/or upper floor bulkhead	Short term (Flexibility to change uses)
	No rehabilitation, but tenant improvements, maintenance of some/all buildings	No major repairs or seismic upgrades, but tenant improvements, maintenance of some/all buildings.	Limited public access/maritime use, as can be supported by existing condition of apron with minor repairs	Low yield uses	General retail, institutional uses, government uses	Portion of ground floor of bulkhead.	Intermediate term (Less flexibility to change uses)
Least Desirable 	Vacant, deterioration	Vacant, deterioration	No public access/maritime use of apron	Non-revenue generating uses	Private Uses (general office; R&D)	None	Long term (Least flexibility to change uses)
	 The level at which these objectives are set determines the required level of trust revenue/investment				 The required level of trust revenue/investment will allow Port to solve for the quality and quantity of uses serving trust purposes, for each category of lease term		

Long-term Lease Scenario 1: All Trust/ Public-oriented Uses



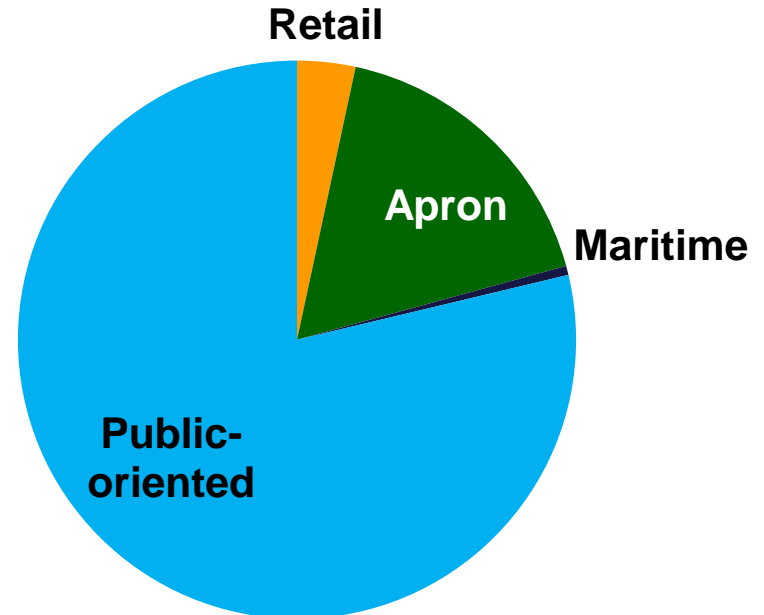
Good Condition Pier:

Requires ~ \$30M Subsidy

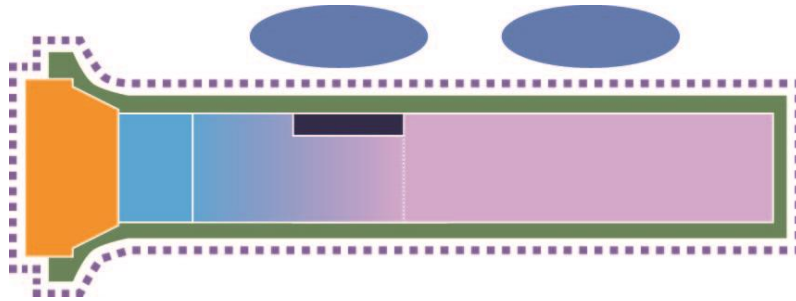


Worse Condition Pier:

