

MEMORANDUM

July 7, 2016

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

FROM: Elaine Forbes
Interim Executive Director

SUBJECT: Request Approval of the Fiscal Year 2016-17 Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Events and Filming Rates

DIRECTOR'S RECOMMENDATION: Approve Resolution

This item was presented as an informational item at the June 14, 2016 Port Commission meeting and is now before the Port Commission for approval. There are no changes to the report that was presented at the last meeting.

Executive Summary

Port staff is seeking Port Commission approval of the Fiscal Year 2016-17 Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Events and Filming Rates.

Pursuant to statute, the Port is required to charge market rates for its properties, deposit such revenues into the Harbor Fund and use such funds to operate and maintain the Port. To set rates, Port staff surveys a variety of real estate data to ascertain equivalent market rates for its properties. Such rates are compiled into the proposed Rental Rate Schedule (see Exhibits A and C hereto) for Port Commission and public review and discussion. If the Port Commission approves the schedule on July 12, 2016, the Rental Rate Schedule for Fiscal Year 2016-17 will take effect on August 1, 2016.

The overall San Francisco and regional commercial real estate markets are enjoying low vacancy rates and high rental rates in all sectors. Similarly, Port property enjoys a low vacancy rate and a very low turnover rate. A total of 62 property locations are listed on the Rental Rate Schedule (Exhibit A). Port staff proposes to raise rates at 53 locations (85%). Port staff proposes holding rates unchanged at the remaining 9 locations due to their challenged physical conditions such as at Pier 54 or 501 Cesar Chavez. Port staff does not propose to reduce rates at any properties. Likewise, Port staff proposes raising rates for resale parking, certain special events and filming.

Strategic Objective

It is the Port Commission's practice to approve the Monthly Rental Rate Schedule, Monthly Parking Stall Rates, Special Event and Filming Rates to provide certainty to tenants and ensure fair market value for Port properties. This action complies with the goals of the Port's Strategic Plan as follows:

Engagement:

By continuing to proactively engage the Port Commission in setting vision, strategy, policy and fiscal goals for the Port.

Livability:

By retaining affordable business space for non-profit entities, and single proprietorships.

Economic Vitality:

By planning and executing a holistic and balance strategy to the real estate portfolio and asset management to maximize assets value and income to the Port.

Stability:

By increasing Port annual revenues to \$125 million and continuing to expand ongoing revenue sources.

Background

The Port Commission periodically reviews and sets rental rates for its commercial leasing properties. These rates are known as the Port's Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule and Special Event and Filming Rate Schedule (together, the "Rental Rate Schedule").

Separately, starting in 1993, the Port Commission delegated authority to the Executive Director to approve and execute (i) leases, (ii) licenses and (iii) Memoranda of Understanding ("MOU") provided that the terms of these agreements conform to certain minimum parameter terms of the Port's leasing policies. These parameter terms include a schedule of minimum rental rates for leases enumerated in the Rental Rate Schedule that are delegated to the Executive Director for execution without Port Commission approval.

Typically, the Port Commission reviews rates on an annual basis and enacts a new Rental Rate Schedule that changes rates as needed to reflect market changes. Port staff provides the following research of current market conditions (see "Rate Setting Methodology" below) for the Port Commission's deliberations. Port staff first presents the proposed new Rental Rate Schedule as an informational item to allow the Port Commission and the public the opportunity to review the proposal, make inquiries and request amendments if needed. Thereafter, Port staff present a final Rental Rate Schedule with an effective date for Port Commission approval. The Port's current Rental Rate Schedule for Fiscal Year 2015-16 was adopted by the Port Commission on June 23, 2015 and became effective as of July 1, 2015. It will remain in effect until the Port Commission adopts a new Rental Rate Schedule with a new effective date.

The Rental Rate Schedule is one of several Port Commission directives and policies to address real property agreements in accordance with the Port's mission to manage and steward the Port's diverse real estate assets. Embedded in the Port's management of its portfolio is the obligation to charge market rates for its property. Generally, the leases, licenses and MOU that Port staff executes under this delegation include agreements for use of existing structures, facilities and land involving negligible or no expansion or change of use. A synopsis of Port Leasing Policies that allow for leasing within Executive Director delegated authority is contained in Exhibit H attached hereto.

San Francisco Market Summary

As is well-documented, the San Francisco commercial real estate market has continued to rise in tandem with a continued reduction in San Francisco's unemployment rate which is currently 3.3%, down from 3.6% in January 2015¹. San Francisco began 2016 essentially at full employment. According to Property Management Company, Cushman & Wakefield, the overall Citywide asking rent closed Q1 2016 at a record high of \$70.33 per square foot per year for Class A office space (\$5.86 psf per month).

All major real estate companies cite technology companies as the impetus behind San Francisco's positive net absorption rates. Colliers International notes that "this marks the 20th consecutive quarter [almost six (6) years] of positive net absorption, a streak that places the city among the healthiest office markets in the world."

In surveying available market research, Port staff found varying reports of office vacancy rates as of First Quarter 2016 (1Q 2106). Experts place the vacancy rates in a range from to 5.7% to 7.2%. Colliers International notes that "the vacancy rate has been below the 10% percent 'tipping point' for over two years" and that the Civic Center area experienced the largest recent increase in vacancy due to four properties completing, construction and delivering over 1.2 million square feet of space to the market in Q3 2015. All real estate companies surveyed predict the strong office market to continue with very low new vacancies, compounded by the potential of San Francisco to hit its Proposition M² office cap in the coming year. The Port's current office vacancy rate is 3.5% compared to a citywide average of approximately 6.6%.

