



**Office of the Assessor / Recorder - City and County of San Francisco**  
**Mills Act Valuation**



353-359 Kearny Street

**OFFICE OF THE ASSESSOR / RECORDER - CITY & COUNTY OF SAN FRANCISCO**  
**CHANGE IN OWNERSHIP**

<b>APN:</b>	0270-001	<b>Tax Year:</b>	2018/19
<b>Address:</b>	353-359 Kearny St	<b>Date of Value:</b>	7/1/2018
<b>Type of Event:</b>	Mills Act Application	<b>Sale Date:</b>	2/28/2018
<b>Event Date:</b>	7/1/2018	<b>Sale Price:</b>	\$6,800,000
		<b>Sale Price/SF:</b>	\$699

ROLL VALUE		INCOME APPROACH		SALES COMPARISON APPROACH	
Land	\$4,760,000	Land	\$2,250,000	Land	\$3,600,000
Improvements	\$2,040,000	Improvements	\$2,250,000	Improvements	\$3,600,000
<b>Total</b>	<b>\$6,800,000</b>	<b>Total</b>	<b>\$4,500,000</b>	<b>Total</b>	<b>\$7,200,000</b>
	PSF \$699		PSF \$463		PSF \$740

**I. Property Description**

<b>Neighborhood:</b>	Financial District North	<b>Present Use:</b>	Commercial Office	<b>Year Built:</b>	1907
<b>Land Area:</b>	1,998	<b>NRA (SF):</b>	9,729	<b>Stories:</b>	5
<b>Zoning:</b>	C-3-0 - Downtown Office	<b>Parking:</b>	None	<b>Quality &amp; Class:</b>	Below Average / B

**II. Comment(s):**

The subject is a mixed use building that has approximately 9,729 square feet of net rentable area. The property was recently purchased in March 2018 for \$6.8M. As of the current event date, the ground floor commercial space is fully leased to two restaurant tenants and the upper floor office space has a signed lease which hasn't commenced yet. The lease will commence 18 months following the delivery date by the landlord who will reportedly spend approximately \$1.1M in renovation costs on the building. After which, the office tenant has an improvement allowance of approximately \$1.6M from the landlord to build-out the four floors of office area to coworking style office space.

**III. Conclusions and Recommendations:**

	Per SF	Total
Factored Base Year Roll	\$699	\$6,800,000
Income Approach - Direct Capitalization	\$463	\$4,500,000
Sales Comparison Approach	\$740	\$7,200,000
<b>Recommended Value Estimate:</b>	<b>\$463</b>	<b>\$4,500,000</b>

Appraiser: Dan Reyes

Principal Appraiser: Chris Castle

Appraisal Date: 8/2/2018

## Property Summary

**Address:** 353-359 Kearny St  
**AAB:** 0270-001

**Sub-Market:** Financial District North

**Property Description:** The subject property is a five-story plus basement, reinforced masonry building constructed in 1907. The property is situated at the southwest corner of Kearny and Pine Streets. It contains four floors of office space above two ground floor commercial units. The property is currently in average condition and is proposed for a significant renovation by both the current owner and office tenant. The landlord work reportedly includes new windows, roof repair, new elevator, and exterior repairs at a reported cost of approximately \$1.1M. The tenant work includes a full renovation of the upper levels including flooring, ceiling treatments, lighting, HVAC, restrooms, kitchens, and other finishes. The owner is providing a tenant improvement allowance of up to approximately \$1.6M with the tenant reportedly incurring additional costs above the TI allowance for the office build-out. Together, a total over \$2.7M is planned to be incurred on the proposed renovation

**Tenant Profile:** The ground floor retail units are both occupied by restaurant tenants: Harrow Fresh Roll and Pasilla, Inc. The office portion of the subject, including a lobby area, was recently leased to Canopy Space, Inc. who provides shared coworking space and will renovate then occupy the lobby through 4th floor.

