

## FINAL REPORT

### PIER 70 MASTER PLAN MARKET ANALYSIS



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Port of San Francisco

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# I. INTRODUCTION AND SUMMARY OF FINDINGS

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The Port of San Francisco (Port) retained Economic and Planning Systems (EPS) along with ROMA Design and other team members to complete a Master Plan for its property at Pier 70 in San Francisco. The Pier 70 Master Plan will set forth the development vision for the site, including land uses, public spaces, design criteria for new and existing buildings, and an implementation plan identifying financing and disposition strategies. This market study presents an analysis of how market dynamics in the area influence the potential for specific land uses at the site. Findings from this study will guide the Master Plan by identifying potential types and timing of development at the site.

This study focuses on market opportunities most relevant to the site and the Port's goals for development of the site. Rather than a comprehensive market analysis which documents the full range of values, absorption rates, and uses within a site's competitive market area, this study analyzes Pier 70's potential for capturing potential demand for uses identified as having particular potential for Pier 70. The uses reviewed in this document were selected after a tour of the site and a review of recent developments in the area, and following discussions with the planning team and Port staff. The market study is a companion piece to the project financial feasibility analysis which uses inputs such as rents, capital costs, and the likely rate of absorption of new and renovated building space at the site to analyze the feasibility of varied development scenarios.

The following uses were selected for detailed analysis and are discussed in this report:

- Office
- Biotech/lab
- Light Industrial – Production/Distribution/Repair
- Residential

In addition, this study discusses the viability of certain uses for reuse of the historic buildings by noting successful reuse examples. Several land uses were excluded from detailed analysis based on the professional judgment of the team regarding both their suitability for Pier 70 and the potential economic contribution they could make. The uses that were studied have the potential to be the "economic engine" for Pier 70. As the reuse of Pier 70 moves forward, it is possible that further analysis of some of these uses is warranted.<sup>1</sup>

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<sup>1</sup> This analysis screened out hotels as viable uses based on a preliminary analysis of likely development opportunities. However, future planning documents may include hotels and other uses based on new information about market opportunities for visitor ship to the site.

## SUMMARY OF FINDINGS

### GENERAL OVERVIEW

1. A successful master plan is likely to include high-value uses such as biosciences, office, medical office, campus-style office space, and residential, along with Production, Distribution and Repair (PDR) uses, museum and art space, retail, and open space.
2. Review of site and surrounding area characteristics and local and regional economic trends suggests that 3.1 million square feet of new development at the site may be absorbed over a 15- to 20-year period. However, because of the supply of competing land available at Mission Bay, substantial construction at Pier 70 may not begin for five to ten years while development at Mission Bay proceeds. Development at Pier 70 may start during the buildout of Mission Bay, though at a reduced pace.
3. Space used for bioscience firms, private physician offices, and general office space represents the highest value, nonresidential opportunity. Lease rates paid by bioscience firms in San Francisco are in the \$48 per square foot range, on triple net (NNN) lease terms, annually at Mission Bay locations, while brokers in the area note the potential for up to \$60 lease rates, per square foot annually (NNN). Space in this category at Pier 70 may be priced to compete directly with Mission Bay space or discounted slightly to attract more price conscious firms. Office space located near Pier 70 command rents of approximately \$35 annually per square foot (NNN).
4. The development of a campus-style complex with bioscience or general office uses would activate a significant portion of the site. Attracting a user who could develop multiple acres for private use while concurrently providing public space and/or historic preservation could create a critical mass of development which would significantly accelerate the pace of new users at adjacent sites.
5. The inclusion of residential development as a program option would add significant value to the development program. Assuming a residential project at the site would have a density similar to those at Mission Bay (roughly 100 units per acre), developable land at the site could be sold for \$10.5 million to \$14 million per acre.<sup>2</sup>

### USES APPROPRIATE FOR NEW CONSTRUCTION

6. As a relatively valuable use, the development of new bioscience space could provide sufficient value to provide surplus revenues for historic preservation and site development costs. Pier 70's location adjacent to the UCSF Mission Bay campus and the emerging bioscience cluster present a unique opportunity for the site to capture

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<sup>2</sup> Calculated by estimating gross revenues on a one-acre project, with a density of 100 units per acre and \$700,000 sale price per unit, then applying observed land value of 15% to 20% of gross revenues.

supporting and spin-off uses which cannot locate at Mission Bay either because (1) Lack of space at the new neighborhood or (2) Developers/ tenants seek an opportunity for an integrated campus that cannot be accommodated on remaining available land at Mission Bay.

7. The new UCSF hospital planned at Mission Bay for completion in 2014 will attract demand for private physician offices and other supporting uses. Depending on the size of the hospital, private medical office space for UCSF physicians could range from 61,000 square feet to 137,000 square feet. In addition, the tendency for private uses related to the hospital use, such as medical space for non-UCSF physicians affiliated with the hospital, hospital suppliers, and patient services including pharmacies and laboratories, to co-locate near a hospital will likely draw additional demand for new development spaces.
8. San Francisco's strengthening office market is driving new construction, with the City's office market nearing single-digit vacancy rates. The pipeline for office uses in the City includes 1.2 million square feet under construction, 2.7 million square feet approved, and 3.2 million square feet in design or planning. Office with lab space under construction totals 0.6 million square feet, 0.8 million square feet approved, and 2.2 million square feet in conception planning or design. Compared with the 82.5 million square feet office building base in the City, these projects sum to a 13 percent increase in total office and office with lab building square footage.
9. Depending on allowed densities, the sale of land for a residential project could achieve prices of \$10 million to \$14 million per acre. The parcel along Illinois Street at the southern end of the site is the most logical location for a residential development because of its street access, distance from the shipyard, and location outside historic tidelands. Assuming a residential project at Pier 70 would achieve sales revenues equal to about 95 percent of those achieved at Mission Bay, a 1,000-square foot unit could sell for \$700,000. With land making up between 15 and 20 percent of the total project value, the parcel could generate \$25 million to \$35 million in land sales for a 245-unit project.

## USES APPROPRIATE FOR ADAPTIVE REUSE OF BUILDINGS

10. Several existing buildings at Pier 70, including Buildings 101 and 102 which were originally constructed for and used as office space, may be rehabilitated for office tenants. The rehabilitation of these two buildings for office space in particular would provide a unique setting and work space which the market would likely view favorably. A determination of the extent to which buildings originally configured for industrial uses can be converted to office uses in a cost-effective manner is needed, before a recommendation on which adaptive reuse strategy is pursued.

11. Under a rezoning options being considered by the Planning Department for the Eastern Neighborhoods, demand for Production, Distribution, and Repair (PDR) space in San Francisco may be met if PDR land is utilized at a slightly greater intensity than its current usage. Values for this type of use, however, are unlikely to contribute significant residual revenues for the expected, necessary capital improvements for building rehabilitation. Therefore, this type of use should be incorporated where PDR activities are the only viable opportunity for reuse, recognizing that such uses will need to be subsidized by other development on the site.<sup>3</sup>
12. Exhibition or museum users would complement the potential historic district at Pier 70. For example, a potential user may provide relics documenting the history of the site and its people. If a suitable user is located, these types of uses would likely need some subsidy from the Port in the form of initial capital improvements and will likely be contemplated in the later phases of development, as high value uses generate surplus revenues. Other museum or exhibition uses not tied to the history of the site may also be possible given the site's location and the open span interior space in some of the historic buildings.
13. Sports and entertainment uses appear to be compatible with the spacious interiors of the existing buildings and may generate moderate revenues to the Port. These uses attract sports leagues, corporate and private events, and individuals for sports and recreation activities. Examples of these types of uses include Chelsea Piers in New York and smaller-scaled City Beach sites in Santa Clara and Fremont.

## WATER-RELATED USES

14. Water-related uses such as marinas or waterfront restaurants would primarily serve as public amenities to the site, activating the shoreline. Demand for small-vessel marina slips at the South Beach marina has created a four- to six-year waiting list for space. However, the significant costs involved in constructing a marina may limit this type of development to scenarios with sufficient excess revenue, and significant State funding for the investment. Waterfront restaurants, such as those found north

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<sup>3</sup> A determination may be made, depending on the plan for Pier 70, that existing buildings be converted to office uses or retail-serving uses. Cost estimates for this conversion have not been prepared, however, the higher investment in a conversion will certainly yield higher lease rates. Whether these higher investments/higher lease rates will increase the revenue stream to the Port, or will simply offset each other, is not yet clear.

of the site along Terry Francois Boulevard and the Embarcadero, may comprise a small portion of development of the site and would be likely to occur in the later phases of development.

## II. SITE AND SURROUNDING AREA

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### HISTORY

Pier 70 is a 65-acre site located in the Central Waterfront area of San Francisco. The site's development was guided by industrial users, beginning in the 1880s with Union Iron Works, which was bought by Bethlehem Steel during the early 1900s. The site's heyday, in terms of development intensity and use, culminated in the 1940s as a result of the great supply of ships needed during the war effort. The buildings that exist on the site today are largely remnants of this industrial era, with most of those that are currently leased used not for manufacturing purposes but for storage or lay-down areas. The drydocks and the adjacent industrial buildings are the exception, with Pier 68 and the surrounding buildings leased by a working ship repair company, BAE San Francisco Ship Repair (BAE SFSR), which services cruise and cargo ships in port in the Bay Area.

### LOCATION AND ADJACENT USES

Pier 70 is located in the Central Waterfront, south of the Indian Basin and east of the Third Street Corridor. On its northern edge is a small marina and waterfront commercial including The Ramp restaurant. Residential lofts on Illinois Street north of 20<sup>th</sup> Street are to the site's northwest edge. The American Industrial Center, which houses professional offices and light industrial uses, is to the south of 20<sup>th</sup> Street, on the eastern edge of the site. To the south of Pier 70 is a vacant parcel owned by PG&E as well as the Mirant Power Plant (natural gas). **Figures 1 and 2** show the location and existing structures at Pier 70.

More generally adjacent to Pier 70 is the rapidly developing Mission Bay redevelopment site, the established, mixed-use Dogpatch neighborhood, and the 3<sup>rd</sup> Street corridor which is now largely an industrial area but may be on the cusp of a change to include a mix of uses.

The proximity of Pier 70 to Mission Bay will have a significant impact on potential demand for development at the site. The plan for Mission Bay, adopted in 1998, allows up to 6,000 housing units, 6 million square feet of broadly defined office/laboratory/multimedia/manufacturing space, a 43-acre University of California at San Francisco (UCSF) campus, 60 acres of parks, and a mix of other commercial uses including retail and hotel. To date, development has included more than 3,000 multifamily residential units, largely on the north side of the site farthest from Pier 70, about 1.5 million square feet of UCSF's 2.65 million square foot campus, and about 465,000 square feet of office and biotech space.

Over the last year, the pace of planning has increased significantly with a 1.78 million-square foot UCSF hospital planned for 2014, located between 16<sup>th</sup> and Mariposa Streets along Third Street, about 2.5 million square feet of biotechnology to be developed

Figure 1. Pier 70 Location



Figure 2. Pier 70 Site Map



by Alexandria Equities planned for the next five to ten years, and two buildings, also devoted to the life sciences, totaling 450,000 square feet to be developed by Shorestein Properties by 2008.

Also related to Pier 70 is the Third Street corridor which is home to almost half of the City's industrial building square footage.<sup>4</sup> The new Third Street light rail MUNI line, which provides a convenient link to downtown San Francisco, has attracted interest to the locale as an affordable area of the City with strong transit links to downtown and the South Beach area.

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<sup>4</sup> At the end of 2006, 3<sup>rd</sup> Street/Potrero Hill area had an industrial building base of about 9.8 million square feet. The other two significant market segments are Mission/SOMA, with 5.2 million square feet, and Bayview with 4.5 million square feet.

### III. SITE OPPORTUNITIES AND CONSTRAINTS

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Pier 70's adjacency to the rapidly developing Mission Bay, the site's large size, its waterfront location, and its unique industrial character present significant opportunities for development. However, the need for considerable capital investments, the regulatory constraints imposed by the Tidelands Trust doctrine, construction/rehabilitation requirements associated with historic district designations, and the level of desired and needed public space will limit the range and size of potential developments.

#### OPPORTUNITIES

##### PROXIMITY TO UCSF

UCSF is the only UC dedicated exclusively to health sciences. Its primary location in San Francisco is its 107-acre Parnassus campus, with three other sites of operations and services at Mount Zion, San Francisco General Hospital Medical Center, and Veterans Affairs Medical Center. The Mission Bay campus, now partially completed and anticipated to be fully built out by 2020, adds a 43-acre campus to UCSF's San Francisco presence, as well as a 14.5 acre hospital location (see **Figure 3**, blocks 36, 38, and 39, for hospital location). As of early 2007, about 700 UCSF employees worked at Mission Bay, with an average daily population of 3,200 people. At buildout, the total number of UCSF employees is expected to total 9,000. The presence of both the UCSF hospital and the campus is a powerful economic generator for the area, already spurring private biotechnical development and is expected to drive additional commercial development when the hospital opens in at the end of 2014.

##### PROXIMITY TO MISSION BAY

As development opportunities at Mission Bay become scarcer, Pier 70 will serve as the next logical location for spillover uses which gain a business advantage by locating near Mission Bay. With a total of 6 million square feet of flexible commercial space ringing the UCSF campus at the center<sup>5</sup>, a significant amount of private development at Mission Bay is planned along with the campus buildout. Within the private life sciences category, two buildings are currently tenanted: Gladstone Institutes which is 200,000 square feet at 1650 Owens, and Alexandria's 1700 Owens building with 165,000 square feet.<sup>6</sup> Planning for biotechnical space at Mission Bay has accelerated, with about 3 million square expected over the next five to ten years, an absorption rate of 300,000 to








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<sup>5</sup> The flexible commercial land use ringing the UCSF campus is intended to absorb a variety of uses spun-off from UCSF. The use allows both R&D (biotechnology) as well as office spaces.

<sup>6</sup> This total does not include the California Institute for Quantitative Biomedical Research (QB3) site which is included as part of the UCSF campus.

**Figure 3**

Areas mapped in darker color are completed, or under construction. Areas mapped in lighter color are planned.

- |  |   |
|--|---|
|  Residential            |  UCSF            |
|  Commercial/ Industrial |  Hospital Site   |
|  Public Open Space      |  Hotel           |
|  |  Public Facility |



600,000 square feet per year.<sup>7</sup> Also privately developed is the Gap Office building (555 Terry Francois Boulevard), constructed in 2002, which adds 285,000 square feet of office space to the site. At full buildout, nearly 30,000 people will live or work at Mission Bay while the hospital and potential hotel site may host 7,700 daily visitors.<sup>8</sup>

## SCALE OF THE PIER 70 SITE

At 65 acres, Pier 70 is one of the only locations in San Francisco large enough to accommodate a new district with a mix of uses in new or rehabilitated historic buildings and accommodating significant office/R&D commercial, residential, and recreation uses. The only sites of similar scale are Treasure Island, Hunter's Point, and Candlestick Point. Of these three, Pier 70 is located most closely to the center of the City, the dynamic Mission Bay development, and existing transit infrastructure.

