The SFMTA Retail Leasing Strategies Report

January 2018

5th & Mission Garage

Union Square Market Street Station

Chinatown Station

Prepared for:

SFMTA
Municipal
Transportation
Agency

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INTRODUCTION

In February 2017, the San Francisco Municipal Transportation Agency (SFMTA), authorized an Agreement for Brokerage Services (Agreement) with a team comprising Colliers International as lead and C.H. Elliott & Associates as sub-consultant (Colliers). The Colliers tasks under the Agreement include providing predevelopment investigative work to design and establish a retail development concept for three service areas: (1) 5th & Mission Garage, (2) Union Square Market Street Station (UMS) and (3) Chinatown Station (CTS).

METHODOLOGY

For all three service areas, Colliers developed a multi-phased approach to analyze the available retail spaces and assess their leasing potential.

The data gathering and analysis phase was followed by the investment analysis phase. To estimate the impact of varying levels of investment, the analyses were broken into Tier 1, Tier 2A, Tier 2B and Tier 3.

	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

A final leasing strategy phase was created based on the information gathered.

REPORT 1: 5th & MISSION GARAGE provides analysis and recommendations for the following areas:

- Provide recommendations on base building improvements
- Identify façade and streetscape improvements to increase visibility
- Align economic leasing terms with current market standards
- Explain what income SFMTA can expect from capital improvement expenditures
- Develop a leasing strategy and merchandising plan for the vacant spaces and streetscape theme for the exterior of all the retail spaces
- Provide proposed leasing strategy and timeline

Colliers recommends the SFMTA engage architects to design a final construction plan to upgrade the spaces to more desirable leasing conditions including the addition of Americans with Disability Act (ADA) compliant restrooms. A general contractor could then bid the work to provide SFMTA with final conclusive construction costs. In addition to the construction improvements, SFMTA should create a clear merchandising and leasing plan for each retail space in accordance with Colliers recommendations in this report, develop a consistent and clear signage program for all retail tenants, develop a landscape program, require minimum hours of operation for all retail tenants, design new storefronts and budget for brokerage commissions for outside real estate agents, if possible. Colliers envisions more success with the leasing efforts at 5th & Mission Garage if there is a clear vision and program in place.

Colliers has estimated that investing the $1.26 million of capital expenses in the vacant spaces increases the total revenue by approximately $3.77 million, and the discounted total revenue by approximately $2.7 million, indicating that this is a worthwhile investment. It is recommended that Tier 1 be chosen as the SFMTA course of action to avoid the risk of reticent Master Lessors and meet the demands of tenants who increasingly hold the upper hand in negotiations. Lastly, to create immediate activation of the retail spaces, once the base building work is upgraded to Vanilla Shell condition, it is recommended that temporary pop-up tenants be given short term license agreements to fill the vacant spaces on an as-needed basis.

REPORT 2: UNION SQUARE MARKET STREET STATION (UMS) provides analysis and recommendations for the following areas:

- Electricity is the only utility service currently planned for under Ellis Street commercial space
- Limited space available in the North Concourse will prohibit traditional retail uses
- Electrical outlets along the walls are the only planned buildout in the concourse
- Serious concerns from the community as they relate to the safety of the corridor

Colliers' analysis of the multiple tiers indicates UMS is not profitable when the discount rate (see Glossary for an explanation of the 6% discount rate) is applied under any investment tier.

Colliers recommends that SFMTA consider UMS and CTS on a combined basis as a portfolio because resources can be shared between the stations based on the relatively small amount of retail space compared to the required operating and management expenses. Colliers recommends a financial model approach that combines the Tier 2A investment analyses for both UMS and CTS.

Colliers recommends that SFMTA activates the concourse in UMS with retail opportunities in the form of small footprint kiosks that could be immediately activated with pop-up tenants, vending machines and brand recognized retail merchandising units (RMUs). Colliers also recommends activating the approximately 1,400 s.f. commercial space under Ellis Street by engaging the SFPD for a police substation, per the recommendation of the Union Square Business Improvement District (USBID), or other similar office uses. The space does not work for traditional retail as the entrance is small with no windows for merchandise.

REPORT 3: CHINATOWN STATION (CTS) provides analysis and recommendations for the following areas:

- Two of the three planned retail space (Retail Space #2 & #3) will not have adequate base building infrastructure unless utilities are stubbed to spaces
- Retail Space #2 will not have water and sewer available due to its location
- Local retailers are rent sensitive and are looking for low rental rates
- Formula Retail Restriction (Section 303.1 of the San Francisco Planning Code) restricts retailers with more than 11 stores nationally from operating in Chinatown
- There is currently no organizational entity within SFMTA for managing the open space public plaza

Colliers recommends upgrading Retail Space #2 & #3 to Warm Shell condition, as represented by Tier 2A, in order to make the spaces more marketable to prospective retail tenants.

Tier 2A is recommended as the course of action for capital investment as it has 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. Tier 2A is also recommended when analyzed in combination with UMS Tier 2A as described in the UMS Report.

MANAGEMENT OF OPEN SPACE

The financial models Tier 1 and Tier 2A contemplate additional SFMTA resources such as additional security and maintenance and that is reflected in the final numbers. Several Chinatown non-profit groups have expressed interest in activating the public space, alleviating the need for an events coordinator role, which would be contemplated in the payment of a private management company. The additional security and maintenance would also be applied to the public retail space at UMS, enhancing the safety and cleanliness for potential retailers and shoppers in Union Square.

UMS AND CTS COMBINED FINANCIAL ANALYSIS

Colliers analyzed the two stations combined, as mentioned above. Tiers 1 Combined show a total discounted value of -$140,845, and an undiscounted value of $947,077. Tiers 2A Combined show a total discounted value of $106,483 and undiscounted of $1,151,535. Tiers 2B Combined show a total discounted value of -$53,068, and an undiscounted value of $797,059. Master leasing both stations for 10 years per Tier 2B is an attractive option as it relieves SFMTA of the day to day management of both stations and breaks even on a discounted basis over 10 years, but Colliers estimates it would require SFMTA to pay a Master Lessor an annual fee of about $162,000 per year initially, in order for the Master Lessor to earn a 15% return over the life of the 10 year Master Lease. This fee would be covered by the estimated advertising revenue that SFMTA should get from both stations. However, the investment analyses show that Tiers 2A Combined has the highest values and return to SFMTA and allows any upside in rental increase or percentage rent paid to go directly to SFMTA.

2: INTRODUCTION

In February 2017, the San Francisco Municipal Transportation Agency (SFMTA), authorized an Agreement for Brokerage Services (Agreement) with a team comprising Colliers International as lead and C.H. Elliott & Associates as sub-consultant (Colliers). The Colliers tasks under the Agreement include providing predevelopment investigative work to design and develop a retail development concept for three service areas: (1) 5th & Mission Garage, (2) Union Square Market Street Station (UMS) and (3) Chinatown Station (CTS) with the addition of an open space programming concept for the public open space plaza above CTS. *The SFMTA Retail Leasing Strategies Report* will advise SFMTA's leasing efforts over the next ten years for the three service areas noted in this report.

5th & Mission Garage

5th & Mission Garage is located in the SoMa/Yerba Buena neighborhood of San Francisco and occupies one full east-west city block bordered by Minna, Mission, 4th, and 5th Streets. The garage is an 8-level, 965,600 s.f. parking facility with 2,585 parking spaces. Its hours of operation are 7 days a week and 24 hours a day. There is approximately 26,000 s.f. of retail space on the ground level with 7,586 s.f. vacant at the time of analysis. Historically, 5th & Mission Garage has faced retail leasing challenges. Colliers evaluated the retail leasing opportunities at 5th & Mission Garage to better understand the challenges it has historically faced and has recommended a specific leasing strategy and approach to aid in the future leasing success of the retail spaces.

Union Square Market Street Station (UMS)

UMS is an underground MUNI station currently under construction and is a part of the Central Subway Project. UMS is expected to be used by San Francisco locals and tourists visiting Chinatown and Union Square as well as the surrounding neighborhoods. UMS runs north to south along Stockton Street between Market and Geary Street. There will be one underground commercial space available for lease in UMS with approximately 1,400 s.f. In addition to the commercial space for lease and based on Colliers evaluation of the concourse level, Colliers recommends six small pop-up kiosk spaces and two branded retail merchandising units in the central concourse along with dedicated locations for six or more vending machines spread throughout the entire concourse to help activate the concourse level, increase safety, reduce crime, and create a more pleasant experience for its passengers.

Chinatown Station (CTS)

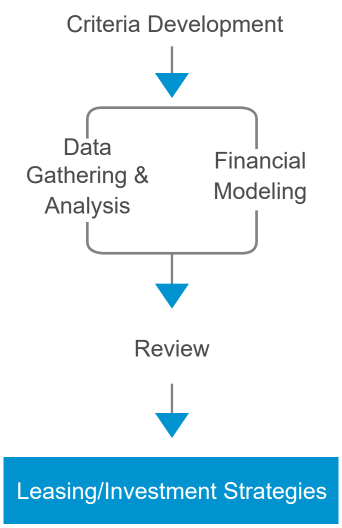
CTS is an underground MUNI station that is currently under construction and is part of the Central Subway Project. CTS is expected to be used by San Francisco locals and tourists visiting Chinatown, Union Square and the surrounding areas. CTS is on the corner of Stockton Street and Washington Street. CTS is currently designed with three retail spaces available for lease totaling approximately 1,050 s.f. CTS is located in an area where Formula Retail (chain stores) are restricted. However, local tenants who have been impacted by the increasing rents have expressed interest in the retail opportunities at CTS. In addition to the available retail for lease at CTS, there will be an open space public plaza above CTS. Colliers recommends activating and programming the open space with the opportunity for public and private events.

The SFMTA has hired Colliers on a consulting basis to help address past and potential future leasing challenges and recommend solutions going forward for the three service areas. The following are a list of items to be addressed:

- An urban retail district market analysis be conducted to understand capital cost associated with base building upgrades and current market rental rates
- Guidance on attracting and retaining tenants
- Recommendations on facility operation and maintenance
- Creation of site specific concepts plans/merchandising plans
- Formulate complementary underground cityscape themes, where possible
- Engage community stakeholders to identify appropriate retail and programming
- Recommend programming and budgeting for public spaces

The recommendations in this report were the end product of a collaborative process between Colliers' multidisciplinary team and SFMTA staff. The report also relies on the lessons learned from peer agencies efforts to lease other subterranean retail spaces. Additionally, numerous internal and external stakeholder interviews were conducted in Q1 and Q2 of 2017 and those comments are reflected in the three service area reports.

3: METHODOLOGY



The following is Colliers methodology for the retail leasing approach at 5th & Mission Garage, UMS and CTS. This methodology was guided by and expanded upon using the criteria included in the scope of work outlined in the Agreement between Colliers and the SFMTA.

