

The SFMTA Retail Leasing Strategies Report Presentation

January 19, 2018



5th & Mission Garage



Union Square/Market Street Station



Chinatown Station

Prepared for:

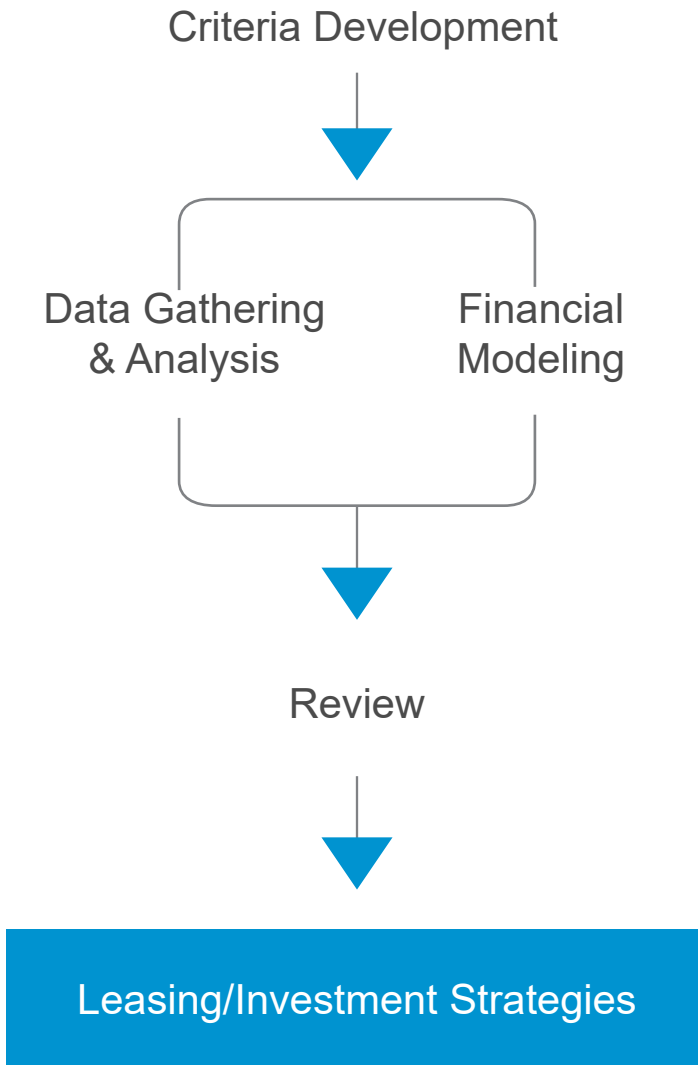


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METHODOLOGY



Data Gathering & Analysis

- Service area/project description
- Review of existing documents
- Review of applicable SFMTA and governmental plans and regulations
- Location/neighborhood overview
- Demographic analysis
- Co-tenancy analysis
- Review of comparable lease transactions and fair market rent conclusions
- Review of occupancy data
- Stakeholder input
- Base building analysis
- Case study conclusions (UMS & CTS only)
- Site visit observations (5th & Mission Garage only)
- Lease review (5th & Mission Garage only)

METHODOLOGY

Financial Modeling

	Tier 1	Tier 2A	Tier 2B	Tier 3
Level of Investment	Highest SFMTA Investment	Mid-Range SFMTA Investment	Mid-Range SFMTA Investment	No SFMTA Investment
Responsible for Capital Expenses	SFMTA	SFMTA	SFMTA	Master Lessor
Responsible for Management & Leasing	SFMTA	SFMTA	Master Lessor	Master Lessor

Assumptions

- Anticipated base rental income
- Triple Net Charges (or NNN) ie. taxes, insurance and operating expenses / CAM charges
- Operating expenses (Tiers 1 and 2A only, as these are costs handled by Master Lessor for Tier 2B)
- Estimated capital and leasing costs to SFMTA for construction costs and tenant improvements
- Turnover vacancy

5TH & MISSION GARAGE



- 8 levels, 965,600 s.f.
- 2,585 parking spaces
- 26,250 s.f. of ground floor retail space / 12 retail spaces
- 7,586 s.f. vacant (29%) / 5 spaces (as of July 2017 analysis)

Final Recommendation:

Colliers has estimated that investing the **Tier 1 level of \$1.26 million** of capital expenses in the 5th & Mission Garage vacant spaces increases the undiscounted value by approximately **\$3.8 million**, and the discounted net present value by approximately **\$2.7 million**.

