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**CLIFFORD**  
ADVISORY  
LLC

Real Estate Valuation

January 23, 2020

Mr. Andrico Penick, Director  
City and County of San Francisco  
Real Estate Division  
25 Van Ness Avenue  
Room 400  
San Francisco, CA 94102

**RE: Appraisal Analysis – Work in Progress**  
PUBLIC RIGHT-OF-WAY EXCHANGE  
FISHERMAN'S WHARF PARCEL (Trade In Lands Street Sections)  
AND  
TRANSBAY PARCEL (Trade Out Lands Street Sections)  
SAN FRANCISCO, CA

This letter supplements a draft appraisal report and valuation analysis that is prepared for the City and County of San Francisco, its Port Commission and the California State Lands Commission. It is my understanding you have received the draft appraisal report under separate transmittal.

Upon review of the initial finding and the underlying methodology that supports it presented in the draft appraisal report, representatives of the California State Lands Commission (SLC) have requested that additional hypothetical conditions and extraordinary assumptions be addressed, to provide assistance to these public agencies now considering a Public Trust Land Exchange for the above referenced properties. This letter briefly outlines the work in progress to address SLC's initial comments, and once completed will be incorporated into a single appraisal report for official submission to its users.

The draft appraisal document can be relied upon for the analysis prepared to date that identifies the subject properties and their valuation under an Extraordinary Assumption<sup>1</sup> that neither the Trade-In Lands nor the Trade-Out Lands are subject to the public land trust. However, the draft appraisal is based on a condition that does exist; with both the Trade-In Lands or the Trade-Out Lands being encumbered by a public right-of-way easement that provides vehicular and pedestrian access to surrounding development and precludes any other use to support vertical economic development. The analysis concludes the Trade-In Lands and the Trade-Out Lands contribute no positive value. However, as an alternative, the SLC requests the analysis be supplemented to invoke a Hypothetical Condition defined as that which is contrary to what exists but is supposed for the purpose of analysis. Under this Hypothetical Condition, the analysis of the Trade-In Lands and Trade-Out Lands shall first consider the subject's contributory value as if under private ownership<sup>2</sup> and available to support potential allowable uses.

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<sup>1</sup> Extraordinary assumptions presume as fact otherwise uncertain information about the physical, legal, or economic characteristics of the subject property or about conditions external to the property, such as market conditions or trends, or the integrity of the data used in an analysis.

<sup>2</sup> It is noted that statewide public ownership of sidewalks and streets is unusual, as typically land parcels convey ownership of site areas that support development footprints or other supporting uses (such as on-site open space, parking, etc.) but as well right-of-way area extending to the middle of the street (including sidewalks). In San Francisco, the opposite is true, due to the fact much of the City was developed before the State was formed based on original land grants. In San Francisco, private ownership generally terminates at the edge of the public right-of-way (supporting sidewalks and streets).

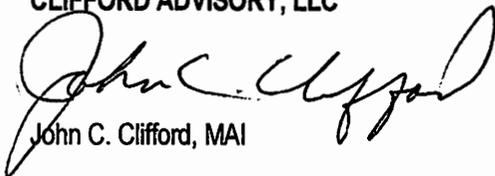
For the supplemental analysis the property valuation methodology is based on an Income Approach, one of the primary alternative methods of appraisal valuation and deemed the only reliable method, absent the availability of sufficient and pertinent sales of similar parcels, (that simply do not exist but for the Hypothetical Conditions and Extraordinary Assumptions of the appraisal<sup>3</sup>).

For the first step in the supplemental valuation, the analysis takes into consideration potential private ownership uses and their related income or revenue potential, and then secondly, the requisite operating expenses to support and maintain those uses, as if privately owned. The research and analysis of these factors is currently in progress.

The Trade In Lands and other right-of-way areas that are under the jurisdiction of the Port of San Francisco provide the best evidence of gross and net income potential as it conducts an encroachment licensing program that relies upon a competitive rate schedule to permit kiosk or specialized uses on its sidewalks and streets. Like the private ownership paradigm, the Port's program seeks to maximize revenue potential for use of its resources from profit seeking private users and uses that include food trucks, rental bike/scooter stands, mobile signs, parklets (café tables and chairs), for example. On San Francisco Streets under the public jurisdiction of its Department of Public Works, the potential revenue is generated by City issuances of encroachment permits. However, it is understood the fee rate for DPW encroachment permits is set primarily to offset public administrative costs of issuing such permits that does not necessarily represent a market-based profit-motive model, typically sought by private ownership. Appropriate operating expenses and risk management factors are then considered to determine net income, if any, that can be capitalized to determine the contributory value for such uses that reflect the profit motivation typically sought by private owners, as if they owned the Trade In and Trade Out Lands.

For this analysis, the appraiser has consulted with numerous City Attorney, Port, DPW and outside legal representatives to develop reliable market data to support a credible valuation finding. Based on initial discussions, and without prejudice at this stage of the assignment in progress, the appraiser suggests any conclusion supporting a positive value for either the Trade-In Lands or the Trade-Out Lands parcels may be challenging. Among many factors, this is perceived given the imbalance between the amount right of way that fully require maintenance compared to those portions of the parcels that can generate potential revenues. However, the final value determination rests with the above factors once they are compiled and analyzed. The assignment in progress is anticipated to be completed during the first part of February.

Respectfully Submitted,  
**CLIFFORD ADVISORY, LLC**



John C. Clifford, MAI

CC: Mr. Byron Rhett

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<sup>3</sup> USPAP standards do not support reliance on Hypothetical Conditions or Extraordinary Assumptions that are not reasonable or probable to occur. These aforementioned Hypothetical Conditions or Extraordinary Assumptions are not deemed to be probable. However, under a jurisdictional exception, this supplemental assignment addresses these conditions as set forth herein.