First, each service area was evaluated to develop a retail leasing and revenue generation strategy. The leasing and revenue generation strategy included the following: evaluating the spaces in their current or planned condition; making construction and design recommendations to improve or upgrade the retail spaces; recommend a leasing timeline and a marketing strategies approach. Then Colliers gathered information and relevant market data for each service area to create individual site analyses, received local stakeholder input, and researched case studies. Lastly, Colliers reached out to general contractors and architects to understand general construction costs associated with each project. All construction costs are estimates based on market standard rates and do not represent the final buildout cost. The data gathering and analysis stage was followed by an investment analysis for each service area to assess revenue projections and leasing potential. Colliers used a multi-tiered investment and management approach for the purpose of this study.

CRITERIA DEVELOPMENT

A set of criteria was developed to guide the investigative work and identify leasing solutions. These criteria were developed based on the regional expertise of the Colliers leasing team and SFMTA staff input. The information covered retail marketability for each location and standard base building delivery conditions.

Leasing Criteria – 5th & Mission Garage:

- Increase base building infrastructure for minimum code requirements where required
- Enhance desirability for prospective tenants and address “look and feel” of project façade and streetscape
- Create activation of retail spaces as early and often as possible
- Maximize potential retail revenue

Leasing Criteria – UMS:

- Maximize existing infrastructure or increase base building infrastructure to accommodate retail uses in the concourse
- Align base building delivery conditions with minimum code requirements and market expectations for a viable commercial (office/retail) space in the approximately 1,400 s.f. commercial space under Ellis Street
- Create activation of concourse level space to assist with the perception of safety by exploring relevant retail concepts for a transit station concourse
- Maximize potential retail revenue

Leasing Criteria – CTS:

- Align base building delivery condition with minimum code requirements and market expectations for Retail Spaces #2 and #3
- Activate the open space public plaza while minimizing the cost of management
- Build on the “Chinatown Living Room” concept already previously developed for the local community
- Maximize potential retail revenue

Retail Delivery Condition Criteria – for all three service areas

When evaluating the base building delivery conditions of the available spaces, Colliers used the following market standard categorizations to designate their readiness for prospective tenants:

- **Vanilla Shell –** A commercial space with a minimally finished interior, usually with ceilings, lighting, plumbing and with a heating, ventilation, air conditioning (HVAC) system, interior walls (painted or unpainted), electrical service, electrical outlets, rest rooms (dependent), and a concrete floor. A Vanilla Shell is considered ready to lease and ready for tenant improvements.
- **Warm Shell –** The customary interior condition in which new or renovated retail space is offered for lease. It typically includes a concrete floor, bare walls, an exposed HVAC system, electrical service, and some electric outlets. Other possible improvements may include a partition or door to separate the storage from the customer area, lighting and a restroom. The ceiling may be unfinished, painted or include acoustical tiles.
- **Cold Shell –** A commercial space with an unfinished interior with no HVAC system, and usually without electricity, plumbing, ceilings, or walls. A Cold Shell is ready for Warm Shell or Vanilla Shell improvements, which are usually completed once the lease agreement has been signed. Synonymous with grey shell or base shell.

DATA GATHERING & ANALYSIS

As part of the data gathering to analyze the available spaces, Colliers prepared the following information for all three service areas (unless otherwise noted):

- **Service area/project description –** SFMTA provided initial service area descriptions which were expanded upon to describe the project
- **Review of existing documents –** Existing SFMTA documents were reviewed, including floor plans, studies, Environmental Impact Reports (EIR), renderings and past meeting notes, to thoroughly understand the previously gathered community input and build upon any previously completed efforts
- **Review of applicable SFMTA and governmental plans and regulations –** Relevant SFMTA and City and County of San Francisco staff were consulted to understand the existing and anticipated plans and regulations

for all three service areas to determine if there were any existing or future plans that would improve or enhance leasing efforts

- **Location/neighborhood overview –** A geographical subject (or trade) area was determined to evaluate the neighborhood in terms of visitors, residents, workers and types of land uses
- **Demographic analysis –** Statistics related to population and income were assembled using the Updated Demographic Summary Report of Magnify Maps using a .25 radius around each service area, unless otherwise noted
- **Co-tenancy analysis –** A general market tour of the surrounding retail blocks was conducted to determine the current retail tenant mix
- **Review of comparable lease transactions and fair market rent conclusions –** Recent comparable lease transactions in terms of location or type of retail space were reviewed and analyzed to understand fair market rents for the retail spaces
- **Review of occupancy data** – Retail vacancies in buildings in the immediate surrounding area were analyzed to understand the competitive market for each service area
- **Stakeholder input –** A series of interviews were conducted with SFMTA staff and external stakeholders to gain input and feedback on the proposed draft retail development concept and base building assessment. The external stakeholder list was drafted with participation from the SFMTA Advisory Group and built on knowledge of which stakeholder groups were active in the three service area neighborhoods. Stakeholders were also asked if there were other stakeholders that they would recommend for inclusion
- **Base building analysis** – For 5th & Mission Garage, building systems servicing the retail spaces including structural, architectural, mechanical, electrical and plumbing were visually evaluated. For UMS and CTS, confidential architectural plans for the entire station were reviewed and when possible, relevant information was confirmed with the Central Subway Project Team
- **Case study conclusions** (UMS and CTS only) – Case studies that looked at retail in close proximity to transit, mobile commercial uses, non-conventional retail uses, advertising and temporary uses, and programming and activation of open space were researched in order to determine recommendations and "lessons learned"
- **Site visit observations** (5th & Mission Garage only) – Existing site conditions were evaluated and input was solicited from SFMTA and on-site staff
- **Lease review** (5th & Mission Garage only) **and recommendations –** The rent roll and existing lease documents were analyzed to understand the financial profile and the existing lease exclusions, limitations and renewal options

INVESTMENT ANALYSIS

In order to evaluate retail programming concepts for all three service areas, multiple pro-forma models were developed to analyze the economic value of different strategies, categorized as Tiers 1, 2A, 2B, and 3.

The tiers move from highest level of SFMTA investment, leasing and management involvement to the lowest level of SFMTA investment, leasing and management involvement.

The following is a breakdown of the tiers:

Tier 1 - The highest level of SFMTA investment with the SFMTA responsible for all of the leasing and management.

Tier 2A - A reduced level of SFMTA investment with the SFMTA still responsible for all of the leasing and management.

Tier 2B - The same reduced economic investment as Tier 2A but contemplates a Master Lessor assuming responsibility for additional investments, leasing and management.

Tier 3 - A Master Lessor* is responsible for the total investment and all of the leasing and management.

	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

*A Master Lessor is a group or organization who signs a “Master Lease” with the actual owner of an asset. The Master Lease gives the Master Lessor control of the asset for a period not extending the term of the Master Lease. The various parts of the asset are then “sub-leased” to retail tenants. All commission, improvements and additional costs assumed with leasing are paid by the Master Lessor.

To understand the requirements for a Master Lessor to desire an asset, interviews were conducted with local investment groups and investor financial models were created. All investors indicated a 10% return on investment would be expected from a traditional retail investment project, such as 5th & Mission Garage, but that the underground/transit nature of the SFMTA subway stations would require a 15% return on investment to attract responders to a Request for Proposal (RFP) regarding the Master Leasing of the subway stations.

A return on investment typically requires a long term contract be negotiated. Any contract shorter than 10 years will greatly limit the amount of money a Master Lessor would be willing to invest. The Tier 3 analyses assume a 40-year master lease because of the considerable amount of up-front capital required. The Tier 2 analyses, with minimal capital investment by the Master Lessor, assume a 10-year master lease.

After running financial models, Colliers compared all of the tiers for each project individually and combined in a portfolio approach while looking at:

- Total initial capital expenditure
- Year 2 Net Cash Flow (Year 2 assumes full lease up)
- Undiscounted total net 10 year cash flow
- Discounted 10 year net present value
- Return on investment (internal rate of return over 10 years)

From this analysis, Colliers provided conclusions and recommendations regarding the tiers in order to provide SFMTA with a course of action.

LEASING STRATEGY

The leasing methodology used was based on Colliers understanding of standard commercial leasing practices of evaluating individual spaces based on their base building deliverables in conjunction with the standard retail infrastructure needs of suitable tenants in the market, combined with a retail merchandising plan that evaluated all spaces, vacant or occupied, as a whole asset, and as the asset relates to its surrounding neighborhood.

A leasing timeline was then created based on SFMTA's timelines, as well as lease-up and construction downtime considerations.

REPORT 1: 5TH & MISSION GARAGE

4A: BACKGROUND

4A: BACKGROUND

The 5th & Mission Garage is a 2,585 space parking structure with approximately 26,000 s.f. of ground floor retail space.

The leasing of the ground floor retail had been previously handled by a third party company and now is handled directly by the SFMTA. Upon review of the previous leasing effort, Colliers determined the main challenges to the leasing success of the vacant spaces are:

- The base building infrastructure will require specific mechanical, electrical, plumbing (MEP) and bathroom upgrades for each vacant retail space
- Subject to verification, the spaces are not compliant with the American with Disabilities Act (ADA) code
- The vacant spaces have historically remained unoccupied
- Recessed storefronts and low (8 foot) ceilings
- Inconsistent signage where tree lighting, balloons, neon and traditional signage, and sandwich boards are all present
- No tenant improvement allowance has been available to assist with tenant construction costs, due to SFMTA policy
- 180 day termination clause requirement for leases due to SFMTA policy

In addition to site specific challenges there are other obstacles associated with the leasing success of the 5th & Mission Garage. Some of these challenges are specific zoning laws, use restrictions, permit processing delays, high cost of construction and minimum wage requirements, which impacts cost of labor and affects tenant's profitability.

The San Francisco retail vacancy rate is approximately 2.4%.* The national average is 13%.* Despite numbers that would indicate robust tenant interest, the challenges listed above make long term, successful tenanting a challenge under any leasing circumstance in San Francisco currently.

To understand the 5th & Mission Garage leasing challenges, Colliers undertook an extensive assessment of all of the retail spaces. This assessment included site visits with engineers, architects and signage professionals as well as review of floor plans and existing leases. Lastly, Colliers created a merchandising plan, developed a financial model to understand rental rates, construction costs and potential revenue projections, and recommended a marketing plan and timeline. SFMTA staff was involved throughout the process to provide input and guidance on each deliverable.
*Sources: https://www.bisnow.com/san-francisco/news/retail/san-franciscos-retail-remains-strong-during-q1-2017-73990; https://www.statista.com/statistics/194102/us-retail-vacancy-rate-forecasts-from-2010/)

4.B. DATA GATHERING AND ANALYSIS

To understand the many facets of a successful retail leasing program, the following areas of market expertise must be analyzed and understood:

4B: DATA GATHERING AND ANALYSIS

- Service area/project description
- Review of existing plans and documents
- SFMTA and governmental regulations
- Location overview
- Demographic analysis
- Co-tenancy analysis
- Review of comparable lease transactions
- Review of occupancy data
- Stakeholder input
- Base building analysis
- Site visits and observations
- Lease review

4.B.1 SERVICE AREA/ PROJECT DESCRIPTION

The 5th & Mission Garage is located in the SoMa/Yerba Buena neighborhood of San Francisco and occupies one full east-west city block bordered by Minna, Mission, 4th and 5th Streets. The garage is an 8-level, 965,600 s.f. parking facility with 2,585 parking spaces. Its hours of operation are 7 days a week and 24 hours a day.

