



Memorandum

May 22, 2017

TO: Members, Waterfront Plan Working Group Land Use Subcommittee

FROM: Diane Oshima & Kari Kilstrom

RE: Policy Guidance Recommendations for Embarcadero Historic District Leasing & Development

For the upcoming May 24th Land Use Subcommittee meeting, we have produced draft policy guidance recommendations that summarize findings, criteria and conclusions regarding leasing and development tools and strategies for Embarcadero Historic District piers, bulkhead buildings and wharves discussed at the March 22, April 12, and May 10 Land Use Subcommittee meetings.¹ The Land Use Subcommittee will consider acceptance of these recommendations at the May 24th meeting.

The recommendations in this memorandum iterative, subject to further revision and reconciliation with recommendations generated by the Transportation and Resilience Subcommittees, and review and discussions at future Working Group meetings. These policy guidance recommendations will support later Port staff work to draft proposed updates to the Waterfront Land Use Plan.

I. EMBARCADERO HISTORIC DISTRICT – A UNIQUE PUBLIC TRUST RESOURCE

Findings

The Embarcadero Historic District embodies a rich maritime history and sets the City's urban design waterfront character and identity along the northern waterfront. It is one-of-a-kind in California, and justifies a broad range of leasing and development strategies to enable rehabilitation of historic maritime structures to maintain the integrity of Embarcadero Historic District, a primary trust purpose, and to support the waterfront's evolving needs. The State Lands Commission has recognized that historic preservation projects, applying the Secretary of Interior Standards for Historic Rehabilitation can, along with other elements, be consistent with the public trust and that preserving the historic piers may call for some flexibility in permitted uses. The preservation of historic structures will give the public opportunities for learning and appreciating the history of California's maritime history and a venue for access to the waterfront for trust-related education and recreation.

¹ Links Land Use Subcommittee meetings on [March 22](#), [April 12](#), and [May 10, 2017](#) and [Working Group Guiding Principles](#)

The Port's finger piers, no longer needed for their original breakbulk cargo purpose, are highly adaptable to new uses and rehabilitation for a variety of maritime, industrial, commercial and public-oriented activities that attract people to enjoy and appreciate San Francisco Bay, as demonstrated through Port projects over the past 20 years. Port leases and development projects to date illustrate a range of ways in which diverse businesses and activities deliver public trust benefits in a variety of forms. Attachment 1 presents the Public Trust Objectives matrix which illustrates the categories of functions and attributes through which public trust objectives can be achieved in short-, intermediate- and long-term leases of Embarcadero Historic District facilities.

II. NEW ASSET MANAGEMENT TOOLS AND STRATEGIES FOR EMBARCADERO HISTORIC DISTRICT RESOURCES

Findings

The finger piers, bulkhead buildings and wharves, and other waterfront structures such as the Agriculture Building are about 100 years old and were constructed to serve heavy warehouse uses, shipping, and maritime support functions that pre-date modern seismic building codes. The cost to achieve a "state of good repair" of the pier bulkheads, sheds, utilities and aprons for current industrial use occupancy under the Port Building Code has grown substantially over the past 10 years. Whereas lease terms of 5 -10 years used to be sufficient to amortize most basic tenant repairs and improvements, the age and deterioration of facilities have driven up these costs, increasing the need for longer lease terms. Rehabilitation costs also have increased because the Port has shifted its focus to locating public-oriented businesses and activities in bulkhead buildings fronting the Embarcadero Promenade to serve the millions of annual visitors attracted to the waterfront; these retail, food and assembly establishments involve higher-cost tenant improvements than maintaining industrial space. Longer lease terms are increasingly required to meet industrial, commercial and small business needs, lending and amortization requirements.

Introducing commercial, retail and people-intensive uses in pier sheds rated for industrial occupancy requires Port Engineering staff to carefully review the type of use and area of improvement against site-specific pier condition information and Port Building Code occupancy standards. Industrial pier sheds can accommodate a limited amount of public-oriented, office or PDR uses that are more people intensive, but restricted so that the combined uses and occupant densities do not trigger Building Code seismic upgrade requirements of the facility.