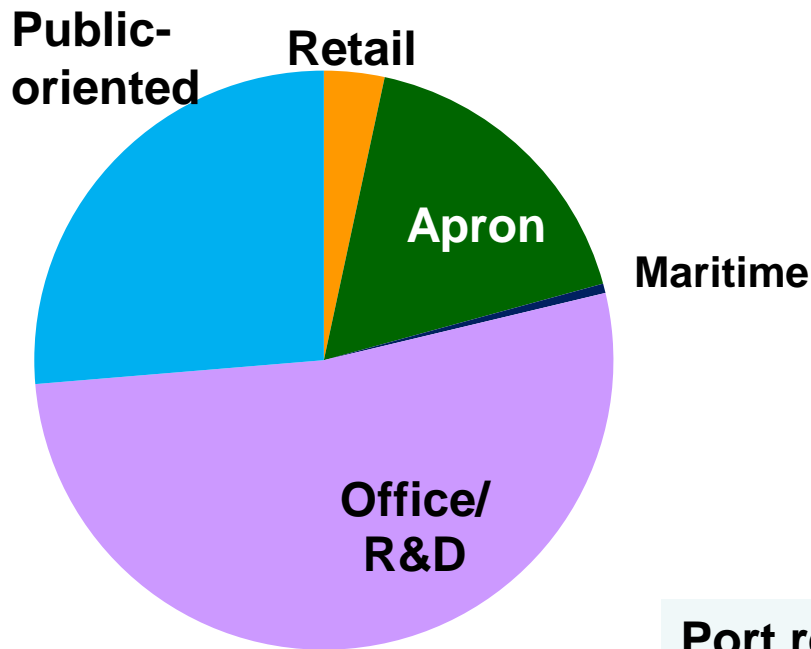
Requires ~ \$60M Subsidy



Long-term Lease Scenario 2: Feasible Public-oriented Use Program

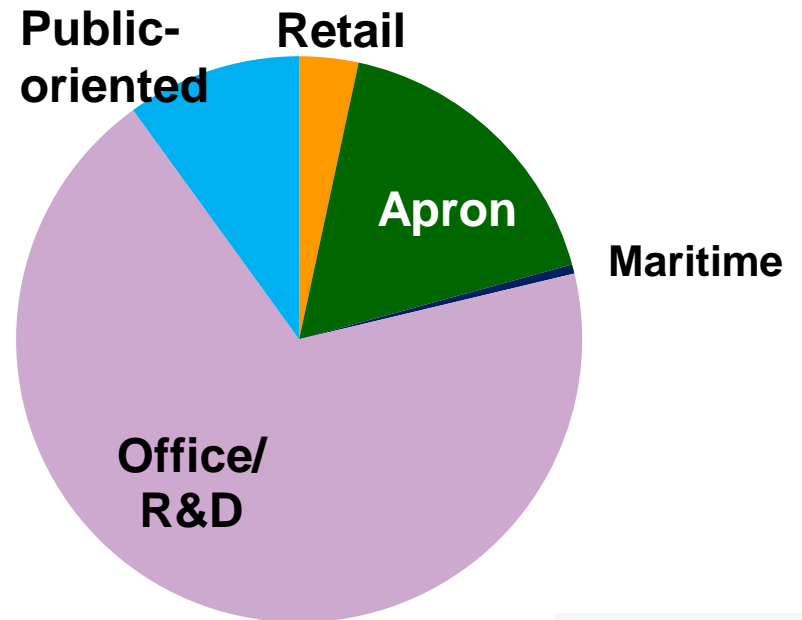


Good Condition Pier



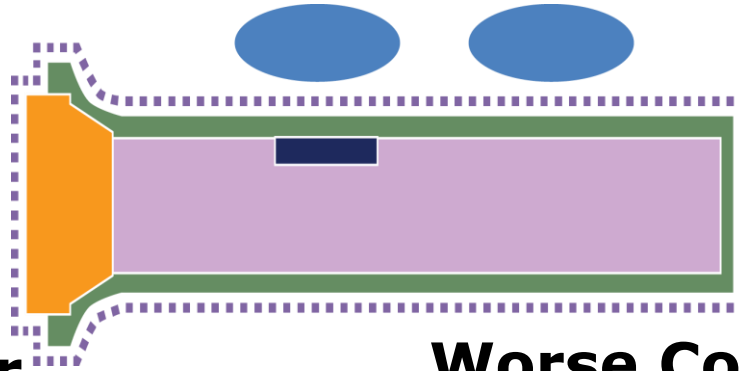
Port rent:
\$100K/yr

Worse Condition Pier

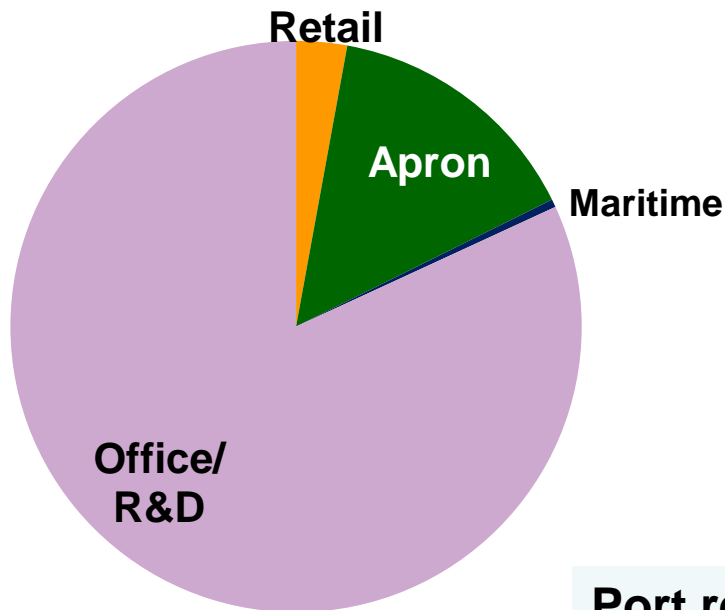


Port rent:
\$100K/yr

Long-term Lease Scenario 3: Maximize Revenues for Port-wide Investments

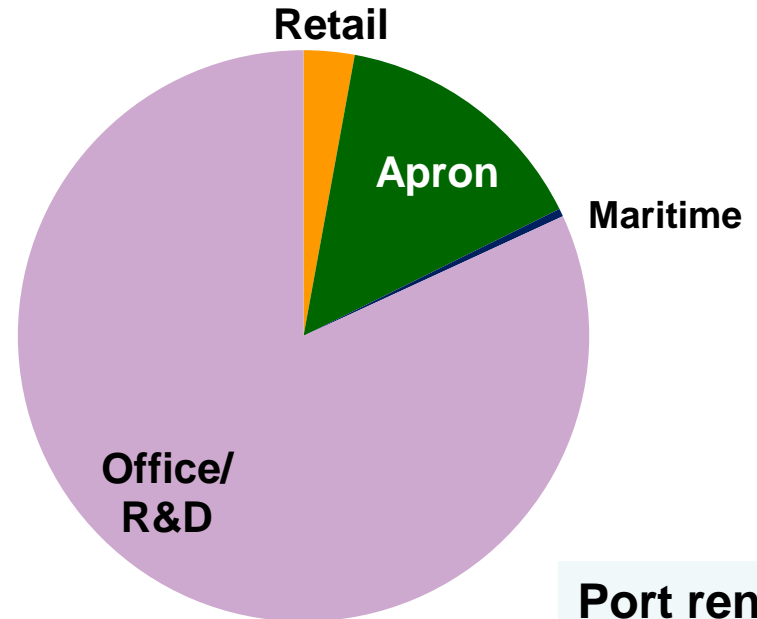


Good Condition Pier



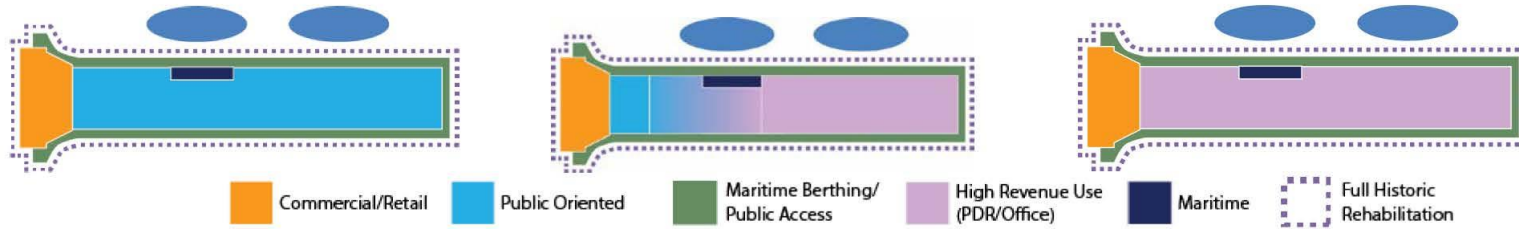
**Port rent:
\$2M/yr**








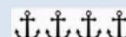












Worse Condition Pier



**Port rent:
\$350K/yr**

Analysis of **LONG TERM** Rehabilitation Options - Embarcadero Historic District Piers – April 12, 2017



Long-term pier lease/development		