There is approximately 26,000 s.f. of retail space on the ground level and there are currently five vacant retail spaces at the 5th & Mission Garage, totaling 7,586 s.f. at the time of the June 2017 analysis.

4.B.2 REVIEW OF EXISTING DOCUMENTS

Colliers was provided with a site plan for the garage retail. No “as-built” floor plans exist for the vacant spaces but physical copies of former tenant’s buildout plans were reviewed at the 5th & Mission Garage office.

4.B.3 SFMTA AND GOVERNMENTAL PLANS AND REGULATIONS

Colliers gathered and evaluated relevant government and SFMTA documents as they pertained to the 5th & Mission Garage.

Zoning

The following zoning information was provided by The San Francisco Planning Department.

The building is zoned P – Public. For simply filling vacant ground floor retail space with traditional retail uses, there shouldn’t be any barring issues or Change of Use Permits required.

The 5th & Mission Garage is designated as a B preservation resource. Unless physically altering the exterior of any structure, this designation is likely not an issue

Yerba Buena Community Benefit District (YBCBD)

The 5th & Mission Garage is included in the Yerba Buena Community Benefit District (YBCBD). The goal of the YBCBD is to provide services that benefit property owners, residents, businesses and visitors by making the neighborhood cleaner, safer and more inviting through the creation of:

- A “Clean Team” that sweeps sidewalks, removes graffiti and picks up litter
- A designated Police Patrol
- Community guides to direct visitors and report safety issues to the Police Patrol
- Marketing events to promote the district’s economic goals
- Community Benefit Fund to provide grants to neighborhood non profits
- Streetscape improvements such as greening programs, artful bike racks, public art, etc.

Source: Yerba Buena Community Benefit District Management Plan, March, 2015

Formula Retail

San Francisco Formula Retail restrictions were enacted in 2004 and further revised in 2015. Retailers with more than 11 stores internationally are currently restricted from opening in designated business districts without Conditional Use Permits.

The 5th & Mission Garage is not affected by the current restrictions. See Formula Retail Map in Appendix A.

Signage Restrictions

The following signage regulation information was provided by The San Francisco Planning Department:

- Designation: The 5th & Mission Garage is considered to be in a commercial and industrial district where Section 607 signage regulations apply.
- Unpermitted Signs: The following types of signs are not permitted: general advertising signs; roof signs; wind signs; moving parts signs (consisting of any moving, rotating or otherwise physically animated); projecting signs (with more than 75% of the horizontal distance from the street property line to the curb line and no more than six feet beyond the street property line or building setback line).
- Window Signs: The total area of all window signs shall not exceed one-third the area of the window or clear door on or in which the signs are located.
- Illumination: Any sign may be non-illuminated or indirectly or directly illuminated.
- Height: No sign attached to a building shall exceed a maximum height of 60-100 feet (further specification will be required for P zoning). The maximum height for freestanding signs shall be 36-40 feet (further specification will be required for P zoning).

Yerba Buena Gardens

Metreon

4.B.4. LOCATION/NEIGHBORHOOD OVERVIEW

The subject area is Yerba Buena, a sub-neighborhood of SoMa (South of Market). Yerba Buena is considered a cultural destination with its many museums, events centers, restaurants, hotels and shopping. The neighborhood is an urban community consisting of residences of all income levels and a commercial hub, with an emphasis on the technology industry.

4.B.5 DEMOGRAPHIC ANALYSIS

The immediate area has several senior and low income housing projects and the average household income ($57,305) is half of the City's average of $104,879 (see Appendix A). The proximity of the Moscone Center creates an ebb and flow to the traffic, peaking during yearly mega events such as Dreamforce.

The following numbers are taken from the Updated Demographic Summary Report of Magnify Maps using a .25 radius.

- The total 2016 population is estimated at 6,755
- The total day time population is estimated at 26,048
- The average household income is $57,305
- 17% of the daytime population earns more than $100,000 per year

Moscone Center 2015/2016 Statistics:

- Events - 114
- Event Days - 1,441
- Use Days - 3,364
- Use Day Occupancy - 71%
- Attendance - 1,349,717

According to the on-site IMPARK garage manager, there are:

- 4,200-4,300 average vehicles per day with 7,000 vehicles at peak usage as measured by vehicle exits and monthly parking numbers
- Peak times for the pedestrians and cars are 8 AM – 9 AM, 10 AM – 1 PM, and 4 PM – 8 PM during the weekdays and 11 AM for Westfield Mall and Target shoppers on the weekends

Sources: See Appendix A Updated Demographic Summary Report of Magnify Maps, Moscone Center Media Kit http://www.moscone.com/site/do/index

4.B.6 CO-TENANCY ANALYSIS

In addition to the tenants currently in the 5th & Mission Garage, a liquor store and Denny's are across Mission on the same block, as is Bloomingdale's. In the Bloomingdale's building a 6,000 s.f. restaurant space, formerly 'Wichcraft, is currently vacant. For purposes of this report, the 5th/Mission trade area will not include the interior of Westfield Mall.

Other major co-tenants outside of the Mission block between 4th and 5th Streets include:

Retail: Target, Fleet Feet, Walgreens, Office Depot, Dick Blick Art Materials

Restaurants (Quick Service and Fast Casual): Chipotle, Mixt Greens, Split Bread, Lemonade, Freshroll, Ippudo and Delarosa

Entertainment: AMC Metreon 16 Theatre, Yerba Buena Center, Contemporary Jewish Museum, SFMOMA, Moscone Convention Center

Hotels: Pickwick Hotel, The InterContinental San Francisco Hotel, W San Francisco, The Mosser Hotel, Hotel Zetta, Hampton Inn San Francisco Downtown/ Convention Center

Uses missing from the immediate area include:

- Services (shoe repair, medical, mail)
- Financial Services

4.B.7 COMMERCIAL LEASE DATA: REVIEW OF COMPARABLE LEASE TRANSACTIONS

Colliers researched retail leasing transactions in the immediate neighborhood and identified seven market-rate retail spaces of similar space, size and condition. Colliers researched retail spaces on the ground floor of other neighboring commercial projects as the most practical comparable recent lease transactions for consideration for the purpose of this study. Colliers reached out to other brokers who completed retail leasing transactions in the trade area to obtain the necessary comparable information. Upon review of the market rent comparables in the trade area, it was clear that retail rent comparables are inconsistent depending on street, location, identity (corner or in line spaces), square feet and condition of premises.

- Retail rents in the Metreon are in the $80-$120 per square foot, per year, NNN range. (NNN “triple net” is a lease agreement on a property where the tenant agrees to pay their pro-rata share of property taxes, building insurance, and common area maintenance in addition to rent and utilities.)
- Retail spaces in Yerba Buena Lane or 8 Mint Plaza not directly located on the street are in the $50 -$70 per square foot, per year, NNN range.

Additionally, lease comparables for similar types of spaces from the greater SOMA area were reviewed and included ground floor retail space in a garage building and a partially subterranean space where the retail is set back from the sidewalk and several steps down from the ground level.

- Retail spaces at the Moscone Center Garage were confidentially discussed.
- Retail rent for low ceiling space is typically leased at the lower end of the comparable lease spectrum.

Fair market rent can be defined as the amount of money a retail space would rent or lease for given the location and quality of the retail space even though the actual rent pursuant to a lease may be different. In order to determine the fair market rent for the vacant retail spaces at 5th & Mission Garage, Colliers took into account the location, condition of the spaces and challenges (as further explained in Section 4.B.10 Base Building Analysis) and the lease comparables. It is recommended that market rents be discounted based on the challenges the retail spaces have faced thus far. Depending on the size of the space and SFMTA construction investment, the recommended asking rental rate is in the $40-65 per square foot, per year, NNN range.

See Confidential Appendix C for Comparable Lease Data

4.B.8 COMMERCIAL LEASE DATA: REVIEW OF OCCUPANCY DATA

The immediate surrounding retail includes Westfield Mall, The Metreon, and Yerba Buena Lane in addition to the northern half of Mission Street between 4th and 5th Streets. The following is an approximate estimate of the vacancy rates for the surrounding retail projects as of Q3, 2017.

Retail Complex/ Total Square Footage	Vacant Space	Vacant Space Square Footage	Vacant vs Occupied Percentage of Total Retail
Bloomingdale's frontage on Mission St / 7,500 s.f.	868 Mission	7,500 s.f.	100% Vacant (not counting Bloomingdale's)
Metreon/ 219,000 s.f. (not including AMC)	Space 5	2,500 s.f.	1.15% Vacant (not including AMC Theatre)
Yerba Buena Lane	N/A	N/A	No Vacancy
360 Third Street / 3,303 s.f.	Space B	1,500 s.f.	45% Vacancy

Key Takeaways:

- Retail shopping centers with proper building infrastructure and a strong retail co-tenant mix retain lower vacancy rates
- High vacancy rates a can be a result of challenging leasing conditions and absent retail co-tenant mix
- Comparable retail properties in the immediate area have faced similar leasing challenges

4.B.9 STAKEHOLDER INPUT

Colliers conducted numerous in-person internal and external stakeholder meetings to receive insight about the retail leasing history of the 5th & Mission Garage. The stakeholder interviews helped Colliers better understand the needs, concerns, and desired retail uses for the 5th & Mission Garage.

Date(s) Contacted	Organization	Primary Contact
March 13, 2017 – August 1, 2017 Biweekly Meetings	SFMTA Advisory Group for Colliers Agreement Contract	See Appendix A for Advisory Group members
April 19, 2017 Meeting	SF Planning Department	Tina Chang, Planner, Current Planning Kay Cheng, Planner, Long Range Planning
May 9, 2017 Phone call following site visit	SFMTA Parking, Department of Public Works, IMPARK	Rob Malone, SFMTA Parking Manager Messay Girma, IMPARK 5th & Mission Manager Douglas Ulman, Department of Public Works Glenn Hunt, Department of Public Works
June 9, 2017 Meeting	SOMA Pilipinas	Raquel Redondiez, Project Manager Desi Dangan, Business & Economic Development Working Group
June 21, 2017 Meeting	SFMTA Communications and Marketing Division / Yerba Buena Community Benefit District (YBCBD)	Candace Sue, Director, Communications and Marketing Division Board Member, YBCBD
June 26, 2017 Meeting	Yerba Buena Community Benefit District (YBCBD)	Cathy Maupin, Executive Director, YBCBD
June 19, 2017, June 22, 2017, June 26, 2017 Email Exchanges	The TODCO Group	John Eberling, Executive Director
June 21, 2017 Meeting	South of Market Business Association (SomBa)	Henry Karnilowicz, President

Key Takeaways:

- Suggested retail uses: 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

- Various local operators were recommended, including Foggy Notion, Chloe's Closet, SFMade, Postal Chase, Peninsula Beauty, Veo Optics
- Recommendation to activate the retail spaces with temporary/short term leases using pop-up concepts (examples: Old Town Oakland, Fillmore Street merchants)
- SOMA Pilipinas offered to directly coordinate with SFMTA and their members
- SOMA Pilipinas currently operates a night market nearby, Undiscovered SF, at The San Francisco Mint, that features local eateries and retailers who would all be potential candidates for pop-up activation
- The 5th & Mission Garage will be a part of a new cultural commercial corridor along Mission Street that SOMA Pilipinas is working to develop by 2020
- SomBa would be willing to help advertise lease availabilities in the future to their members via their newsletter and recommended spaces also be listed with the City and County of San Francisco's Office of Small Business

4.B.10 BASE BUILDING ANALYSIS

Colliers, SFMTA staff, and a team of construction and facility experts conducted on-site visits to 5th & Mission Garage on March 30, 2017 and May 2, 2017. The on-site visits included evaluating the existing condition of each retail space, an inspection of the electrical room and a review of the second floor HVAC units. The purpose of these visits was to understand what currently exists within each premises and what improvements should be made to assist in future leasing success.