Any substantial conversion of pier sheds for higher-occupancy commercial or public-oriented uses generally triggers very costly pier substructure and superstructure seismic improvements that require long-term development leases. Experience has shown that pier condition is not necessarily a determinant of which facilities are improved for long-term development; location, economic cycles and dynamic real estate markets also affect asset management leasing opportunities and decisions.

Current Waterfront Plan policies generally allow non-trust interim leases for 10 years with certain provisions for longer terms in the northern waterfront. However, after considering the above factors and EPS consultant team financial feasibility analysis of long-term and intermediate-term lease scenarios (see Attachment 2), the Land Use Subcommittee concluded that Port asset management needs justify a dynamic mix of short-, intermediate- and long-term leases to maximize options to preserve, repurpose and activate Embarcadero Historic District resources in accordance with the public trust objectives and goals set forth in the Waterfront Plan and the Working Group's Guiding Principles. All repairs and rehabilitation must comply with Secretary of Interior Standards for Historic Rehabilitation. Long-term development leases (50-66 years) provide the best opportunity to deliver multiple public trust benefits. Port development and open space projects completed to date provide a strong framework for a public-oriented urban waterfront within the Historic District; long-term leasing therefore remains an important strategy to achieve Waterfront Plan goals. Short-term leases also will continue to be an important asset management method to maintain flexibility and small business opportunities. The financial feasibility analysis has demonstrated that higher pier improvement costs and amortization requirements dictate the new need for Intermediate-term leases (10-35 years) to continue active use of remaining industrial piers.

The Land Use Subcommittee recommends additional policy guidance below, to supplement the above findings:

- a) Consider the location and context for intermediate-term lease opportunities.** Intermediate-term leasing should be managed to meet revenue generation requirements, support diverse business and job opportunities, and also add to the diversity of public-oriented activities that make the waterfront interesting and enhance the public character of the Embarcadero waterfront. Because public entry may necessarily be limited or precluded from maritime, industrial/PDR or office uses and operations lease areas inside pier shed, bulkhead buildings fronting on the Embarcadero Promenade should be prioritized for retail, cultural and public-oriented uses. Also see other Land Use Subcommittee recommendations for prioritizing maritime berthing, public access and water recreation which achieve public trust objectives and add to use diversity. Piers that offer limited public-oriented uses should be distributed among other developments and attractions. If certain amenities in private lease areas (e.g. meeting or event space) can be made available for community or public use, this should be encouraged and recognized as a form of public benefit.
- b) Encourage pilot and pop-up uses.** Encourage pilot and pop-up (sub)lease opportunities for retail, restaurant, cultural activities and events. Such temporary venues and changing activities make the waterfront more dynamic and open up more opportunities for small businesses, and encourage activities for a broader range of users.
- c) Flood protection and resilience.** Depending on length of lease term, the Port should require flood risk analysis to determine whether flood protection measures should be required for Intermediate-term leases. Also review Resilience Subcommittee recommendations for additional measures that may be applicable to intermediate-term leases.
- d) Monitor and report on pier condition as an integrated part of the Port capital planning cycle and capital budget and implementation process.** Given the Port's capital backlog and revenue constraints,

investments should be focused on historic district assets that can continue to usefully contribute to the Port's public trust mission.

- e) **Intermediate-term leases will need a newly-defined public review process.** The extended leasing time frame reduces use flexibility and should have public review and buy-in. Pending Land Use Subcommittee community engagement and public process recommendations will include address of intermediate-term leases.
- f) **Assess and report successes and outcomes from intermediate-term leases.** Assess the performance of intermediate-term leases to ensure they provide effective historic resource stewardship, meet public trust objectives, and positively contribute to the public waterfront experience and enjoyment over time. The Port should work with BCDC and State Lands staff in developing the assessment, and making ongoing improvements, as warranted.