## WATERFRONT LOCATION

The site's location on the Bay provides users a unique amenity. To the extent that new and existing buildings are configured to offer tenants scenic views of the Bay, increased value will be created at the site. Access to waterfront parks, open space, and promenades will also enhance the amenity value of the site.

## HISTORIC RESOURCES AND DISTRICT

Pier 70 has been the site of industrial processes from the 1850s, with Union Iron Works and Bethlehem Steel the two largest forces behind the current configuration of the site and its structures. Historic buildings and other remnants of the industrial functions, such as the large cranes at the site's northwest corner, can be integrated into the overall site design to create a unique character. In addition, the financial benefits provided through federal historic district designation include a tax credit on eligible rehabilitation costs, alternative building code standards, and a wider range of buildings eligible for these benefits as resources within a district do not have to meet the higher historic criteria applied to individual buildings.<sup>9</sup> The potential to create a district that blends active maritime industrial, adaptive reuse of historic buildings with a mix of new uses that reflect the architecture of the historic identity of the site could create a unique location with distinctive, marketable characteristics.

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<sup>7</sup> Estimated by summing Alexandria's remaining entitlement, 2.34 million square feet with Shorestein's building (450,000 SF) and dividing by either 5 years or 10 years.

<sup>8</sup> Estimated by applying average residents per unit and square feet per employee to the allowable units and commercial square footage. Visitors to UCSF planned hospital from traffic study for the site and hotel visitors estimated through average hotel occupancy rates and visitors per room.

<sup>9</sup> For example, buildings which are designated as "contributing" resources within a designated Historic District would be eligible for the Historic Tax Credits. A contributing resource outside of a Historic District is not eligible for the tax credits.

## WORKING SHIPYARD ON SITE

Pier 70's history as an industrial site which supported maritime activities provides an important context that will inform the future development of the site. The mix of uses which are expected to be planned for the site will be adjacent to a working ship repair yard. The location of the shipyard at the site ensures that the daytime population will include a significant contingent of skilled craftsmen. About 250 skilled craftsmen are employed year round currently, with peak employment at the shipyard at about 800 to 1,000 jobs.

## TRANSIT ACCESS

The new T line along Third Street provides direct rail access to San Francisco's downtown, with a stop at 20<sup>th</sup> and Third Streets.<sup>10</sup> This new transit infrastructure will make the area highly attractive to businesses and residents seeking space with strong transit links to South Beach, SOMA, and downtown.

## CONSTRAINTS

### SITE PREPARATION AND INFRASTRUCTURE COSTS

Though detailed cost estimates are not available for the site preparation and infrastructure costs for Pier 70 development at this time, it is agreed that significant investments will need to be made at the property before the development of new structures. These costs include environmental remediation, entirely new infrastructure systems (i.e., roads, utilities, water, sewer, and storm drainage), and shoreline stabilization.

### HISTORIC RESOURCES

While several financial benefits are associated with a historic district or building designation,<sup>11</sup> the existence of Pier 70's historic resources brings greater development review under the California Environmental Quality Act, adding more rigid design and development standards in and around a historic district. These types of standards insert uncertainty into the development process which may translate into additional costs and therefore lower residual land values.

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<sup>10</sup> The current schedule indicates that a passenger would arrive to 20<sup>th</sup> and 3<sup>rd</sup> Streets from San Francisco's downtown about 15 minutes after boarding a train.

<sup>11</sup> Societal benefits associated with the preservation of structures are acknowledged as well, though not explored in this report.

## WORKING SHIPYARD ON SITE

The presence of a working shipyard on site will limit the market of potential users to those that are compatible with industrial activities, particularly the sometimes noisy shipyard activities. In particular, residential uses would be appropriate only in locations sufficiently removed from the shipyard so that noise, light, and other impacts would be negligible.

## REGULATORY CONSTRAINTS

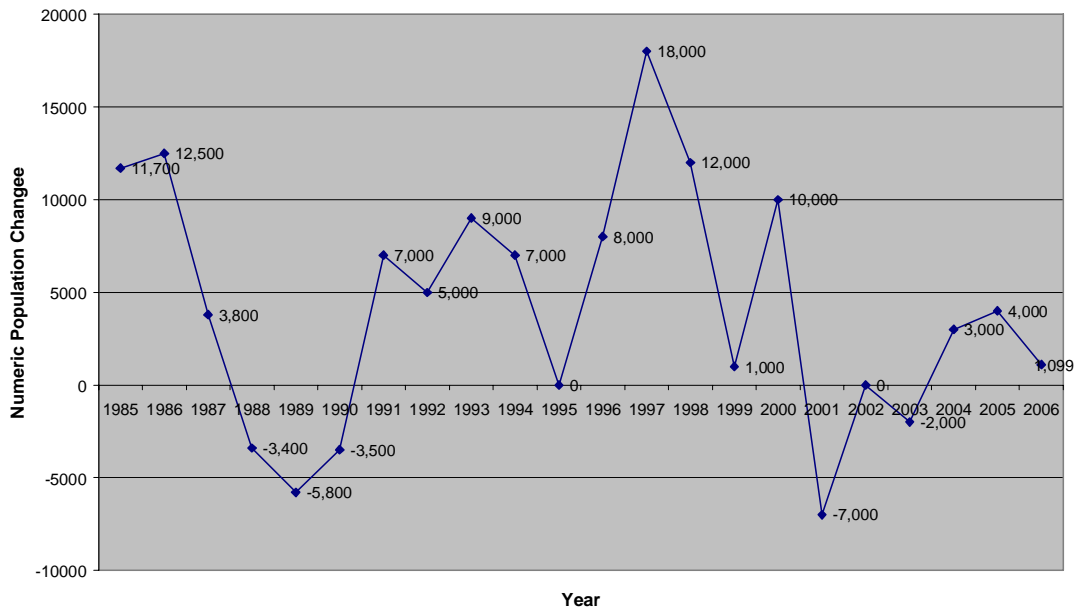
Portions of land at Pier 70 are subject to regulations enforced by the State Attorney General and the California State Lands Commission while other portions are historic uplands with more flexibility for potential uses. Development on land subject to State Tidelands Trust is limited to uses supporting maritime activities or commercial uses such as restaurants and hotels which draw a large number of people to the shoreline. General office space and residential units have been viewed by the Attorney General's office and the State Land Commission as the "privatization" of trust land and are generally not allowed. In order to include nontrust uses in the development program for Pier 70, a land swap which maximizes land available for flexible uses will be needed. The State Lands Commission has also allowed limited nontrust uses on Tidelands Trust land where attaining other important objectives, such as historic preservation of maritime buildings or enhanced access to the waterfront, is prioritized.

## IV. KEY DEMOGRAPHIC AND ECONOMIC TRENDS

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Over the last twenty years, San Francisco's economic and population changes can be categorized into two business cycles: the 1980s speculation-based growth followed by the recession of the early 1990s and the dot.com boom of 1995 to 2000 followed by the bust of 2001 to 2003. **Figures 4** and **5** illustrate the numeric change of both residents and building permits issued between 1985 and 2005. Both charts show population and building activity peaking around 1987 and 1999, and decreases bottoming out around 1990 and 2002. These charts roughly match the economic cycles which occurred during these periods. During the 1980s, the deregulation of the savings and loan industry led to a surge in lending, spurring construction and jobs. The savings and loan scandals during that decade resulted from underwriting risky loans which ultimately went into default, bankrupting financial institutions and leading to an economic slowdown.

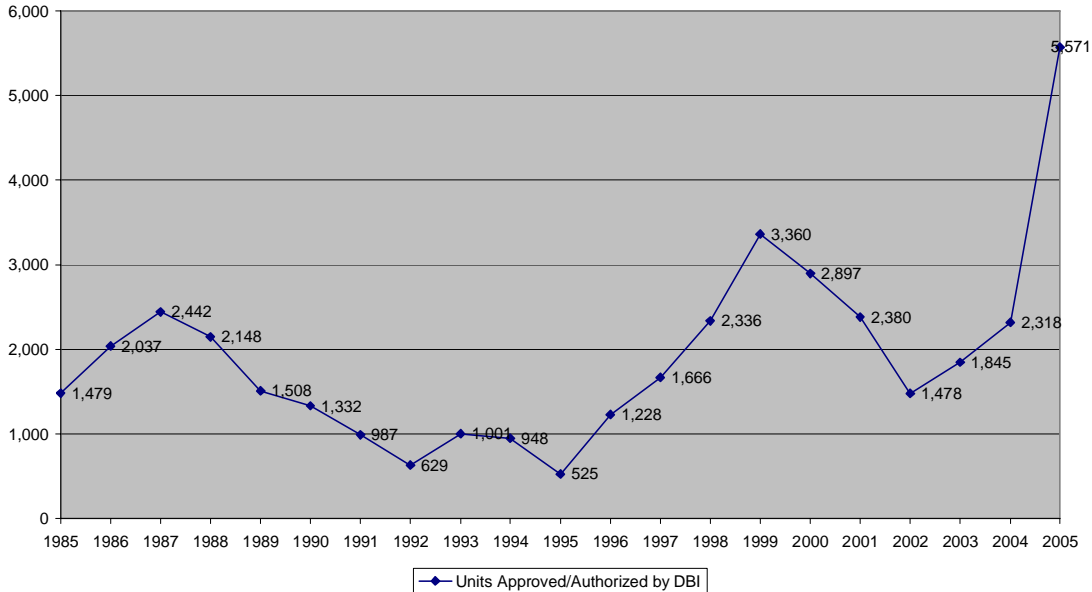
**Figure 4. Change in Population, San Francisco, 1985-2006**



**Figure 5: San Francisco New Housing, Building Permits**

(Years 1985 - 2005)

Source: 2005 San Francisco Housing Inventory



The dot.com boom and bust is also illustrated in the figures, mirroring the tremendous economic boom during the middle of the 1990s fueled by speculative venture capital and the fall of the many companies whose revenues did not reach expected levels. Both of these recent boom and bust economic cycles in the Bay Area were based in part on unsound economic fundamentals—in one case, the deregulation of financial institutions which led to high-risk loans and subsequent bankruptcies and in the other, massive amounts of venture capital funneled into internet-based companies that produced little or no revenue.

## CURRENT CYCLE AND FUTURE PROSPECTS

Since 2002, the San Francisco economy has shown signs of recovery, as illustrated by increases in population and building investments. In addition, 2005 was the first year since 2000 which posted positive growth in the number of jobs in the City (see **Table 1** for job counts). In 2000, the number of jobs in San Francisco topped 600,000, a growth of 15 percent in five years. By 2004, all of these gains were lost with the rapid disappearance of high-technology companies. As a result, total jobs in the City dropped below 1995 levels, to about 523,400. Declines in number of jobs peaked with a loss of nearly 40,000 jobs between 2000 and 2001. The trend has since reversed, starting with an increase of just over 100 jobs between 2004 and 2005.

**Table 1: Number of Jobs in San Francisco, 1990-2005**

Year	Number of Jobs	# Change	% Change
1995	529,719		
1996	542,507	12,788	2.4%
1997	557,174	14,667	2.7%
1998	576,117	18,943	3.4%
1999	591,166	15,049	2.6%
2000	608,266	17,100	2.9%
2001	586,485	-21,781	-3.6%
2002	546,960	-39,525	-6.7%
2003	533,136	-13,824	-2.5%
2004	523,274	-9,862	-1.8%
2005	523,396	122	0.0%
1995-2000, total change		15%	
2000-2005, total change		-14%	

Source: San Francisco Commerce and Industry Inventory, 2006; San Francisco Commerce and Industry Inventory, 2005 (San Francisco Planning Department); Economic & Planning Systems

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The City's most recent (2004-2005) inventory of commerce and industry reports increases in the professional and business services; education and health services; leisure and hospitality; and government and other services industries all posted year-over-year increases in job counts. Taxable sales have also increased between 2003 and 2005, from \$11.9 billion in 2003 to \$12.6 billion in 2005, when adjusted for inflation.

Also significant in demonstrating the economy's recovery, buildings being planned in the City have reached record levels. In 2005, the City's building department approved or authorized 5,571 new residential units. This level of residential construction far surpasses the 20-year record which was reached in 1999 of 3,360 approved units. In addition, the residential pipeline in the City sums to an unprecedented 29,300 units with nearly 6,500 units under construction, 7,700 units approved, and roughly 15,100 units in conceptual planning or design.<sup>12</sup>

<sup>12</sup> According to the June 24-30, 2007 edition of the San Francisco Business Times. As of the date of this study, the Planning Department has not yet released its residential pipeline report which would update the 2005 study.

**Table 2** documents the nonresidential planning pipeline in the City. As shown, office space under construction totals 1.2 million square feet; approved projects sum to 2.8 million square feet while known projects in planning would add another 3.2 million square feet. The office with lab space use, primarily biotechnology, reports 605,000 square feet under construction, 386,500 square feet in as approved, and 2.2 million square feet in planning or design.

## DEMOGRAPHIC OVERVIEW

### POPULATION AND HOUSEHOLD

Between 1996 and 2006, the City's population increased from 760,000 people to 800,100, a 5 percent increase over the ten-year period. **Table 3** shows population data for San Francisco and the Bay Area. Over the same period, the eight other counties in the Bay Area region increased 14 percent from 5.6 million to 6.4 million residents. Considering San Francisco's constrained land area, this lower level of population increase is not unexpected.

**Table 4** shows changes in the number and types of housing unit types in the City over the ten-year period. The total number of units increased 6.7 percent, from 334,500 to 357,000 units. The increase in multifamily units, which includes both rental and for-sale tenure types, accounted for nearly all of this change.

San Francisco and the Bay Area are both expected to continue growing in population, but at different rates. Both the California Department of Finance (DOF) and the Association of Bay Area Governments (ABAG) have issued future population projections for the region. **Table 5** summarizes the DOF projections for the Bay Area while **Table 6** shows ABAG's projections. DOF projects a 5.1 percent population increase for San Francisco between 2000 and 2020, increasing by 40,000 people while ABAG projects double that number for a total increase of 80,500 people. Both projections show the eight other counties in the Bay Area increasing by either 25 percent (equal to 1.5 million people, DOF) or 20 percent (equal to 1.2 million people, ABAG) over the period.