Colliers:

- Visually evaluated the building systems servicing the retail spaces including structural, architectural, mechanical, electrical and plumbing
- Identified opportunities for base building improvements
- Identified the retail criteria base building delivery condition designation for each space
- Observed the condition of the exterior façade and signage

Suite M

Suite L & K2


Suite G2


Suite D2/E

5th & Mission Garage Base Building Conditions for Vacant Spaces

Space - Square Footage	Restrooms	Power	Water	Hot Water Heater	Cooking Vents	HVAC	Notes
Suite M							
1,423 s.f.	1 ADA Unisex	120 AMP	Yes	Yes	None	None	Formerly occupied by Nail Salon. All FF&E remain.
Suite L							
1,278 s.f.	None	None	None	None	None	None	This space has never been occupied by a retailer.
Suite K2							
659 s.f.	None	None	None	None	None	None	This space has never been occupied by a retailer.
Suite G2							
582 s.f.	None - Former tenant used lobby restrooms.	120 AMP	None	None	None	None	Storage room in the back. Formerly occupied by dry cleaners.
Suite D2/E							
3,644 s.f.	1 ADA Unisex	120 AMP	Yes	Yes - small unit	None	In take, out take	Formerly leased to art gallery.

For a full list of existing building conditions for all of the vacant and occupied spaces, see Appendix B.

4.B.11 SITE VISIT OBSERVATIONS

During the site visit, Colliers noted the following challenges:

- **Vacant storefronts:** A strong co-tenant mix creates a welcoming shopping environment. Dark and vacant storefronts tend to deter shoppers and discourage them from visiting which can decrease sales for all retail tenants.
- **Low ceilings:** The ceilings heights are just over 8 feet and considered to be low ceilings by many potential retailers. Retail spaces that are over 8 feet meet San Francisco's retail code. However, tenants prefer ceiling heights of 12 feet or higher to provide more room for drop ceiling and any necessary HVAC and other ductwork. Anything over 12 feet is considered by many potential retailers to be the most desirable for the above stated reason, as well as create opportunity for vertical storage and display, in addition to creating a more open and airy spatial effect.
- **Tree landscaping**: The width of the tree trunks along the streetscape obscure the façade and limit signage visibility, both of which could be a deterrent to potential retailers. Due to the age and height of the trees, further trimming will not enhance the visibility of the façade.
- **Limited pedestrians**: The northern side of any premises is considered to be the "sunnier side", in the case of Mission Street the north side (opposite 5th and Mission Garage) enjoys more sun and wider sidewalks. Both of these elements have driven pedestrian traffic to the north side, away from the 5th & Mission Garage. This was mentioned by SOMA Pilipinas from tenant feedback they received.
- **Narrow sidewalks:** Sidewalks in San Francisco vary from neighborhood to neighborhood. For purposes of understanding the sidewalk limitations in front of the 5th & Mission Garage, an informal survey of the surrounding streets was conducted. The sidewalk in front of the 5th & Mission Garage is approximately 9 feet 5 inches where there are no trees and only 4 feet where trees are planted. The minimum width required to be considered ADA code compliant is 4 feet. Directly across the street from 5th & Mission Garage, the sidewalk is 18 feet 6 inches with no car loading cut out and 13 feet 6 inches where there is one car loading cut out. To the east of the 5th & Mission Garage, Mission Street sidewalks are approximately 11 feet at their narrowest and 14 feet at their widest.
- **Façade Cleaning**: Routine cleaning of the façade with power washing or window washing may enhance and improve its appearance and visibility.
- **Signage:** An updated and more stringent signage program is recommended for existing and current retailers to keep the signage opportunities consistent and help create a more cohesive retail environment. It is also recommended that the pylon signage on 4th Street be replaced with a digital sign due to the difficulty of maintaining the tenant signage.

4.B.12 LEASE REVIEWS

Colliers reviewed specific 5th & Mission Garage lease documents provided by the SFMTA. The documents were reviewed to understand rental rates, retail exclusives, renewal options, termination rights and other lease items.

Key Takeaways:

- There is an exclusion and restriction zone related to tenant's food uses east of the 5th & Mission Garage management office.
- The latest retail lease expiration is December 31, 2025 (except the cell tower which has the latest lease expiration date on September 30, 2026).
- Recent leases and amendments include a 180 day SFMTA termination right. The SFMTA would like to include the 180 day termination right in all future leases.
- If tenants with renewal options meet their deadline to exercise the option, the SFMTA will likely need to buyout the tenant from its lease in order to recapture the premises.
- The 180 day termination right could potentially influence a tenant's decision to lease at the 5th & Mission Garage. Additionally, the termination right may impact a potential Master Lessor's interest in the project. Potential investors will likely look for a more guaranteed cash flow projection in order to regain their projected investment. For this reason, as explained later in the analysis, a Master Lessor scenario (evaluated as Tier 3) is considered an infeasible strategy.

4.B.13 BASE BUILDING CONCLUSION AND RECOMMENDATIONS

Based on the above investigative work, the following retail leasing challenges were identified:

- Inadequate base building facilities
- High level of vacancies and limited strong co-tenant retail mix on Mission Street between 4th and 5th Streets
- Limited pedestrian traffic
- Challenged exterior: façade, signage and streetscape
- Spaces M, L, K2, J/K1 and I are subject to food use considerations
- Tenant improvement allowance has not been available to assist with tenant construction costs
- Existing and future 180 day termination rights for all retail leases

Construction cost estimates were evaluated and recommended for each vacant retail space. Existing base building infrastructure was taken into consideration during the construction evaluation. The Department of Public Works (DPW) provided budget summary estimates for three tiers of buildout design – Basic

The DPW numbers were not provided on spec and should only be used for general estimating purposes and should not be considered locked in final bid numbers. The projected landlord construction costs estimates are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA architects, consultants and general contractors.

Design, Budget Design, and High Range Design, and the price differential relates to the cost of materials used where the high-end represents a very nice finished product (see Appendix B). Colliers used the Basic Design numbers and extrapolated from DPW's document to create two levels of capital expenditure investment for consideration for Tier 1 and Tier 2A/2B in the following Section 4C: Investment Analysis. The estimated construction cost assumptions include 20% for soft costs.

Proposed Buildout and Estimated Construction Cost Assumptions

5th & Mission	Tier 1	Tier 2A/2B
Suite M – 1,423 s.f.	• $0/s.f. • Space left in "as-is" condition	• $0/s.f. • Space left in "as-is" condition
Suite L – 1,278 s.f.	• $170/s.f. • $218,382 total • Upgrade space to Vanilla Shell	• $140/s.f. • $109,091 total • Upgrade space to Warm Shell including utility services and HVAC stubbed to premises, 1 ADA bathroom
Suite K2 – 659 s.f.	• $195/s.f. • $128,688 total • Upgrade space to Vanilla Shell including utility services stubbed and distributed, HVAC, 1 ADA bathroom	• $165/s.f. • $109,091 total • Upgrade space to Warm Shell including utility services and HVAC stubbed to premises, 1 ADA bathroom
Suite G2 – 582 s.f.	• $420/s.f. • $244,440 total • Upgrade space to Vanilla Shell including utility services, HVAC stubbed and distributed and 1 ADA bathroom	• $271/s.f. • $157,838 total • Upgrade space to Warm Shell including utility services and HVAC stubbed to premises, 1 ADA bathroom
Suite D2/E – 3,644 s.f.	• $126/s.f. • $459,144 total • Upgrade space to Vanilla Shell including utilities service, stubbed and distributed, HVAC and 2 ADA bathrooms	• $114/s.f. • $415,416 total • Upgrade space to Warm Shell including electrical and water services stubbed to premises, 2 ADA bathrooms, No HVAC
New illuminated sign	• $175,000	• $0

Key Takeaways and Recommendations:

- Complete the base building construction proposed above immediately to bring the vacant spaces up to Vanilla Shell or Warm Shell condition

- Remove the trees and patch the sidewalk to take advantage of the full 9 feet 5 inches of sidewalk
- Improve the exteriors by redesigning the landscaping in an effort to create a more modern and vibrant streetscape
- Create a more cohesive and consistent mandatory signage program for all retail tenants

4C: INVESTMENT ANALYSIS

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

In order to evaluate retail programming concepts for the 5th & Mission Garage, multiple pro-forma models were developed to analyze the economic value of different strategies, categorized as Tiers 1, 2A, 2B, and 3. A fifth Tier 0 was also developed to understand what the value of the existing premises with no investment would be.

	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

For Tiers 1, 2A, and 2B, the financial models quantified assumptions for the anticipated rental income, the operating expenses (Tiers 1 and 2A only, as these are costs handled by a Master Lessor for Tier 2B), and the estimated capital and leasing costs to SFMTA for construction costs and tenant improvements. The assumptions included the base rental income, turnover vacancy, NNN and Common Area Maintenance (CAM) charges, and individual construction estimates to bring each of the vacant spaces up to Vanilla or Warm Shell condition. For Tier 1, the highest level of investment, the addition of a new digital building sign was included. Lastly, the cell tower income is shown at the bottom of the cash flows, but has not been included in the analysis calculations, as instructed.

Architectural plans were not commissioned for the 5th & Mission Garage retail spaces. Due to that constraint, all estimates were based on industry standard costs for restroom, sewer and electrical upgrades, with consideration given to the layout and current base building infrastructure of the 5th & Mission Garage. Architectural plans and a feasibility study of said plans from a general contractor, contracted by SFMTA, are required to more accurately determine construction estimates for proposed base building upgrades. Final cost estimates for budgeting purposes, must be based on permitted, site specific, architectural plans.

- For Tier 1, the total initial capital expenditure was $1,261,229 and the total capital expenditure over 10 years was $1,658,234
- For Tier 2A, the total initial capital expenditure was $983,639 and the total capital expenditure over 10 years was $1,530,777

Due to the 180 day landlord termination right it is unlikely a Master Lessor would be willing to make capital improvement investments to the site. Tier 2B and Tier 3 were therefore rejected as viable options.

The undiscounted value of the retail spaces in their current, none upgraded status (Tier 0), is $11,409,208, compared with the current Tier 1 undiscounted value of $13,914,793. But, the Tier 1 value is calculated after deducting the $1,261,299 of capital costs needed to lease-up the vacant space. To understand the true value impact of investing that capital, it needs to be added back to give a gross Tier 1

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

value of $15,176,022. Therefore, investing the capital and leasing-up the vacant space increases the total revenue by about $3.77 million (or about three times the invested capital).