INVESTMENT ANALYSIS

Current Condition	Tier 1	Tier 2A	Tier 2B	Tier 3
<p>The undiscounted value of the retail spaces in their current condition is \$11,409,208</p>	<p>Tier 1 has an undiscounted value of \$13,914,793, representing the highest return</p> <p>Investing \$1,261,299 (base building upgrade + pylon signage) is projected to increase the total revenue by \$3.77 million (or about 3x the invested capital)</p>	<p>Tier 2 has an undiscounted value of \$13,702,390 (no new pylon signage)</p>	<p>180 day Landlord Termination Right makes a Master Lessor scenario unlikely</p>	<p>180 day Landlord Termination Right makes a Master Lessor scenario unlikely</p>

EXISTING RETAIL SPACES & SUGGESTED RETAIL

5TH & MISSION GARAGE



Suite M



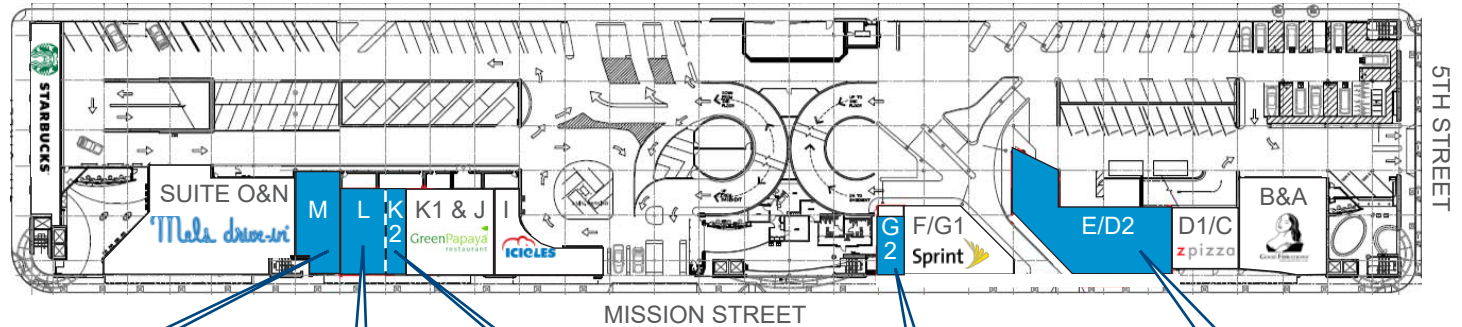
Suite L & K2



Suite G2



Suite E/D2



SUITE M
 +/-1,423 s.f.
 Suggested Retail:
 Nail/Hair Salon
 Beauty Store
 Specialty Retail
 Approximate Rent:
 \$50-55/s.f./year
 \$5,929-6,522/month
 NNN



SUITE L
 +/-1,278 s.f.
 Suggested Retail:
 Optometry
 Chiropractor
 Courier Services
 Tax Preparation
 Approximate Rent:
 \$50-55/s.f./year
 \$5,325-5,857/month
 NNN



SUITE K2
 +/-614 s.f.
 Suggested Retail:
 Dry Cleaner
 Tailor/Shoe Repair
 Specialty Retail
 Approximate Rent:
 \$60-65/s.f./year
 \$3,295-3,570/month
 NNN



SUITE G2
 +/-582 s.f.
 Suggested Retail:
 Quick Service Food
 (Non Cooking)
 Specialty Food
 Dry Cleaner
 Approximate Rent:
 \$55-60/s.f./year
 \$2,668-2,910/month
 NNN



SUITE E/D2
 +/-3,644 s.f.
 Suggested Retail:
 Concierge Medical
 Financial Services
 Showroom
 Approximate Rent:
 \$45-48/s.f./year
 \$13,665-14,576/mo
 NNN



STAKEHOLDER INPUT



- Suggested retail: Bike repair, post office, courier and mail/shipping services, library, bookstore, crepes restaurant, galleries/art uses, retail that supports the nearby museums and arts organizations, dry cleaning, hair salon, children’s retail store, pet supplies and grooming.
- “Pop-up” concepts recommended for immediate activation of space. SOMA Pilipinas offered to directly coordinate with SFMTA with their members for pop-up use