Scenario 1 Maximum public oriented interior uses & maximum historic rehabilitation/repair	Scenario 2 Minimum Port rent with maximum public oriented interior uses & maximum historic rehabilitation/repair	Scenario 3 Maximum high-revenue interior uses & maximum historic rehabilitation/repair
Estimated cost: \$90-\$135 million	Estimated cost: \$90-\$150 million	Estimated cost: \$100-\$150 million
Occupancy 	Occupancy 	Occupancy 
Trust characteristics Bulkhead commercial/retail Apron repair for berths/public access Complete Historic Rehabilitation Full Sub/super-structure repair Maritime berthing and operations Maximum public/low-revenue use in shed	Trust characteristics Bulkhead commercial/retail Apron repair for berths/public access Complete Historic Rehabilitation Full Sub/super-structure repair Maritime berthing and operations Maximum public/low-revenue use in shed (est. 15% - 55% depending on revenue capability)	Trust characteristics Bulkhead commercial/retail Apron repair for berths/public access Complete Historic Rehabilitation Full Sub/super-structure repair Maritime berthing and operations Maximum revenue generation use in shed; varies depending on pier condition
Historic Preservation 	Historic Preservation 	Historic Preservation 
Seismic Repair 	Seismic Repair 	Seismic Repair 
Maritime berthing/public access 	Maritime berthing/public access 	Maritime berthing/public access 
Interior trust uses 	Interior trust uses 	Interior trust uses 
Lease Term 	Lease Term 	Lease Term 
Port Revenue N/A: \$30-\$60M subsidy required	Port Revenue Minimum Rent \$100K/yr 	Port Revenue Range: \$350K-\$2M/yr 



Managing Constraints

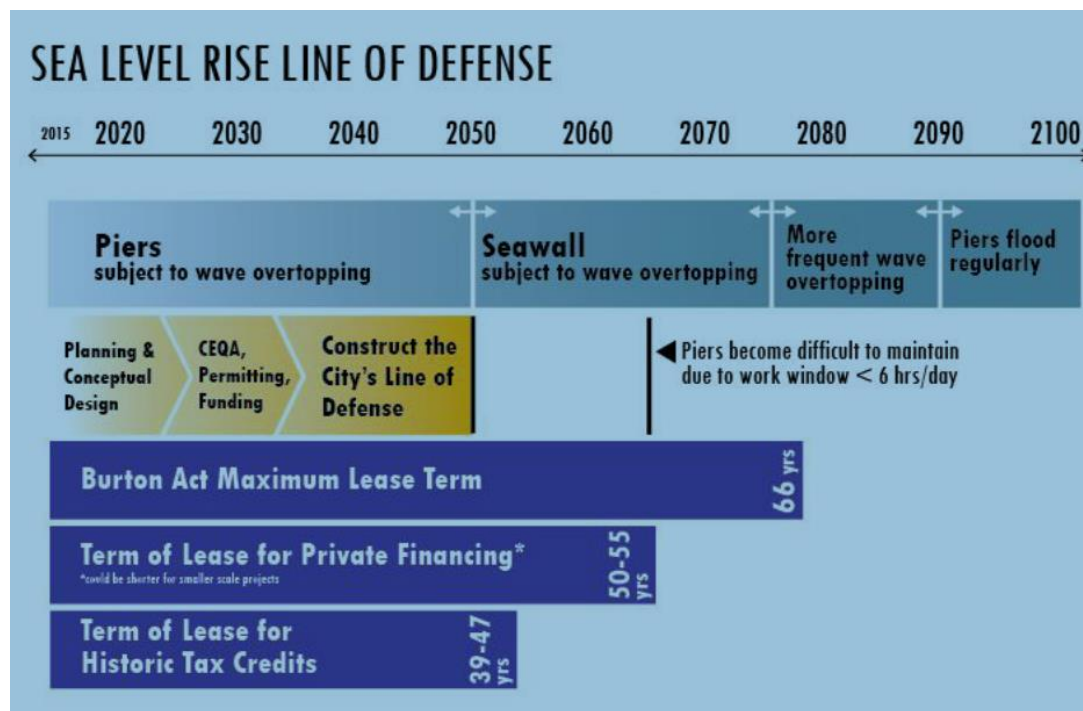
Rationale to Analyze Intermediate-Term Leasing