Tier 1 Undiscounted Value -	$13,914,793
Tier 1 Capital Investment -	$1,261,229
Tier 1 Gross Value -	**$15,176,022**
“As-Is” Existing Tenants Value	$11,409,288
Total revenue increase	**$3,766,734**

It is Colliers opinion that market forces are turning from a “Landlord Market” to a “Tenant Market”. When these market conditions prevail, tenants begin to hold the upper hand and either expect more concessions from the landlord or expect better spaces for less rent.

It is recommended that Tier 1 be chosen as the SFMTA course of action to avoid the risk of reticent Master Lessors and meet the demands of tenants who increasingly hold power over the leasing process.

The assumptions used for the vacant spaces for Tier 1 are shown below and the assumptions used for the other models are shown in Appendix A. The 5th & Mission Garage rent roll used for the investment analysis can be found in Appendix B.

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

5th & Mission Garage Tier 1 Assumptions

Base Rental Income	
Suite M: 1,423 s.f.	Starting Rent: $55/s.f./Year, NNN ($6,522/Month, NNN)
Suite L: 1,278 s.f.	Starting Rent: $55/s.f./Year, NNN ($5,857/Month, NNN)
Suite K2: 659 s.f.	Starting Rent: $65/s.f./Year, NNN ($3,570/Month, NNN)
Suite G2: 582 s.f.	Starting Rent: $60/s.f./Year, NNN ($2,910/Month, NNN)
Suite D2/E: 3,644 s.f.	Starting Rent: $48/s.f./Year, NNN ($14,576/Month, NNN)
Suite M, L, K2, G2, D2/E	• All suites assumed to have 5 year lease with 3% per year increases, 3 months rent abatement and no leasing commissions are paid. • A tenant improvement allowance of $15/s.f. is allocated to new tenants, while renewing tenants are provided a $5/s.f. tenant improvement allowance. Tenant improvement allowances are then assumed to increase at the annual tenant improvement growth rate of 3% per year increases.
Absorption & Turnover Vacancy	• A 50% retention rate is assumed for all tenants during rollover, except for ATMs which are 100%. • A 10 year lease is assumed for tenants exceeding 3,000 square feet after a 12 month downtime period upon expiration of the previous tenant. • A 5 year lease is assumed for tenants less than 3,000 square feet in size after a 6 month downtime period upon expiration of the previous tenant.
Vacancy Credit Allowance	3% vacancy allowance plus 2% credit loss

Capital Expenditures - Estimated Construction Cost Assumptions - Upgrade all spaces to Vanilla Shell condition except for Suite M. See Section 4.B.13 for more detail on proposed base building construction.	
Suite M: 1,423 s.f.	• $0/s.f. • Space left in “as-is” condition
Suite L: 1,278 s.f.	• $170/s.f. • $218,382 total
Suite K2: 659 s.f.	• $195/s.f. • $128,688 total
Suite G2: 582 s.f.	• $420/s.f. • $244,440 total
Suite D2/E: 3,644 s.f.	• $126/s.f. • $459,144 total
New illuminated sign	$175,000

TIER 1: CASH FLOW ANALYSIS (JULY 2018 START)

Total Initial SFMTA Capital Expenditure: $1,261,229

Fiscal Year	1 07/18 06/19		2 07/19 06/20		3 07/20 06/21	4 07/21 06/22	5 07/22 06/23	6 07/23 06/24	7 07/24 06/25	8 07/25 06/26	9 07/26 06/27	10 07/27 06/28
	$/SF		$/SF									
INCOME												
Base Rental Income	$44.99	$1,180,928	$58.10	$1,525,137	$1,614,476	$1,645,926	$1,719,622	$1,788,608	$1,858,614	$1,907,954	$1,960,171	$2,019,872
Turnover Vacancy	$0.00	$0	($0.46)	($12,006)	($74,197)	($322,870)	$0	($77,283)	($129,588)	($83,041)	($54,926)	($14,514)
Base Rent Abatements	$0.00	$0	$0.00	$0	($71,632)	($172,388)	($168,597)	($62,926)	($138,214)	($83,041)	($26,744)	($43,542)
CAM Recovery	$1.16	$30,456	$1.56	$40,893	$40,662	$35,074	$44,581	$43,924	$43,383	$46,835	$48,609	$51,287
Insurance Recovery	$0.04	$1,038	$0.05	$1,393	$1,384	$1,198	$1,520	$1,497	$1,478	$1,598	$1,657	$1,748
Community District Assess. Recovery	$0.10	$2,648	$0.14	$3,555	$3,536	$3,048	$3,874	$3,816	$3,771	$4,070	$4,225	$4,459
Gross Income	**$46.29**	**1,215,070**	**$59.39**	**1,558,972**	**1,514,229**	**1,189,988**	**1,601,000**	**1,697,636**	**1,639,444**	**1,794,375**	**1,932,992**	**2,019,310**
Vacancy/Credit Allowance	6.02%	($73,110)	5.06%	($78,941)	($35,455)	($29,088)	($93,574)	($39,486)	($38,449)	($41,677)	($58,177)	($102,032)
Gross Effective Income	**$43.50**	**1,141,960**	**$56.38**	**1,480,031**	**1,478,774**	**1,160,900**	**1,507,426**	**1,658,150**	**1,600,995**	**1,752,698**	**1,874,815**	**1,917,278**
Total Expenses	$0.00	$0	$0.00	$0	$0	$0	$0	$0	$0	$0	$0	$0
NET OPERATING INCOME	**$43.50**	**1,141,960**	**$56.38**	**1,480,031**	**1,478,774**	**1,160,900**	**1,507,426**	**1,658,150**	**1,600,995**	**1,752,698**	**1,874,815**	**1,917,278**
CAPITAL EXPENDITURES												
Tenant Improvements		$35,575		$0	$42,564	$106,770	$34,159	$41,004	$70,926	$49,343	$20,572	$31,667
Leasing Commissions		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction Costs - Unit D2/E		$459,144		$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction Costs - Unit G2		$244,440		$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction Costs - Unit K1		$128,688		$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction Costs - Unit L		$218,382		$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction Costs - Unit M		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
New Illuminated Sign		$175,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Capital Expenditures	$48.05	1,261,229	$0.00	0	42,564	106,770	34,159	41,004	70,926	49,343	20,572	31,667
CASH FLOW BEFORE CELL TOWERS	**($4.54)**	**(119,269)**	**$56.38**	**1,480,031**	**1,436,210**	**1,054,130**	**1,473,267**	**1,617,146**	**1,530,069**	**1,703,355**	**1,854,243**	**1,885,611**
Cell Tower Income	$9.41	$247,136	$9.63	$252,768	$258,533	$264,434	$270,477	$276,661	$282,993	$289,475	$296,113	$302,908
CASH FLOW INC. CELL TOWERS		**127,867**		**1,732,799**	**1,694,743**	**1,318,564**	**1,743,744**	**1,893,807**	**1,813,062**	**1,992,830**	**2,150,356**	**2,188,519**

TIER 1: VALUE CONCLUSIONS (JULY 2018 START)

Discounted 10 Year Net Present Value: $9,723,207

Undiscounted Total Net 10 Year Cash Flow: $13,914,793

Discount Rate:	6.00%	**Area (Sq.Ft.):**	26,250
Terminal C.R.:	0.00%	**Disposition Costs:**	2.00%
Hold (Years):	10	**Value Rounded:**	$10,000

	Hold Year	Net Operating Income	Net Cashflow	Free Rent / Lag Vacancy	Cum. PV Cashflow	PV Reversion	Total Value
1	06/19	$1,141,960	($119,269)	$0	($112,518)	$0	($112,518)
2	06/20	1,480,031	1,480,031	12,006	$1,204,704	$0	$1,204,704
3	06/21	1,478,774	1,436,210	145,829	$2,410,574	$0	$2,410,574
4	06/22	1,160,900	1,054,130	495,258	$3,245,544	$0	$3,245,544
5	06/23	1,507,426	1,473,267	168,597	$4,346,455	$0	$4,346,455
6	06/24	1,658,150	1,617,146	140,209	$5,486,479	$0	$5,486,479
7	06/25	1,600,995	1,530,069	267,802	$6,504,062	$0	$6,504,062
8	06/26	1,752,698	1,703,355	166,082	$7,572,768	$0	$7,572,768
9	06/27	1,874,815	1,854,243	81,670	$8,670,291	$0	$8,670,291
10	06/28	1,917,278	1,885,611	58,056	$9,723,207	$0	$9,723,207

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

4D: LEASING STRATEGY

4.D LEASING STRATEGY

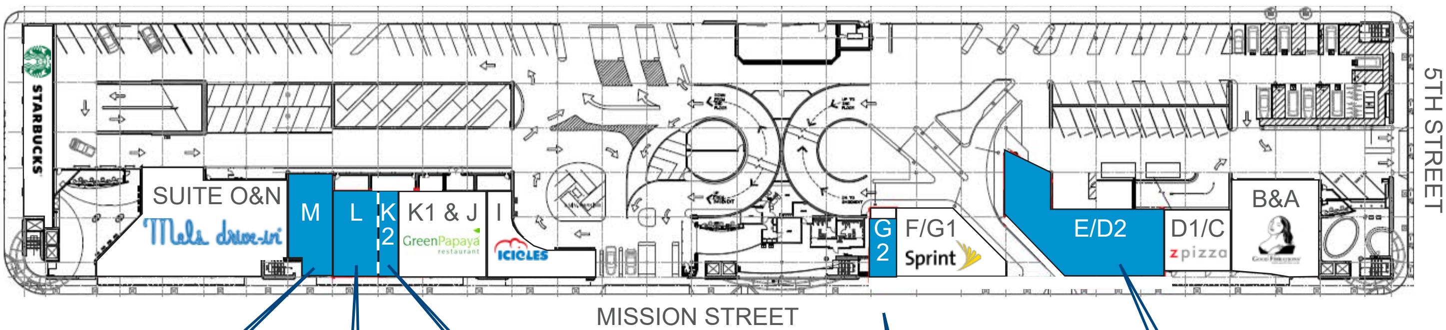
Based on Colliers' understanding of the building analysis, demographic analysis, co-tenancy analysis and stakeholder outreach, a leasing strategy for 5th & Mission Garage was developed with a detailed merchandising plan and leasing timeline.

4.D.1 MERCHANDISING PLAN

Colliers evaluated each retail space individually as well as considering each as a part of a larger merchandising plan. The initial evaluation of the retail spaces for lease included understanding the limitations of each space, and recommending base building infrastructure upgrades. Upon determining the highest and best use for each space, Colliers took into consideration other retail tenants in the immediate area. Colliers recommends a retail merchandising mix that does not create competition with existing tenants in the immediate area and brings complimentary uses to the neighborhood. Some of the suggested uses are medical offices, financial services, health and beauty services, courier services, pet stores, toy stores, children stores, gift stores, shoe repair services and non-cooking food uses.