As a result of improving vacancy rates, office rents in San Francisco continued steady inside and outside of the Central Business District (aka Financial District). Much like vacancy reports, Port staff found varying reports on the amount of change in market rate rents for all three classes of office space (Class A, Class B, and Class C). Several firms noted a minor decrease in Class A office rents, coupled with an extremely strong increase in Class B rents, which new leasing in the Civic Center area has largely driven.

While much of the attention has been on San Francisco's office space, those real estate firms that follow the industrial sector note a continued tightening in this market as well. In particular, Kidder Mathews (a commercial real estate services firm) notes the San Francisco industrial market continued to tighten in the 1Q 2016, with 30,574 square feet of

¹ Federal Reserve Bank, May 2016 Report

² Prop M passed November 1986, sets an annual limit on citywide office development and governs the approval of all development projects that contain more than 25,000 gross square feet of office space. Such projects require an "office space allocation" from the San Francisco Planning Commission.

positive net absorption reduction, lowering the vacancy rate to 3.7% (3.8% prior year) further diminishing the limited stock of available space. Asking rental rates rose to an average of \$15.63 annually (\$1.30 psf per month) per square foot, the highest since the recession in 2007.

Mathews states that there is only “11.9 million square feet of available space (of an inventory of 314.2 MSF) in the region and the average age of that space is 35 years old. In other words, there is virtually no available modern space left.” Mathews also notes a decline in vacancy of industrial space and a corresponding increase in asking rates fueled both by technology companies and a lack of new construction.

Most of the Port’s industrial space is either warehouse shed space or land. The Port’s industrial/warehouse vacancy is 4% as discussed further below. Cushman Wakefield and Kidder Mathews notes that the average Bay Area asking rate for warehouse space rose to approximately \$0.79 per square foot per month or 5% from the prior year.

Unfortunately, most industrial/warehouse property analyzed by commercial real estate firms and attributable to San Francisco is actually housed on the San Francisco peninsula and outside the city limits making it difficult to find good comparables for Port property. Further exacerbating this trend, most such space is significantly newer (although not new), larger and more conveniently located than equivalent Port space. Cushman Wakefield noted that warehouse vacancy in San Francisco County is 3.9% and asking rates average \$1.13 per square foot. Conversely, the Port commands \$1.25 to \$1.50 per square foot or approximately 10% to 20% higher with a vacant rate of 4%.

Port’s Rental Portfolio

The Port’s portfolio area consists of 7½ miles of waterfront property adjacent to the San Francisco Bay, from Hyde Street Pier in the northeast to India Basin in the southwest. It includes more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. Commercial operations on Port property include restaurants, retail shopping, ferry service, commercial fishing, Bay excursion, leasing, professional sports, bulk cargo, cruise ship calls and ship repair.

The Real Estate Division manages approximately 588 commercial leases covering 453 acres, which represent 320 commercial and industrial tenants including long-term ground leases at Fisherman’s Wharf, 50 Francisco, Pier 39, Piers 15-17, Piers 1½-3-5, Pier 1, the Ferry Building and AT&T Park.

Port property available for commercial leasing consist of approximately 13.9 million square feet, as described below. As such leases expire, are amended or renewed, they become subject to the current Rental Rate Schedule. Such properties consist of:

Table 1: Port Space Types

Space Type	Amount in Square Feet	Notes
Office Space	315,105	Class B and Class C space located in 18 buildings Includes office storage No Class A space
Industrial Shed	1,834,864	Located on 16 piers and 6 seawall lots
Fishing Industry	25,000	Landside space for fish wholesaling, processing and gear storage at Piers 45 and 33
Open Land	unpaved 980,100 paved 9,954,391 improved 871,200 submerged <u>360,000</u> total 12,165,691	Generally refers to pier aprons, valley areas, and land
Total	14,340,660 not submerged 13,980,660	

The Port manages a sizeable and diverse portfolio of assets. Assets managed by the Port's Real Estate Division generated approximately \$71,981,243 million in annualized revenue in Fiscal Year 2015-16. Rates for such properties are negotiated in a variety of manners. Parameter rental rents impact shed, office, and parking stall customers, or approximately 18% of total Real Estate Revenues, as shown in the following table.

Table 2: Annual Rent By Category

Category	Annualized Revenue	Percentage of Total
Parameter Shed or Land	\$ 8,404,466	12%
Parameter Office	\$ 3,910,312	5%
Parameter Parking (Stalls)	\$ 479,853	1%
Sub-Total Parameter Revenues	\$ 12,794,631	18%
Parking Lots	\$ 12,832,717	18%
Ground Lease/ Development	\$ 12,559,346	17%
Non-Parameter* Shed or Land	\$ 11,722,459	16%
Restaurant & Retail	\$ 11,630,746	16%
Parking Meters	\$ 8,614,807	12%
Non-Parameter* Office	\$ 1,534,386	2%
Film/Event/Other	\$ 292,151	0%
Sub-Total Non-Parameter Revenues	\$ 59,186,611	82%
Total Real Estate Revenues	\$ 71,981,243	100%

Annualized Revenue is an estimate of the annual revenue by detailed category; dividing actual receipts by detailed category is not possible.

* Non-parameter shed, office, and land are leases outside the business parameters found in the Port Commission Rental Rate Parameter Policy and require Port Commission and may require Board of Supervisors' approvals.

