



MEMORANDUM

June 10, 2022

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. John Burton
Hon. Gail Gilman

FROM: Elaine Forbes
Executive Director 

SUBJECT: Request approval of a proposed new lease with Aardvark Storage Unlimited, Inc., a California corporation, dba American Storage for approximately 279,740 square feet of paved land at Seawall Lot 344 for a term of five years with a one (1) year option to extend, subject to Board of Supervisors' approval

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 22-29

EXECUTIVE SUMMARY

The Port Commission heard an informational presentation on this topic on April 26, 2022. Staff provide this updated memorandum to address questions during the meeting with additions indicated in underline below.

Aardvark Storage Unlimited, Inc., doing business as American Storage, operates a mini-storage facility on a portion of Seawall Lot 344 and is currently the tenant under Port Lease No. L-14819 which expired on April 30, 2022. Aardvark and the Port wish to enter a new the lease for an additional five-year term. This is being brought to the Port Commission because the initial base rent is less than parameter and the lease will generate more than \$1 million in revenues. Tenant's rent under the existing lease is \$0.30 per square foot per month. The applicable parameter rent for paved land is \$0.45 (\$0.43 per square foot per month with the applicable 5% large land discount set forth in the parameter rate schedule).

The Tenant wished to maintain the existing lease's rent level under a new lease. Port staff sought to bring Tenant up to parameter rent. As a compromise, Port staff offered to apply the 'leasing incentives' concept of a stepped-up rent approved by the Port Commission in

THIS PRINT COVERS CALENDAR ITEM NO. 10B

April 2021 for office and shed spaces, but applied to lease's land rates, subject to Commission approval. The application of this stepped-up rent to parameter land rates results in a starting rate of \$0.36 and increases at an average annual rate of 7.3% over 5 years to reach \$0.477 per square foot per month by year 5.

During the April 28th discussion, Port Commissioners asked about tenant's hardships, how the lease has fallen below parameter, the proposed ramp up to parameter, and vacancy rate at the Port to better understand whether this compromise adequately protects the Port's interests. To expand on some of the information Port staff provided verbally, Port staff offer the following additional points:

- Tenant hired two additional security positions during the pandemic to deter break-ins and unhoused individuals from walking through the facility. This has resulted in an \$150,000/year increase which equates to a rent increase of \$0.0456/sf/mo.
- During the term of the Port and Tenant's existing lease, the parameter rates for paved land increased in some years by 40% per year (while unpaved land rates increased by 2.7% per year). This explains how the rate fell behind and supports staff's recommendation for a shorter term of 5 years; with the 1-year option only available to Tenant should Tenant agree to the then-parameter paved land rate.
- With 7.025 acres of land available proximate to the site and the Port's Real Estate staffing levels at 70% of pre-pandemic levels, Port staff are concerned about revenue loss if the Port and tenant cannot come to an agreement. Should the Port need to release the space at parameter to a new tenant, the cost of the time between vacancy and releasing will be higher than the discount from parameter in this lease proposal.

Under Charter Section 9.118, the lease will also require approval by the Board of Supervisors.