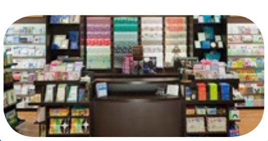
The proposed 5th & Mission Garage Merchandising Plan is independent of SFMTA's determination regarding base building improvements, however, based on Space L and K2's continued vacancy, it is unlikely those spaces will be leased in their current condition. If all base building improvements are made and immediate activation in the form of pop-up retailers is employed, it is Colliers opinion that the below proposed rents could be escalated, commensurate with increased demand by long term tenants.

5TH & MISSION GARAGE MERCHANDISING PLAN



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



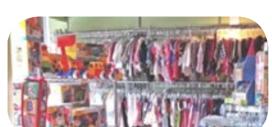


SUITE L
+/-1,278 s.f.
Suggested Retail:
Optometry
Chiropractor
Courier Services
Tax Preparation
Approximate Rent:
$50-55/s.f./year
$5,325-5,857/month
NNN



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

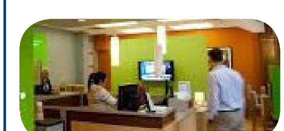




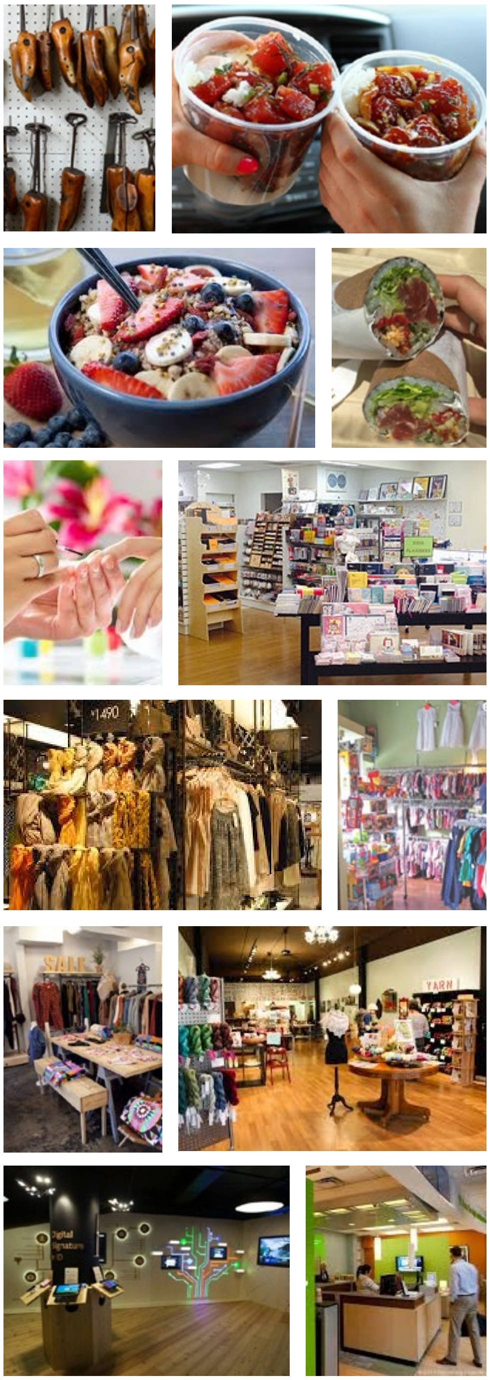
SUITE G2
+/-582 s.f.
Suggested Retail:
Quick Service Food
(Non Cooking)
Specialty Food
Dry Cleaner
Approximate Rent:
$55-60/s.f./year
$2,668-2,910/month
NNN



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


*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.



Explanation of Strategy

Suite M: As a fully built out nail salon, the recommended highest and best use would be a similar spa service that could utilize the current Furniture Fixtures & Equipment (FF&E). This way the space could be leased “as-is”, with no additional landlord work.

Suite L/K2: These spaces are currently combined and appear as one Cold Shell with no infrastructure. Due to the restriction on food use for this portion of the project, personal, commercial services, or traditional retail uses are recommended for these vacancies. Suggested services for Spaces L and K2 are optometry, dry cleaners, tax preparation, couriers, clothing tailors, shoe repair, or specialty retail (consignment, children, pets).

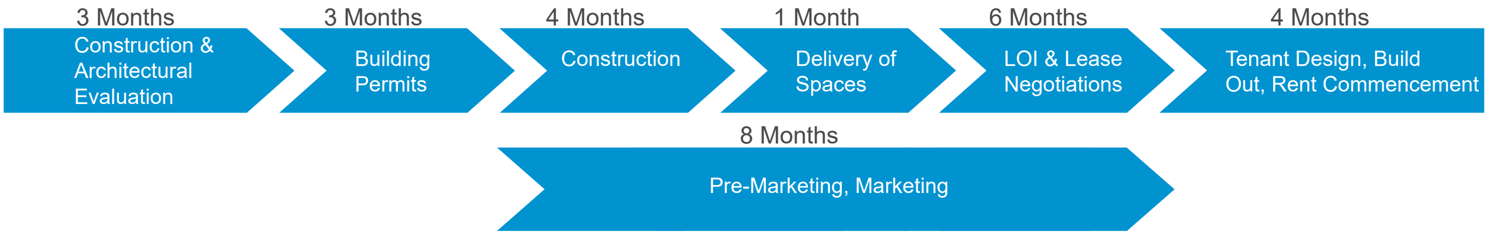
Suite G2: Due to the small configuration of this space, the suggested uses are non-cooking food tenants such as sandwich shops, poke, acai, pressed juice, or personal services such as shoe repair or dry cleaning.

Suite D/E2: Due to its larger size configuration suggested tenants that can occupy this size are medical concierge, art galleries, banks or other financial services.

After the recommended construction has been completed for the Warm Shell construction of the retail spaces, if there is not an immediate opportunity for a long term lease commitment, it is recommended that pop-up tenants or short term deals are considered in an effort to fill vacant spaces and achieve activation and rental revenue. (See recommendation: Pop-up/Short Term Tenants in Section 4.D.3.)

4.D.2 5th & MISSION GARAGE LEASING TIMELINE

The proposed leasing timeline is dependent on SFMTA's approval of base building improvements to the vacant spaces at the 5th & Mission Garage. Phase 5-8 can run concurrently with Phases 1-4 if the spaces are in Warm Shell condition, but spaces that are in Cold Shell condition should begin Phase 5 when final plans are permitted by the City to ensure proper marketing.



1	**Construction & Architectural Evaluation - 3 Months** • Hire a licensed architect and engineer to assess the architectural, mechanical and electrical systems; review existing floor plans; review fire and life safety requirements; and assess structural systems and any other existing conditions. • Receive square feet calculations and dimensioned floor plans from architect. • Concurrently with the architectural and engineering assessment, hire a licensed general contractor to assess the retail spaces and begin preparing construction estimates for SFMTA's base building delivery conditions (Tier 1 or Tier 2A). Receive construction estimates. • Review construction estimates and determine SFMTA's base building delivery conditions. • Receive construction drawings from licensed general contractor.
2	**Building Permits - 3 Months** • Submit construction design to the Planning Department.
3	**Construction - 4 Months** • Upon receipt of building permits the construction can begin. Construction time may vary but can occur concurrently with pre-marketing and marketing of the retail spaces – Phase 5. • Create detailed breakdown or summary of SFMTA's base building delivery conditions for prospective tenant's review. This can be done before, during or after the construction is complete.
4	**Delivery of Spaces - 1 Month** • Upon completion of SFMTA's work, the spaces are ready for delivery to tenant.
5	**Pre-Marketing - 2 Months (Running concurrently with Steps 3-4)** • Create distinctive and dynamic marketing brochures for each retail space. • Include the following in the marketing brochure: retail floor plans; retail space specifications (i.e. square footage, ceiling heights, frontage width measurements, restroom access, etc.); population and demographic information; proximity to public transportation; neighborhood retail map showing neighboring restaurants, retail and other services; signage renderings; and photos of retail premises. • Obtain foot traffic and vehicular traffic counts. • Identify potential retail and restaurant tenants for each retail space.

6	**Marketing and Leasing - 6 Months (Running concurrently with Steps 3-4)** • Submit final marketing brochures to commercial real estate internet platforms such as CoStar and Loopnet. • Create an email blast of the retail brochure to be sent to the retail brokerage community, community stakeholders, retailers and restaurants. • Research real estate point person for prospective retailers and obtain contact information. Cold call and email potential retail and restaurant tenants. • Set up meetings with prospective tenants to discuss retail leasing opportunities. • Call and email retail brokers and set up meetings to discuss retail leasing opportunities within the project. • Organize and conduct broker and tenant networking events at the property to expose the space and heighten awareness within the brokerage community. • Create a leasing report, call log and tour log to keep track of all retail leasing efforts and activity • Read blogs, retail news and trade publications to stay current on retail trends. • Schedule property tours with brokers and tenants to showcase the retail spaces and discuss the opportunities in further detail. • Follow up with brokers and retail tenants who have shown interest in the project to determine their level of interest.
7	**Letter of Intent and Lease Negotiations - 6 Months** • The Letter of Intent (LOI) is a preliminary non-binding agreement between SFMTA and the prospective tenant. • The LOI will include the basic business deal terms and contemplates the negotiation of the retail lease transaction underway. The LOI process typically takes 2-3 months on average. • Once the LOI has been agreed to, the document will be mutually executed. • The mutually executed LOI will be submitted to the City Attorney to begin preparing the lease document with all the business terms that were pre-negotiated during the LOI phase. • City Attorney and tenant's attorney will work together with SFMTA and tenant to negotiate the lease document. • The lease negotiation process typically takes 3-4 months on average but can be more or less and is different for every transaction. • Once the lease is mutually agreed to between SFMTA and tenant, the lease is mutually executed and the lease will commence.
8	**Tenant Design, Buildout and Rent Commencement - 4 Months** • The design and permit process can occur concurrently with lease negotiations. However, tenant's construction cannot begin until lease commencement. • Once tenant has received its design drawings from their architectural and design teams they will submit the space plans to the Planning Department for receipt of the construction permit. • Upon receipt of construction permit and rent commencement, the tenant's construction can begin. The construction period may vary with each individual project. • Rent commencement will occur per the lease agreement.

4.D.3 LEASING RECOMMENDATIONS

In addition to the base building upgrades, Colliers also recommends the following leasing strategies:

Pop-Up/Short Term Tenants: To help solve for some of the vacancies on Mission Street it is recommended SOMA Pilipinas, SOMCAN or other local nonprofits, be considered for vacant retail spaces on a temporary basis. This may help activate the vacant retail and increase foot traffic. Under a short term or pop-up tenant, a License Agreement is typically negotiated in lieu of a lease. Temporary tenants may pay below market rent but they will require limited landlord investment, if any, and can typically begin operating and paying rent immediately. It is recommended the landlord remain in control of the retail space and always have the right to recapture the Premises with a 30-90 day notice, if there is an opportunity for a lease with a long term tenant who can pay market rents.