**Building Size (NRA):** 9,729

**Year Built:** 1907

**Class:** Below Average / B

**Floors:** 5

**Lot Size:** 1,998 Sq.Ft. (Total property site area)

**Parking:** None

**Views/Special Features:** Good corner location along two busy arterial, Kearny & Pine Streets, in a desirable neighborhood with excellent foot traffic.

**Occupancy as of lien date:** 100% See Rent Roll for additional details

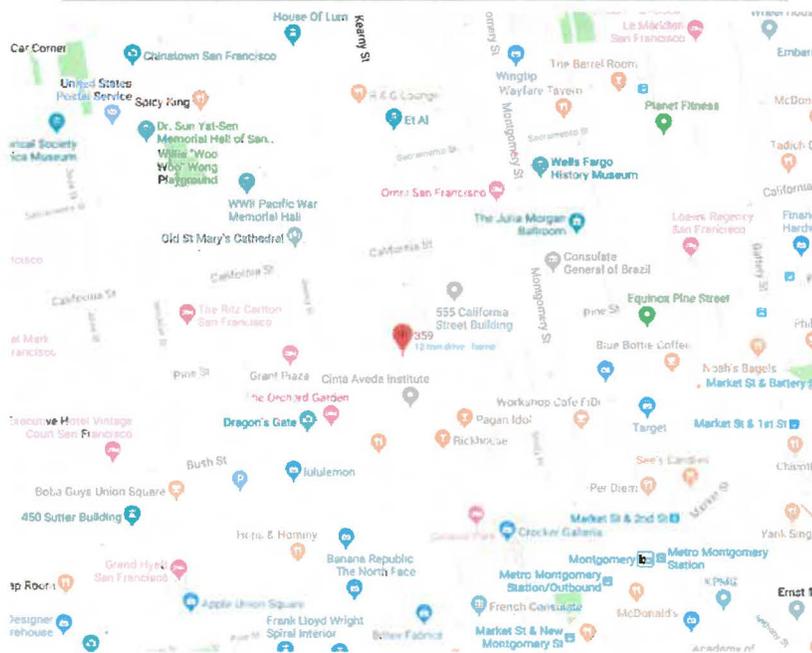
<b>Sale History:</b>	<u>Sale Date</u>	<u>Sale Price</u>
	2/28/2018	\$6,800,000
	11/2/2016	\$5,425,000

<b>Assessment History:</b>	Year	Assessment
	2018	\$6,800,000
	2017	\$6,800,000
	2016	\$5,425,000
	2015	\$4,153,074