Port Vacancy

The demand for space along the Port's waterfront is high. As noted above, the Port's current office vacancy rate is 3.5% (same period last year 3.9%). The Port's vacancy rate is lower than the citywide office vacancy rate of approximately 6.6%. The Port's industrial/warehouse vacancy is 4% (same period last year 9.4%). It should be noted that Piers 23 and 31 are scheduled for extensive repairs and therefore not included in the Port vacancy calculation. These piers are anticipated to be ready for leasing in 2017.

Port Leasing Volume

In the period from April 1, 2015 to March 31, 2016, Port Real Estate staff executed 101 real property agreements pursuant to the Fiscal Year 2015-16 Rental Rate Schedule totaling \$472,686 per month or \$5.7 million annualized representing 2.2 million square feet.

Rate Setting Methodology

Port staff reviews numerous pieces of data to create a composite rate suited for each of the Port's unique assets. Generally the data used to inform the composite rate falls into one of the following categories:

1. *Commercial Data:* Port staff reviews available commercial data including comparable market rates of similarly situated properties to that of Port properties (see Exhibit D, Bibliography). With respect to office space, Port staff consulted market reports published by seven San Francisco real estate firms. With respect to industrial space, Port staff consulted market reports that Cushman and Wakefield and Kidder Mathews publish. With respect to fish processing/gear storage space, Port staff consulted five separate fishing harbors. With respect to parking, Port staff surveyed various parking lots/garages in adjacent areas (see Exhibits F1 & F2, Parking). A summary of the findings is presented throughout this report.
2. *Port Leasing Activity:* Port staff reviewed Port leasing activity for the prior 12 months (included as Exhibit I) and used this data to measure current market conditions (i.e., supply and demand) of the Port's unique spaces. Large vacancies would signal that rental rates are too high and low to no vacancy would signal that they are too low. Port staff also surveyed several of its master tenants to determine what rates they have been setting for properties under their management such as the Ferry Building, Pier 1 and Piers 1½-3-5.
3. *Third party consultant review:* The Port again has contracted with Keyser Marston Associates (KMA), a third party consultant, to review the proposed Rental Rate Schedule for Fiscal Year 2016-17. KMA gave input to the proposed Schedule and submitted a report summarizing its work (see Exhibit G). In general, KMA concurred with Port staff's minimum office rent and minimum industrial/warehouse rent recommendations. However, it noted several factors that put "downward pressure on the Port's rents" such as the Port assets' "more advanced age and less optimal physical condition" and the Port's ("limited ability to fund up-front tenant improvement

costs.”) Additionally, KMA and Port staff had a thorough discussion of parking rates to determine whether the Port staff’s parking rate recommendations were too aggressive. Ultimately, as noted in its report, KMA agreed with the Port’s parking rate recommendations.

Port Office Space

The Port directly manages approximately 330,000 s.f. of Class B and Class C office space. While there is Class A office space within the Port’s portfolio, it is managed by master tenants such as Equity Office Partners (Ferry Building), Prologis (Pier 1) and San Francisco Waterfront Properties (Piers 1½-3-5). The Port does not manage any Class A office space directly so none are subject to the Rental Rate Schedule.

Location is the key driver of office space value thus office leases are often defined by neighborhood when listed, rather than by building features. An office tower in San Francisco's Financial District will be prized for its superior access, prestigious corporate address, and proximity to neighborhood amenities like fine dining and business services. Similarly, the Port’s key office space has water views and is close to Market Street and its amenities.

The majority of Port-managed office spaces primarily fall into the Class C category of office space with the exception of 7 properties that are considered Class B. The Port’s directly managed office holdings are as follows:

Table 3: Building by Class Type

<u>Building Class</u>	<u>Name of Building</u>	<u>Location</u>
Class A	None	
Class B	Roundhouse Plaza	2 Lombard Street
	Pier 9 Bulkhead Bldg.	@ Broadway
	Pier 9 Pier Offices	@ at Broadway
	Pier 26 Annex	@ Harrison Street
	Pier 33 ½ North	@ Montgomery Street
	Pier 33 Bulkhead Bldg.	@ Montgomery Street
	Pier 35 Bulkhead Bldg.	@ Bay Street
Class C	Agriculture Building	@ Mission Street
	401 Terry Francois	Terry Francois Blvd.
	Piers 23 Bulkhead Bldgs.	@ Sansome Street
	Pier 29 Annex Bldg.	@ Battery Street
	Pier 29 ½	@ Battery Street
	490 Jefferson St.	Jefferson St @Leavenworth
	Piers 26 Bulkhead Bldg.	@ Harrison Street
	Pier 28 Bulkhead Bldg.	@ Bryant Street
	Pier 38 Bulkhead Bldg.	@ Townsend Street
	Piers 50 Bulkhead Bldg.	Terry Francois Blvd.
	Pier 54 Office	Terry Francois Blvd.
	Pier 70, Building 11	Foot of 20 th Street
	671 Illinois Street	Illinois Street @ Mariposa
	501 Cesar Chavez	Foot of Cesar Chavez St
	601 Cesar Chavez	Cesar Chavez @ Illinois St

	696 Amador	Amador and Cargo Way
	Pier 96 Admin. Bldg.	Foot of Cargo Way
	Pier 96 Gate House Bldg.	Foot of Cargo Way

Gross or Full Service leases include maintenance, janitorial, and utilities costs in the monthly rent amount. NET lease are net of services so that the tenant pays the maintenance, janitorial, and utilities costs and the monthly rent. The market difference between a full service lease and a net lease is approximately \$1.25 to \$1.50 per square foot per month.

