

Item 9
File 11-1317

Department:
Port

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new ten-year lease between the Port and Bauer Intelligent Transportation, Inc. (Bauer) for the use of Pier 50 Sheds A and C and exterior space for private transportation services and related storage and maintenance of vehicles.

Key Points

- Bauer has leased from the Port office, shed and exterior paved space on Pier 27 since 1999 for its private transportation services. The existing lease between Bauer and the Port has been month-to-month since 2005, because the Port has wanted the flexibility to terminate the lease on 30-day notice to develop a new cruise terminal on Pier 27.
- The Port anticipates development of the new Pier 27 Cruise Terminal commencing in January 2012, which requires immediate relocation of Bauer from the existing leased space. The Port is proposing a new ten-year lease with Bauer for office, shed, and paved exterior space on Pier 50.
- The proposed lease requires Bauer to make an estimated \$687,358 in tenant improvements and improvements to Port property. The proposed lease provides for rent credits of \$515,000 to Bauer for the costs of improvements to Port property. In addition, the proposed lease abates Bauer's rent payments for the first seven months of the lease, to allow time to complete the tenant and Port improvements, resulting in a reduction in rent payments to the Port of \$356,199. Total rent credits and rent abatements are \$871,199.
- According to Port Commission policy, leases with terms of less than five years may include free rent as a move-in incentive or rent credits for tenant improvements, provided that the free rent or rent credits do not cause rent revenues over the term of the lease to fall below the minimum rent for the space, based on the rent parameters set by the Port Commission. According to Mr. Nathan Cruz, Principal Administrative Analyst at the Port, although this policy for leases with terms of less than five years does not apply to the proposed ten-year lease, Port staff used this policy as a guideline when negotiating the proposed lease with Bauer.

Fiscal Impacts

- Total net rent revenues to the Port over the ten-year term of the proposed lease are \$8,447,857 (\$9,319,056 in total rent revenues, less \$871,199 in rent credits and rent abatement).
- Although Port Commission policy does not specifically address this proposed ten-year lease, it is noted that the total rent revenues over the ten-year term of the proposed lease, after adjusting for the costs of the rent credits and the seven-month rent abatement, will be greater than the net effective rent parameters set by the Port Commission. Net revenues to the Port of \$8,447,857 are \$19,807 more than estimated rent to the Port of \$8,428,050, based on rental rate parameters established by the Port Commission.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

In accordance with City Charter Section 9.118(c), any lease exceeding ten years and/or having anticipated revenue of \$1,000,000 or more is subject to approval by the Board of Supervisors.

Background

Bauer's Intelligent Transportation, Inc. (Bauer) provides private transportation to corporations, government agencies, and other organizations. The Port first entered into a four-year lease with Bauer from August 15, 1999 through December 31, 2003 for shed, office, and exterior paved space on Pier 27.

In 2004, the Port entered into a new nine-month lease agreement with the Port for the shed, office, and exterior space on Pier 27. Since the lease's expiration in 2005 after the initial nine-month term, the existing lease has continued as a month-to-month lease. Currently, Bauer leases these facilities and land on Pier 27 at a total cost of \$264,798 annually.

According to Mr. Nathan Cruz, Principal Administrative Analyst at the Port, the Port entered into the nine-month lease term with subsequent month-to-month extensions as part of the Port's long-term effort to develop a new cruise terminal. Because Pier 27 was one of the main locations considered by the Port for development of a new cruise terminal, the Port wanted the flexibility to terminate the existing lease with Bauer with 30 days' notice.

The Port is now planning development of the Pier 27 Cruise Terminal to accommodate larger cruise ships and replace inadequate cruise ship facilities currently located on Pier 35. The proposed Pier 27 Cruise Terminal is in the design and entitlement phase, with completion of entitlements and commencement of construction of Phase 1 of the Cruise Terminal anticipated in January 2012. Phase I consists of demolition of the existing maritime shed, partial demolition of the non-historic portion of the adjacent Pier 27 shed, relocation of shoreside power equipment, and construction of the core and shell of the new Cruise Terminal.