Marketing Program: Colliers recommends developing a distinctive and dynamic marketing program to ensure the property is being showcased to the real estate community. A dedicated 5th & Mission marketing brochure should be created that includes: daily parkers; Moscone Convention Center information; population and demographic information; proximity to public transportation; neighborhood retail map showing neighboring restaurants, retail and other services; signage renderings; and property photos. In addition to the property brochure, it is recommended SFMTA create a marketing brochure for each individual retail space which displays the available square footage, ceiling heights, storefront width, infrastructure descriptions and a floor plan. The marketing brochure should also include foot traffic and vehicular traffic count information. The marketing program should also include showcasing the property on all of the real estate internet platforms such as CoStar and LoopNet. These internet platforms will upload the marketing flyers with space specific information which will be made available to the public. An email blast of the marketing brochure should be created and sent to relevant community groups, the retail brokerage community, retailers and restaurants.

Improved Visibility: Colliers recommends creating a new landscaping program and implementing a routine façade cleaning. In addition to the landscaping and routine cleaning, adding a new coat of paint to the exterior may enhance its attractiveness.

Pylon Signage: Develop a new building standard pylon signage to showcase all the building tenants together. This can be included in the marketing program.

Food Uses: Due to the exclusive use clause in the Mel's Diner lease, food uses are not permitted in spaces M, L, and K2; however, space G2 is permitted for a food use and may have a high level of interest once base building infrastructure upgrades are complete.

Minimum Operating Hours: Minimum Hours of Operation should be established for all retail tenants in a retail center. This creates a more cohesive and consistent shopping environment. It is recommended Minimum Hours of Operation be included in all future leases.

Sample Minimum Hours of Operation:

Monday through Friday:	x:00 a.m. to x:00 p.m.
Saturday:	x:00 a.m. to x:00 p.m.
Sunday:	x:00 a.m. to x:00 p.m.

The above should be inserted into the “Basic Terms” section of the lease.

See Confidential Appendix C for Sample Lease Language.

Signage Program: Colliers recommends there be an expanded mandatory signage program for all retail tenants. Signage that is consistent, clean and modern gives a cohesive look that will appeal to a broad range of shoppers and potential tenants.

A signage program was developed by KD Architects on January 3, 2007 and incorporated into the retail leases at the 5th & Mission Garage.

- It is recommended the program be updated to restrict the use of neon signage and paper signage in the window.

See Confidential Appendix C for Sample Lease Language for Restriction of Undesirable Signage

Percentage Rent: Colliers understands that in new leases, SFMTA plans to require tenants provide sales information in order to evaluate if a potential percentage rent model would be advisable at a later date. Percentage rent is extra rent paid to landlord based on a percentage of gross sales, above the minimum rent paid (base rent). Percentage rent is paid after a certain amount of gross sales are met. The point at which it is paid is call a “breakpoint” and can be natural or artificial. A natural breakpoint is calculated by dividing the base rent by the established percentage rent. An artificial breakpoint is a dollar amount in sales both parties agree to.

Calculation Example for a Natural Breakpoint:

A 5% percentage rent on a $100,000 per year base rent would be $100,000 / 5% = $2,000,000.

When the tenant surpasses $2,000,000 in gross sales, 5% of the surplus would be paid to landlord (Example: Tenant earns $2,500,000 in gross sales and pays landlord 5% of $500,000 or $25,000).

Percentage rent is often received in certain commercial retail projects such as shopping centers, due to its ability to attract a strong customer base and achieve high sales volumes.

- It is recommended SFMTA requests a 5% percentage rent over a natural break.
- An unnatural break can be negotiated for tenants that do not want to agree to the concept in principle.

180 Day Termination: This requirement may deter potential tenants unless specific concessions are made in the event the landlord tries to recapture the premises. This can be achieved by offering a termination fee to the tenant that reimburses them for any reasonable out of pocket expenses incurred in the buildout of the space. Sample lease language is suggested in the Confidential Appendix C.

Outside Broker/Tenant Broker Commissions: In their current marketing efforts, SFMTA has been restricted from paying leasing commissions to outside/tenant brokers. It is recommended SFMTA find a way to incentivize outside/tenant brokers to ensure the vacant properties are diligently marketed to prospective tenants.

REPORT 2: UNION SQUARE MARKET STREET STATION

5A: BACKGROUND

Hughen Starkweather will integrate a design into the glass deck and the front faces of the glass elevator enclosures of the northern entrance to UMS (shown right). Their artwork titled Convergence: Commute Patterns, is based on the dynamic and diverse pathways, commute patterns and arterial structures that exist above and below the streets of the Bay Area. The visual impact of this design treatment to the station's exterior would shift from being subtle during the day to backlit and more vibrant at night. (Description courtesy of San Francisco Arts Commission)

The SFMTA Central Subway line is under construction and public opening is estimated to be November 2019. Once completed, the Muni Metro T Third Line will connect the Bayshore and Mission Bay areas to SoMa, Downtown, and Chinatown.

Union Square Market Street Station (UMS) will consist of a public concourse-to-concourse connection between Powell Station and the southeastern corner of Union Square. The concourse-to-concourse connection will be approximately 690 feet long (or two city blocks), and will include an approximately 1,400 square foot commercial space for lease positioned under Ellis Street and is large enough to consider a retail merchandising program that could include some kiosks, retail merchandising units and vending machines to provide a retail presence and station amenities.

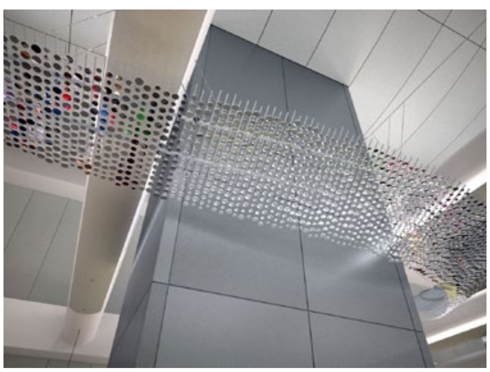
This report provides analysis and recommendations for addressing the following leasing and management challenges:

- The enclosed 1,400 s.f. commercial space under Ellis Street does not have the base building infrastructure to support a retail or office use
- The 690 foot long concourse will be a public space but currently does not have designated retail spaces, a retail leasing strategy, or leasing program in place.
- The interdependence of transit traffic patterns coupled with the unique challenges associated with downtown San Francisco transient populations requires a multiple disciplinary approach towards understanding the needs and challenges of underground retail at UMS

For this report, Colliers gathered site specific data and research, recommended marketing strategies to attract and retain new tenants, created a site specific retail merchandising plan and developed an investment analysis. The assessment included multiple meetings with engineers, architects and local merchants as well as a review of the station plans. Lastly, internal and external stakeholder meetings were conducted to provide insight into the obstacles and challenges facing the Union Square neighborhood. SFMTA staff was involved throughout the process, participating in interviews to provide input and guidance on each deliverable.

5B: DATA GATHERING AND ANALYSIS

Lucy in the Sky is an illuminated installation comprised of hundreds of translucent 10 x 10 inch light panels, each containing an array of color LEDs. The light panels will be suspended along the entire length of the concourse level corridor's ceiling and will be computer programmed to slowly change color and display simple patterns and animations. (Description courtesy of San Francisco Arts Commission)



Illuminated Scroll is in the form of a ribbon with dimensions of approximately 250' in length and a width that varies from 4' to 8'. The sculpture, which is comprised of highly polished steel disks, will be installed overhead winding its way through the struts along the length of the platform and will reflect the passengers and trains passing below. (Description courtesy of San Francisco Arts Commission)

5.B DATA GATHERING AND ANALYSIS

To understand what a successful underground retail leasing program entails, the following areas of market expertise must be analyzed and understood:

- Service area/project description
- Review of existing plans and documents
- SFMTA and governmental regulations
- Location overview
- Demographic analysis
- Co-tenancy analysis
- Review of comparable lease transactions
- Review of occupancy data
- Stakeholder input
- Case study conclusions
- Base building analysis

5.B.1 SERVICE AREA/PROJECT DESCRIPTION

Serving the Union Square area, UMS will consist of a public concourse-to-concourse connection between Powell Station and the southeastern corner of Union Square. The concourse-to-concourse connection will be approximately 690 feet long (or two city blocks), with opportunity for kiosk, retail merchandising units and vending machines (also known as automated retail) along it, and an approximate 1,400 s.f. commercial space for lease positioned under Ellis Street. The architect for the station is Robin Chiang & Company and based on their description, the design should be "inspired by and remind visitors of design in the retail world". It is recommended that the station build upon the concepts and ideas developed by SFMTA's consulting team and presented in public meetings between SFMTA and constituent merchants and businesses. The San Francisco Arts Commission (SFAC) is managing the implementation of a public art program, which has resulted in three different pieces of artwork at UMS, shown here in the sidebars.

The SFMTA Communications and Marketing Division refers to this station as the "Hub and Connector" due to the cross section of expected ridership. From the north, the new subway will pull riders from North Beach (potential expansion site) and Chinatown and from the south riders will come from SoMa, the Caltrain Station with connection to the Peninsula and South Bay, as well as Mission Bay, Dogpatch, Bayview/Hunters Point, and Visitacion Valley neighborhoods. Riders will also be able to connect to UMS via the Powell BART/MUNI station, which draws riders from the East Bay, the Mission District, Glen Park and Balboa Park neighborhoods of San Francisco, and as far south as Millbrae. Some users will be "to-users", people using the line to come "to" Union Square, and others will be "through-users", people who use the station as a connection to the various adjacent lines.

5.B.2 REVIEW OF EXISTING DOCUMENTS

Colliers was provided with the architectural plans as well as the Central Subway EIR document and the EIR response to comments.

5.B.3 SFMTA AND GOVERNMENTAL REGULATIONS

Colliers gathered and evaluated relevant government and SFMTA documents as they pertained to UMS.

Zoning

The following zoning information was provided by The San Francisco Planning Department.

The underground concourse is zoned P – Public, OS

Permitted Uses (Planning Code Section 211):

(c) Accessory nonpublic uses, which in P Districts may or may not be related to the principal use, provided that they meet the following standards:

(1) If the accessory nonpublic use is located on a lot with an OS Height and Bulk designation per Section 290 of this Code, it shall occupy a *de minimis* amount of space so that it does not detract from the lot's principal or exclusive purpose as open space. In no case may accessory nonpublic uses occupy more than 1/3 of the total lot area occupied by the principle use;

Signage Restrictions

Signage controls in P Districts are that of the nearest zoning district, which is C-3-R for UMS. Section 607 signage regulations apply. The following signage regulation information was provided by The San Francisco Planning Department:

- Unpermitted Signs: The following types of signs are not permitted: general advertising signs; roof signs; wind signs; moving parts signs (consisting of any moving, rotating or otherwise physically animated); projecting signs (with more than 75% of the horizontal distance from the street property line to the curb line and no more than six feet beyond the street property line or building setback line).
- Window Signs: The total area of all window signs shall not exceed one-third the area of the window or clear door on or in which the signs are located.
- Illumination: Any sign may be non-illuminated or indirectly or directly illuminated.
- Height: No sign attached to a building shall exceed a maximum height of 60-100 feet (further specification will be required for P zoning). The maximum height for freestanding signs shall be 36-40 feet (further specification will be required for P zoning).

Formula Retail

Formula Retail restrictions (see Section 303.1 of the San Francisco Planning Code) do not apply to UMS. For purposes of this analysis that means all retailers regardless of quantity of locations can be considered.