Class A • In general, the definition of Class A space refers to the best of the best. Class A office space is located in newer buildings with state-of-the-art infrastructure. On occasion it may be located in older buildings that have been extensively renovated such as Pier 1 and the Ferry Building. Class A buildings are located in prime locations, generally the San Francisco Central Business District (aka Financial District) with good access and are professionally managed.

Class B • The Port manages approximately 150,000 s.f. of Class B office space (7 locations). By industry definition, Class B spaces are often older and require renovation and improvements. These spaces are usually well-maintained and well-managed, but infrastructure may need some capital investment to keep them functional. The average rates throughout San Francisco for Class B full service leases range from \$3.89 to \$5.92 per square foot per month (\$46.66 to \$71.06 annualized, Annualized; *Source: Jones Lang LaSalle First Quarter 2016*). Port staff proposes to raise rates on all 7 of the Port's Class B properties. As noted on Exhibit A attached hereto, Port staff proposes rates ranging from \$3.10 to \$4.50 per square foot per month (\$37.20-\$54.00 psf annualized) for the Port's seven (7) Class B properties. Note that the Port leases are net leases rather than full service leases as discussed below. Cushman and Wakefield estimates that average expenses of a net lease are \$11.60 per square foot which, when added to the Port's proposed rates, would equate to \$48.80-\$65.60 (\$4.07 to \$5.47) if the leases were full service.

Class C • The Port manages approximately 180,000 s.f. of Class C office space (17 locations). By industry definition, Class C spaces are older (usually 15-25 years), poorly located, and often in need of extensive renovation and updates to out-of-date infrastructure. They usually have lower rental rates to compensate for the lower quality office space. Class C spaces often are vacant longer than higher-classed spaces, and can be targeted for redevelopment opportunities. A fair number of the Class C office spaces in the Port's inventory are not truly office buildings but rather walk-up office spaces above retail or service businesses. San Francisco Class C office rents as of 1Q 2016 averaged \$3.00 per square foot per month (\$36.00 psf annualized). Note that the majority of the San Francisco Class C leases are full service leases (*Source: Jones Lang LaSalle First Quarter 2016*). As noted on Exhibit A attached hereto, Port staff proposes rates from \$1.15 to \$3.75 per square foot per month (\$13.80 -\$45.00 psf annualized) for the Port's 17 Class C properties. The lower range rates represent Port properties located in the Southern Waterfront further away from downtown and other amenities. Market comparables for Class C office leases in this sector of the City are difficult to find and are not well represented by the published rates that Port staff. Surveyed, as noted above, Port leases

are net leases rather than full service leases. Cushman and Wakefield estimates that average expenses of a net lease are \$11.60 per square foot which, when added to the Port's proposed rates, would equate to \$30.00-\$56.60 if the leases were full service. The commercial data provide "asking rates"³ not the final contract rates, which are often lower. The table below, provided by Jones Lang LaSalle, gives a snapshot of rental markets broken out by Class type and by geographical area as of First Quarter, 2016.

Port Industrial and Warehouse Space

The San Francisco Peninsula industrial market totaled 139,728 sq. ft. of positive net absorption in Q1 2016. This represented the largest occupancy gain since Q4 2014. The overall vacancy rate dropped 50 basis points (bps), quarter-over-quarter, to a new low of 1.8%. The average asking lease rate rose 1.4% to a new high of \$1.14 NNN (Net of maintenance, janitorial, and utilities). The manufacturing sector experienced the largest increase in Q1 2016 of 3%, quarter-over-quarter.

The Bay Area has approximately 159 million square feet of warehouse rental space along the East Bay I-80/880 Corridor and in Santa Clara, San Mateo and San Francisco Counties. The East Bay is the largest home to industrial/warehouse space and San Francisco County the smallest, representing approximately 12% of the total Bay Area warehouse rental space. The San Francisco industrial market has approximately 19.3 million square feet located in three major submarkets:

- i. Mission/South of Market (SOMA)
- ii. 3rd Street Corridor/Potrero Hill and
- iii. Bayview/India Basin

The Port directly manages approximately 1,368,215 square feet of industrial and warehouse space and represent 12% of the industrial market in San Francisco. More than three quarters of San Francisco's warehouse space is located in the Mission/SOMA and 3rd Street Corridor/Potrero Hill areas. (Source: *Cushman & Wakefield 1Q 2015 Warehouse Market Bay Area*)

The San Francisco-Bay Area industrial and warehouse vacancy rate dropped to 2.6% in 1Q 2016 (from 6.3% 1Q2015). Average asking rents vary by submarket from \$0.60 to \$1.11 per square foot per month, on a net basis (Source: *Cushman Wakefield Industrial Report 4Q 2015 & Port of San Francisco Lease Activity April 1, 2015 to March 31, 2016, Exhibit E*).

The majority of Port warehouses are categorized as Class C. The Port's industrial properties have various levels of improvements including partitions, fencing, electrical service, plumbing, etc. These industrial/warehouse spaces are typically leased under "net" leases with space defined as "gross leasable area." The majority of these spaces lack loading docks, attached office space and non-permeable concrete floors, and they share a

³ Asking Rate is the quoted rental rate before taking into account incentives or increases and is not the final contract rate. Effective Rent is the rental rate averaged out over the term of the lease and giving consideration for rent free periods or up-front incentives such as a tenant improvement allowance, wall and floor coverings, or a free rent period. The Port's Rental Rate Schedule consists of Effective Rental Rates.

common drive aisle. Despite the limited infrastructure, the Port has been able to negotiate rental rates comparable to those of private landlords that have more amenities. This is due in large part to the close proximity of the Port’s warehouse space to the City’s financial and social center and the scarcity of industrial land in San Francisco. During the previous twelve months, Port warehouse rates have averaged \$1.35 to \$1.50 per square foot (\$16.20 to \$18 annualized). These rates are higher than current comparable rental market conditions as shown below.