**Table 2**  
**Office and R&D Pipeline, 2007**  
**Pier 70; EPS# 17007**

Address	Developer	Est. Comp Date	SF
<b>Office</b>			
<u>Under Construction</u>			
555 Mission St.	Tishman Speyer	2008	549,000
400 Howard St.	Morgan Stanley	2007	335,000
500 Terry Francois Blvd.	Lowe Enterprises	2008	280,000
150 Golden Gate Ave.	St. Anthony Foundation	2008	<u>47,000</u>
Total Square Feet			1,211,000
<u>Approved Projects</u>			
1455 Third St.	Alexandria Real Estate Equities	2009	373,500
Pier 30-32	TBD	TBD	370,000
350 Bush St.	Shorenstein Properties	2010	350,000
55 9th St.	State of California	TBD	268,000
235 Second St.	235 Property Co. LLC	2010	244,000
1515 Third St.	Alexandria Real Estate Equities	2009	202,900
524 Howard St.	Higgins Development	2010	201,900
505 Howard St.	Wilson Meany Sullivan	2009	195,000
875-899 Howard St. (1)	TMG Partners	2008	153,500
250 Brannan St.	Pat Broe	2008	113,500
801 Market St. (1)	Jamestown	2008	112,800
3251 18th St.	Laborers International of North America	2010	49,500
48 Tehama St.	Gordon Development	2009	49,000
272 Main St.	Mohammad Abbassi	2009	46,500
500 Pine St.	Shorenstein Properties	2009	<u>44,500</u>
Total Square Feet			2,774,600
<u>In Planning, Design or Conception</u>			
47-88 First St.	California Mortgage and Realty	2010+	1,200,000
222 Second St.	Tishman Speyer	2010	617,000
350 Mission St..	GLL	2009	340,000
451 Montgomery St.	MK Equities	2010	320,000
535 Mission St.	Beacon Capital	2010	293,800
185 Fremont St.	SKS Investments/GSH	2009	250,000
100 California St. (2)	Beacon Capital	2009	68,800
120 Howard St. (2)	Beacon Capital	2009	67,000
110 Embarcadero	Hines	2009	57,000
75 Howard St.	Morgan Stanley	2010	TBD
Pier 27-31		2010	<u>TBD</u>
Total Square Feet			3,213,600
<b>Office with Lab Space</b>			
<u>Under Construction</u>			
409 and 499 Illinois St.	Shorenstein Properties	2008	430,000
185 Berry St. (2)	McCarthy Cook/ RREEF	2008	<u>175,000</u>
Total Square Feet			605,000
<u>Approved Projects</u>			
1600 Owens St.	Alexandria Real Estate Equities	2009	228,000
1500 Owens St.	Alexandria Real Estate Equities	2009	<u>158,500</u>
Total Square Feet			386,500
<u>In Planning, Design or Conception</u>			
Candlestick Park/ Hunter's Point	TBD	2010+	2,000,000
Cardiovascular Research Institute	UCSF	2009	<u>230,000</u>
Total Square Feet			2,230,000

(1) Conversion  
(2) Addition

Sources: SF Business Times, Economic & Planning Systems Inc.

**Table 3**  
**Historical Population, San Francisco and Bay Area**  
**Pier 70; EPS# 17007**

Year	San Francisco Population	# Change	% Change	Other 8 Counties in Bay Area	# Change	% Change
1996	760,000			5,583,000		
1997	778,000	18,000	2.4%	5,648,000	65,000	1.2%
1998	790,000	12,000	1.5%	5,709,000	61,000	1.1%
1999	791,000	1,000	0.1%	5,749,000	40,000	0.7%
2000	801,000	10,000	1.3%	6,053,000	304,000	5.3%
2001	794,000	(7,000)	-0.9%	6,125,000	72,000	1.2%
2002	794,000	0	0.0%	6,139,000	14,000	0.2%
2003	792,000	(2,000)	-0.3%	6,177,000	38,000	0.6%
2004	795,000	3,000	0.4%	6,241,000	64,000	1.0%
2005	799,000	4,000	0.5%	6,327,000	86,000	1.4%
2006	800,099	1,099	0.1%	6,364,853	37,853	0.6%
Total Change 1996-2006		40,099	5.3%		781,853	14.0%

Source: San Francisco Commerce and Industry Report (2004-2005), California Department of Finance, City/County Population and Housing Estimates, 2001-2006, Economic & Planning Systems

**Table 4**  
**Historical Households, San Francisco**  
**Pier 70; EPS# 17007**

Year	Total Units		Single Family			Multi-Family			% Vacant		Persons-per-Household	
	Number	% Change	Detached	Attached	% Change	2-4 Units	5+ Units	% Change	%	% Change	Number	% Change
1996	334,489		55,521	49,792		79,495	149,568		7.34		2.38	
1997	335,034	0.2%	55,648	49,792	0.1%	79,689	149,792	0.1%	7.57	3.1%	2.42	1.9%
1998	336,264	0.4%	55,852	49,778	0.2%	79,901	150,620	0.6%	7.49	-1.1%	2.45	0.9%
1999	337,983	0.5%	56,032	49,778	0.2%	79,993	152,067	1.0%	7.49	0.0%	2.47	0.8%
2000	346,527	2.5%	62,653	48,752	5.3%	80,851	153,711	1.4%	4.86	-35.1%	2.30	-6.9%
2001	347,489	0.3%	62,737	48,731	0.1%	81,032	154,429	0.5%	4.85	-0.2%	2.31	0.7%
2002	349,502	0.6%	62,811	48,689	0.0%	81,192	156,250	1.2%	4.85	0.0%	2.31	0.0%
2003	352,502	0.9%	62,816	48,696	0.0%	81,401	159,029	1.8%	4.81	-0.9%	2.30	-0.6%
2004	353,717	0.3%	62,870	48,696	0.0%	81,571	160,020	0.6%	4.81	0.0%	2.30	-0.1%
2005	355,101	0.4%	62,925	48,696	0.0%	81,704	161,216	0.7%	4.81	0.0%	2.29	-0.2%
2006	356,985	0.5%	62,974	48,700	0.0%	81,809	162,942	1.1%	4.91	2.0%	2.30	0.2%
Total Change 1996-2006		6.7%			6.0%			6.8%		-33.2%		-3.4%

Source: E-5 Population and Housing Estimates for Cities, Counties and the State, 2001-2007, with 2000 Benchmark. California Department of Finance, May 2007.

**Table 5**  
**Population Projection, 2000 - 2010 (DOF)**  
**Pier 70; EPS# 17007**

Year	San Francisco			Other 8 Counties in Bay Area		
	Population	# Change	% Change	Population	# Change	% Change
2000	801,000			6,053,000		
2010	816,230	15,230	1.9%	6,724,918	671,918	11.1%
2020	820,545	4,315	0.5%	7,560,211	835,293	12.4%
Total Change 2000-2020		19,545	2.4%		1,507,211	24.9%

Source: State of California, Department of Finance, *Population Projections by Race/Ethnicity, Gender and Age for California and Its Counties 2000-2050*, Sacramento, California, May 2004; Economic & Planning Systems

**Table 6**  
**Population Projection, 2000 - 2010 (ABAG)**  
**Pier 70; EPS# 17007**

Year	San Francisco			Other 8 Counties in Bay Area		
	Population	# Change	% Change	Population	# Change	% Change
2000	776,733			6,007,029		
2010	808,700	31,967	4.1%	6,603,800	596,771	9.9%
2020	857,200	48,500	6.0%	7,212,500	608,700	9.2%
Total Change 2000-2020		80,467	10.4%		1,205,471	20.1%

Source: ABAG Projections 2007; Economic & Planning Systems

## V. BIOSCIENCES, OFFICE, CORPORATE CAMPUS

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Pier 70's location adjacent to UCSF, a premier research institution, its new hospital, and the emerging Mission Bay biosciences cluster make the site an attractive location for bioscience spin-offs, private medical offices, and other hospital support space. As Mission Bay space becomes scarcer, Pier 70 is well-positioned as a development prospect for companies either headed by or employing UCSF researchers that benefit from locating as near the campus as possible.

Over the next five to ten years,<sup>13</sup> Mission Bay is likely to capture the majority of demand generated for bioscience space in San Francisco, Pier 70—as a nearby, developable alternative—could be well positioned to capture a significant portion of the balance of demand. Depending on the number of new bioscience jobs created in the Bay Area, San Francisco can reasonably be expected to significantly increase its current capture rate in this industry. Building on UCSF and the Mission Bay bioscience cluster, it is not unreasonable to expect that San Francisco could increase its share of bioscience jobs from about 3 percent to between 7 and 10 percent of Bay Area bioscience jobs. These jobs will require between 2.6 million and 4 million square feet of space through 2015. Depending on the pace of development at Mission Bay, the areas around UCSF's campus are expected to be highly competitive in terms of absorbing this demand. Using the lower employment growth rate, about 160,000 square feet of excess demand are projected while the higher employment capture rate yields space requirements outside of Mission Bay of 1.6 million square feet through 2015.

The market lease rate for new bioscience space at Pier 70 built out before Mission Bay space being exhausted is expected to be slightly below Mission Bay rates, now reported at between \$48.00 and \$60.00 per square foot per year on a triple net basis (NNN) with expected rates increasing as land available for bioscience uses at Mission Bay is occupied.<sup>14</sup> The under-construction building at 409-499 Illinois Street, just north of Pier 70 has been leased at a rate in-line with the \$48 per square foot annually NNN asking rate.<sup>15</sup> Also, reports on the new addition to the 185 Berry Street building in China Basin note rents of \$48 per square foot annually (NNN).<sup>16</sup> The higher potential lease rate of \$60 per square foot is based on the estimates of a life science broker in the area.<sup>17</sup> To the extent that rehabilitated buildings at Pier 70 provide less efficient space configurations or fewer amenities, lease rates will likely be priced below new buildings at the site.

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<sup>13</sup> Reports on Alexandria's buildout of its 2.5 million-square foot entitlement vary from five to ten years.

<sup>14</sup> Reported lease rates for Mission Bay are significantly higher than the rates reported in other Bay Area locations. Average rates in the North Peninsula, the next highest cost area after San Francisco, are estimated at \$36.50 per square foot annually, NNN.

<sup>15</sup> Interview with Mission Bay developer, July 2007.

<sup>16</sup> San Francisco Business Times, June 15-21, 2007 edition.

<sup>17</sup> San Francisco Chronicle, April 29, 2007.

Barring any significant economic downturn, demand for office space and space targeted to private medical offices is likely to increase in the coming years. Office uses at Pier 70 are expected to be competitive with non-financial district space located at SOMA, South Beach, Mission Bay, and Potrero Hill/Showplace Square. With new construction in these areas totaling about 100,000 square feet per year and an absorption rate of 200,000 square feet annually between 2002 and 2006, prospects for office development at Pier 70 are favorable. Office space at the site could be marketed both to smaller office tenants as well as a large company seeking a “campus” atmosphere. Aside from the Levi Plaza and the Lucas film campus in the Presidio, no other “campus”-style developments exist in the City.

Suitable locations for these of types uses include new buildings, either constructed singularly or within a larger, campus style setting, and, for office uses, conversion or rehabilitation of certain existing buildings (discussed in **Chapter VIII, Reuse of Buildings**). For bioscience uses, new buildings will likely be needed because of their high mechanical systems needs. However, some existing buildings at Pier 70 may be suitably converted for bioscience-related companies needing lower cost space, particularly for users with office or light industrial-like space requirements. Building 101 is also a good candidate for renovations for office users. The southeast corner of the site (currently occupied by San Francisco Department of Parking and Traffic) is an attractive location for a larger, campus-style development.

## UCSF AND BIOTECHNOLOGY

UCSF is the second largest employer in San Francisco after the City government, providing about 23,000 jobs in the City.<sup>18</sup> Not only is UCSF a significant source of direct employment, its ability to attract both research talent and research funding draws private development “spin-offs,” which are companies or nonprofits locating near the campus to transform the research of faculty, students completing post doctoral research, and graduate students into marketable products. Within the biosciences industry specifically, UCSF has spun off 60 to 70 companies including industry giants Genentech and Chiron.<sup>19</sup>

The biosciences industry (or biotechnology industry, used synonymously in this study) was “born” in the Bay Area in 1976 with the founding of Genentech by a UCSF faculty member and a venture capitalist in South San Francisco and continues to be a significant economic sector in the overall Bay Area economy. The Bay Area is currently home to about 800 biotech companies and 85,000 employees.<sup>20</sup>

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<sup>18</sup> “From Rail yard to Neighborhood: The Rise of Mission Bay,” David Prowler, SPUR August 2005 newsletter.

<sup>19</sup> San Francisco Bio Task Force Report, 2005.

<sup>20</sup> BayBio industry research group, June 8, 2007 “History of the Industry” website.  
[http://www.baybio.org/wt/home/Industry\\_Statistics](http://www.baybio.org/wt/home/Industry_Statistics)

Biotechnology has grown in the Bay Area—which is effectively ringed by its three premier research universities, Stanford University, UCSF, and UC Berkeley—because of the existence of these three institutions.<sup>21</sup> The largest biotechnology clusters in the Bay Area include locations in the Peninsula (South San Francisco), the East Bay (Richmond, Hayward, and Emeryville), and locations in Santa Clara County (Palo Alto and Mountain View). UCSF and UC Berkeley’s host cities do not contain a significant number of biotechnology firms, suggesting that local factors such as land costs and availability, land use controls, and neighborhood concerns have led to company decisions to locate nearby, but outside those cities—to Emeryville and Richmond, in the case of companies spun-off from UC Berkeley, and to South San Francisco, in the case of companies associated with UCSF.

## SAN FRANCISCO’S BIOTECHNOLOGY SECTOR

The donation of 43 acres of land in Mission Bay to UCSF was aimed at both retaining UCSF’s growth within the City and spurring a biotechnology cluster similar to the way Stanford served as a catalyst for the computer industry in Palo Alto (see **Figure 1** for a 2006 development planning map of Mission Bay). UCSF broke ground on the Mission Bay campus in 1999 and has completed about 1.5 million square feet of development to date, about 55 percent of its buildout capacity.<sup>22</sup> Nearly half of the development houses research activities, 30 percent is housing, one-quarter is used for support activities, and 1 percent is dedicated to instruction space. The campus also provides about 1,800 parking spaces to support an average daily population of about 3,200 people.

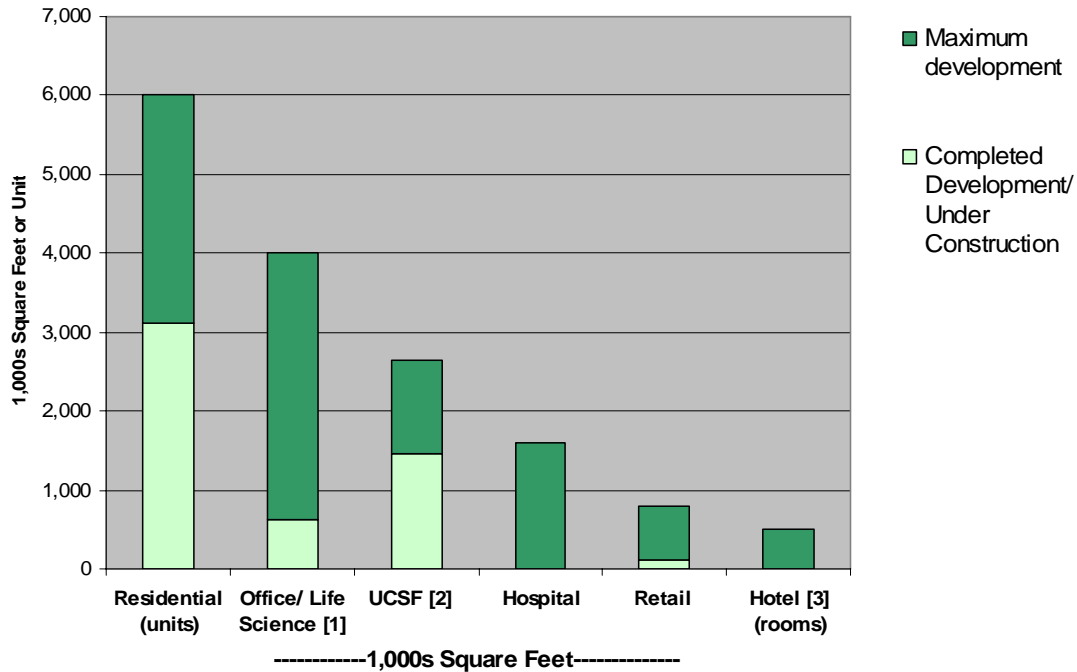
After an interim period of intermittent construction-starts for private facilities, bioscience development at the 300-acre Mission Bay redevelopment area is proceeding rapidly, a handful of years after the opening of UCSF’s first Mission Bay Campus site, Genentech Hall, in 2002. Along with residential development, office space, and UCSF’s campus buildings, two privately developed, life science buildings have been completed and are nearly fully tenanted. The Gladstone Institutes at 1650 Owens and the Alexandria Life Science and Technology campus at 1700 Owens together make up 365,000 square feet of lab and research space. Net of UCSF space, Mission Bay is entitled for 4 million square feet of flexible land use including office, R&D, and lab space. **Figure 6** illustrates the amount of development which is completed or under construction compared with the maximum development allowed under the entitlements.