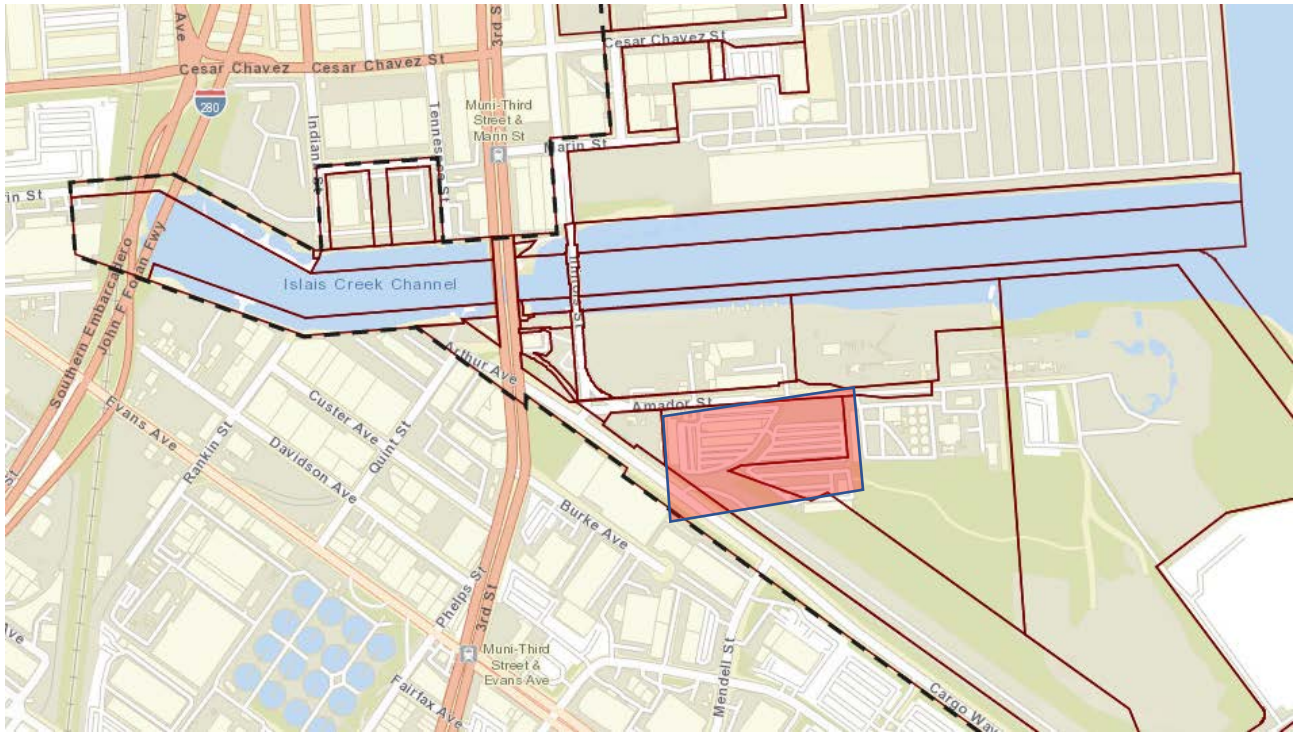
STRATEGIC OBJECTIVE

The proposed new lease will contribute to meeting the Stability Objective of the Port's Strategic Plan by managing the real estate portfolio to maximize value and income to the Port and to retain a tenant that can perform through economic cycles.

BACKGROUND

Aardvark Storage Unlimited, Inc. ("Aardvark"), dba American Storage, has been a tenant of the Port since 1998. Aardvark leases approximately 279,740 square feet (6.42 acres) of paved land at Seawall Lot 344 located on Amador Street off Cargo Way for a mini-storage facility. The initial term for Lease L-14819, which commenced on May 1, 2012, as approved by the Port Commission by Resolution No. 98-67 and Board of Supervisors Resolution No. 123-12, was for 60 months with one 60-month option to renew which Aardvark exercised. The extended term ended on April 30, 2022, and Aardvark's tenancy is currently month-to-month pursuant to the holdover provision in the lease.

Figure 1. Location of Proposed Lease, Shown in Red Below



Current rent under the existing lease is \$82,248.90 per month which equates to \$0.30 psf. This is below current parameter for paved land which is \$0.45 psf and below the discounted rate of \$0.43 psf (based on the large land discount of 5% which Aardvark is eligible for pursuant to Port Resolution 10-37). With market conditions still unstable, Port staff is focused on retaining tenants and immediately increasing the rent to parameter, a 51% increase, will present a hardship for the tenant. As a result of COVID, Aardvark has added additional security staff which has increased security costs by \$150,000 per year, which equates to a rent increase of \$0.0456/sf/mo.

Prior to Aardvark's tenancy, the site had been used as a staging area for rail cars and other light industrial uses. If the tenant were to vacate the site, alternative uses would be for laydown for construction projects or possible commercial truck parking and currently there is no immediate demand. Proximate to the site, the Port has nearly 306,000 square feet available for such uses.

Aardvark is a tenant in good standing and the mini-storage facility is a clean use for the area. To address the below parameter rental rate, Port staff proposes to use a similar ramp up method as outlined in the strategic leasing tactics for shed space under Port Commission Resolution No. 21-16, which will allow the rent to be brought to parameter in stages. Under the proposed ramp up methodology, the rental rate will be 80% of parameter in year 1, 90% in year 2 and 100% in year 3 with 3% annual increases for years 4 and 5. This will allow a continued revenue stream to Port without any capital outlay, bring the rent up to current parameter for paved land and phase in the financial burden of a 51% rent increase.