Table 5: Industrial & Warehouse Rental Rate Per Square Foot

<u>SF Monthly</u>	<u>SF Annual</u>	<u>Port Monthly</u>	<u>Port Annual</u>
\$1.13	\$13.56	\$1.35	\$16.20

Demand for Port warehouse and industrial space has strengthened through 1Q 2016. During the prior reporting period, 1Q 2015, the Port’s industrial and warehouse vacancy was 9.4%. The Port’s current warehouse vacancy rate has decreased to 4%. Port staff proposes to raise rates on 22 of the Port’s 27 industrial and warehouse properties and hold rates flat on the remaining 5 properties due to either their poor condition or their unique support of the Port’s fishing industry.

Pier 40 Storage Lockers

There are 28 existing storage lockers being used by the Pier 40 boat slip holders. The current rent is \$25.00 per month. Port staff recommends an increase of 6% equal to \$27.50 per month.

Monthly Rental Rate Schedule

The proposed Rental Rate Schedule, attached hereto as Exhibit A, is presented for Port Commission review and consideration. The Rental Rate Schedule is a minimum rental schedule and gives Port staff authority to negotiate higher rates or the flexibility to quote rates in the mid-range or lower range of the Rental Rate Schedule when justified, for properties that may be physically sub-standard or oddly configured.

The proposed Rental Rate Schedule lists all commercial properties and their associated Minimum Initial Rental Rates and Net Effective Rental Rates (see below). The Rental Rate Schedule is organized first by type of use and lease type (full vs net) and second by property/geographical location.

For each property the Rental Rate Schedule provides a range of rents on a gross basis and a net effective basis. The gross basis, entitled *Minimum Initial Lease Rental Rates*, represents the market rent range for the first year of the lease. The net effective basis, entitled *Minimum Net Effective Rental Rates*, represents the net effective rent calculated and applied over the lease term after rent credits for flooring and wall coverings are amortized over the term of the lease. The Port Commission has previously approved application of rent credits for flooring and wall coverings.

Port staff has the authority to issue tenant improvement allowances for floor and wall coverings if those credits do not result in the net rent over the term of the lease falling below the Minimum Net Effective Rental Rates found in the Rental Rate Schedule.

Port leases are annually indexed by either the Consumer Price Index (CPI) or fixed rate adjustments currently ranging from 3% to 3.5%. Most of the Port's leases provide for a "mark to market" adjustment on an extension or option date. Most also provide for a "mark to market" adjustment upon expiration if they go to month-to-month holdover status while a new lease or a termination is negotiated.

Proposed Changes to Rental Rate Schedule for Fiscal Year 2016-17

Given Port staff's market research, the Port's own leasing experience and the overview by KMA, Port staff recommends adjustment of the minimum rental rates averaging 5% to 15% for the majority (same period last year Port raised rates averaging 10%-13%) Port properties to better reflect current market conditions. Port staff proposes changes to the current Rental Rate Schedule for certain office and industrial shed space as follows.

1. The following office properties are currently in high demand and are experiencing limited vacancy rates. Staff recommends revising minimum monthly rents for these locations in recognition of demand and limited vacancy at these locations.

Port Office Class B Gross Leases

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Roundhouse Plaza	\$3.50	\$4.25

As illustrated in the previous table titled "San Francisco Sub-Office Markets" above, prepared by Jones Lang LaSalle, equivalent gross lease Class B office rates in the adjacent area to the Roundhouse Facility are:

Class B San Francisco Non-Commercial Business District Gross Lease	B	Monthly Average \$4.76 Gross	Annual average \$64.71 Gross
Jackson Square	B	\$5.09	\$61.13
North Waterfront	B	\$5.01	\$60.12

Port Office Class B Net Leases

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 9 Bulkhead Bldg.	\$3.80	\$4.00
b)	Pier 9 office	\$3.80	\$4.00
c)	Pier 26 Annex. Bld.	\$3.00	\$3.15
d)	Pier 33 Bulkhead Bldg.	\$3.00	\$3.50
e)	Pier 33 ½ North	\$3.00	\$3.10
f)	Pier 35 Bulkhead Bldg.	\$3.00	\$3.10

On average, net lease rates are \$1.25-\$1.50 per square foot per month less than equivalent gross leases. Adjusted net lease rates for Class B office space in the same geographic area as those listed above, published by Jones Lang LaSalle are:

Class B San Francisco Non-CBD Net Lease	B	Monthly Average \$3.51	Annual average \$42.12
Jackson Square	B	\$2.65	\$31.80
North Waterfront	B	\$3.23	\$38.76

Port Office Class C Net

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Agriculture Building window office	\$3.25	\$3.35
b)	Agriculture Building interior office	\$1.50	\$1.55
c)	Pier 29½	\$2.25	\$2.75
d)	Pier 29 Annex	\$3.00	\$3.15
e)	Pier 35 interior	\$2.00	\$2.50
f)	Pier 23 Bulkhead	\$2.50	\$2.75
g)	401 Terry Francois	\$3.30	\$3.40
h)	Pier 26 Bulkhead	\$2.25	\$2.40
i)	Pier 28 Bulkhead	\$2.25	\$2.50
j)	501 Cesar Chavez	\$1.25	\$1.30
k)	Pier 38 Bulkhead Bldg.	\$00.00*	\$2.50
l)	Pier 50 Bulkhead Bldg.	\$2.75	\$3.05
m)	501 Cesar Chavez	\$1.25	\$1.30
n)	601 Cesar Chavez	\$1.65	\$1.75
o)	696 Amador	\$1.25	\$1.30
p)	Pier 96 Administration	\$1.25	\$1.35
q)	Pier 96 Gate House	\$1.10	\$1.15

- The Port had removed a minimum rate contemplating a master lessor and now included a rate to establish the fair market rate.