**Subject Photographs and Locator Map**

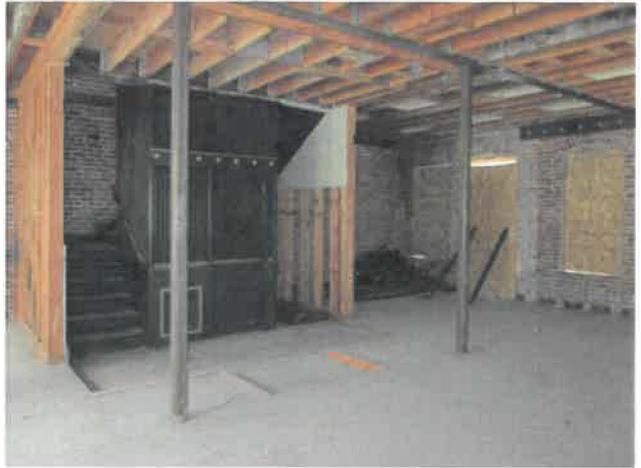
**Address:** 353-359 Kearny St

**APN:** 0270-001



**Subject Photographs**

**Address:** 353-359 Kearny St  
**APN:** 0270-001



### Income Capitalization Approach

Address: 353-359 Kearny St  
 APN: 0270-001  
 Lien Date: 7/1/2018

Potential Gross Income					<u>Totals</u>	<u>Comments</u>
<b>Retail</b>						
Ground Floor Retail	650 sf	@	\$80 NNN	=	\$52,000	Based on market rents & supported by provided appraisal.
Ground Floor Retail	650 sf	@	\$100 NNN	=	\$65,000	
	1,300 sf		\$90 Avg		<u>\$117,000</u>	
<b>Office</b>						
Floors 2nd-5th	8,429 sf	@	\$65 NNN	=	\$547,885	Based on recently signed lease.
<b>Subtotal - Office</b>	8,429 sf		\$65 Avg		<u>\$547,885</u>	
<b>Total Potential Income/Square Feet</b>	<b>9,729</b>				<b>\$664,885</b>	
<b>Less Vacancy &amp; Collection Loss</b>						
Retail	\$117,000	@	3.0%	=	(\$3,510)	
Office	\$547,885	@	5.0%	=	(\$27,394)	
<b>Total</b>					<u>(\$30,904)</u>	
<b>Effective Gross Income</b>					<b>\$633,981</b>	
<b>Less: Expenses</b>						
			5.00% of EGI	=	(\$31,699)	
					<u>(\$31,699)</u>	
<b>Pre Tax Net Operating Income</b>					<b>\$602,282</b>	
<i>Pre tax NOI per Sq. Ft.</i>					\$61.91	
<b>Capitalization Rate</b>						
Interest rate per SBE					4.000%	
Risk Rate (4% owner occupied / 2% all others)					2.000%	
Tax Rate 2017/2018					1.1723%	
Amortization rate for improvements only					0.8333%	
Remaining econo. life (in years)	60		1.667%		8.006%	
Improvements as % of total			50%			
<b>Stabilized Value Estimate</b>			<b>\$773 psf</b>		<b>\$7,523,224</b>	
Less: P.V. Leaseup and Holding Costs					(\$1,913,015)	
Less: Capital Expense Items					(\$1,091,077)	
<b>As Is Value Estimate</b>					<u><b>\$4,519,131</b></u>	
<b>Rounded</b>						
					<b>\$4,500,000</b>	
<i>Price/SF of total area</i>					\$463	

*Note: Values may not be final and are presented for Discussion Purposes only.*

Assessed Value as of	7/1/2018
Land	\$2,250,000
Improvements	<u>\$2,250,000</u>
Total	\$4,500,000

**Rent Roll As of 6/30/18**

**Address:** 353-359 Kearny St

**APN:** 0270-001

Suite	Tenant	SF	Lease Commencement Date	Lease Expiration Date	Term Mo.'s	Base Monthly Rent	Annual Rent	Expense Terms	Annual Rent / SF
357	Hemmingsson & Droese, LLC (Harrow Fresh Roll)	650	11/1/2011	10/31/2022	60	\$5,042	\$60,504	NNN	\$93
359	Pasilla, Inc.	650	5/20/2010	5/31/2020	120	\$6,694	\$80,328	NNN	\$124
353	Canopy Space, Inc.	8,429	0/0/00*	0/0/00*	120	\$43,707	\$524,480	NNN	\$62
<b>Total</b>		<b>9,729</b>					<b>\$665,312</b>		<b>\$68</b>