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<sup>21</sup> The observed co-location of technology businesses and research universities has been documented in both academic research and industry periodicals. See Audretsch, David and Stephan, Paul, “Company-Scientist Locational Links: The Case of Biotechnology”, *The American Economic Review*, June 1996.

<sup>22</sup> Statistics on UCSF’s Mission Bay campus from a March 28, 2007 public presentation to the UCSF Mission Bay Community Task Force, given by UCSF planner, David Beauchamp.

Figure 6. Mission Bay Development Summary



[1] Includes Gap office, Alexandria Owens St. Bldg., and Gladstone Institute.

[2] Includes 416,500 SF for 430 housing units.

[3] Plus up to 50,000 SF retail/ entertainment uses.

The scheduled development of bioscience space at Mission Bay has been accelerated to meet increasing demand for space near the UCSF campus (see **Table 7** for existing and anticipated biotechnology development at Mission Bay). Alexandria Equities—which owns the remaining undeveloped blocks on Owens Street as well as blocks 26 to 32—plans to develop a 165,000-square foot building in the near term (at 1500 Owens) and 700,000, 470,000, and 1,000,000 square feet on its remaining Mission Bay properties.<sup>23</sup> Another developer, Shorenstein, is construction 450,000 square feet of biotech space on block X4.

<sup>23</sup> The development schedule for these new buildings is over the next 5 to 10 years.

**Table 7**  
**Mission Bay Life Science/Office Space**  
**Pier 70; EPS# 17007**

Development	Total Sq.Ft.	Completed Prior to 2006	2006	Expected Opening	
				2007-2009	2010-2017
Gladstone (1650 Owens) [1]	180,000	180,000	--	--	--
Alexandria					
1700 Owens Building [2], [3]	165,000	--	165,000	--	--
1500 Owens Buildings TBD	165,000	--	--	165,000	--
Total Entitlement	<u>2,170,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,170,000</u>
Shorenstein Properties					
409-499 Illinois [4]	450,000	--	--	450,000	--
Farallon (Block 40) [5]	500,000	--	--	--	--
Other [6]	770,000	285,000	--	--	--
UCSF Hospital [7]	<u>1,600,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,600,000</u>
<b>Total</b>	<b>6,000,000</b>	<b>465,000</b>	<b>165,000</b>	<b>615,000</b>	<b>3,770,000</b>

[1] Completed in 2004, the Gladstone Institutes is sited on 1.1 acres, the building footprint is 33,000 square feet, the Institute's construction cost was \$74M, while the completed cost was \$145M which included land purchase and development and financing.

[2] Lessees include Sirna Therapeutics, Pharmion Corp., Versant Ventures, Novo Ventures, and Arch Venture Partners.

[3] Sirna leases about 70,000 SF reported at \$36 to \$40 per SF annually.

[4] Fibrogen leases about half of the space at this site.

[5] Not yet sold to vertical developer.

[6] Includes existing office space, and additional, future space which is allowed under the 6 million square foot entitlement.

[7] Expected in late 2014.

Sources: San Francisco Redevelopment Agency; Economic & Planning Systems

## Lease Rates

Lease rates from surveys of biotechnology companies in the Bay Area are shown in **Table 8**. The average rate reported for the Bay Area from a survey of bioscience companies in 2006 was \$2.21 per square foot per month (or \$26.50 annually), up 10 percent from the reported average in 2005 of \$2.01 per square foot. The highest lease rates were reported for the North Peninsula which includes Brisbane, South San Francisco, and San Bruno (\$3.04 per month or \$36.48 annually), while the lowest rates were in the East Bay South including San Leandro, Hayward, Fremont, and Newark (\$.47 per month or \$17.64 annually). Vacancy rates correspond to lease rates with the North Peninsula's vacancy rate of between 0 and 6 percent, representing a nearly fully occupied building stock while East Bay South locations have between 15 and 30 percent vacancies. Lease rates for San Francisco biotech spaces range from \$38 (2006 rate) to \$60 per square foot annually, NNN.

## Space Characteristics

**Table 9** summarizes survey responses to the types of space currently occupied by companies in different phases of development. Survey respondents are categorized according to their company's stage of development. Startup companies are those in their first round of venture capital funding with no revenue from sales. Companies termed "mezzanine" are those which have achieved some development milestone but which are still dependent on outside funding for operations. Mature companies are those which are fully supported by sales revenues and are generating profits.

Lease rates vary by the type of company, with mature companies paying the lowest rates (\$1.76 per month or \$21.12 annually) and startups paying the highest, at \$2.22 per month or \$26.64 annually. This difference is likely due to the length of time mature companies have been in their respective locations.

More mature companies also tend to devote a greater proportion of their space to office uses as compared with startups which use about half of their space for research and development labs. Consistent with this greater proportion of office space is the significantly lower average smaller space per employee reported by mature companies (405 gross square feet compared to 460 and 475 for mezzanine and startups, respectively).

San Francisco firms did not respond to either year's survey. However, a survey of biotechnology firms in San Francisco by the Mayor's Office found about 30 companies with operations in San Francisco.<sup>24</sup> **Table 10** lists the firms and their offices. Of the 31 firms located for this survey, 20 companies focus on drug development and 9 companies work on research tools, diagnostics, and devices. Although the total amount of square feet devoted to these companies is not known, brokers note that San Francisco biotech space is leasing for rates similar to those on the Peninsula, currently the highest cost area for biotech space.

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<sup>24</sup> Mayor's Office of Economic Development, reported April 29, 2007 in the San Francisco Chronicle.

**Table 8**  
**Bay Area Biotechnology Space Characteristics**  
**Pier 70; EPS# 17007**

Location	Vacancy	Average Lease Rates (Annual, Triple Net)		
	2006	2005	2006	2007
North Peninsula [1]	0-6%	\$26.40	\$36.48	-
Mid Peninsula [2]	12-19%	\$22.08	\$26.64	-
Silicon Valley North [3]	16-18%	\$20.28	\$21.96	-
Silicon Valley South [4]	15-24%	\$19.32	--	-
East Bay North [5]	5-10%	\$27.00	\$27.00	-
East Bay South [6]	16-39%	\$15.84	\$17.64	-
Bay Area Survey Average	-	\$24.12	\$26.52	-
San Francisco Examples [7]				
185 Berry (China Basin) [8]		-	-	\$48.00
409-499 Illinois Street (Mission Bay) [9]		-	-	\$48.00
1700 Owens (Mission Bay, Sirna only) [10]		-	-	\$38.00
Reported by biotech broker [11]		-	-	\$60.00

[1] The locations of respondents to the real estate survey were Brisbane, South San Francisco, and San Bruno.

[2] Respondents' locations were Burlingame, San Mateo, Redwood City, and San Carlos.

[3] Respondents' locations were Mountain View, Palo Alto, East Palo Alto, and Menlo Park.

[4] Respondents' locations were Sunnyvale, Cupertino, and Santa Clara.

[5] Respondents' locations were Berkeley, Oakland, Alameda, and Emeryville.

[6] Respondents' locations were San Leandro, Hayward, Fremont, and Newark.

[7] The San Francisco real estate market for biotech space is not tracked systematically. Examples of reported or asking lease rates in the City are shown for particular sites.

[8] Rents as reported in SF Business Times, June 15-21, 2007; rents apply to a 175,000 square foot addition to the existing 230,000 square foot structure.

[9] Asking rent for this space, per interview with representative of Shorenstein Development.

[10] Lease rate reported in SF Business Times, March 10, 2006

[11] Reported in San Francisco Chronicle, April 29, 2007 edition, estimated asking lease rates for biotech space in the City.

Source: 2005 and 2006 Bay Area Biotechnology Real Estate Surveys, HiTech CM and CBRE; San Francisco Chronicle, San Francisco Business Times, Economic & Planning Systems

**Table 9**  
**Bay Area Biotechnology Space Characteristics**  
**Pier 70; EPS #17007**

Space Characteristics	Company "Growth" Category		
	Startup	Mezzanine	Mature
Lease Rate (annually)	\$26.64	\$23.16	\$21.12
Lease Term (years)	5.0	6.0	8.0
Space Composition			
Office	38%	47%	54%
R&D Lab	50%	29%	31%
Production/ Manufacturing	4%	15%	8%
Other/ Empty	8%	8%	7%
GSF per Employee	476	461	405
Building Age (years)	30	23	9
TI Cost (\$ per SF)	\$58	\$87	\$120

Source: 2005 and 2006 Bay Area Biotechnology Real Estate Surveys, HiTech CM and CBRE;  
Economic & Planning Systems

**Table 10**  
**Biotech Companies in San Francisco**  
**Pier 70; EPS# 17007**

Type	Name	Location
Research	1 California Institute for Regenerative Medicine	210 King Street
Clinical Research Contractor	2 Brains Online	1550 Fourth Street
Drug Development	3 Antipodean Pharmaceuticals	1700 Montgomery Street
	4 Carantech	665 Third Street
	5 DiObex Inc.	600 Townsend Street
	6 Epiphany Biosciences	1 California Street
	7 Fibrogen	409 and 499 Illinois [1]
	8 FivePrime Therapeutics	1650 Owens Street
	9 Institute for OneWorld Health	50 California Street
	10 Inverseon	1701 Jackson Street
	11 Jennerex Biotherapeutics	1 Market Street
	12 MandalMed Inc.	665 Third Street
	13 Medivation Inc.	55 Hawthorne Street
	14 Osteologix Inc.	425 Market Street
	15 Pharmion Corp.	1700 Owens Street
	16 Presidio Pharmaceuticals	1 Post Street
	17 Prosetta Corp.	670 Fifth Street
	18 Sartoris Inc.	1700 Fourth Street
	19 Sirna Therapeutics Inc. (Merck)	1700 Owens Street [1]
	20 VIA Pharmaceuticals Inc.	750 Battery Street
	21 West Coast Biologicals	600 Townsend Street
	22 Bay Therapeutics	1700 Owens Street [1]
Research Tools, Diagnostics, Devices	23 Corbett Robotics Inc.	185 Berry Street
	24 Fluxion Biosciences Inc.	1700 Fourth Street [1]
	25 Gel Co.	665 Third Street
	26 Hoefer Inc.	953 Indiana Street
	27 Mynosys Cellular Devices	1700 Fourth Street [1]
	28 Nidaan Inc.	1700 Fourth Street [1]
	29 Selexis USA	655 Montgomery Street
	30 True Materials Inc.	1700 Fourth Street [1]
	31 Wave 80 Biosciences Inc.	2325 Third Street

[1] Mission Bay location.

Source: San Francisco Mayor's Office of Economic Development

## SAN FRANCISCO'S FUTURE BIOTECH PROSPECTS

As UCSF's host city, San Francisco is a desirable location for new and existing bioscience companies. Compared with other Bay Area counties, San Francisco has a number of locational strengths which may be leveraged for growing its biotech base. **Table 11** summarizes the results of a survey of biotech industry and institutional leaders comparing and contrasting the relative strengths and weaknesses of the region's counties. For each "factor condition" – defined as factors influencing whether a biotech company may choose to locate in a particular region – San Francisco received a high ranking except for "capital structure and resources." Also, a number of South Bay venture capital firms have recently located in offices in Alexandria's Mission Bay facilities since the time of the surveys documented in **Table 11**. Results such as these indicate that San Francisco is a desirable location for biotechnology firms. In addition to these locational strengths, the City's payroll tax exemption for biotechnology companies (which sunsets in 2014), has reduced the costs of business particularly for larger companies for which the tax would be significant cost burden.

These recent positive developments in San Francisco's biotech sector indicate the potential for growth in the job base. Two approaches for estimating this potential are discussed below.

### Comparable Market Approach

The qualities which may attract bioscience companies to San Francisco are similar to qualities which helped form a biotech cluster in South San Francisco. (Employment data is provided by county thus the cluster around South San Francisco is referred to here as within San Mateo County.) Proximity to the UCSF and Stanford universities, access to high quality labor force, and access to venture capital resources underpinned the growth of San Mateo County's biotech cluster. One approach to estimating growth in this industry in San Francisco is to examine growth in San Mateo County and model a similar growth pattern for the City. **Table 12** shows biotech employment in the Bay Area between 1990 and 2005 (job counts under two definitions of the industry are shown).<sup>25</sup> As shown, San Mateo County experienced a growth rate of 5 percent or 8 percent, annually, over the 15-year period, depending on which definition of biotech is used to count jobs. Assuming a similarly aggressive period of growth, **Figure 7** shows a projection of bioscience employment in the City through 2030. Under a narrow definition of the industry, 2.5 million square feet of space would be needed while under a broader definition, 3.6 million square feet of space are projected.

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<sup>25</sup> There is no widespread agreement on the array of North American Industrial Classification System (NAICS) codes which should be utilized in tracking the biotech industry. See Appendix for list of codes in the "narrow" definition of the industry and the "broad" definition.

**Table 11**  
**Factor Conditions in Selecting Life Science Location**  
**Pier 70; EPS# 17007**

Factor Condition [1]	Alameda	Contra Costa	Marin	San Francisco	San Mateo	Santa Clara	Sonoma	Solano	Napa
Capital Structure and Resources	H	L	L	L	H	H	L	L	L
Commercial and Residential Infrastructure	H	H	L	H	H	H	H	H	H
Transportation and Information Infrastructure	L	L	L	H	H	L	H	H	H
Human Capital	H	L	L	H	H	H	H	H	L
Entrepreneurial Climate	H	H	L	H	H	H	L	L	L
Technology Commercialization	H	L	L	H	L	H	L	L	L
Intellectual Infrastructure	H	L	L	H	L	H	L	L	L
Quality of Life	H	H	H	H	H	H	H	H	H

[1] Rating as "H" high or "L" low indicates survey respondents perceived the factor condition as a strength for the County.