RECOMMENDATIONS

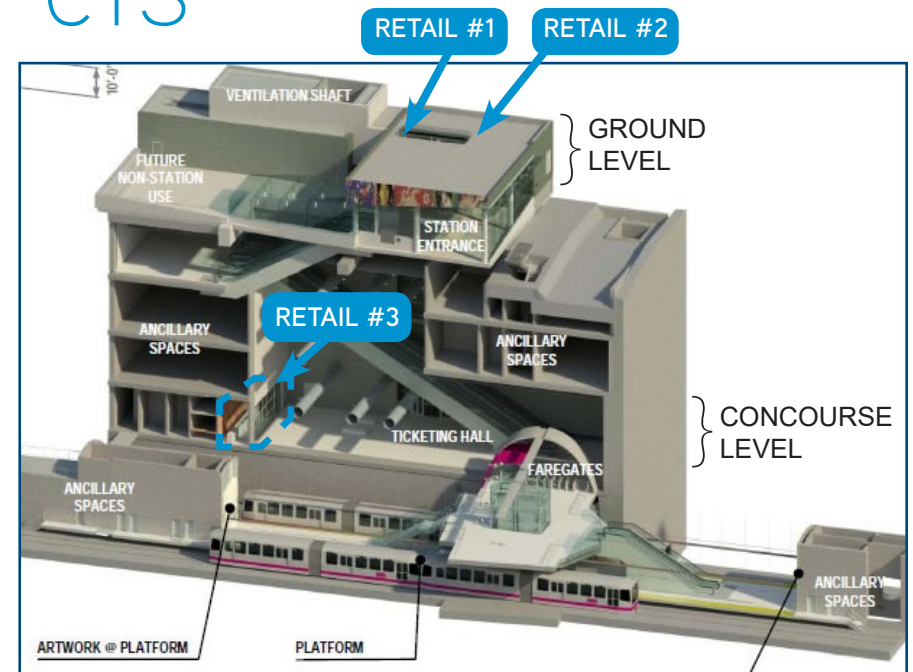
- Upgrade vacant spaces (Tier 1 capital expenditure)
- Enhance marketing materials with floor plans, demographics and maps
- Consider pop-up tenants for immediate activation
- Consider tree removal, sidewalk infill
- Conform/restrict tenant signage
- Include a 5% percentage rent clause in future leases

UMS



Union Square Market Street Station (UMS) will consist of a concourse-to-concourse connection between Powell Station and the southeastern corner of Union Square that will be approximately 690 feet long (or two city blocks) and will include an approximately 1,500 square foot commercial space for lease positioned under Ellis Street.

CTS



Located at the corner of Stockton and Washington Street, Chinatown Station (CTS) was designed with 3 retail spaces totaling 1,100 square feet of retail space for lease, and a 3,900 square foot outdoor public plaza on the roof of the stationhouse.

Final Recommendation:

Tiers 2A Combined is projected to show a total discounted value of **\$110,000** and an undiscounted of **\$1,151,535** over 10 years with a combined upfront investment of approximately **\$3.2 million**. The return on investment (internal rate of return over 10 years) is projected to be **6.83%**.

Tier 2A is projected to show the highest return and allows SFMTA to benefit from any increase in rent due to percentage rent or better than expected performance of the retail spaces.

CTS + UMS were calculated with additional management and maintenance which can be shared between stations.

MANAGEMENT STRATEGY

UMS and CTS can share certain Operating Expense assumptions when looked at as a portfolio asset:

- New SFMTA Leasing Management Specialist: \$150,000 per year
- Additional Security Consideration: \$118,408 per year
- Additional Janitorial Consideration: \$106,288 per year

With the addition of strategic partnerships:

- CTS can have activation programming by local non-profits

FUTURE RETAIL

UNION SQUARE MARKET STREET STATION (UMS)

SOUTH CONCOURSE

Suggested Retail:

- +/- 1,500 SF Space
Est. \$45-48/s.f./Year NNN
- Vending Machines
Est. \$2,400/Year/Machine



CENTRAL CONCOURSE

Suggested Retail:

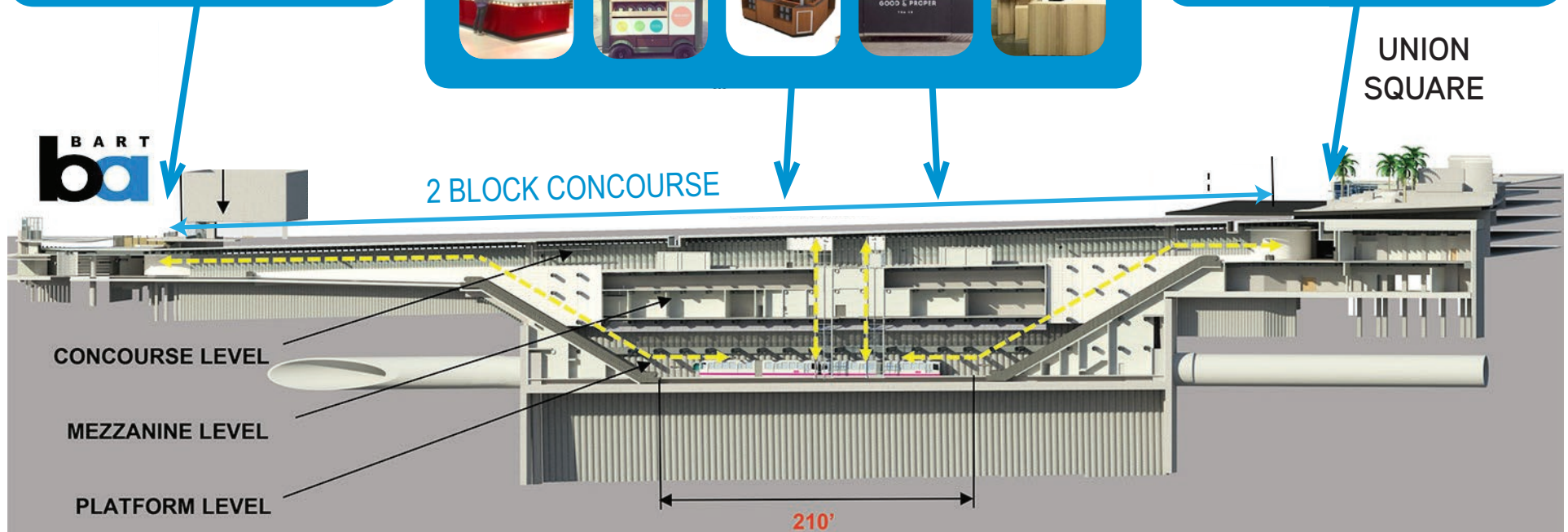
- 2 Brand Name Kiosks/ Carts (Food Use)
Estimated \$18,000/Year/Kiosk NNN
- 6 Custom Pop-Up Kiosks
Estimated \$6,000-12,000/Year/Kiosk NNN



NORTH CONCOURSE

Suggested Retail:

- Vending Machines
Est. \$2,400/Year/Machine
- Advertising
Estimated at \$250,000/Year



*Final retail mix subject to tenant needs and market demand. This proposal has been prepared by Colliers International for informational purposes only and does not represent an endorsement. Information contained herein has been obtained from sources deemed reliable, has not been independently verified, and no representation is made as to the accuracy thereof. Colliers International does not guarantee, warrant or represent that the information contained in this document is correct. Any interested party should undertake their own inquiries as to the accuracy of the information.

STAKEHOLDER INPUT



- The number one concern regarding UMS is safety
- SFPD or USBID may have interest in the under Ellis Street space
- USBID could be contracted to do extra janitorial work at UMS
- Retail should be adequately secured to prevent smash and grab theft
- SFAC would like a role in the placement of advertisements
- SFAC could potentially have funding for a poster series

FUTURE RETAIL

CHINATOWN STATION (CTS)

RETAIL SPACE #1

+/- 150 s.f.

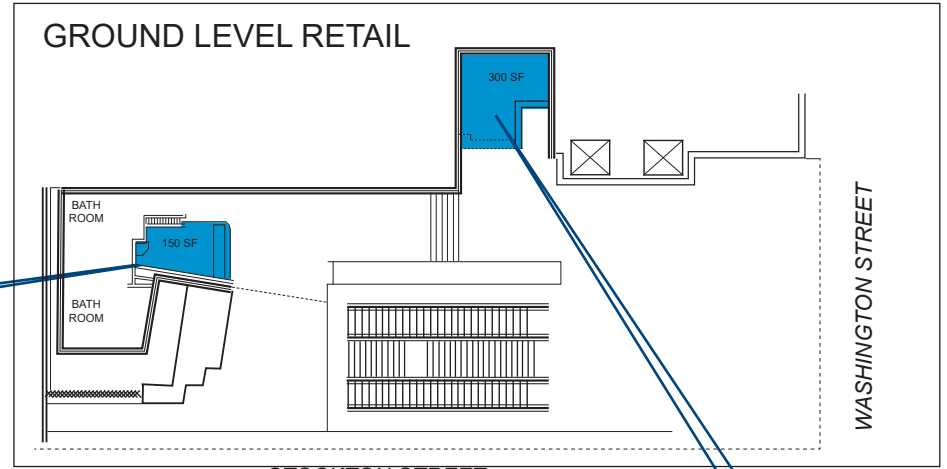
Suggested Retail:

Coffee/Drinks

Approximate Rent:

\$176/SF/Year Gross

\$2,200/Month Gross



RETAIL SPACE #2

+/- 300 s.f.

Suggested Retail:

Dry Goods

Approximate Rent:

\$60/SF/Year Gross

\$1,500/Month Gross



RETAIL SPACE #3

+/- 600 s.f.