Vacant	-	0%
Occupied	<u>9,729</u>	100%
<b>Total</b>	<b>9,729</b>	

**Summary of Subject and Comparable Retail Leases**

No.	Block	Lot	Address	Tenant	Neighborhood	Retail use Category	Tenant Floor	% of Grd Flr to Total GLA	Lease Signed	Lease Start	Term (Mo.)	GLA	Starting Rent (\$/SF/YR)	Effective Rent	Expense Terms	T.I.'s/ S.F.	% Rent with Breakpoint	Escalations/ Comments	
<b>Comparable Retail Rents</b>																			
1	0807	010	580 Hayes St.	Through the Hayes Optometry, Inc.	Hayes Valley	Other (Describe in Notes)	1	0	09/20/16	01/01/17	180	1,627	\$84.22	\$0.00	NNN	\$ -	0	Optometry office, 3% ann inc	
2	0807	010	580 Hayes St.	Salt & Straw Inc.	Hayes Valley	Café	1	1	09/06/16	01/01/17	120	1,399	\$87.20	\$99.97	NNN	\$ -	0	3% ann inc.	
3	0807	010	580 Hayes St.	b8ta, inc.	Hayes Valley	Other (Describe in Notes)	1	1	08/30/16	01/31/17	60	2,547	\$94.00	\$99.81	NNN	\$ -	0	3% ann inc.	
4	0807	010	580 Hayes	b8ta	Hayes Valley	Merchandise Sales	0	0	08/30/16	01/31/17	60	2,547	\$94.00	\$0.00	NNN	\$ 35.34	0	Grd floor retail under new condominium development. Parent block and lot may need revision after PGMT. Com date estimated per lease. 4 mo free rent for build-out. Corner location.	
5	0807	010	580 Hayes	Salt & Straw, Inc	Hayes Valley	Merchandise Sales	0	0	09/06/16	01/31/17	120	1,399	\$87.20	\$0.00	NNN	\$ 25.02	0	Grd floor retail under new condominium development. Parent block and lot may need revision after PGMT. Com date estimated per lease. 4 mo free rent for build-out.	
<b>Average</b>													<b>\$89</b>						

All retail leases are triple net (NNN), unless otherwise indicated in the comments section.

**ABBREVIATIONS**

Lease Type: N = New Lease, R = Renewal, A = Amendment to Lease, E = Expansion of Space, S = Sublease

Lease Structure: FSG - full service gross lease MG - modified gross lease IG - industrial gross lease NNN - triple net or net lease

**Summary of Subject and Comparable Office Leases**

No.	Block	Lot	Address	Tenant	Floor	Year Built	Year Renovated	Term (Mo.)	Total Building NRA (SF)	Building Stories	Class	Neighborhood	Lease Signed	Lease Start	Rentable Area (SF)	Starting Rent (\$/SF/YR)	Effective Rent	Expense Terms	Lease Type	T.I.'s/ S.F.	Free Rent (Months)	Escalations/ Comments
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**Subject Property Office Leases**

	270	1	353 Kearny Street	Canopy Space, Inc.	1-5	1907	2018	120	9,729	5	B	North Financial District	12/07/17	TBD	8,429	\$65.00		NNN	N	\$187	18	Coworking tenant.
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**Comparable Office Rents**

1	3788	045	625 3rd St.	Ubisoft	0	1908	0	84	42,429	4	B	South Beach	01/00/00	07/01/17	40,000	\$55.00	\$0.00	FSG w/ BY	R	35	0	Renewal, 3% ann inc, info source: Fee appraisal of 3512-005
2	3705	003	22 4th St.	Clover Health	0	1981	0	50	224,420	16	A	South of Market	01/00/00	03/01/18	32,748	\$61.01	\$0.00	FSG w/ BY	R	0	0	Renewal of a sub-lease. 3% ann inc, info source: fee appraisal of 3512-005
3	3756	003	1266 Harrison St.	All Turtles Corp.	1-4	2016	0	60	-	4	A	South of Market	05/22/17	06/01/17	8,346	\$72.00	\$76.45	FSG w/ BY	N	0	0	3% ann inc, 1 five-year option to renew, 2 pkg spaces incl, 4 story office space part of L Seven apartments
<b>Average</b>																<b>\$63</b>	<b>\$25</b>					

**ABBREVIATIONS**

Lease Type: N = New Lease, R = Renewal, A = Amendment to Lease, E = Expansion of Space, S = Sublease

Lease Structure: FSG - full service gross lease MG - modified gross lease IG - industrial gross lease NNN - triple net or net lease