Source: "Taking Action for Tomorrow" Bay Area Life Sciences Strategic Action Plan; Economic & Planning Systems

**Table 12**  
**Bay Area Biotech Employment, 1990-2005**  
**Pier 70; EPS# 17007**

County Name	Total Employment [1]																1990-2005 Change	
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total %	Rate of Change
<b><u>Narrow Industry Definition [2]</u></b>																		
Alameda	5,665	5,359	4,362	5,372	5,529	5,834	5,597	5,719	5,876	6,346	7,202	8,244	8,857	7,662	7,938	8,029	42%	2%
Contra Costa	516	674	652	746	870	939	681	731	708	674	775	878	817	757	1,304	1,427	177%	7%
Marin	305	302	275	309	320	275	311	211	260	357	454	544	611	597	726	781	156%	6%
Napa	14	10	12	25	10	9	13	51	64	84	118	145	0	150	S	S	--	--
San Francisco	1,253	1,205	1,199	952	1,250	1,331	1,351	1,285	1,294	1,469	1,562	1,188	1,160	1,544	1,451	1,064	-15%	-1%
San Mateo	3,382	4,942	5,034	5,283	5,739	5,763	5,714	6,033	6,426	7,272	8,061	9,510	10,678	9,498	9,567	10,114	199%	8%
Santa Clara	17,159	16,177	16,276	17,887	18,409	18,309	17,635	18,266	19,714	20,136	20,709	21,431	19,261	18,633	18,554	18,419	7%	0%
Solano	0	0	0	0	0	0	0	0	0	0	0	1,289	S	S	S	S	--	--
Sonoma	0	0	0	0	0	0	0	0	0	0	0	331	337	648	718	799	--	--
Total Bay Area	28,294	28,669	27,810	30,574	32,127	32,460	31,302	32,296	34,342	36,338	38,881	43,560	41,721	39,489	40,258	40,633	44%	2%
Bay Area, Annual % Change		1%	-3%	10%	5%	1%	-4%	3%	6%	6%	7%	12%	-4%	-5%	2%	1%		
<b><u>Broad Industry Definition [3]</u></b>																		
Alameda	8,701	8,255	7,649	9,118	9,356	10,098	10,140	10,608	10,980	11,636	13,057	14,515	15,237	15,131	15,094	15,332	76%	4%
Contra Costa	1,787	1,698	1,612	1,756	1,857	1,911	1,708	1,775	1,760	1,945	2,088	2,227	2,235	2,457	3,570	3,325	86%	4%
Marin	371	367	335	364	379	343	377	266	320	410	502	641	711	664	852	901	143%	6%
Napa	27	24	27	39	26	26	30	70	86	108	143	167	23	171	22	18	-33%	-3%
San Francisco	1,992	1,983	1,976	1,591	1,887	1,926	1,917	1,858	1,861	2,002	2,042	1,733	1,748	2,114	1,961	1,539	-23%	-2%
San Mateo	5,712	7,334	7,676	7,562	8,193	8,297	8,385	8,937	9,211	9,904	10,710	14,728	15,200	11,510	11,727	12,014	110%	5%
Santa Clara	29,021	29,845	30,455	33,328	33,720	33,328	34,078	36,369	39,550	40,044	40,570	40,417	37,955	35,501	34,344	33,263	15%	1%
Solano	83	114	113	112	110	140	163	272	271	229	237	1,530	175	206	142	211	154%	6%
Sonoma	528	534	536	533	472	473	470	449	458	478	531	885	940	1,032	1,425	1,533	190%	7%
Total Bay Area	48,222	50,154	50,379	54,403	56,000	56,542	57,268	60,604	64,497	66,756	69,880	76,843	74,224	68,786	69,137	68,136	41%	2%
Bay Area, Annual % Change		4%	0%	8%	3%	1%	1%	6%	6%	4%	5%	10%	-3%	-7%	1%	-1%		

[1] Job counts from California EDD; Job totals undercount employment slightly as numbers which would compromise privacy are excluded. "S" Indicate revealing employment count may violate privacy of individual firms and is not published.

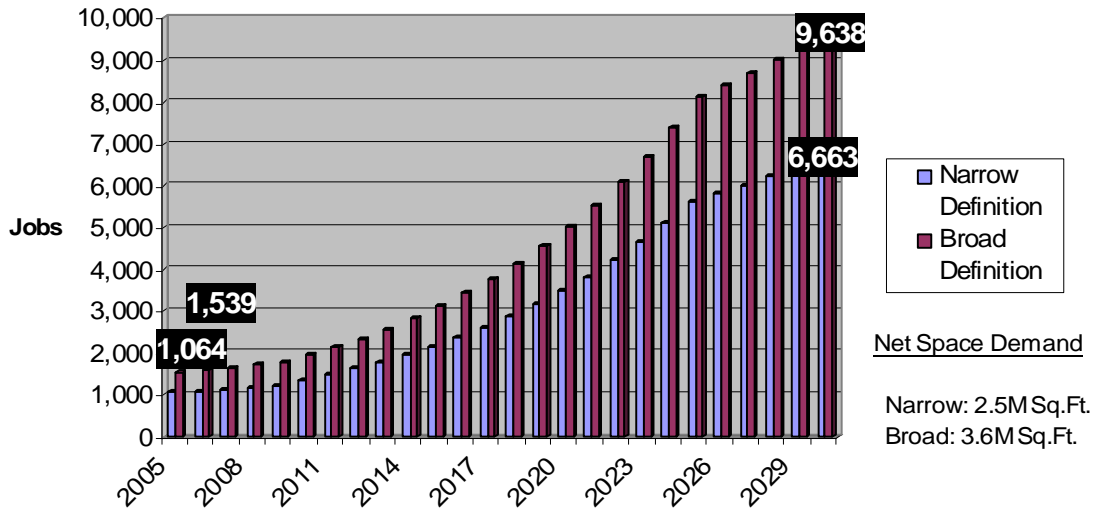
[2] Total employment includes selected North American Industrial Classification System (Codes) as follows:

NAICS Code	Description
325411	Medicinal and Botanical Manufacturing
325412	Pharmaceutical Preparation Manufacturing
325413	In-Vitro Diagnostic Substance Manufacturing
325414	Biological Product (except Diagnostic) Manufacturing
541710	Research & Dev. - Physical, Engineering, & Life Sciences

[3] See Appendix for list of NAICS codes which make up this definition.

Sources: California Economic Development Dept.; Economic & Planning Systems

**Figure 7. Comparable Market Approach, San Francisco Biotech Jobs Potential**



### Capture Rate Approach

The extent to which San Francisco will capture a significant portion of projected job growth will depend on the City’s ability to compete regionally as a business location. San Francisco historically captures about 15 to 20 percent of Bay Area employment.<sup>26</sup> However, in the industries which contain bioscience jobs, San Francisco has historically captured 2 to 3 percent of Bay Area jobs. **Table 13** documents this capture rate by examining the number of jobs, by locale, in the narrow and broad definitions of the industry. Over the 1990 to 2005 period, San Francisco’s portion of Bay Area bioscience jobs has fluctuated between 2 and 4 percent. The environment for biotech job growth has improved significantly in San Francisco since the 1990s, notably because of UCSF’s Mission Bay campus and the land around the campus available for biotech spinoffs. The job growth capture rate should similarly improve for the City going forward. In order to project future job counts, an increased capture rate from San Francisco’s current 2 to 3 percent is applied to the projected Bay Area total bioscience employment.

Three projections for total Bay Area biotech employment are used as the basis for the capture rate approach. Two of the projections are based on the California Economic Development Department’s (EDD’s) employment projections for the 2004 to 2014 period, with the applicable NAICS codes selected for the region and extrapolated through the year 2030. The third Bay Area projection is based on speculative accounts of the region’s future as a bioscience center.<sup>27</sup> **Table 14** documents these projections and

<sup>26</sup> According to the S.F. Planning Department, San Francisco had about 634,435 jobs in 2000 while the Bay Area had about 3.43 million jobs.

<sup>27</sup> See the San Francisco Bioscience Task Force Report (2005) and The Future of Bay Area Jobs, produced for Bay Area Economic Forum, Joint Venture Silicon Valley, and SPRIE (2006). Both note the prospects that total Bay Area employment in this industry may double in the coming decade, from roughly 80,000 jobs.

**Table 13**  
**San Francisco Capture of Bay Area Bioscience Jobs, 1990-2005**  
**Pier 70; EPS# 17007**

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b><u>Narrow Definition</u></b>																
Bay Area Total	28,294	28,669	27,810	30,574	32,127	32,460	31,302	32,296	34,342	36,338	38,881	43,560	41,721	39,489	40,258	40,633
San Francisco Total	1,253	1,205	1,199	952	1,250	1,331	1,351	1,285	1,294	1,469	1,562	1,188	1,160	1,544	1,451	1,064
San Francisco "Capture"	4%	4%	4%	3%	4%	4%	4%	4%	4%	4%	4%	3%	3%	4%	4%	3%
<b><u>Broad Definition</u></b>																
Bay Area Total	48,222	50,154	50,379	54,403	56,000	56,542	57,268	60,604	64,497	66,756	69,880	76,843	74,224	68,786	69,137	68,136
San Francisco Total	1,992	1,983	1,976	1,591	1,887	1,926	1,917	1,858	1,861	2,002	2,042	1,733	1,748	2,114	1,961	1,539
San Francisco "Capture"	4%	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%	3%	3%	2%

[1] Job counts from California EDD; Job totals undercount employment slightly as numbers which would compromise privacy are excluded. "S" Indicate revealing employment count may violate privacy of individual firms and is not published.

**Table 14**  
**San Francisco Projection Bioscience Jobs: Capture Rate Approach**  
**Pier 70; EPS# 17007**

Item	Biotech Industry Definition			
	Narrow	Broad	Other [1]	
Jobs Projection, 2030 [3]	63,962	107,250	160,000	
Bay Area Biotech Jobs (2005)	<u>40,633</u>	<u>68,133</u>	<u>80,000</u>	
Bay Area Net New jobs	23,329	39,117	80,000	
<b><u>San Francisco New Biotech Jobs</u></b>				
Net new jobs by 2030, assuming capture rate of Bay Area's net new jobs @	3%	611	1,024	2,095
	6%	1,400	2,347	4,800
	10%	2,333	3,912	8,000
<b><u>San Francisco Net New Biotech Jobs</u></b>				
Net new space demanded by 2030, assuming capture rate of Bay Area's net new jobs @	3%	274,900	460,900	942,700
	6%	629,900	1,056,200	2,160,000
	10%	1,049,800	1,760,300	3,600,000

[1] Several publications seeking to analyze and plan for the growth of the life science sector in the Bay Area note a growth potential which would roughly double a very broad definition of life science employees in the region. These documents consider not only the growth potential inherent in the industry's underlying economics, but also consider policies which seek to attract and retain life science companies in the area. ("Very broad" definition of this sector does not include specialized professional service providers such as venture capitalists or attorneys, but does include a wider range of medical jobs than the "broad" definition used in the previous column does.)

[2] Total Sq.Ft. @ 450 Sq.Ft./Emp. per survey of Bay Area biotech real estate.

[3] Calculated by analyzing California EDD projections for the applicable NAICS codes for each county in the Bay Area for 2004 through 2014. Annual rate of growth indicated in this 10-year projection is extrapolated through the year 2030.

[4] See previous table.

Sources: California Economic Development Department; Census County Business Patterns; San Francisco Biosciences Task Force Report (2005); The Future of Bay Area Jobs (A.T. Kearney); Economic & Planning Systems

shows the results of applying increasing San Francisco's capture rate of Bay Area bioscience jobs from its base to 6 percent and 10 percent. The basis for doubling San Francisco's capture rate is San Mateo County's experience during the 1990s. Between 1990 and 2005, the County's proportion of Bay Area bioscience jobs doubled from 12 to 25 percent (under the narrow definition of bioscience). A tripling of San Francisco's capture rate is also shown because the City is starting from such a low base, at 2 to 3 percent.

The most conservative job-growth scenario suggests that between 275,000 and 1.1 million square feet of additional biotech development is needed in the City. For this projection, entitled land in Mission Bay would likely absorb all of the demand. However, the total growth suggested under an aggressive scenario where employment in this industry in the Bay Area doubles, and San Francisco triples its rate of job capture, 3.6 million square feet would be required to accommodate the employment growth.

## **BIOTECH AND PIER 70**

Because of its favorable location with respect to the UCSF campus, the Mission Bay location is likely to attain a high capture of biotech space demands. Private bioscience space at Mission Bay is estimated to supply about 2.6 million square feet over the next five to ten years in the City. Net of the demand absorbed by space at Mission Bay, there is no excess demand projected through 2015 based on a doubling of San Francisco's employment capture rate. A tripling of the job growth capture rate produces excess demand of roughly 420,000 square feet. Pier 70 is well-positioned to capture a significant portion of this excess demand because of its proximity to Mission Bay and UCSF and its large size. Moreover, Pier 70 would be able to offer a large, contiguous campus location with direct waterfront adjacency that cannot be provided at Mission Bay, which would make the site competitive for certain users even before completion of Mission Bay buildout.

## **MEDICAL OFFICE**

UCSF has acquired land on the south end of Mission Bay for the construction of a new hospital, planned for completion in 2014. Approximately 1.6 million square feet of medical space will be located on the 14.5-acre site. Sixty-one hospital beds for cancer patients will be relocated from UCSF's Mount Zion site to the Mission Bay Hospital. In addition, the new hospital will serve the needs of women and children patients with about 190 dedicated hospital beds. The site will also house an ambulatory care center.

A significant amount of ancillary development is typically associated with hospital locations. Many doctors staffing the hospital also require off-hospital medical office space to house private practices. Also, services a hospital contracts out for such laundry and food preparation may also need to be located close to the hospital site. A hospital located less than a quarter of a mile from Pier 70 presents an opportunity for

development on the site. The Phase I development plan for the hospital and ambulatory care center (expected in 2014) includes an estimated 230 physicians and approximately 1,250 patients (inpatients plus outpatients, on a typical weekday).<sup>28</sup>

The actual demand for medical office space will depend on a number of factors including the number of UCSF physicians who also participate in private medical practices and the extent to which private medical doctors seek to locate near the hospital as a convenient choice for referrals. Assuming about a third of hospital physicians have private medical offices<sup>29</sup> and 75 percent of them locate near the hospital, demand for medical office space in the area will range from 61,000 square feet for Phase I of the Mission Bay's hospital development to 137,000 square feet if the hospital expands to its planned 550-bed size.

## OFFICE

Pier 70's location and site amenities will attract interest from general office tenants. Office spaces with waterfront views and amenities are in high demand in the City. In addition, the location is adjacent to the rapidly developing Mission Bay and has strong transit ties with the Embarcadero and downtown San Francisco. Several areas of Pier 70 have potential as office building locations including rehabilitated Buildings 101 and 104, which were historic office building; open areas of the site along Illinois Street and adjacent to Building 101; and the area on the eastern edge of the site, a high proportion of which could be constructed with views. These locations are noted without consideration of the Tideland Trust encumbering development of some of these spaces; these potential locations assume a land swap will take place to maximize developable land available for flexible uses.