The Port Commission adopted the Environmental Impact Report (EIR) on the Pier 27 Cruise Terminal development on December 16, 2011. The Port plans to relocate the seven existing Pier 27 tenants, including Bauer, beginning immediately, to allow for commencement of the Phase 1 Cruise Terminal construction as soon as possible. Bauer elected to negotiate a new lease with the Port to relocate to Pier 50 prior to the completion of the EIR.

DETAILS OF PROPOSED LEGISLATION

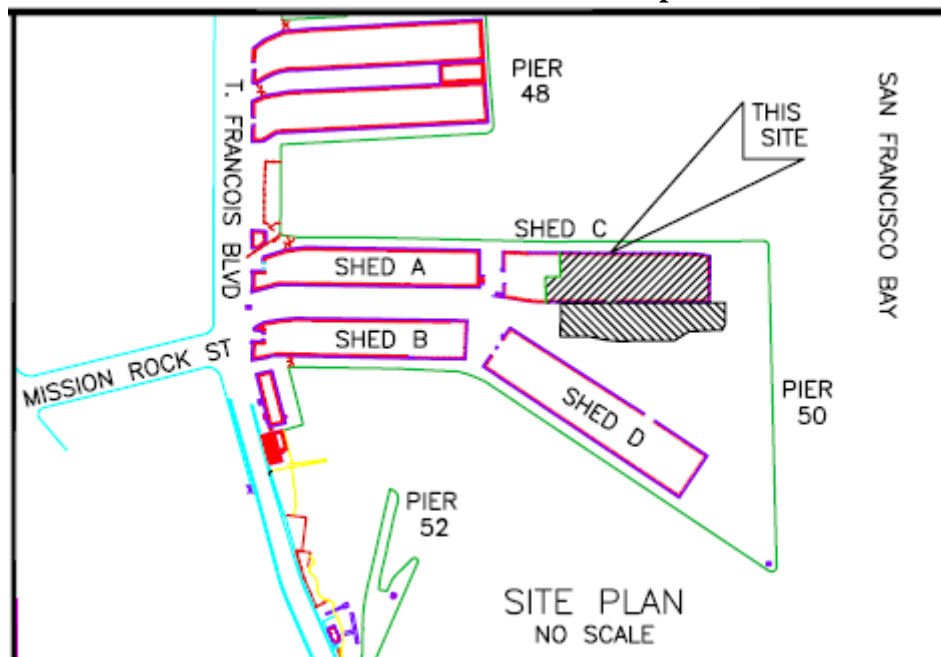
The resolution would approve a new ten-year lease between the Port and Bauer for the use of Pier 50 Sheds A and C and exterior space for the operation of the transportation business and associated storage and maintenance of vehicles. Details of the proposed lease are provided in Attachment I, prepared by the Budget and Legislative Analyst.

Proposed Lease Space

As shown in Chart 1 below, the proposed lease contains:

- (1) 68,777 square feet of shed space in Shed C for storage, maintenance, and washing of company vehicles; and
- (2) 50,347 square feet of paved exterior fenced yard and dock and pier space for parking and storage of company and employee vehicles.

Chart 1
Pier 50 Shed C and Exterior Space



In addition to the Pier 50 Shed C and exterior space outlined in Chart 1 above, the proposed lease would also contain:

- (3) 4,370 of office space in Shed A on Pier 50, adjacent to Terry Francois Boulevard and Mission Rock Street.

Tenant Improvements

The Pier 50 Sheds A and C and exterior space would be rented to the tenant “as is” without any improvements or alterations by the Port. The tenant would be required to make improvements to the leased property, which include improvements to Port property and improvements that benefit the tenant. These improvements include: (1) improvements to Shed A and C core and shell; (2) build out of general office space in Shed A, including telephone and data cabling, and plumbing, electrical and lighting upgrades; (3) installation of security cameras; (4) construction of fencing; and (5) new bathrooms in Shed C.

Rent Credits

Under the proposed lease, the tenant would receive rent credits up to \$515,000, which are intended to offset the tenant’s costs for improvements to the Port’s property.

