



## Memorandum

May 30, 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 31st 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 and 24th Land Use Subcommittee meetings.<sup>1</sup> The Land Use Subcommittee will consider acceptance of these recommendations at the May 31st 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 establishes the character of the northern waterfront. It is unique in California. The need to support the waterfront's evolving needs and to rehabilitate historic maritime structures (a primary trust purpose), and therefore the integrity of the Embarcadero Historic District, justifies a broad range of leasing and development strategies. The State Lands Commission has recognized that historic preservation projects, and by association the application of 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 require new sources of revenue and/or investment including private fundraising, targeted public investment and a variety of high revenue-generating and other financially feasible uses. The preservation of historic structures will give the public opportunities for learning and

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<sup>1</sup> Links Land Use Subcommittee meetings on [March 22](#), [April 12](#), and [May 10 and 24, 2017](#) and [Working Group Guiding Principles](#)

appreciating California's maritime history and will provide access to the waterfront for trust-related education and recreation.

The Port's finger piers, no longer needed for their original breakbulk cargo purpose, are highly adaptable to new uses and can be rehabilitated for a variety of maritime, industrial, commercial and public-oriented activities that attract people to enjoy and appreciate San Francisco Bay. Examples of successful Port projects in this vein over the past 20 years can be found along the Northern Waterfront. 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 by 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 were constructed to serve as warehouses and to support heavy maritime uses, such as shipping, and maritime support functions. These structures are about 100 years old and thus predate modern seismic building codes. The cost to achieve a "state of good repair" under the Port Building Code for the pier bulkheads, sheds, utilities and aprons for current industrial use occupancy 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 into 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, and lending and amortization requirements.

Introducing commercial, retail and people-intensive uses in pier sheds rated for industrial occupancy requires Port Engineering staff to review carefully 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. However, 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. Short-term leases will continue to be an important asset management method to maintain flexibility and provide small business opportunities. However, after considering the above factors and an EPS consultant team financial feasibility analysis of long-term and intermediate-term lease scenarios, 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.

Attachment 2 presents an illustrated summary of long-term and intermediate term lease scenarios that are financially feasible and can achieve public trust objectives in different ways. 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 in order to advance Waterfront Plan goals. In addition, the consultant's financial feasibility analysis has demonstrated that higher pier improvement costs and amortization requirements dictate the new need for Intermediate-term leases to continue active use of remaining industrial piers. Absent outside funding and financing resources such as private fundraising or targeted public investment, intermediate- and long-term leases both require high revenue-generating and other financially feasible uses to finance historic rehabilitation and capital improvements.

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 it is feasible to make amenities available in private lease areas for community or public use, this should be prioritized 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, recreation or 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 Embarcadero Historic District Finger Piers

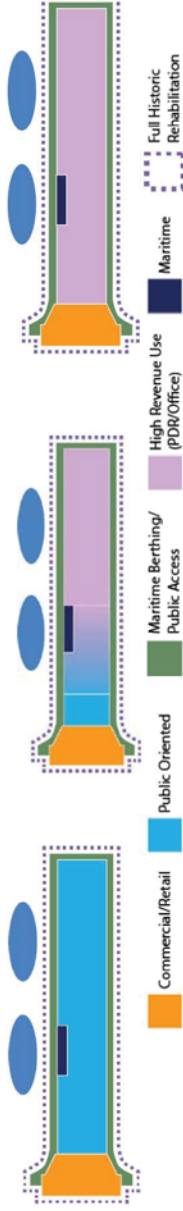
There are multiple public trust objectives for Embarcadero Historic District piers and bulkhead structures, which are described in the column headings of this matrix. Within each trust objective category, the matrix describes characteristics that are most desirable for the trust in that category, scaling down to those that are least desirable. Depending on mix of uses, level of repair, capital investment and revenue generation, projects provide different combinations of public trust benefits. This matrix provides a framework of definitions and standards to improve understanding and predictability in achieving public trust benefit objectives.

	Historic Preservation of the Trust Asset (comply with Secretary Stds.)	Seismic/Life Safety Improvements to the Trust Asset	Exterior Public Access and/or Maritime Improvements	Facility Capital Repairs and Improvements	Revenue generation	Interior Uses Serving Trust Purposes (use types)	Interior Uses Serving Trust Purposes – (amount of area occupied)	Lease Term/ Flexibility that allows facility to accommodate changing uses
 Most Desirable for Trust	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 capital investment	High revenue generation	Traditional trust uses: maritime office, visitor-serving, retail/restaurant, water-related recreation, public access	Entire bulkhead building and pier shed	No lease – allows most flexibility to respond to trust use needs and market demand
	Partial historic rehabilitation (bulkhead only; or bulkhead + partial shed)	Superstructure repair, but no or partial substructure repair; partial seismic upgrade (e.g. seismic joint between bulkhead and shed)	Repair and improvement substantial portion of apron for public access and/or maritime use	Medium capital investment	Medium revenue generation	Public attraction uses: museum/gallery, general indoor recreation, entertainment, specialty (local/maker) retail/manufacture	Entire ground floor of bulkhead building; portions of shed and/or upper floor bulkhead	Short term lease (1-10 yrs)
	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	Limited capital investment	Low revenue generation	General retail, institutional uses, government uses	Portion of ground floor of bulkhead.	Medium term lease (between 10 and 50 yrs)
 Least Desirable for Trust	Vacant, deterioration	Vacant, deterioration	No public access/maritime use of apron	No capital investment	No revenue generation	Private Uses (general office; R&D)	None	Long term lease (50-66 yrs) – least flexibility to meet evolving trust needs and market opportunities
	The levels at which trust objectives in each category are achieved determines the amount of capital investment required in a facility, and the amount of rental revenue sufficient to finance capital improvements and generate revenue for the Port.			Port projects vary widely in the mix of uses and degree of facility improvement. While short-term leases are considered desirable because they afford the most flexibility to respond quickly to Port needs, long-term leases that enable a project to finance major capital investments and provide a mix of traditional trust uses, public-oriented, commercial or PDR uses also are desirable and provide high trust value.				