PROPOSED LEASE TERMS

The schedule below outlines the terms and conditions of the new lease. Note that since the April 26 meeting, the Port has surveyed the leasehold and determined that two changes are required to the square footage estimates and applicable lease rates.

- 1) **Updated square footage.** The leasable area is 279,740 (an increase from the 274,163 square feet estimated in the staff report for the April 26, 2022, Port Commission meeting).
- 2) **Nonexclusive portion of property.** Port staff and the Tenant agree that 2,760 square feet of space (less than 1% of the premises) must be non-exclusive and may only be used by Tenant as access. This space is used by the Tenant for access to the premises and includes a railway and a right-of-way owned by the Port, which may be intermittently used by our short-line operator. Because multiple parties may use this space and based on consultation with City's Real Estate Department executive staff, Port staff applied a 75% discount to the nonexclusive use square footage, relative to the rate for the exclusive use leasehold premises.

<i>Tenant:</i>	Aardvark Storage Limited, Inc., a California corporation, dba American Storage			
<i>Premises:</i>	Approximately 279,740 rentable square feet (6.42 acres) of vacant paved land			
<i>Permitted Use:</i>	The premises shall be used solely for operation of a mini-storage facility consisting of the temporary placement of portable storage containers, administrative offices directly related thereto, vehicle parking directly related thereto, <u>non-exclusive access</u> and for no other purpose.			
<i>Term:</i>	Five (5) years			
<i>Extension Option</i>	Tenant shall have one (1) Option to Extend the Lease for one (1) year at fair market value			
<i>Commencement Date</i>	Upon the full execution of the Lease, which is subject to Port Commission and Board of Supervisors approval.			
<i>Monthly Base Rent:</i>	Months	Sq. Ft.	Rate PSF (<u>% Increase from prior year</u>)	Monthly Rent
	1-12	276,980	\$0.36	<u>\$99,712.80</u>
		2,760	\$0.09	<u>\$248.40</u>
			<u>(20%)</u>	<u>\$99,961.20</u>

	13-24	276,980 2,760 279,740	\$0.405 \$0.101 (<u>12.5%</u>)	<u>\$112,176.90</u> <u>\$278.76</u> <u>\$112,455.66</u>
	25-36	276,980 2,760 279,740	\$0.450 \$0.113 (<u>11%</u>)	<u>\$124,641.00</u> <u>\$311.88</u> <u>\$124,952.88</u>
	37-48	276,980 2,760 279,740	\$0.464 \$0.116 (<u>3%</u>)	<u>\$128,518.72</u> <u>\$320.16</u> <u>\$128,838.88</u>
	49-60	276,980 2,760 279,740	\$0.477 \$0.119 (<u>3%</u>)	<u>\$132,119.46</u> <u>\$328.44</u> <u>\$132,447.90</u>
<i>Rent During the Option Period:</i>	Base Rent during the option period shall be increased to the then-current parameter rate for paved land.			
<i>Surrender of Premises/Demolition Period</i>	Provided tenant is in good standing in accordance with Port Commission Resolution No. 09-49, during the demobilization of the site, rent will be reduced to 50% of the monthly rate immediately payable during the last year of the term for the final three months of the lease, to allow Tenant to remove all storage containers, trailers, and equipment prior to Tenant's surrender of premises.			
<i>Security Deposit:</i>	Two Hundred Sixty-Four Thousand Eight Hundred Ninety-Five Dollars and Eighty Cents (\$264,895.80)			
<i>Form Lease; City Requirements</i>	The new lease shall be on the Port's form lease and include all standard Hazardous Materials, Insurance, Indemnity and Release, Damage and Destruction and all current City ordinances and requirements as necessary.			
<i>Southern Waterfront Community Benefits and Beautification Policy¹ Elements</i>	Consistent with the latest adoption of Parameter Rates, 6.5% of lease revenues will be set aside in the Port's Southern Waterfront Community Benefits and Beautification fund. This equates to almost <u>\$78,000</u> in the first year of the lease and about <u>\$467,000</u> over the initial five-year term. In support of the Port's Southern Waterfront Community Benefits and Beautification Policy, Tenant has installed and maintains planters and greening along the exterior of the premises and supports neighborhood businesses such as Center Hardware for various supplies, the Deli Lama, the Wok-In Cafeteria and Vazquez Coffee Company for employee lunches and a local cleaners for laundry services for staff shirts.			