- Long lead time for long-term development leases
- Leasing challenges:

+ SLR

+ Pier deterioration

= Need for more nimble leasing and capital investment strategies



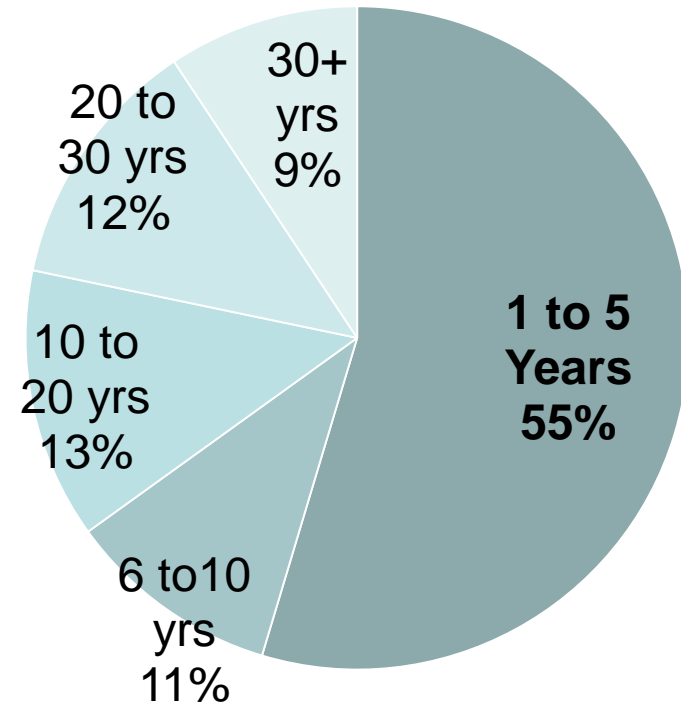


Intermediate-Term Leasing

Benefits over short-term lease drawbacks:

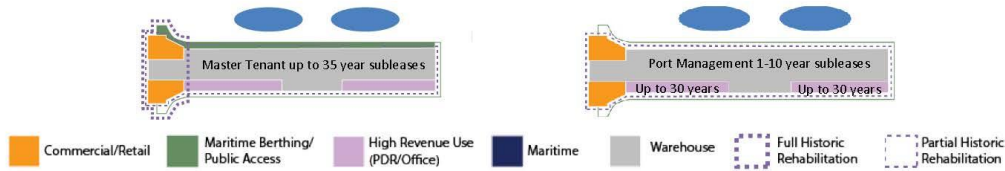
- More diverse uses and revenue streams
- More investment in pier repairs
- Less exposure to market downturns
- Diversifies and strengthens Port's revenue streams; 55% of Port lease revenue from 0-5 year leases

Port Revenue, by Lease Term



Why Intermediate-Term Leasing?