Suggested Retail:

Cultural Center

Approximate Rent:

\$30/SF/Year Gross

\$2,000-2,500/Month Gross



CHINATOWN STATION (CTS)



STAKEHOLDER INPUT



Chinatown Community
Development Center
華協中心



Chinese Congregational Church
中華綱紀慎教會
San Francisco



- CCDC could be a strategic partner for the open space plaza activation
- Presbyterian Church in Chinatown is interested programming the open space with music
- Chinatown YMCA suggested Juma Ventures, a local nonprofit, to run activation of the outdoor space
- YMCA wants more community services for immigrants
- Suggested activities include: cultural movie night hosted by local filmmaker group, community activities and performance events, group exercise
- Suggested push cart activation: carts with local snacks, Asian influenced drinks, locally-designed Chinatown branded T-shirts/postcards/tote bags, rentable games, drawing materials, chalk, etc.

SUMMARY OF RECOMMENDATIONS

5th & Mission Garage:

- Invest Tier 1 level capital expenditures to achieve market rents and a higher occupancy rate
- Charge \$45.00-65.00/s.f./year, NNN rental rates depending on size and condition
- Include 5% percentage rent clauses in all new leases
- Create new marketing materials
- Enforce consistent signage and hours of operations
- Improve façade with power wash and new signage program
- Consider removing trees and infilling the sidewalk
- Following base building upgrades, fill vacancies immediately with short term, pop-up tenants

SUMMARY OF RECOMMENDATIONS

UMS/CTS:

- Invest Tier 2A level capital expenditures in both stations and consider them a portfolio asset, as staff and resources can be shared between UMS and CTS

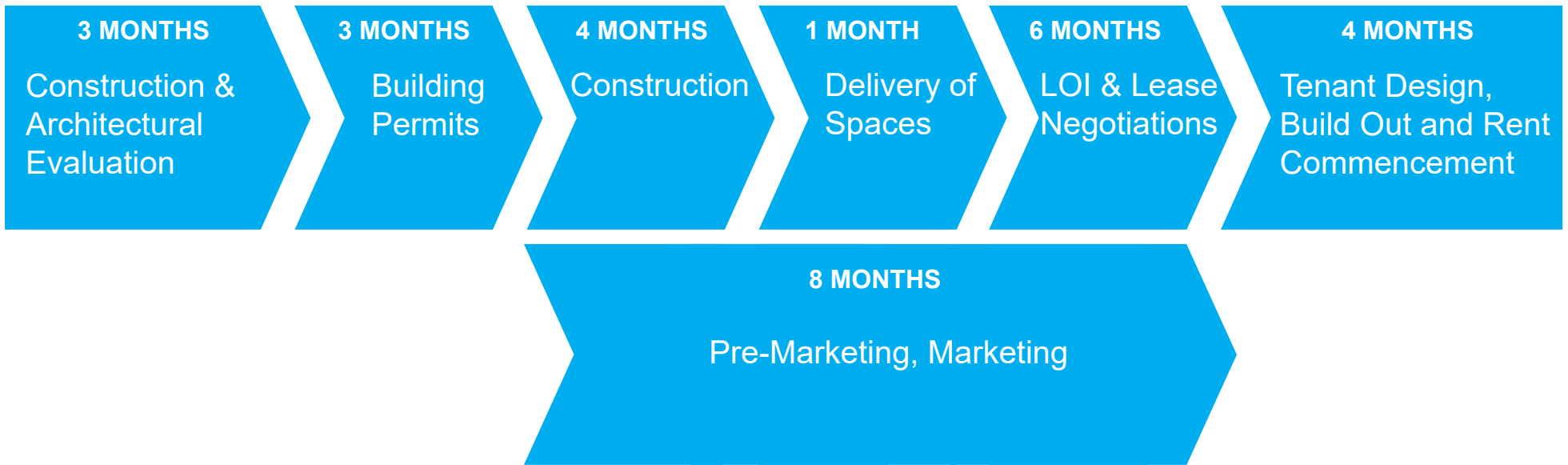
UMS Only:

- Engage SFPD or Union Square BID to occupy the under Ellis Street commercial space
- Engage with, at minimum, two brand recognized retailers to install two units at either end of the Central Concourse
- Purchase self-contained retail kiosk shells for retail shops in the Central Concourse
- Engage in an RFP process to find a high-end vending machine operator

CTS Only:

- Source local and non-formula retail operators for retail spaces
- Engage with a local non-profit for the activation of the public space with maintenance and security handled separately

TIMELINE RECOMMENDATION



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