Average absorption rates over the last year for the subarea around Pier 70 in San Francisco totaled about 40,000 square feet.<sup>30</sup> Assuming new or rehabilitated historic buildings at Pier 70 would capture a large portion of future absorption; over a ten-year period 300,000 to 500,000 square feet of office may be expected for development at Pier 70. Current lease rates for Class A office in this subarea are reported at \$35 per square foot (full service basis), a 30 percent increase over Q2 2006 rates. However, office rates along the waterfront, including Pier 1 ½, tend to generate lease rates of between \$65 and \$75 per square foot. Assuming Class A buildings at the site, new office buildings at Pier 70 are expected to lease above the surrounding areas for an average of \$35 per square foot (full service basis), with premium spaces (with views, other amenities) expected to be valued significantly higher.

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<sup>28</sup> A Phase II of the hospital is also planned, though the timing on this development will depend in fundraising. The Phase II would bring the total number of beds from 289 to 500, the number of physicians from 230 to 500, and the number of patients onsite from 1,250 to 3,200.

<sup>29</sup> UCSF estimates that about 35 percent of their physicians have private medical practices.

<sup>30</sup> Based on CB Richard Ellis, Q2 2006 –Q1 2007 for three neighborhood areas: Multimedia Gulch, Potrero Hill, and Mission Bay. Total building base for this area is 6.48 million square feet.

Office market lease rates and occupancy rates in San Francisco have steadily increased since the lows experienced in 2001. Market vacancies during the first quarter of 2007 were 10.1 percent, the lowest rate since the first quarter of 2001 (8.5 percent). Class A space in the North Financial District averaged \$45.96 annually per building square foot (full service basis), \$42.12 for the South Financial District, and \$29.05 for Non Financial District Class A space. Lease rates in the North Financial District and Non Financial District for this quarter increased 6 percent from the annual average for 2006. Existing high rents, and expectations of future increases, have spurred several speculative developments which are awaiting approvals.<sup>31</sup>

## LEASE RATES/ABSORPTION RATES

The office market in San Francisco has continued to rebound since 2001. **Table 15** summarizes activity in the office market from 2001 to 2006. Between 2002 and 2006, net absorption in the non-Financial District neighborhoods averaged 200,000 square feet per year. Since 2003, the first year of positive absorption since the dot.com boom, net absorption averaged 734,000 square feet per year. New construction for this subsector of the office market averaged roughly about 100,000 square feet per year.

For 2006, the asking lease rates averaged \$34.26 per square foot (all office rents noted at annual, full-service lease rates), compared with \$31.25 in 2001 and \$26.14 in 2003. Outside of the financial district, average asking lease rates were \$27.39 per square foot for the year. The most recent data available for the office market is summarized in **Table 16** for the first quarter of 2007. Office lease rates for this period average around \$28.73 per square foot in SOMA South. **Figure 8** shows vacancy rates and annual asking lease rates for nonfinancial district space between 2001 and 2006.

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<sup>31</sup> These include GLL Properties' 350 Mission, Hines' 110 Embarcadero, Tishman Speyer's 222-2<sup>nd</sup> Street, Solit Interest Group's First/Mission, Higgins Development Partner's 524 Howard Street and Beacon Capital Partner's 535 Mission Street. With the City's new policy to place LEED buildings on a faster approval track, developers are speeding up plans in order to get approvals before the breaching of the limit on annual office development of 875,000 square feet.

**Table 15**  
**San Francisco Office Market Historical Summary (2001-2006)**  
**Pier 70; EPS# 17007**

Submarket		2001	2002	2003	2004	2005	2006
North Financial District [1]	Vacancy Rate	14.7%	20.4%	19.4%	16.3%	14.6%	12.0%
	Avg. Asking Rate	\$36.58	\$30.63	\$28.25	\$29.82	\$35.25	\$39.79
	% Change		-16%	-8%	6%	18%	13%
	Gross Absorption	2,281,366	3,344,501	4,220,495	5,377,496	3,960,275	3,915,139
	Net Absorption	(2,900,637)	(1,487,012)	303,459	554,356	52,892	579,016
	New Construction	0	98,400	76,600	0	0	60,000
South Financial District [1]	Vacancy Rate	12.3%	19.1%	18.5%	15.9%	10.9%	9.0%
	Avg. Asking Rate	\$35.75	\$29.93	\$27.62	\$28.98	\$33.27	\$37.12
	% Change		-16%	-8%	5%	15%	12%
	Gross Absorption	1,151,970	2,020,893	2,973,634	3,429,173	2,962,323	2,360,632
	Net Absorption	(1,928,280)	(1,091,174)	77,683	392,100	1,141,003	311,265
	New Construction	29,920	482,900	0	0	335,000	0
Non-Financial Districts [2]	Vacancy Rate	17.7%	20.8%	21.2%	16.6%	12.0%	10.6%
	Avg. Asking Rate	\$25.90	\$22.57	\$21.18	\$21.45	\$23.21	\$27.39
	% Change		-13%	-6%	1%	8%	18%
	Gross Absorption	2,851,536	2,718,493	2,779,299	3,906,411	3,970,507	2,305,545
	Net Absorption	(3,571,442)	(1,002,041)	(188,091)	604,972	1,169,680	426,837
	New Construction	440,354	71,693	126,406	0	107,125	138,973
Total San Francisco	Vacancy Rate	15.3%	20.2%	19.9%	16.3%	12.6%	10.6%
	Avg. Asking Rate	\$31.35	\$27.08	\$25.03	\$26.14	\$30.19	\$34.26
	% Change		-14%	-8%	4%	15%	13%
	Gross Absorption	6,284,872	8,083,887	9,973,428	12,713,080	10,893,105	8,581,316
	Net Absorption	(8,400,359)	(3,580,227)	193,051	1,551,428	2,363,575	1,317,118
	New Construction	470,274	652,993	203,006	0	442,125	198,973

[1] Class A and B.

[2] Jackson Square, North Waterfront, South Beach/Rincon Hill, SOMA, Mission Bay/CB, Showplace Square, Union Square, Yerba Buena.

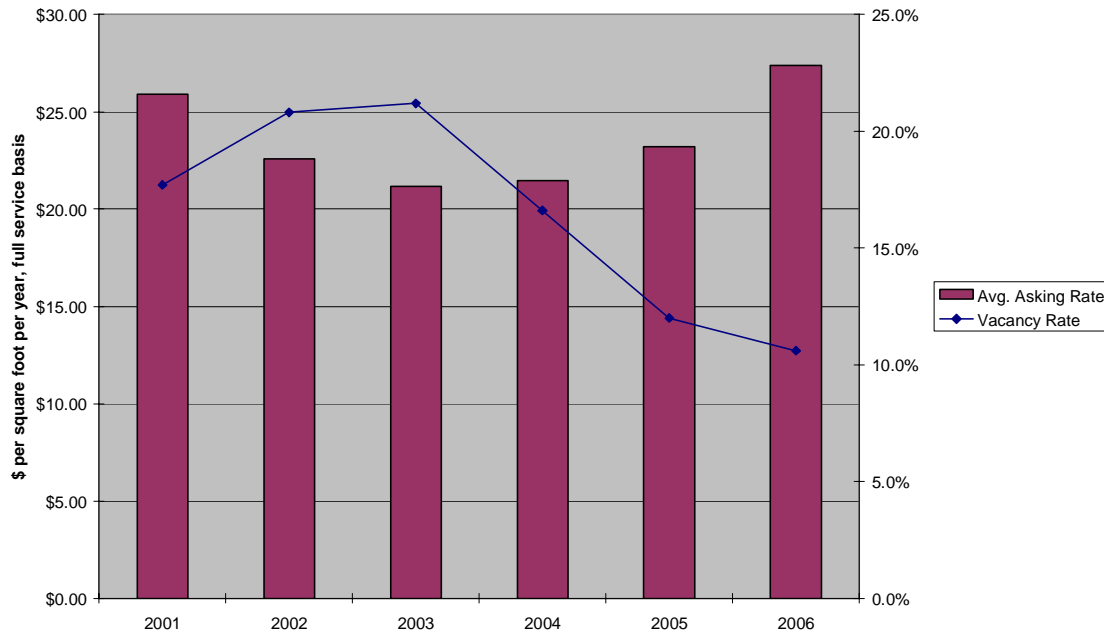
Source: NAI BT Commercial; Economic & Planning Systems, Inc.

**Table 16**  
**San Francisco Office Market Summary, 1Q 2007**  
**Pier 70; EPS# 17007**

Submarket	Building Sq. Ft.	Available Space			Vacancy Rate		Avg. Annual Asking Rate (Full Service basis)	Avg. Time on Mkt. in Months
		Direct	Sublease	Total	4Q-06	1Q-07		
North Financial Class A	21,262,395	2,030,653	437,814	2,468,467	11.8%	11.6%	\$45.96	23.26
North Financial Class B	<u>5,969,827</u>	<u>775,209</u>	<u>146,187</u>	<u>921,396</u>	<u>12.5%</u>	<u>15.4%</u>	<u>\$31.89</u>	<u>16.34</u>
North Financial Sub-Total	27,232,222	2,805,862	584,001	3,389,863	12.4%	12.4%	\$42.14	21.38
South Financial Class A	19,157,816	1,261,208	218,462	1,479,670	8.7%	7.7%	\$42.12	25.62
South Financial Class B	<u>3,278,915</u>	<u>341,348</u>	<u>3,000</u>	<u>344,348</u>	<u>11.0%</u>	<u>10.5%</u>	<u>\$29.25</u>	<u>19.78</u>
South Financial Sub-Total	22,436,731	1,602,556	221,462	1,824,018	8.1%	8.1%	\$37.12	24.52
<b>Financial District</b>	<b>49,668,953</b>	<b>4,408,418</b>	<b>805,463</b>	<b>5,213,881</b>	<b>10.6%</b>	<b>10.5%</b>	<b>\$41.28</b>	<b>22.48</b>
Jackson Square/North Waterfront	6,095,448	377,097	102,646	479,743	9.8%	7.9%	\$30.44	22.43
South Beach/Rincon Hill/SOMA	18,335,442	1,679,243	291,415	1,970,658	11.2%	10.7%	\$28.73	40.7
Union Square	4,724,174	347,999	15,630	363,629	8.6%	7.7%	\$28.66	33.12
Yerba Buena	<u>3,665,685</u>	<u>313,189</u>	<u>16,771</u>	<u>329,960</u>	<u>10.8%</u>	<u>9.0%</u>	<u>\$29.33</u>	17.79
<b>Non Financial District</b>	<b>32,820,749</b>	<b>2,717,528</b>	<b>426,462</b>	<b>3,143,990</b>	<b>10.6%</b>	<b>9.6%</b>	<b>\$29.05</b>	34.63
<b>Total San Francisco</b>	<b>82,489,702</b>	<b>7,125,946</b>	<b>1,231,925</b>	<b>8,357,871</b>	<b>10.6%</b>	<b>10.1%</b>	<b>\$36.68</b>	<b>27.05</b>

Source: NAI BT Commercial; Economic & Planning Systems, Inc.

**Figure 8: Office Market, Non-Financial District, San Francisco, 2001-2006**



There is currently no systematically tracked data for the office market in and around Pier 70. The closest office market would be what CBRE considers “SOMA South”, which consists of Multimedia Gulch, Mission Bay, and Potrero Hill submarkets. **Table 17** reports office market data for this subarea. With roughly 6.5 million rentable square feet, vacancy rates have fluctuated between 13.2 percent and 14.5 percent over the last year. Lease rates for Class A space and Class B space, meanwhile, has increased 30 to 35 percent. Tenants seeking price relief from the north and south financial markets (where vacancy rates are nearing single-digits) are likely driving up rates in alternative areas like SOMA South.

## VACANCY RATES

Vacancy rates are at the lowest levels in five years, averaging 10.6 percent for 2006 and at 10.1 percent for first quarter 2007. For 2006, new construction accounted for nearly 200,000 square feet of office space. Outside of the financial district, vacancy rates were equal to the rates seen across the City, at 10.6 percent. Vacancy rates in SOMA South now stand at 14 percent. Vacancy rates in Daly City, Brisbane, and South San Francisco range between 7 percent and 14 percent.

**Table 17**  
**SOMA South Office Market (Q2 2006-Q1 2007)**  
**Pier 70; EPS# 17007**

<b>Period</b>	<b>Rentable Area (Sq.Ft.)</b>	<b>Vacancy Rate</b>	<b>Class A (per year, full service basis)</b>	<b>Class B</b>	<b>Class C</b>	<b>Net Absorption</b>
Q2 2006	6,482,404	14.5%	\$27.00	\$20.00	\$20.00	85,655
Q3 2006	6,482,404	13.2%	\$27.00	\$21.00	\$20.00	15,739
Q4 2006	6,482,404	14.1%	\$31.25	\$21.50	\$21.00	-58,435
Q1 2007	6,482,404	14.5%	\$35.00	\$27.00	\$22.50	-2,988
% Change		0%	30%	35%	13%	

SOMA South includes the Multimedia Gulch, Mission Bay, and Potrero Hill submarkets.

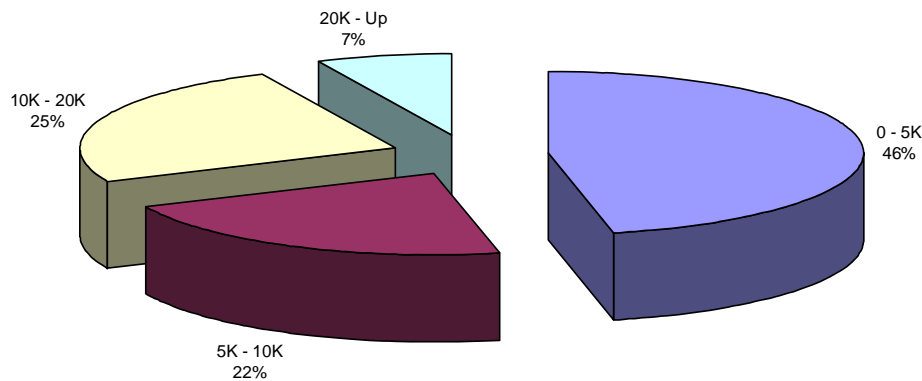
Sources: CB Richard Ellis; Economic & Planning Systems

## RENTABLE OFFICE SPACE

About 45 percent of available office space is less than 5,000 square feet in size, about half of listings are between 5 and 20,000 square feet and less than 10 percent are greater than 20,000 square feet. Assuming office employees occupy about 300 square feet, a 20,000-square foot building would be suitable for a company with about 65 employees.