The tenant’s total estimated construction costs are \$687,358, which include:

- (1) \$515,000 for improvements to the Pier 50 Sheds A and C shell and core, which are Port property, and
- (2) \$172,358 for improvements to Pier 50 that benefit the tenant.

According to Mr. Cruz, the proposed rent credits to pay for the costs of improvements to Port property are consistent with other Port commercial leases and industry standards.

Seven Month Rent Abatement

Under the proposed lease, the tenant would not be required to pay rent for the first seven months of the lease, coinciding with the expected length of time to construct the above-noted improvements. The foregone rent during this seven-month period is approximately \$356,199.

According to Mr. Cruz, the rent abatement is consistent with other Port commercial leases and industry standards. The Port has policies for leases with terms of less than five years that state:

“The lease may include free rent as a move-in incentive or rent credit for tenant improvements, provided that the free rent credit when amortized over the term of the lease does not result in the Net Effective Rent over the term of the lease to fall below the minimum for the space as shown on (parameter rent schedule).”

According to Mr. Cruz, while this policy does not apply to the proposed lease, which is for a term of ten years, rather than less than five years, the Port used the policy as a guideline when negotiating the proposed lease (see Fiscal Impact Section below).

Temporary License Agreements

The Port Commission approved two license agreements when it approved the proposed lease on December 16, 2011. These license agreements are not subject to Board of Supervisors approval.

- (1) License Agreement L-15074 allows Bauer to occupy 2,900 square feet of office space in 401 Terry Francois Boulevard for up to six months during construction of the tenant improvements at no cost to the tenant. The Budget and Legislative Analyst estimates that the rent for this space for the six month period would be \$43,500. According to Mr. Cruz, this space is being provided to Bauer so that they may continue operations after relocating from Pier 27 until construction of the new office space at Pier 50 is completed.
- (2) License Agreement L-15075 allows Bauer temporary use of Pier 50 Shed C and temporary access to Pier 50 Shed A. This license will expire upon approval of the proposed lease by the Board of Supervisors.

FISCAL IMPACTS

The Port has negotiated rent increases with Bauer over the ten-year term of the proposed lease. As shown in Table 1 below, Bauer would not pay rent to the Port during the first year of the proposed lease due to the seven-month rent abatement and the rent credits.

Table 1
Total Rent under the Proposed Lease

Year	Annual Rent	Seven-Month Rent Abatement	Rent Credits	Total	Percent Change from Prior Year
1	\$610,627	(\$356,199)	(\$254,428)	\$0	n/a
2	684,199	0	(260,572)	423,627	n/a
3	746,212	0	0	746,212	76%
4	843,450	0	0	843,450	13%
5	947,254	0	0	947,254	12%
6	996,659	0	0	996,659	5%
7	1,047,113	0	0	1,047,113	5%
8	1,097,568	0	0	1,097,568	5%
9	1,148,022	0	0	1,148,022	5%
10	1,197,952	0	0	1,197,952	4%
Total	\$9,319,056	(\$356,199)	(\$515,000)	\$8,447,857	

Source: Budget and Legislative Analyst

Rent Schedule

Each year, the Port Commission establishes “net effective rent parameters”, according to commercial property use and location, and based on fair market value. These net effective rent parameters serve as the baseline for the Port’s lease negotiations.

According to Mr. Cruz, the Port required that the total lease revenues paid by Bauer to the Port over the ten-year term of the lease should be at fair market value, consistent with net effective rent parameters established by the Port Commission. According to the December 9, 2011 staff memorandum to the Port Commission, the rent schedule for the proposed lease sets lower rental rates during the initial years of the lease and higher rental rates during the later years of the lease at the request of Bauer to assist in their transition to the new lease terms.