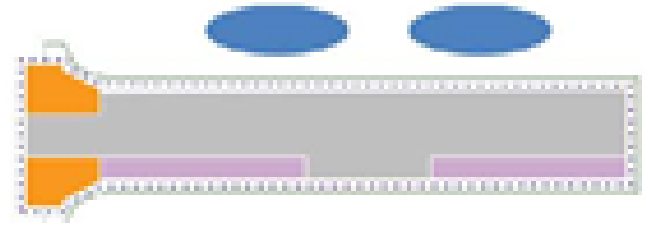
- Strategic capital repair investment in core and shell, may include seismic improvement of bulkhead
- Mix of low and higher intensity uses within Building Code historic occupancy limit
- Include some public access and maritime trust improvements
- Acknowledges longer lease terms needed to amortize improvements (10-30 years)



Intermediate term	
Scenario # 1	Scenario # 2
Moderate historic rehabilitation & tenant investment	Limited historic rehabilitation & tenant investment
<ul style="list-style-type: none"> Master tenant/developer for entire pier undertakes seismic repair/historic restoration of Bulkhead building Master tenant responsible for pier maintenance Predominantly low-revenue PDR (e.g. warehouse) in shed, per occupancy limitations Subtenant lease term may align with master tenant's, or shorter-term, depending upon improvements undertaken by subtenant 	<ul style="list-style-type: none"> Port undertakes limited structural repairs (e.g. roof repair, primary utilities) Port responsible for pier maintenance Predominantly low-revenue PDR (e.g. warehouse) in shed, per occupancy limitations Low-revenue PDR (lease terms MTM – 10 yrs) High-revenue PDR for intermediate lease terms, depending upon improvements undertaken
Estimated cost: \$25-\$30 million	Estimated cost: \$5-15 million
Occupancy	Occupancy
Trust characteristics Bulkhead commercial/retail Limited apron repair/reuse Repairs (arrest deterioration) & bulkhead rehabilitation Bulkhead sub-structure repair, limited superstructure repair Warehouse and PDR uses (keep shed occupied)	Trust characteristics Bulkhead commercial/retail No apron repair/reuse Repairs (arrest deterioration) Limited superstructure repair Warehouse and PDR uses (keep shed occupied)
Historic Preservation:	Historic Preservation
Seismic Repair	Seismic Repair
Maritime berthing/public access	Maritime berthing/public access
Interior trust uses	Interior trust uses
Lease Term Up to 35 years	Lease Term 0-10 years Up to 30 years, limited to 20-40,000 sf
Port Revenue	Port Revenue

Intermediate Term Leasing: \$5M-\$15M

Port-managed Scenario

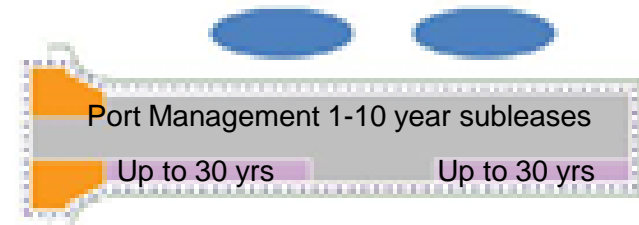


Assumptions

- Port strategic capital repairs and multi-tenant leasing
- Activate Bulkhead with public-oriented leases
- Low-intensity warehouse/light industrial in shed; 1-10 yr terms
- Possible maritime berthing
- Office/high-tech PDR uses in limited footprint (20- 40K sf of 100K sf shed); 20-30 yr terms
 - \$3.00 to \$4.00/sf/month in market rent

Intermediate Term Leasing: \$5M-\$15M

Port-managed Scenario



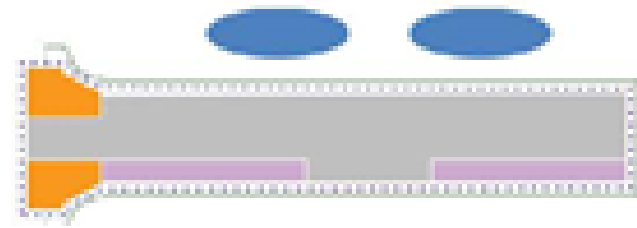
Analysis

How much could a tenant finance, in addition to Port's investment?