# 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



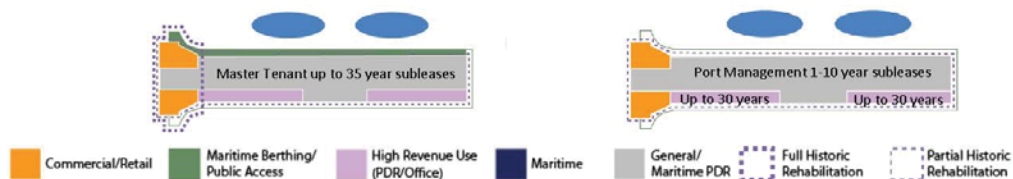
## Long-term Pier Rehabilitation

The EPS analysis demonstrates that long-term leases may feasibly achieve significant public trust objectives including full seismic and structural rehabilitation of the historic pier; pier apron repairs for maritime berthing operations and/or additional public access; and public/visitor serving uses (e.g. restaurant, commercial recreation, visitor retail) at ground floor of bulkhead buildings. The extraordinary cost of such rehabilitation dictate the need for high-revenue generating uses (e.g. PDR/office) in the pier shed. Depending on project details, limited areas within a pier shed may support additional public oriented uses while remaining financially viable. Development partners with established fundraising capability and/or other access to outside sources of funds can underwrite the cost to avail a substantial area for public-oriented uses in pier sheds, as was achieved in the Pier 15 Exploratorium project.

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
<b>Occupancy</b>	<b>Occupancy</b>	<b>Occupancy</b>
<b>Trust characteristics</b> Bulkhead commercial/retail Apron repair for berths/public access Complete Historic Rehabilitation Full Sub/super-structure repair Maritime berthing and operations <b>Maximum public/low-revenue use in shed</b>	<b>Trust characteristics</b> Bulkhead commercial/retail Apron repair for berths/public access Complete Historic Rehabilitation Full Sub/super-structure repair Maritime berthing and operations <b>Maximum public/low-revenue use in shed (est. 15% - 55% depending on revenue capability)</b>	<b>Trust characteristics</b> Bulkhead commercial/retail Apron repair for berths/public access Complete Historic Rehabilitation Full Sub/super-structure repair Maritime berthing and operations <b>Maximum revenue generation use in shed; varies depending on pier condition</b>
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

\* Net of Rent Credits





Intermediate term	
Scenario # 1	Scenario # 2
Moderate historic rehabilitation & tenant investment	Limited historic rehabilitation & tenant investment
<ul style="list-style-type: none"> <li>Master tenant/developer for entire pier undertakes seismic repair/historic restoration of Bulkhead building</li> <li>Master tenant responsible for pier maintenance</li> <li>Predominantly low-revenue PDR (e.g. maritime/non-maritime warehouse) in shed, per occupancy limitations</li> <li>Subtenant lease term may align with master tenant's, or shorter-term, depending upon improvements undertaken by subtenant</li> </ul>	<ul style="list-style-type: none"> <li>Port undertakes limited structural repairs (e.g. roof repair, primary utilities)</li> <li>Port responsible for pier maintenance</li> <li>Predominantly low-revenue PDR (e.g. maritime/non-maritime warehouse) in shed, per occupancy limitations</li> <li>Low-revenue PDR (lease terms MTM – 10 yrs)</li> <li>High-revenue PDR for intermediate lease terms, depending upon improvements undertaken</li> </ul>
Estimated cost: \$25-\$30 million	Estimated cost: \$5-15 million
Occupancy	Occupancy
<b>Trust characteristics</b> 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)	<b>Trust characteristics</b> 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 <b>Up to 35 years</b>	Lease Term <b>0-10 years</b> <b>Up to 30 years, limited to 20-40,000 sf</b>
Port Revenue *	Port Revenue *

\* Net of Rent Credits

### Intermediate-term Pier Rehabilitation

Intermediate term leases of historic piers will expand the tools available to the Port to steward the Embarcadero Historic District, inviting incremental investment for historic pier improvements and other trust objectives, and will be a complement to existing long-term and short-term leases.

Intermediate-term leases require some high-revenue generating uses (e.g. PDR/office) to support greater tenant investment in structural repairs by varying degrees: from enhanced utility/structural improvements and tenant-maintenance in a discrete portion of a pier, to partial seismic rehabilitation of the bulkhead and/or pier aprons, depending on the scope of lease and total investment.

Intermediate leasing will further trust purposes by facilitating visitor-serving uses in the bulkhead ground floor, inviting access to the pier from The Embarcadero, and maintaining flexible warehouse space in the pier shed for maritime operations use, as needed. Over time, as sea level rise continues, intermediate term leases may become an increasingly important pier retention strategy.