¹ Pursuant to Resolution No. 07-77, this lease is subject to the Port's Southern Waterfront Community Benefits and Beautification Policy.

Port staff notified the Port's Southern Advisory Committee ("SAC") regarding this proposal for the continuation of the use on April 27, 2022. SAC members did not have questions or comments about this item.

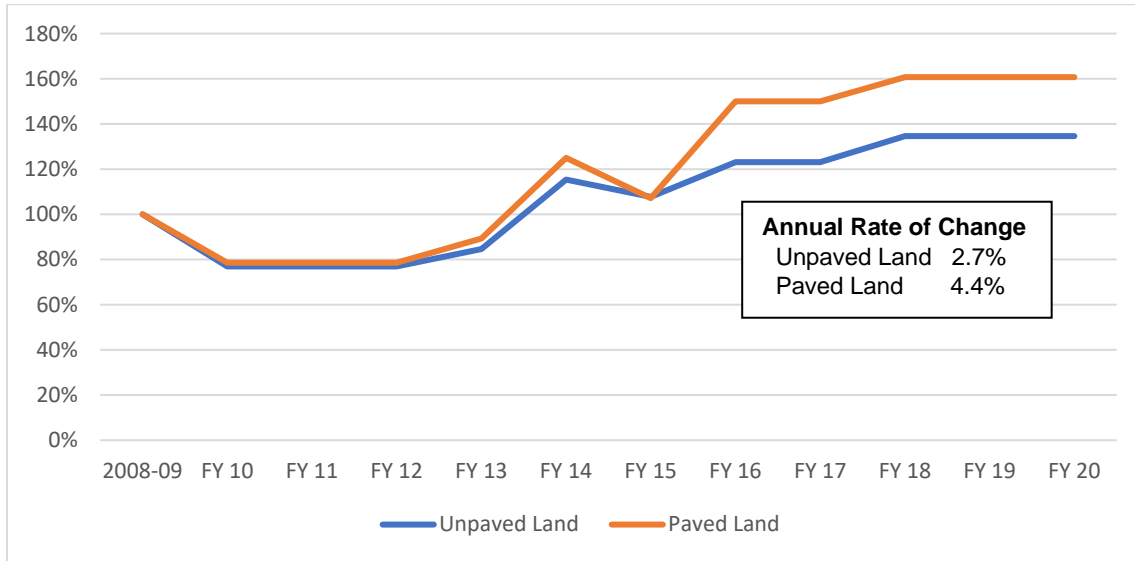
STAFF ANALYSIS

When the current lease was entered into, the initial monthly rate was \$0.215/sf/mo. This was based on the then parameter rate of \$0.22 psf with a five percent (5%) discount for land parcels of one acre or greater (pursuant to Port Resolution 10-37). There was a difference of \$0.02 between the rate for paved land and unpaved land. During the term of the lease, Table 1 shows how the rate for paved land far exceeded that of unpaved land. Figure 1 illustrates this divergence graphically. Despite rent being increased annually by an average of 3.7 percent over ten years, that amount was not sufficient to keep up with increasing paved land rates. These rates have remained relatively flat over the last few years. Should rates continue to remain flat, the proposed rate per square foot will exceed parameter in year 3.

Table 1. Unpaved and Paved Land. Parameter Rates, 2008-2020

Fiscal Year	UNPAVED LAND	PAVED LAND
	Rental Rate Range PSF	Rental Rate Range PSF
2008-2009	\$ 0.26 - \$ 0.30	\$ 0.28 - \$ 0.32
2009-2010	\$ 0.20 - \$ 0.25	\$ 0.22 - \$ 0.25
2010-2011	\$ 0.20 - \$ 0.25	\$ 0.22 - \$ 0.25
2011-2012	\$ 0.20 - \$ 0.25	\$ 0.22 - \$ 0.25
2012-2013	\$ 0.22 - \$ 0.25	\$ 0.25 - \$ 0.25
2013-2014	\$ 0.30 - \$ 0.30	\$ 0.35 - \$ 0.35
2014-2015	\$ 0.28 - \$ 0.30	\$ 0.30 - \$ 0.35
2015-2016	\$ 0.32 - \$ 0.50	\$ 0.42 - \$ 0.60
2016-2017	\$ 0.32 - \$ 0.50	\$ 0.42 - \$ 0.60
2017-2018	\$ 0.35 - \$ 0.39	\$ 0.45 - \$ 0.50
2018-2019	\$ 0.35 - \$ 0.39	\$ 0.45 - \$ 0.50
2019-2020	\$ 0.35 - \$ 0.39	\$ 0.45 - \$ 0.50