On average, net lease rates are \$1.25 per square foot per month less than equivalent gross leases. Adjusted net lease rates for Class C office space in the same geographic area as those listed above, published by Jones Lang LaSalle are:

Class C San Francisco Non-Commercial Business District Lease	C	Monthly Average	Annual average
North Waterfront - Net	C	\$4.33	\$51.99

Cushman & Wakefield Warehouse-Industrial Market Q4

Rates for 1Q 2016 in San Francisco as \$1.13 per square foot per month. Because of increased demand on these properties, Port staff recommends revising minimum monthly rents for the following Port industrial/warehouse locations:

Pier Shed and Land:

Northeast Waterfront

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 33-35-45	\$1.10	\$1.25
b)	Pier 9	\$1.50	\$1.65
c)	Pier 19	\$1.35	\$1.50
d)	Pier 23	\$1.35	\$1.50

South Beach/China Basin

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 24 Annex	\$3.25	\$3.40
b)	Piers 26-28-38	\$1.35	\$1.40
c)	Pier 40	\$1.35	\$1.40
d)	Pier 48	\$1.35	\$1.50
e)	Pier 50	\$1.35	\$1.40

Southern Waterfront

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	SWLs 343 & 354	\$1.00	\$1.05
b)	SWL 345	\$1.00	\$1.05
c)	Pier 92 & SWLs 344 & 349	\$0.95	\$0.98
d)	699 Illinois	\$1.00	\$1.10
	Pier 80 G&M	\$0.95	\$0.98
e)	Pier 96 M&R	\$1.00	\$1.05

Open Land and Pier Uses

Port staff recommends amending paved land lease rates. Staff believes the rate should be increased to reflect strong demand.

Industrial Gross Leases

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Unpaved Land	\$0.30	\$0.32
b)	Paved Land	\$0.40	\$0.42
c)	Improved Land	\$0.80	\$0.85
d)	Submerged Land	\$0.17	\$0.18

3. The rental rates at Pier 45 Fish Processing Center were last adjusted in 2015. Port staff recommends adjustments in the following rate categories to better reflect current market conditions in the fishing industry.

Fishing Industry Pier Shed and Land

Item #	Facility	From Minimum Rate per sq. ft. / month	New Minimum Rate per sq. ft. / month
a)	Pier 45 Sheds	\$1.00	\$1.05
b)	Pier 45 2nd floor	\$0.50	\$0.53
c)	Pier 45 Office 1 st floor	\$1.20	\$1.25
d)	Pier 45 2nd floor mezz.	\$0.85	\$0.90
e)	Fishing Gear Storage	\$0.35	\$0.37
f)	Fish Gear Storage Non-Berth Holders	\$0.80	\$1.00
g)	Pier 33	\$1.00	\$1.05
h)	SWL 302 storage	\$1.00	\$1.05
i)	Aprons	\$0.35	\$0.36

(Research sources: Port of San Francisco, Santa Cruz Harbor, Pilar Point Harbor, Spud Point Harbor, Morro Bay Harbor, Crescent City Harbor 2015)

Telecommunications Leases

The Port may enter into leases for telecommunication sites (wireless cellular sites) for up to nine years without Port Commission approval (Resolution No. 96-123). The Port Commission's initial approved rate was \$1,600 per month. The current rate has increased 19% per year or 350% over the initial rate. Based on recent transactions, Port staff is recommending a minimum rental rate of \$6,000 per month up from \$5,700 per month for each fixed site and \$420 per day for temporary sites for up to sixty-days versus prior year which was \$380.

Parking

The Port operates a number of parking facilities where the Port leases individual parking stalls on a monthly basis totaling 356 stalls (an increase of 35 stalls over the same period last year) with annual revenues of \$538,236 for the 12 month period from April 1, 2015 to April 1, 2016, an increase of 13.5% over same period in the prior year (same period prior year revenues were \$475,778). The majority of the stall holders are Port tenants. A map is attached as Exhibit F1 that shows the location of those facilities at which the Port currently offers monthly parking. The Port's current parking stall vacancy rate is 8%. In the same period last fiscal year the vacancy rate was 18%.

The Port Commission approved the Fiscal Year 2015-16 Monthly Parking Stall Rate Schedule as part of its approval on June 23, 2015 of the Rental Rate Schedule. Since last year's parking stall rate review, the parking market has experienced improvement. Port staff recently conducted a survey of comparable parking facilities in the vicinity of Port property where the Port rents monthly parking stalls, attached hereto as Exhibit F2. The survey determined that the monthly parking stall rates for Port facilities are generally slightly under market. Staff proposes increasing parking rates by an average of 5% to better reflect current market conditions. Please note that the parking rates in this report do not include any City parking tax, currently 25%, which is paid by the stall holder and remitted to the City Tax Collector.