**SALES COMPARISON ANALYSIS**

	ADDRESS	SALE PRICE \$ PER SQ.FT.	MARKET CONDITIONS	NEIGHBORHOOD	LOT SIZE	YEAR BUILT	SQUARE FEET	CONDITION	OVERALL ADJUSTMENT	ADJUSTED SALE PRICE
Subj. APN	353-359 Kearny St 0270-001			Financial District North	1,998	1907	9,729	Recently Renovated		
1	407-411 Sansome St APN:02-0228-003	10/20/2017 \$12,970,000	Similar	Financial District North	3,963 (\$196,533)	1909	17,854 (\$3,250,000)	Similar	(\$3,446,533)	\$9,523,467
2	401-423 Washington St APN:02-0206-018 through -024	12/20/2017 \$13,850,000	Similar	Financial District North	2,614 (\$61,633)	1983	15,923 (\$2,477,600)	Similar	(\$2,539,233)	\$11,310,767
3	558 Sacramento St APN:02-0228-009	8/15/2017 \$11,300,000	Similar	Financial District North	2,391 (\$39,333)	1907 (renovated 1993)	12,000 (\$908,400)	Similar	(\$947,733)	\$10,352,267
4	944 Folsom Street APN:25-3732-044 and 3732-045	6/22/2018 \$10,750,000	Similar	South of Market	8,392 (\$639,433)	1936 (renovated 1995)	10,750 (\$408,400)	Similar	(\$1,047,833)	\$9,702,167
5	633-639 Howard APN: 25-3735-050	6/19/2018 \$11,435,000	Similar	Financial District South	5,638 (\$363,983)	1910	10,400 (\$268,400)	Similar	(\$632,383)	\$10,802,617

<b>RANGE OF VALUES</b>	\$9,523,467	to	\$11,310,767
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**ADJUSTMENTS:**

Market Conditions	None
Location	None
Lot Size	\$100 PSF
Year Built	None
Square Feet	\$400 PSF
Condition	None

<b>ESTIMATED STABILIZED MARKET VALUE</b>	<b>\$10,250,000</b>
Less: P.V. Leaseup and Holding Costs	(\$1,913,015)
Less: Capital Expense Items	(\$1,091,077)
<b>As Is Value Estimate</b>	<b>\$7,245,908</b>
<b>As Is Value Estimate Rounded</b>	<b>\$7,200,000</b>

**Leaseup and Holding Costs**

Address: 353-359 Kearny St  
 APN: 0270-001

		- RETAIL AREA -		- OFFICE AREA -	
		Year 1	Year 2	Year 1	Year 2
Total NRA				8,429	
Stabilized Vacancy	5%	-	-	421	
Less: Actual Vacancy				100.0%	8,429
Beginning Excess Vacancy	a	-	-	8,008	4,004
Ending Excess Vacancy	b=a/2	-	-	4,004	-
SF Leased	c=a-b	-	-	4,004	4,004
Avg. Excess Vacancy				<u>\$/sq.ft.</u>	<u>\$/sq.ft.</u>
				6,006	2,002
Rent Loss	Xd	\$55.00	\$ -	\$65.00	\$ 390,368
Leasing Comm. and other Marketing Expenses	Xc	\$11.50	\$ -	\$11.50	\$ 46,043
Tenant Improvements	Xc	\$0.00	\$ -	\$187	\$ 747,384
Differential Operating Expenses	Xd	\$0.00	\$ -	\$0.00	\$ -
Total Leaseup and Holding Costs		\$ -	\$ -	\$ 1,183,795	\$ 923,550

Present Value Calculation ( 7.0% Discount Rate)

I. Retail Component

Year	Cash Flow	PV Factor	P.V. of Costs
1	\$ - X	0.9345794	= \$ -
2	\$ - X	0.8734387	= \$ -
Present Value of Retail Leaseup and Holding Costs			\$ -

II. Office Component

Year	Cash Flow	PV Factor	P.V. of Costs	BILIZED MARKET VALUE
1	\$ 1,183,795 X	0.9345794	= \$ 1,106,351	
2	\$ 923,550 X	0.8734387	= \$ 806,664	
Present Value of Office Leaseup and Holding Costs			\$ 1,913,015	

Sum Total of Present Value Leaseup and Holding Costs 1,913,015