As noted above, currently, Bauer leases facilities and land on Pier 27 at a total cost of \$264,798 annually. Under the proposed new lease at Pier 50, Bauer's lease costs will increase to \$610,627 the first year, an increase of \$345,829 or 130 percent. However, as shown in Table 1 above, Bauer will not be required to pay this additional cost the first year of the new lease, due to rent credits and seven months of rent abatement. However, as shown in Table 1 above, beginning in the second year of the lease, based on annual rent costs of \$684,199 discounted with \$260,572 of additional rent credits, Bauer would be required to pay the Port \$423,627. By the third year of the lease, there would be no further rent abatements or credits, such that Bauer would be required to pay the Port the full \$746,212 in rental payments, and continue at increasing annual rental payments for the remainder of the ten year lease term.

Mr. Cruz notes that Port Commission policy for leases with terms of less than five years currently allows the Port to provide rent credits and rent abatements to tenants as long as the total rent received by the Port, after adjusting for the rent credits and rent abatements, is greater than the net effective rent parameters set by the Port Commission, as noted above. According to Mr. Cruz, although this policy for leases with terms of less than five years does not apply to the proposed ten-year lease, Port staff used the policy as a guideline when negotiating the proposed lease with Bauer. As shown in Table 2 below, total net revenues to the Port of \$8,447,857 are \$19,807 more than estimated rent to the Port of \$8,428,050, based on rental rate parameters established by the Port Commission.¹

Table 2
Total Rent under the Proposed Lease Compared to Estimated Rent
Based on the Port Commission's Net Effective Rent Parameters

Year	Total Net Revenues Under the Proposed Lease	Estimated Revenues Under the Port Commission's Parameters	Increase/ (Decrease) Lease Revenues Compared to Port Commission Parameters
1	\$0	\$738,575	(\$738,575)
2	423,627	759,994	(336,367)
3	746,212	782,034	(35,822)
4	843,450	804,713	38,737
5	947,254	828,050	119,204
6	996,659	852,063	144,596
7	1,047,113	876,773	170,341
8	1,097,568	902,199	195,368
9	1,148,022	928,363	219,659
10	1,197,952	955,286	242,666
Total	\$8,447,857	\$8,428,050	\$19,807

Source: Budget and Legislative Analyst

¹ The Budget and Legislative Analyst projected an annual 2.9 percent increase in Port Commission net effective parameter rental rates for the nine-year period from 2013 through 2021, based on the median increases in the Consumer Price Index for San Francisco, compiled by the U.S. Department of Labor, for the period from January 1, 2006 through October, 2011.

RECOMMENDATION

Approve the proposed resolution.

Term	10 years
Commencement Date	Approximately January 15, 2012, upon Board of Supervisors approval and Port execution of lease
Premises	4,370 square feet of general office space, Pier 50, Shed A 68,777 square feet of shed space, Pier 50, Shed C for storage, maintenance, and washing of company vehicles 50,347 square feet of paved exterior fenced yard and dock and pier space for parking and storage of company and employee vehicles
Rent	\$1.26 per square foot per month for 4,370 square feet of general office space, Pier 50, Shed A \$0.55 per square foot per month for 68,777 square feet of shed space, Pier 50, Shed C \$0.15 per square foot per month for 50,347 square feet of paved exterior yard and dock space Table 1 provides details of total rent to the Port over the 10 year term of the proposed lease
Rent Commencement Date	First day of the 8 th month after the lease commencement date
Rent Increase	Negotiated annual increase Table 1 provides details of total rent to the Port over the 10 year term of the proposed lease
Tenant Improvements	\$687,357, in building and system improvements payable by the tenant, conforming to American with Disabilities Act and Port Building Code requirements
Rent Credits	\$515,000 reduction in rent payable by the tenant to the Port to offset the costs of tenant improvements, deducted from monthly rent payments over a 17 month period
Security Deposit	\$44,118 until the 16 th month, increasing to \$99,829 in the 16 th month
Termination Rights	Port may terminate the lease with 90 days' written notice if the space is needed for Port programs or projects

Maintenance and Repair	Port is responsible for exterior structures, substructures, and sump pump Tenant is responsible for tenant improvements, roll up doors, fencing, paving, security system, and Port-owned vehicle wash rack
Utilities	Tenant is responsible
Additional Parking	7 spaces directly in front of Pier 50, Shed A for employee parking at no additional cost