Proposed Changes to FY 2016-17 Monthly Parking Rate Schedule

Site	Parking Type	Current Rate		Proposed Rate		Increase (Tax Included)
		Rent	Rent & Tax	Rent	Rent & Tax	
Agriculture Bldg.	Building Tenant	\$328	\$410	\$340	\$425	\$15
Pier 9	Shed	\$304	\$380	\$320	\$400	\$20
Seawall Lot 302	Commercial Tenant	\$280	\$350	\$300	\$375	\$25
	Restaurant Tenant	\$176	\$220	\$200	\$250	\$30
Seawall Lot 303	Commercial Tenant	\$272	\$340	\$300	\$375	\$35
	Restaurant Tenant	\$176	\$220	\$200	\$250	\$30
Pier 80	Admin Bldg., Uncovered	\$36	\$45	\$40	\$50	\$5
	Truck	\$136	\$170	\$140	\$175	\$5
Pier 90	Truck	\$140	\$175	\$150	\$155	\$20
Pier 94	Truck	\$128	\$160	\$130	\$165	\$15
Pier 96	Truck	\$128	\$160	\$130	\$165	\$15

The Port makes available parking stalls, at cost, for its employees' vehicles. The parking lot operator at SWL 324 (Broadway lot) is required to provide 40 parking spaces at SWL 324 for Port employees at no cost to the Port. The Port has converted 25 underutilized metered spaces on Davis Street for Port employee parking.

Proposed Port Employees Monthly Parking Rate for FY 2016-17

Facility	For	Current Rate		Proposed Rate		Increase (Tax Included)
		Rent	Rent & Tax	Rent	Rent & Tax	
Seawall Lot 351	Port Commissioner	\$140	\$175	\$140	\$175	\$0
	Employees who have been granted a reasonable accommodation under the Americans with Disabilities	\$64.4*	\$80*	\$64.40*	\$80*	\$0

Facility	For	Current Rate		Proposed Rate		Increase (Tax Included)
		Rent	Rent & Tax	Rent	Rent & Tax	
	Act					
Seawall Lot 324	Employees assigned to Pier 1; parking available for one employee vehicle used for commuting	\$64.4*	\$80*	\$64.40*	\$80*	\$0
Pier 50 or at jobsite	Employees assigned to Pier 50 or whose collective bargaining agreement allows for free parking; one automobile space for vehicle used by the employee for commuting (no boats, trailers, three-axle vehicles, etc.)	\$0	\$0	\$0	\$0	\$0

**As per City policy, the rate is equivalent to the cost of a MUNI monthly pass plus \$10. It will be adjusted correspondingly to future MUNI monthly pass increases. Current cost of MUNI monthly pass is \$70.*

Parking, Color Curb Program

The Port has a long-standing policy of charging for parking, including curb zones, throughout the waterfront. Due to the emerging neighborhoods in the Southern Waterfront, the Port established guidelines and pricing for colored curbs in the Southern Waterfront. Color Curb Zones in the Northern Waterfront and in front of the Ferry Building were established some time ago and continue to be reviewed on a case-by-case basis. Tenants and non-tenants whose sidewalks/curbs abut Port property may make a request to have a color zone curb designated, following the color curb guidelines established by the Port Harbor Code.

The Port’s methodology for determining the fee for curb zones has been to charge a monthly fee which is equivalent to a rate that the Port would otherwise expect to receive from paid parking had the equivalent curb zone been metered. The proposed curb rates represent amounts which are lower than a fully metered space with the expectation that the Port will collect some additional metered revenues from after hours and special event usage.

Parking, White Zone

As per City practice, White Zones are for passenger loading and unloading with a time limit of 5 minutes. The effective time that the white zone is in effect may vary and the Port may meter such zones for metered parking when white zones are not in use. For example, meter rates may apply on evenings and weekends when offices are closed and special events are scheduled. Posted signs and sidewalk stencils are used to indicate flex times.

Size of zone	Application fee	Set up fee	Monthly Fee	Additional zone
1-22 feet	\$0	\$380	\$290	\$280/mo.

Meter charges during flex time will be priced at standard meter rates for the surrounding area and will be posted accordingly.

Parking, Yellow Zones

Yellow zones are for active 30 minute freight loading and unloading only by commercial vehicles. Yellow zones are NOT intended for long-term parking of vehicles with commercial license plates. The effective times of yellow zones vary and are indicated by signs on the meter and/or by stencils on the curb. All Yellow Zones will be metered and charged at standard meter rates for the surrounding area and will be posted accordingly.

Size of zone	Application fee	Set up fee	Monthly Fee	Additional zone
20-44 ft.	\$0	\$400	\$0	\$0

Special Events and Filming

Special events and filming generated a combined total of \$147,826 in revenues to the Port over the past 12 months (April 2015 to March 2016). Of this amount, special events generated \$147,826 and filming \$00.00. During this period the film permitting was done by the Film Commission and those fees are retained by the Film Commission. Film permits require quick turnaround for limited revenue return to the Port. The Port does however, lease office, shed, and land to film production companies. This revenue is captured as commercial rent.

It is anticipated that in the coming year, the Operations Division of the Port will be developing an online information and reservation tool and parameter rents for the use of Port parks for special events. As the Port builds out its parks there will be more demand for these types of special event uses and Port staff wants to accommodate access, ease of use and establish rules of use.

The Port’s 7½ miles of waterfront property is a popular venue for special events and filming projects produced each year in the City. Among the most notable special events are *Fleet Week*, *4th of July Celebration and Fireworks*, *Sunday Streets*, *New Year’s Eve*, *Giant’s Fanfest* and *the Nike Women’s Marathon*.

Additionally, a number of major motion pictures and television series have been produced on Port property including Netflix’s *Sense8*, and *Pushing Dead*.