- Method of financing:
 - Tenant financed – Highly capitalized tenants only
 - Loan – Bank/Mezzanine lender
 - Rent credits for “landlord improvements”

Intermediate Term Leasing: \$5M-\$15M

Port-managed Scenario



Analysis

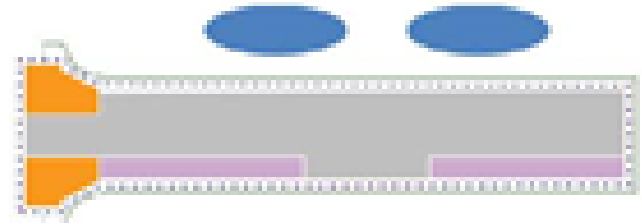
How much could a tenant finance?

- Calculation



Intermediate Term Leasing: \$5M-\$15M

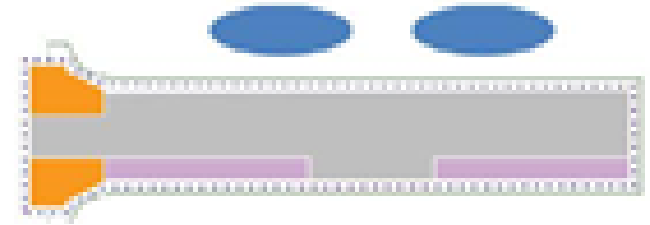
Port-managed Scenario



Analysis

- How much could a tenant finance?
- Loan Considerations
 - Lease term -> Longer than loan term
 - Tenant revenue ~ 10x loan payment
 - Seismic risk (probable maximum loss [PML])
 - Tenant credit rating
 - Tenant balance sheet

Intermediate Term Leasing: \$5M-\$15M Port-managed Scenario



Results

How much could a tenant finance?

- A medium- to high-revenue tenant could finance \$5M-\$15M investment scale within the 20,000 to 40,000 “higher-intensity” building footprint.
- Term of 20 to 30 years to amortize improvements.

Intermediate Term Leasing: \$25M-\$30M

Master Tenant Scenario

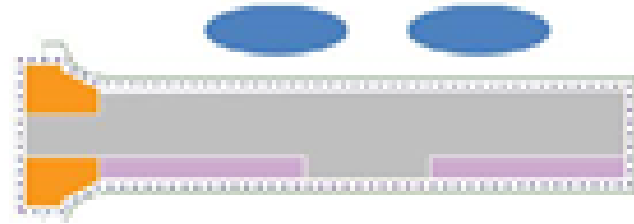


Assumptions

- Significant investment (Bulkhead seismic rehabilitation; shed superstructure repairs)
- Higher occupancy public-oriented uses in Bulkhead
- Warehouse/ light industrial uses in pier shed; industrial occupancy limits continue
- Limited footprint in shed for office/high-tech PDR uses (20-40,000 sf of 100,000 sf shed)
- Public access/maritime berthing on apron
- Investment scale and capacity -> ***Calls for Master Tenant Model***