III. IMPROVE DEFINITION OF PUBLIC TRUST OBJECTIVES FOR EMBARCADERO HISTORIC DISTRICT RESOURCES

- a) **Utilize the Public Trust Objectives Matrix (See Attachment 1).** The Public Trust Objectives Matrix defines the different types of public trust benefits specific to the Embarcadero Historic District, scaled to the length of lease terms. This matrix is intended to improve clarity and predictability for intermediate- and long-term lease and development project details, and public trust consistency determinations.

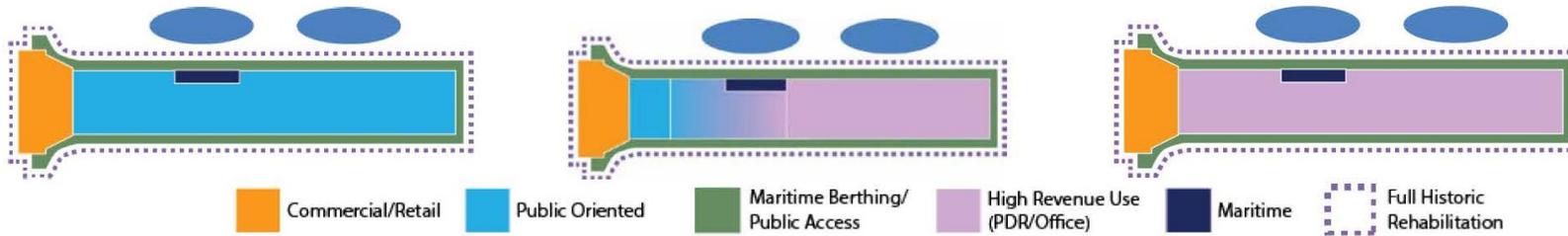
Attachment 1 – Public Trust Objectives for Finger Piers

	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
	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)
	 <p>The level at which these objectives are set determines the required level of trust revenue/investment</p>				 <p>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</p>		

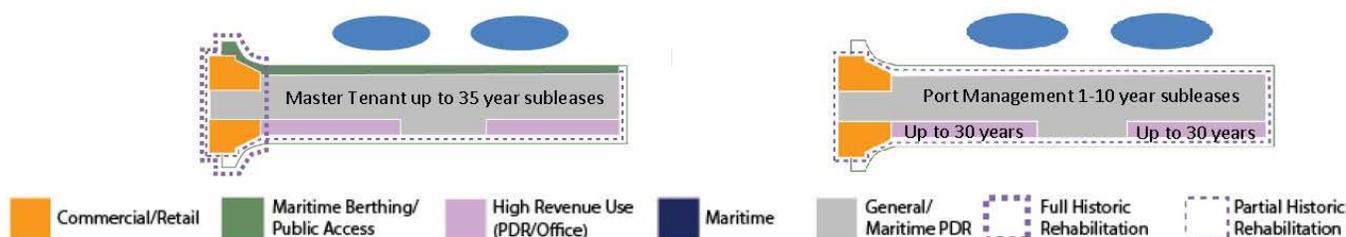
Attachment 2 – EPS Intermediate- and Long-term Lease Scenarios

Waterfront Plan Land Use Subcommittee

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



Long-term pier lease/development		
Scenario 1	Scenario 2	Scenario 3
Maximum public oriented interior uses & maximum historic rehabilitation/repair	Minimum Port rent with maximum public oriented interior uses & maximum historic rehabilitation/repair	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



Intermediate term	
Scenario # 1 Moderate historic rehabilitation & tenant investment	Scenario # 2 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. maritime/non-maritime 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. maritime/non-maritime 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 Maritime/non-maritime warehouse and PDR uses (keep shed occupied)	Trust characteristics Bulkhead commercial/retail No apron repair/reuse Repairs (arrest deterioration) Limited superstructure repair Maritime/non-maritime 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