The Port is also very popular with advertisers that account for the majority of still photo shoots that occur at the Port. From elegant fashion and auto ads located at Pier 7 to the more urban industrial projects shot in the Southern Waterfront, the Port offers a variety of locations sought after by creative photographers.

In order to standardize film and photography related fees charged for various Port facilities, Port staff has established a Special Event and Filming Fee Schedule. The schedule is reviewed annually to reflect current market conditions and submitted to the Port Commission for re-approval.

There are several recurring Special Events/Uses that have a strong maritime or community connection to the Port of San Francisco and customarily have been given either a fee

waiver or fee reduction by the Port Commission on an ad hoc basis. In order to streamline the administrative process and costs associated with preparing individual Port Commission Agenda Items for each event, the Port Commission typically approves the recommended fees for these events as part of its approval of the Rental Rate Schedule:

1. Proposed Fee Waiver: *4th of July Celebration; Fleet Week; City's New Year's Eve Celebration; Madonna Del Lume; and Delancey Street Flower Sale.*
2. Ongoing Fee Reductions: *Small Boat Fishing Gear Swap Meet, \$300 versus \$2,000; and Delancey Street Christmas Tree Lot, \$3,528 versus \$7,055.*

The methodology for deriving the fees described in the Special Events and Filming Fee Schedule is a combination of market research, continuous dialog with special events promoters and the Port's own experience at negotiating fees.

Proposed FY 2015-16 Special Event And Filming Rate Schedule

Port staff recommends increases to the FY 2016-17 Special Event and Filming Rate Schedule, which is listed on Exhibit C.

Recommendation

Port staff recommends that the Port Commission approve the Fiscal Year 2016-17 Monthly Rental Rates Schedule, Monthly Parking Stall Rates (monthly parking stall schedule in staff report), and Special Event and Filming Rates. If approved, the Fiscal Year 2016-17 rates will take effect on August 1, 2016.

Prepared by: Jeffrey A. Bauer, Senior Leasing Manager

For: Mark Lozovoy, Acting Director of Real Estate

ATTACHMENTS

- Exhibit A *Proposed* 2016-2017 Minimum Monthly Rental Rate Schedule
- Exhibit B 2015-2016 Minimum Monthly Rental Rate Schedule
- Exhibit C 2016-2017 Special Events and Filming Fee Schedule
- Exhibit D Bibliography of Market Research Sources
- Exhibit E Office, Bulkhead Office and Pier Shed Vacancy Rate
- Exhibit F1 Parking Facilities Located in the Vicinity 2016
- Exhibit F2 Parking Facilities Located in the Vicinity 2016
- Exhibit G Keyser Marston Memorandum 2016
- Exhibit H Port Leasing Policies
- Exhibit I Port Active Office and Warehouse Rental Transactions

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 16-27

WHEREAS, By Resolution No. 93-127, adopted September 8, 1993, and as amended by Resolution 93-135, the Port Commission authorized the Executive Director to approve and execute certain transactional documents such as leases and licenses that conform to all of the parameters set forth in those Resolutions as amended (the “delegated authority”); and

WHEREAS, Port staff has delegated authority to enter into leases, licenses, and Memorandums of Understanding with rents that conform to the applicable Monthly Rental Rate Schedule, Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule as adopted and amended periodically by the Port Commission (last amended Resolution No. 15-21 for the Fiscal Year 2015-16); and

WHEREAS, the parameter Rental Rate Schedule provides that leases, licenses, and Memorandums of Understanding shall have rents that conform to the Monthly Rental Rate Schedule, Parking Stall Rate Schedule, and Special Event and Filming and Public Art Rates adopted and amended periodically by the Port Commission; and

WHEREAS, Port staff has reviewed current office/industrial-warehouse, parking, and special event and filming market data and has prepared updated delegated authorities and updated the Fiscal Year 2015-16 Monthly Rental Rate Schedule, Monthly Parking Stall Rate Schedule, and Special Event and Filming Rate Schedule; and

WHEREAS, Port staff recommends approval of the delegated authorities specified in the staff report and the Fiscal Year 2016-17 Monthly Rental Rate Schedule, Parking Rate Schedule, and Special Events and Filming Schedule, which would set rental rates for office, shed, and land space, color curbs, telecommunication sites, monthly parking stalls, and special event, and filming rates as described in the memorandum dated July 7, 2016; and

WHEREAS, Port staff recommends approval of proposed fee waiver for the following special events: 4th of July Celebration, Fleet Week, City’s New Year’s Eve Celebration, Madonna Del Lume, and Delancey Street Flower Sale; and

WHEREAS, Port staff further recommends approval of fee reductions for the Small Boat Fishing Gear Swap Meet, and Delancey Street Christmas Tree Lot as described in the memorandum dated July 7, 2016; now, therefore be it

- RESOLVED, That the Port Commission hereby approves and adopts the Fiscal Year 2016-17 Monthly Rental Rate Schedule, Parking Rate Schedule, Special Event and Filming Rate Schedule to be implemented by Port staff in connection with the delegated authorities as described in the memorandum dated July 7, 2016 and approves the proposed fee waivers and fee reductions for certain special events as described in this Resolution; and be it further
- RESOLVED, That Port Commission finds that competitively bidding the real property agreements covered by the delegated authorities and the rental rate schedules approved by this Resolution is impractical; and be it further
- RESOLVED, That Port staff shall continue to provide the Port Commission, within thirty days following each calendar month, a summary of leases, licenses, and Memoranda of Understanding entered into and subleases or assignments consented to during that month.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of July 12, 2016.

Secretary