**Figure 9** illustrates the number and sizes of office listings in the City by sub-areas for the fourth quarter, 2006.<sup>32</sup>

**Figure 9: Office Listings by Size, San Francisco, Q1 2007**



## CORPORATE CAMPUS USES

The office building supply in San Francisco does not include “campus” style buildings for corporate tenants. The LucasFilm complex in the Presidio and Levi Plaza are the only notable corporate campuses in the City. The 23-acre LucasFilm complex (with seven acres devoted to a “great lawn”), completed in 2005, includes 850,000 square feet of building space spread across four buildings. The lease payment for the site is \$5.6 million annually, which is net of the initial development costs invested by LucasFilm, reported at \$300 million. Pier 70’s size makes it an attractive location for a potential campus-style development suitable for a single-user or multi-tenanted buildings.

<sup>32</sup> Data as reported by NAI BT Commercial for the fourth quarter of 2006.

## VI. OTHER NEW COMMERCIAL DEVELOPMENT

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Land uses generally termed “industrial” are zoned in San Francisco under the designation PDR. Locating new PDR uses at Pier 70 would complement the current uses at the site and maintain Pier 70’s industrial character. Because of the relatively low, supportable lease payments, likely locations for PDR at Pier 70 may be constrained to existing buildings, as interim uses, or PDR may be located within an eventual historic district, in buildings rehabilitated partially with outside financial support (see **Chapter VIII, Reuse of Existing Buildings**).

Retail uses, including neighborhood services and small eateries, can be supported by nearby residents and employees at the site. The total supportable retail square footage will depend on Pier 70 built-out density. Lease rates at comparable sites for this use in the City range from \$30 to \$40 per square foot annually.

Currently, public access to the waterfront at Pier 70 is severely limited. Two types of typical waterfront developments, a small-vessel marina and a waterfront restaurant, would serve to activate the eastern end of the site by attracting recreation and meal patrons. Based on occupancy levels and the waiting list for slip leases at the South Beach marina, demand for marina slips in the area is strong. However, an outside funding source, such as a grant or loan from the California Department of Boating and Waterways, would likely be needed to construct the marina. In addition, the construction of a marina may negatively impact the existing shipyard’s ability to operate safely and efficiently. A marina located just south of the existing pier 70 remains could offer roughly 500 slips for small vessels.

A waterfront restaurant at Pier 70 is another possible waterfront development type which would serve as a point of attraction for the public. However, to lay a foundation for success for a restaurant, site planning would need to include a clear route to the restaurant from Illinois Street, parking near the site, and an option for water-borne transportation such as private watercrafts or public water taxi service.

### **PRODUCTION, DISTRIBUTION, REPAIR MARKET**

PDR uses, listed on **Table 18**, include publishing and printing companies, graphic and photo services, food and event services and automotive services as well as a host of other activities. Current lease rates for these types of businesses at Pier 70 average roughly \$7.00 per square foot annually, up to \$16.00 per square foot annually for relatively small spaces (100 to 1,400 square feet). Citywide, the average lease rate is \$9.00 per square foot annually. Because of these relatively low expected values,

**Table 18**  
**PDR Uses Defined**  
**Pier 70; EPS# 17007**

<b>PDR Category</b>	<b>PDR Sub-Category</b>
Publishing	Publishing/Printing Printing Services Paper Manufacturing/Wholesale
Audio/Visual	Photo Services Graphic Design Radio/TV Stations Sound & Film Recording
Arts	Arts Activities
Fashion	Garment Manufacturing Fabric/Apparel Manufacturing Wholesale Apparel
Transport	People Transport Goods Transport Courier Services
Food/Event	Catering [1] Wholesale Flowers Large Food Processing Wholesale Food Distribution
Interior Design	Wholesale Jewelry Import/Export Trading Showrooms (1) Furniture Manufacturing Wholesale Furniture
Construction	Construction/Bldg Maintenance Wholesale Construction
Equipment	Appliance Repair Wholesale Appliances Heavy Equipment Wholesale Small Manufacturing
Motor Vehicles	Towing/Parking/Rental Wholesale Auto Parts Auto Repair Auto Body Repair
Other	Animal Svcs/Kennel/Landscaping Chemical/Leather Repair Waste Management Utilities Public Warehouse

[1] While "Catering" and "Showrooms" are nominally included as PDR uses, the business database maintained by the San Francisco Planning Department did not include any such businesses as PDR uses. Thus, these two categories are eliminated on other tables in this analysis.

compared to bioscience or office uses, space provided for PDR uses at Pier 70 should be directed to existing buildings which are unsuitable for more profitable uses or as interim uses (see **Chapter VIII, Reuse of Existing Buildings**).

## RETAIL MARKET

As a location for retail, Pier 70 is likely to house primarily limited neighborhood- and employee-serving retail uses. Lacking visibility from the freeway or major thoroughfares (e.g., 3<sup>rd</sup> Street), the location is not appropriate for regional or big box retail. Suitable tenant-types would include small-scale eateries, grocery, and sundry stores. A limited amount of neighborhood service retailers such as dry cleaners, salons, and other personal service businesses may be supportable close to Illinois Street, particularly if residential is part of the mix of uses. Retail square footage at this site is likely to consist of ancillary space, with the quantity supportable dependent on the total amount of development which ultimately occurs on the site.

**Table 19** provides recent advertisements for leased space. The vacancy rate at the end of 2006 was 8.3 percent for retail space in the City, a healthy rate.<sup>33</sup> Recently advertised lease spaces range from almost \$50 per square foot (triple net basis) for locations at Mission Bay to \$20 for sites on Potrero Hill and \$40 for locations in the Mission. Depending on the ultimate density of the site, retail space will likely lease for \$30 to \$40 per square foot.

## WATER-RELATED COMMERCIAL

### MARINA

San Francisco has several marina locations including the San Francisco Marina with 700 slips; Pier 39 marina with 300 slips; the Treasure Isle Marina, to be renovated to accommodate 400 slips; and the South Beach Marina with 700 slips.<sup>34</sup> Judging from the waiting list for the South Beach Marina, which is estimated at four to six years, there is excess demand for boating slips relative to the roughly 2,000 slips offered.

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<sup>33</sup> NAI BT Commercial, 2006 annual report on San Francisco.

<sup>34</sup> Slip information provided on [www.boatingsf.com](http://www.boatingsf.com) and in conversations with Jim Knibacken from the San Francisco Redevelopment Agency.

**Table 19**  
**Retail Values, Reported and Advertised**  
**Pier 70; EPS# 17007**

NAIBT Commercial 2007 Outlook	Lease Rate per Square Foot (NNN)	
	Low	High
Union, Castro, Fillmore, Chestnut	\$48	\$72
Hayes Street	\$48	\$65
Recent restaurant transactions	\$36	\$45

<b><u>Advertised</u></b>			
<b>Address</b>	<b>SF</b>	<b>\$/SF</b>	<b>Rent type</b>
350 Rhode Island	1,065	\$24	NNN
Avalon Bay Phase II	1,095	\$45	NNN
170 King Street	619	\$38	NNN
170 King Street	749	\$38	NNN
170 King Street	1,913	\$48	NNN
170 King Street	1,580	\$48	NNN
640-690 Texas	2,000	\$19	NNN [1]
725 Folsom Street	4,650	\$36	NNN [1]

[1] A range of space sizes advertised; Square footage shown is the average size.

For the purposes of this study and the financial analysis of the Pier 70 preferred Master Plan, a marina is not included in the financial assessment, assuming that neither the inclusion or the exclusion of a marina at the site would have a significant impact on the overall financial picture for Pier 70.

## **MARITIME RELATED USES**

This study did not address the need for maritime related uses at Pier 70. A separate analysis is underway with respect to BAE San Francisco Ship Repair's requirements for space.

## VII. RESIDENTIAL

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Prospects for the San Francisco residential market continue to be strong, supported by pent-up demand for housing in the City and expected job growth. Since 1996, the City's population has grown by 60,650 people, an increase of 8 percent. The total number of housing units in the City has increased by about 6.7 percent over the same period, from 334,500 to 357,000 units. With a potentially suitable location for a residential development along Illinois Street south of existing buildings on 20<sup>th</sup> Street, roughly 2.45 acres in size, planning for Pier 70 could allow up to roughly 250 residential units. The residential pipeline in San Francisco currently totals about 29,300 units. The addition of a Pier 70 site to the residential pipeline would increase the number of units by less than 1 percent, an amount which could be absorbed by demand for housing in the City relatively easily.

### HOUSING PRODUCTION/PRICING TRENDS

**Figure 5** (see page 16) shows residential building permits issued from 1985 to 2006 and **Table 20** documents the source data for the figure. Between 1985 and 1990, the City issued an average of 1,700 total permits (multifamily and single-family combined) on an annual basis. The figure illustrates peaks in 1987 and 1999, with 2,442 and 3,811 permits issued, respectively in those two years. The last year with data available, 2006, illustrates a slight tapering off from sharp increases shown in 2003, 2004, and 2005 during which total permits issued were increasing at 19 percent, 50 percent, and 15 percent, in year-over-year comparisons.

The median home price in San Francisco has increased 6.6 percent annually since 1990. Since 1997, it has increased 9.4 percent annually. **Table 21** shows the median home price for the City from 1990 through 2006. For the period, home prices appreciated 6.6 percent annually from \$273,000 to \$753,000. Over the last ten years, the appreciation rate was 9.4 percent per year. The median home price based on March 2007 sales is \$787,000.

**Table 20**  
**Residential Building Permits Authorized/ Approved, 1985-2005**  
**Pier 70; EPS# 17007**

<b>Year</b>	<b>Units Approved/Authorized by DBI</b>	<b>No. Change</b>	<b>% Change</b>
1985	1,479		
1986	2,037	558	38%
1987	2,442	405	20%
1988	2,148	-294	-12%
1989	1,508	-640	-30%
1990	1,332	-176	-12%
1991	987	-345	-26%
1992	629	-358	-36%
1993	1,001	372	59%
1994	948	-53	-5%
1995	525	-423	-45%
1996	1,228	703	134%
1997	1,666	438	36%
1998	2,336	670	40%
1999	3,360	1,024	44%
2000	2,897	-463	-14%
2001	2,380	-517	-18%
2002	1,478	-902	-38%
2003	1,845	367	25%
2004	2,318	473	26%
2005	5,571	3,253	140%
Total (20 Yr. period)	40,115		
Average Annual	2,006		

Source: San Francisco Planning Department, 2006 Housing Inventory; Economic & Planning Systems, Inc

**Table 21**  
**Median Home Prices, 1990-2006**  
**Pier 70; EPS# 17007**

Month	Median Price	Annual Change
Dec-90	\$272,777	
Dec-91	\$279,310	2.4%
Dec-92	\$258,806	-7.3%
Dec-93	\$265,384	2.5%
Dec-94	\$261,734	-1.4%
Dec-95	\$256,521	-2.0%
Dec-96	\$276,172	7.7%
Dec-97	\$335,294	21.4%
Dec-98	\$349,561	4.3%
Dec-99	\$434,091	24.2%
Dec-00	\$551,948	27.2%
Dec-01	\$536,765	-2.8%
Dec-02	\$588,235	9.6%
Dec-03	\$671,052	14.1%
Dec-04	\$745,659	11.1%
Dec-05	\$727,000	-2.5%
Dec-06	\$753,000	3.6%
Annual Growth Rate 1990 - 2007	6.6%	
Growth: 1990 - 1996	0.2%	
1997 - 2006	9.4%	

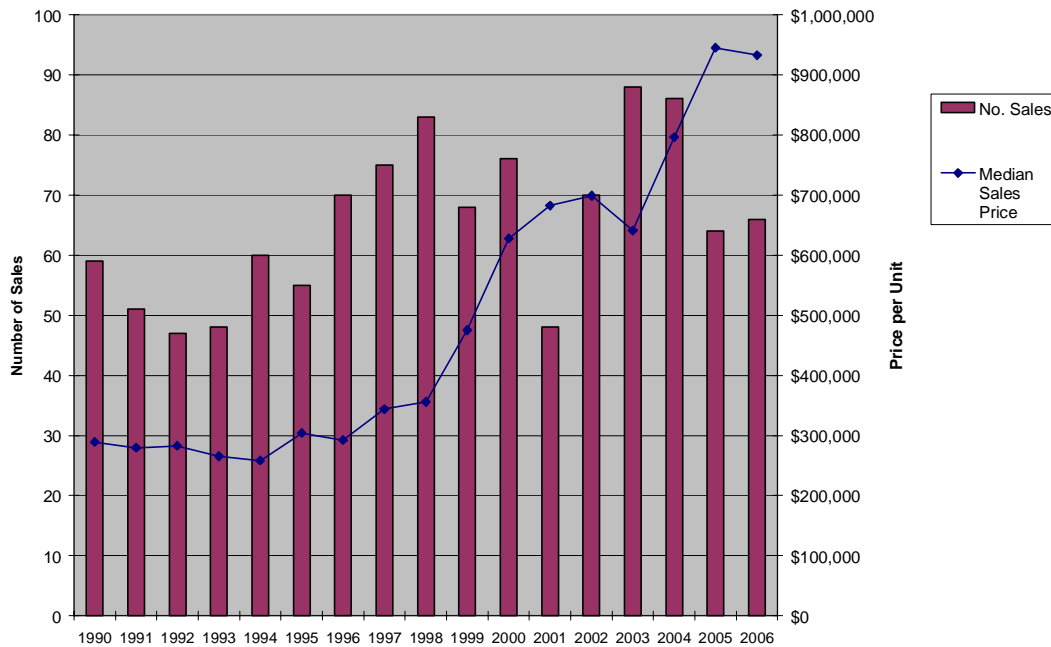
Source: California Association of Realtors; Economic & Planning Systems, Inc.

**For-Sale Housing Proximate to Site**

Pier 70 is located in the City’s Central Waterfront, adjacent to Mission Bay, Dogpatch and Potrero Hill.<sup>35</sup> **Figure 10** charts the number of new and resold condominiums which changed ownership from 1990 to 2006 in this zip code. Since 1990, an average of 225 units were sold or resold each year, with highs numbering 400 to 500 between 2003 and 2005. In 2006, 305 new and resold condominium transactions occurred. Over the same period, the annual rate of change in sale price was 6.8 percent per year, from \$248,000 in 1990 to \$714,800 in 2006.

**Figure 10: Sales Prices/ Number of Sales, Zip Code 94107**

(Single Family Units, New and Resales)



**Table 22** shows the number of sales and pricing for condominiums for Pier 70’s zip code, as well as the zip codes adjacent to the site. From north to south, those areas are 94105 – Financial District South/South Beach, 94103- SOMA, 94110-Mission/Noe Valley/Bernal Heights, and 94124-Hunter’s Point/Bayview. Of the areas examined, Hunter’s Point/Bayview increased at the sharpest rate, posting an annual rate increase of 10.6 percent. Unit pricing in the Financial District/South Beach Area increased at a 9.5 percent rate, annually. SOMA’s unit prices increased 8.2 percent annually while Mission/Noe Valley/Bernal Heights increased 6.9 percent annually. For 2006, the median price per unit was highest in the Financial District, at \$765,900 per unit, then, in

<sup>35</sup> Data on median home prices is separated by zip code.