Intermediate Term Leasing: \$25M-\$30M

Master Tenant Scenario

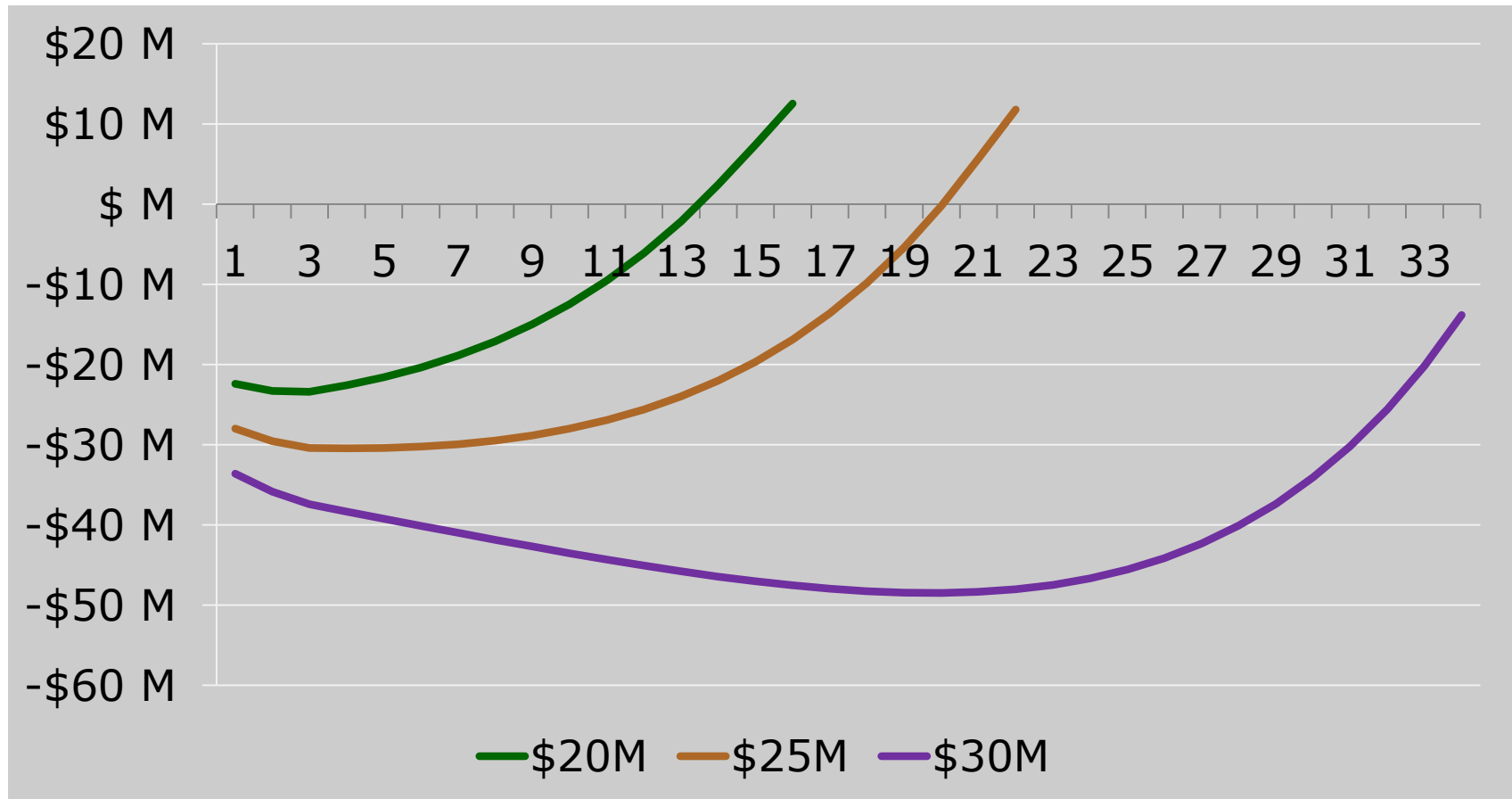


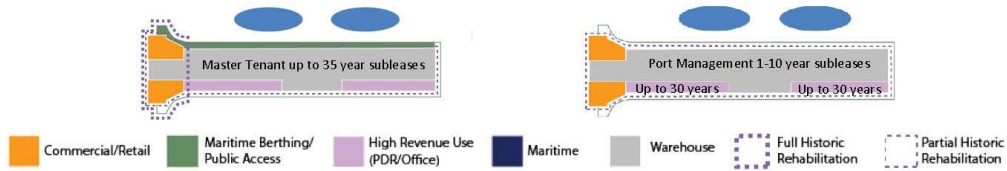
Analysis

- Real estate investment, rather than Tenant business decision
- Feasibility dependent on balancing upfront costs with revenue stream from Subtenants

Intermediate Term Leasing: \$25M-\$30M Master Tenant Scenario

Results





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