Figure 2. Cumulative Percentage Changes in Selected Parameter Rates – Unpaved and Paved Land



Notably the Tenant approached Port staff arguing that the poor, pandemic economic conditions justify a small adjustment (3% increase) to their rental rates. Port staff worked with the tenant to reach a more favorably agreement to maintain this stable Tenant in place, with a 20% annual increase in rent (followed by two years of 11%+ rent increases per year). Staff support execution of this lease at this rate because:

- 1) The proposed rate applies the Commission-approved leasing incentives available for new shed and office leases, to land. The goals of the leasing incentives tools include enticing tenants to sign term leases, even in the face of economic uncertainty. In order to keep a large and stable Tenant, Port staff believe use of this type of incentive is justified in this market.
- 2) The Port has about 7.025 acres of vacant land proximate to this property.² With Real Estate staffing at less than 70% of pre-pandemic levels, staff would be unable to aggressively market a new vacancy of this size in the near- or medium-term.

RECOMMENDATION

Port staff recommends that the Port Commission approve the attached resolution authorizing the Executive Director to enter into proposed Lease No. L-16846 between the Port and Aardvark Storage Unlimited, Inc., and authorize the Executive Director to forward the Lease to the Board of Supervisors for approval and upon the effectiveness of such approval, authorize the Executive Director or designee to execute the Lease.

² Note that during the April 26, 2022 hearing, Port staff estimated that the Port has a roughly 20% vacancy rate. Port wish to clarify that the shed space vacancy rate is more than 20%; office space is 14.5% vacant; and the Port’s overall vacancy rate is 6.3%. The overall vacancy rate is much lower than the building space vacancy as the Port has many acres of land and much of this land is under lease master lease for surface parking lots and marine terminals.

Prepared by: Kimberley Beal, Assistant Deputy Director
Real Estate and Development

For: Rebecca Benassini, Deputy Director
Real Estate and Development

Attachments: Exhibit A – Site Plan

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 22-29

WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area of the City and County of San Francisco; and

WHEREAS, Aardvark Storage Unlimited, Inc., dba American Storage Unlimited, Inc. (Aardvark”), is a tenant in good standing, under its current lease located at 600 Amador Street, within Seawall Lot 344 in the Southern Waterfront off Cargo Way at Third Street in the City and County of San Francisco; and

WHEREAS, Port Staff has negotiated the terms of a new five (5) year lease with one (1) year option to extend for approximately 279,740 square feet of paved land for use as a mini-storage facility as described in the Memorandum to the Port Commission dated May 6, 2022; and

WHEREAS, The use is a continuation of existing and related uses and is therefore not a project subject to review under the California Environmental Quality Act; and

WHEREAS, Port staff recommends approval of a proposed new lease with Aardvark because the mini-storage facility is a stable, clean use of the property which will initially generate revenues of approximately \$100,00 per month, increasing to approximately \$132,000 per month during the last year of the initial term; and now therefore be it

RESOLVED, The Port Commission hereby approves the terms of proposed Lease L-16846 with Aardvark Storage Unlimited for a five (5) year lease with one (1) year option to extend for approximately 279,740 square feet of paved land for use as a mini-storage facility as described above and authorizes the Executive Director or her designee to forward the Lease to the Board of Supervisors (“Board”) for approval, pursuant to the Board’s authority under Charter Section 9.118, and upon the effectiveness of such approval, to execute the Lease; and be it further

RESOLVED, that the Port Commission authorizes the Executive Director or her designee, to enter into any additions, amendments or other modifications to the Lease that the Executive Director, in consultation with the City Attorney, determines are in the best interest of the Port, do not materially increase the obligations or liabilities of the Port or materially decrease the public benefits accruing to the Port, and are necessary and advisable to complete the transaction and effectuate the

purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of any such documents.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of June 14, 2022.

Secretary

Exhibit A – Site Plan