**Table 22**  
**Median Home Prices, Nearby Zip Codes, 2006**  
**Pier 70; EPS# 17007**

Year	Mission Bay/ Potrero Hill		Financial District South/ South Beach		SOMA		Mission/ Noe Valley/ Bernal		Hunter's Point/ Bayview	
	94107		94105		94103		94110		94124	
	No. Sales	Median Sales Price [1]	No. Sales	Median Sales Price [1]	No. Sales	Median Sales Price [1]	No. Sales	Median Sales Price [1]	No. Sales	Median Sales Price [1]
1990	137	\$248,007	0	Not available	16	\$179,594	26	\$239,827	25	\$114,700
1991	69	\$279,663	47	\$196,766	44	\$152,432	30	\$232,517	8	\$151,688
1992	160	\$245,884	71	\$185,687	51	\$156,461	73	\$152,503	7	\$131,071
1993	74	\$256,446	60	\$199,600	57	\$159,211	29	\$201,276	18	\$185,500
1994	64	\$242,656	148	\$218,625	44	\$153,028	32	\$199,188	21	\$168,214
1995	115	\$220,713	79	\$148,544	63	\$171,413	49	\$200,071	14	\$134,500
1996	119	\$228,805	112	\$243,402	102	\$200,730	68	\$203,324	38	\$166,526
1997	140	\$294,888	67	\$245,716	176	\$167,159	60	\$233,042	73	\$180,640
1998	149	\$365,290	206	\$313,871	49	\$241,153	64	\$264,371	40	\$177,225
1999	243	\$263,628	89	\$346,017	70	\$299,364	137	\$297,416	31	\$267,677
2000	232	\$575,508	132	\$470,000	76	\$448,794	80	\$483,538	30	\$266,467
2001	213	\$567,634	55	\$441,162	85	\$425,730	135	\$413,207	28	\$282,914
2002	375	\$550,202	174	\$405,476	99	\$395,711	124	\$479,621	29	\$290,069
2003	417	\$495,616	165	\$474,097	169	\$430,003	184	\$477,399	31	\$342,806
2004	484	\$642,685	132	\$531,016	207	\$531,744	166	\$581,310	29	\$389,362
2005	525	\$741,538	157	\$521,857	185	\$628,873	141	\$698,298	45	\$492,089
<b>2006</b>	<b>305</b>	<b>\$714,782</b>	<b>272</b>	<b>\$765,857</b>	<b>125</b>	<b>\$635,232</b>	<b>124</b>	<b>\$701,200</b>	<b>19</b>	<b>\$576,211</b>
Total	3,821		1,966		1,618		1,522		486	
Annual rate of change, 1990-2006		6.8%		9.5%		8.2%		6.9%		10.6%
Annual rate of change, 1990-2000		8.8%		10.2%		9.6%		7.3%		8.8%
Annual rate of change, 2000-2006		3.7%		8.5%		6.0%		6.4%		13.7%

[1] Average of median sale prices for each month during the year.

descending order, units in the Pier 70 zip code were \$714,800, in the Mission/Noe Valley/Bernal area the price was \$701,200, SOMA's median price was \$635,200, and Hunter's Point's was \$576,200.

### **Mission Bay Performance**

About 3,100 residential units in Mission Bay, clustered along Mission Creek, have been constructed or are now under construction since 2002. **Table 23** summarizes the projects, noting unit tenure and community size. The plan for the area includes an additional 3,000 units located between the UCSF campus and the Creek. **Table 24** describes the performance of four communities which combine for about 1,100 of the 6,000 units planned for Mission Bay. Units in these condominium projects averaged 984 square feet in size and sold for an average of \$736 per square foot. The rate of absorption averaged 2.64 units per week or about 138 units per year for an individual project.

### **Prospects for Residential Development**

Residential development for the site is a highly valued use. Assuming a unit at Pier 70 would achieve a price per square foot similar to that achieved at nearby Mission Bay properties, a multifamily unit at the site would sell for about \$700 per livable square foot. At a density of about 100 units per acre and 1,000 square feet per unit, a one-acre parcel would generate \$70 million in gross revenue. Residential land with these characteristics is worth between \$240 and \$320 per square foot of land area or between \$10.5 million and \$14 million per acre. (Assuming the land's value is 15 to 20 percent of the total gross revenue of the project).

**Table 23**  
**Mission Bay Residential Projects**  
**Pier 70; EPS# 17007**

<b>Residential</b>	<b>Rental</b>	<b>Sale</b>	<b>Completed/ Construction began</b>
Sorro [1]	100	--	Jun-02
Avalon	250	--	Mar-03
Glassworks		39	Jul-03
Beacon	--	595	Mar-04
Channel Park	--	100	May-04
Avalon II	313	--	Feb-05
Mission Creek Senior Community [1]	139	--	Mar-06
Signature II		99	Started 2005
Park Terrace	--	100	Started 2005
355 Berry Street	193	--	Started 2005
Mission Bay Apartments [1]	236	--	Started 2005
Signature III	--	260	Started 2006
Arterra	--	268	Started 2006
Radiance	--	<u>417</u>	Started 2006
	1,231	1,878	
<b>Total Units: Completed/ Under construction [2]</b>			<b>3,109</b>

[1] Though many projects include some inclusionary units, these projects are fully dedicated to low income residents or specialty communities.

[2] Does not include 430 units of housing, completed in 2005, for UCSF students.

Source: San Francisco Redevelopment Agency; Mission Bay Development Projects, March 2006; Economic & Planning Systems

**Table 24**  
**Mission Bay Residential Projects Performance**  
**Pier 70; EPS# 17007**

Name	Address	Average SF	Average \$ per SF	Planned	Offered	Sold	Weekly No. of Sales
Park Terrace	325 Berry Street	1,167	\$730.40	110	12	12	0.53
Arterra	300 Berry Street	867	\$792.09	269	269	67	3.41
Signature II	235 Berry Street	1,224	\$832.74	99	62	51	0.98
Beacon	250-260 King Street	964	<u>\$695.27</u>	<u>595</u>	<u>595</u>	<u>574</u>	<u>5.62</u>
Weighted Average		984	\$735.83				
Total				1,073	938	704	
Average							2.64

Source: Gregory Group; Economic & Planning Systems

## VIII. REUSE OF BUILDINGS

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The variety of reuse opportunities for preserved buildings at Pier 70 include PDR—which itself includes industries traditionally under the PDR category as well as industries which are actively being pursued to locate or expand in the City such as “cleantech” and digital arts/media—museum or exhibition space, and sports and recreation.

### PRODUCTION, DISTRIBUTION, REPAIR

The extent to which the industrial buildings at Pier 70 may be reused for PDR uses will depend partially on the demand for this type of space as well as on the ability of other profitable uses to fund rehabilitation work. A recent comprehensive study of PDR space in the City suggests that demand through 2030 may be met with the Eastern Neighborhoods rezoning options if PDR land is utilized at a greater intensity than is currently being used.<sup>36</sup> Within the eastern neighborhoods of the City, the total supply of PDR land under the preferred rezoning option is 41.7 million.<sup>37</sup> With demand projected to outpace supply, PDR space priced at the market rate at the site can be expected to be absorbed as buildings are rehabilitated and ready for tenants. However, under current market lease rates, these uses will not generate sufficient rent to support building rehabilitation costs.

### LEASE RATES

San Francisco’s industrial building base at the end of 2006 was 19.4 million square feet. Among the three industrial subsectors of the City—Mission/SOMA, 3<sup>rd</sup> Street Corridor/Potrero Hill, and Bayview—the average asking lease rates range between \$0.63 and \$0.98 per square foot per month, industrial gross with the average in 2006 at \$0.75 per square foot. Current lease rates for industrial space in the 3<sup>rd</sup> Street Corridor/Potrero Hill area, which houses more than half of the City’s total industrial square footage and is nearest Pier 70, average \$0.79 per square foot per month. **Table 25** summarizes data from first quarter 2007.

### VACANCY AND ABSORPTION RATES

Occupancy of this space has improved slightly over the last five years, increasing from 97 percent to 97.4 percent year over year from 2005 to 2006. This is the lowest vacancy level since 2001. **Table 26** reports absorption rates from 2001 through 2006. In 2002,

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<sup>36</sup> See report on San Francisco Planning Department website, “Industrial Land in San Francisco: Understanding Production, Distribution, and Repair”.

<sup>37</sup> This total includes Port industrial land. The total without Port land is 26.1 million.

**Table 25**  
**San Francisco Industrial Market Summary, 4Q 2006**  
**Pier 70; EPS# 17007**

Submarket	Total Building Base	% of Base	Available Space			Vacancy Rate		Avg. Asking Rate	Avg. Time on Mkt. in Months
			Direct	Sublease	Total	Q1-06	Q1-07		
Mission/SOMA	5,161,078	27%	32,750	0	32,750	0.6%	0.6%	\$1.01	19.9
3rd St. Cdr/Potrero Hill	9,812,960	51%	212,474	29,000	241,474	4.9%	2.5%	\$0.83	22.6
Bayview	4,452,440	23%	108,000	45,640	153,640	2.2%	3.5%	\$0.65	22.0
<b>Total San Francisco</b>	<b>19,426,478</b>	<b>100%</b>	<b>353,224</b>	<b>74,640</b>	<b>427,864</b>	<b>3.0%</b>	<b>2.6%</b>	<b>\$0.78</b>	<b>22.2</b>

Source: NAI BT Commercial; Economic & Planning Systems, Inc.

**Table 26**  
**San Francisco Industrial Market Historical Summary (2001-2006)**  
**Pier 70; EPS# 17007**

Submarket		2001	2002	2003	2004	2005	2006
Mission/SOMA	Gross Absorption	155,171	35,100	144,615	179,003	180,560	50,675
	Net Absorption	-28,162	-114,920	-68,417	44,183	131,544	13,950
	New Construction	0	0	0	0	0	0
3rd St. Cdr/Potrero Hill	Gross Absorption	243,239	303,347	386,411	388,033	495,882	261,452
	Net Absorption	-221,892	10,236	88,670	-110,445	29,266	80,647
	New Construction	0	240,000	0	0	0	0
Bayview	Gross Absorption	191,425	324,281	283,072	173,560	174,000	44,300
	Net Absorption	-169,921	-214,079	3,077	20,660	17,043	-12,800
	New Construction	0	0	0	0	0	0
Total San Francisco	Gross Absorption	589,835	662,728	814,098	740,596	850,442	356,427
	Net Absorption	-419,975	-318,763	23,330	-45,602	177,853	81,797
	New Construction	0	240,000	0	0	0	0

Source: NAI BT Commercial; Economic & Planning Systems, Inc.

an additional 240,000 square feet of space was added to the building base in the area of Pier 70, on Potrero Hill/ 3<sup>rd</sup> Street (this represents an increase of less than 1 percent to the stock). Also, during the prior two years, net absorption of industrial building space has been positive with 178,000 and 82,000 square feet absorbed during 2005 and 2006, respectively.

## OTHER ADAPTIVE REUSE OPPORTUNITIES

Potential reuse options for buildings which will remain on the site include PDR uses described above as well as office, museum or exhibition space, and indoor recreation.

### OFFICE

Redesigning industrial buildings for office tenants is not only possible, but in some cases attracts tenants seeking a unique office configuration which is unusual for an urban environment. For example, Pier One in San Francisco is a 90,000-square foot building built in the 1930s that once served as a warehouse for refined sugar—deposited directly from the ships through a rail spur—as well as a platform for ferry passengers disembarking on the second-story gallery of the building. The renovated building opened in 2000 with 151,000 square feet of office space in two stories.

### USES PRESERVING INTERIOR SCALE

Preserving the scale of the interior buildings that remain at Pier 70 would provide visitors and tenants the opportunity to experience the structures similar to the way they were originally constructed.

#### Exhibition/Museum Space

Museum space or other types of exhibition space such as film showings or performance art is a use which would serve to preserve the vast interiors of the Pier 70 industrial structures while providing a public amenity which is valued by the community. The use of industrial buildings for these types of uses will likely require some portion of the upfront capital investment to be subsidized. Two examples

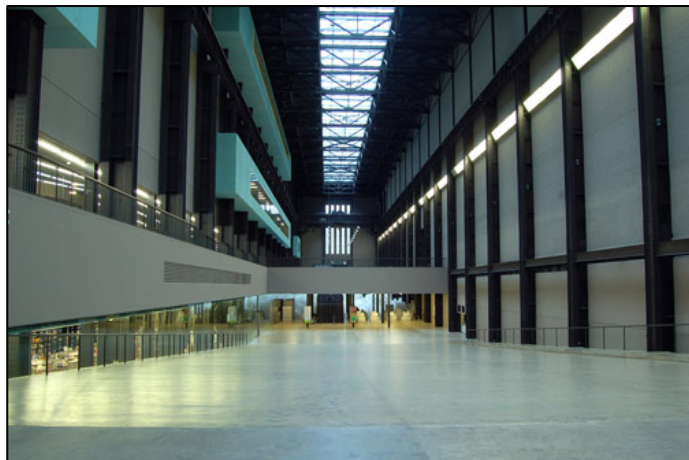


Image 1. Tate Modern, London

described below include a museum nearly fully financed publicly as well as one financed entirely privately, with some level of “rent credit” available to help offset the capital investment.

The Tate Modern in London and the planned Exploratorium at Pier 15 in San Francisco are examples of industrial buildings converted into museum space. The Tate Modern is housed in an old power plant building constructed in two phases in 1947 and 1963. It was closed in 1981 because of an increase in operating costs. The conversion of the building for the Tate Modern was funded through a significant contribution from the government’s lottery fund, about 40 percent of the total construction costs. Additional grants came from the national art’s council, the local borough, as well as private donations.

Renovations to Pier 15 on the City’s northern waterfront are planned to begin in the fall of 2008, pending the execution of the lease. As a part of the Embarcadero National Register Historic District, the Pier 15 shed may be confirmed as a contributing structure to the District and will be eligible for historic tax credits. The 219,000-square foot space will house the Exploratorium science museum, relocated from its current location at the Palace of Fine Arts. The lease, as currently drafted, includes a 66-year term, \$844,350 in base annual rent, and 6 percent percentage rent to the Port from ticket sales and merchandise as well as 15 percent from the gross revenues of subleases. In addition, operating costs for the facility are the responsibility of the tenant.

### **Sports and Entertainment Complex**

Sports and entertainment destinations such as those found on Chelsea Piers in New York City or smaller scale versions of indoor recreation sites such as City Beach locations in Fremont and Santa Clara offer an alternative use for industrial buildings which both can preserve the grand scale of the interior spaces within the buildings and may be positioned to provide competitive lease rates. The 30-acre Chelsea Piers, on four piers along the Hudson River, was privately financed and totaled approximately \$120 million. Activities provided at the site include bowling, ice skating, golfing, rock climbing and a general exercise center.

City Beach, a sports/ entertainment provider, has two locations in the Bay Area, one in Fremont and the other in Santa Clara. Their facilities range in size from 30,000 to 45,000 square feet. City Beach operators report that their business model supports lease rates ranging from \$8.40 to \$12.00 per square foot annually, on an industrial gross basis.