Safety Concerns

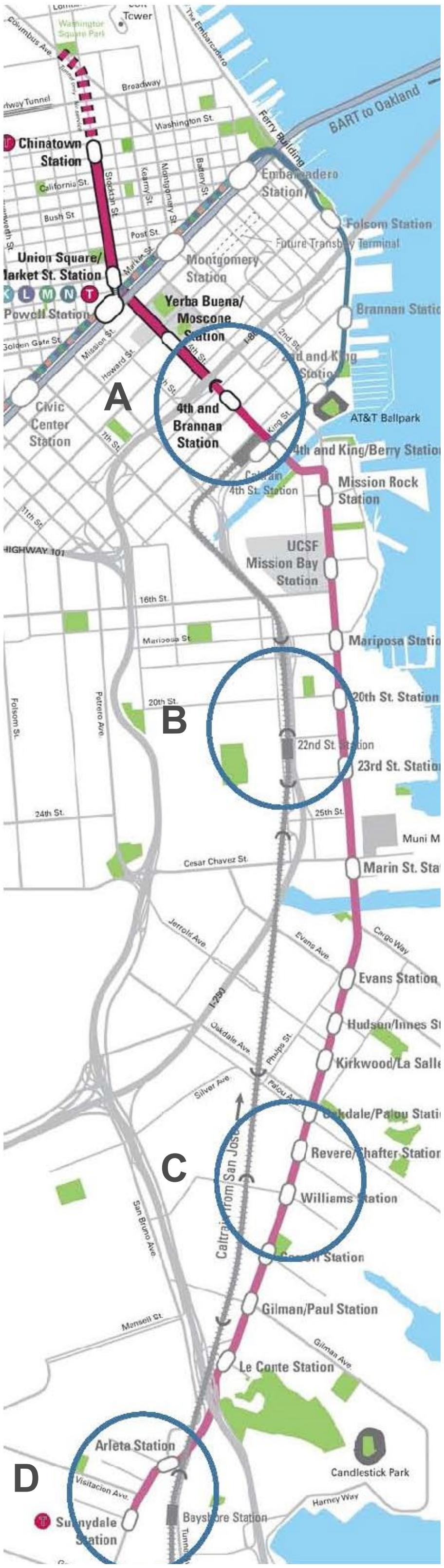
Passenger and public safety in UMS has been a commonly voiced concern during the outreach process. San Francisco has specific ordinances in place to help eliminate loitering and undesirable behavior. Specifically, San Francisco's civil sidewalk ordinance, known as "Sit-Lie Ordinance" (Section 168, "Promotion of Civil Sidewalks). The Sit-Lie Ordinance prohibits anyone from sitting or lying on the sidewalk or other public spaces. The current law can be enforced between the hours of 7 AM and 11 PM. The mechanism for enforcing "sit-lie" typically begins with an anonymous call from a private merchant who is not required to be involved in the final process. This provides the police the chance to "move along" loitering people or groups without the need for citation or official reporting.

SFMTA Restrictions

Food and beverage consumption is not allowed at Muni Metro Stations and is referenced in the "Muni Rider's Guide", dated June 2012. This may need to be reconsidered to allow for retail programming that may include food and beverage amenities at the Central Subway Stations.

5.B.4 LOCATION/NEIGHBORHOOD OVERVIEW

UMS is located in the heart of San Francisco's luxury shopping neighborhood, Union Square. Colliers proprietary lease comparable database indicates yearly increases in rental rates culminating in 2016 highs of approximately $800/ s.f./ year for corner locations on the most trafficked corners of Union Square. Anchored by the Powell Street Cable Car turnaround and Westfield Mall to the south and the large international hotels on Sutter Street to the north. The west/east boundaries are more amorphous with current demand pushing the boundaries, arguably, to Mason Street on the west and Kearny Street on the east.



5.B.5 DEMOGRAPHIC ANALYSIS

Union Square is a popular shopping and tourist destination that attracts both tourists and locals. Based on demographic research and analysis, UMS is anticipating a daily passenger count of 35,100 by 2030. Magnify Maps estimates the day time population to be 117,622.

The selection of areas for demographic analysis was based on the “hub and connector” concept, and demographics were pulled from a selection of stops along the new Muni Metro T Third Line (heading south from Union Square) - SOMA, Dogpatch, Revere Shafter Station and Sunnydale, listed as A, B, C and D on the map to the right.

Area A: SOMA

SOMA experienced 100% increase in total households 2000 through 2016. The average household income is approximately $125,000 per year. The average household size is less than two people.

Area B: Dogpatch

The area immediately surrounding the Third Street corridor saw a 140% increase in population from 2000-2016. Less than half a mile out from the main corridor that number drops to 13-25% increase. The average household income is $190,000 per year, with a per capita income of approximately $90,000. 60% of the population earns more than $125,000 per year. The average household size is just over two people.

Area C: Revere Shafter Station

The area surrounding Revere Shafter Station saw a population increase of approximately 10% from 2000-2016, with an expected 15% increase in the coming years as new residential developments come online. The average household income is $80,000 per year.

Area D: Sunnydale

Sunnydale has seen a steady increase in population over the last decade. The average household income is approximately $90,000 per year, with 48.5% earning over $75,000 per year. Unlike many San Francisco neighborhoods, the average household size here is four people.

The San Francisco average household income is $88,518. The selected data points along the Muni Metro T Third Line average $121,250 per household, placing it well above the citywide average. This indicates the ridership will have some disposable income, relative to the general population.

Source: See Appendix A Updated Demographic Summary Report of Magnify Maps

5.B.8 CO TENANCY ANALYSIS

The immediate area is a retail trade area with a mix of high-priced (Barney’s, Dior, Prada), medium-priced (Macy’s, Ugg’s, Victoria’s Secret) and low-priced (Marshall’s, H&M, Forever 21) retail tenants. The area is strongly influenced by

tourist traffic but also attracts San Francisco locals to the area. Colliers researched comparable retail and office lease transactions in similar underground commercial projects in the immediate area to recommend proposed rents and retailers for the concourse level at UMS.

Restaurants/Cafes: Bancerella (on Union Square), Emporio Rulli Caffe Bakery (on Union Square), Café Bellini, Starbucks, Boudin, Nespresso.

Hotels: Westin Saint Francis, Grand Hyatt, Marriott, Hilton San Francisco Union Square, Kensington Park Hotel, Taj Campton Place

Destinations: Westfield Mall, Powell Street Cable Car Line, San Francisco Play House, The Curran Theater, A.C.T.

5.B.6 REVIEW OF COMPARABLE LEASE TRANSACTIONS

Colliers researched kiosk and vending machines transactions in other transit centers with similar retail programming as well as underground commercial lease transactions. In order to determine fair market rent for the kiosks and vending machines at UMS, Colliers determined potential locations for each kiosk and vending machine as well as identifying available utility services for the kiosks and vending machines. Colliers also interviewed Cheryl Nashir from SFO Airport and Deborah Kravitz from Pro Resource Inc. to learn how rents are determined within similar transit centers such as San Francisco International Airport.

Kiosks / Retail Merchandising Units

For kiosks specifically, rents for underground retail spaces are generally 1/4th -1/3rd of the ground floor rental rates directly above it. Colliers interviewed real estate brokers involved in the proposed retail plans for the BART – TransMart program kiosks. Based on the information gathered, BART reported they would be able to achieve $12 - $24 per square foot annually in proposed retail rents. Therefore, Colliers recommends the rental rates for the pop-up kiosks and retail merchandising units are $12- $24 NNN per square foot annually. (NNN “triple net” is a lease agreement on a property where the tenant agrees to pay their pro-rata share of property taxes, building insurance, and common area maintenance in addition to rent and utilities.)

Vending Machines

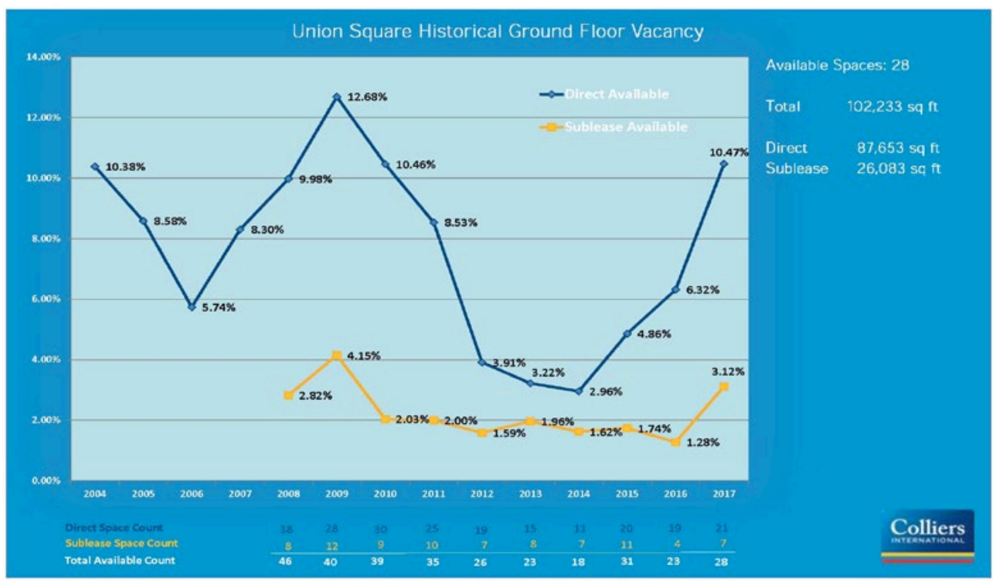
Rents for vending machines and kiosks within transit centers are determined based on the following: foot traffic; ridership counts; and length of time passengers wait in the stations. For vending machines (automated retail) specifically, rents are either a low base rent or a percentage of the vending machines annual gross sales. However, until ridership counts can be confirmed and the sales volumes can be verified for UMS, at this time Colliers recommended rents for the vending machines are a low base rent of $200/Month/Machine plus percentage rent above a breakpoint.

Under Ellis Street Commercial Space

Colliers researched underground commercial space leasing transactions and identified underground commercial spaces of similar configuration, size and condition. Colliers also reached out to other brokers who completed commercial leasing transactions in underground or lower level spaces to obtain the necessary comparable information. Commercial spaces for lease in comparable projects typically lease for $30 per square foot per year NNN up to $45 per square foot per year NNN depending on size and location. Based on the information gathered, Colliers recommends the base rent for the under Ellis Street commercial space is estimated at $36 per square foot per year NNN.

5.B.8 REVIEW OF OCCUPANCY DATA

Colliers proprietary lease comparable database indicates Union Square vacancy has climbed year over year and is up to 3.12% as of 2017. It has hovered at 2% since Q3 2011. 3.12% is still considered low as San Francisco usually hovers in the 5%-8% range. When sublease space is added, the current Union Square vacancy rate is 10.47%. Sublease spaces typically lease for a significant discount. The increasing number of sublease opportunities will drag rental rates down for direct leases.



231 spaces are monitored in the prime high streets of the Union Square district. 837,076 square feet are on the ground floor.
43% of all stores retail from multiple levels; 57% of stores retail from ground floor only.

5.B.9 STAKEHOLDER INPUT

Colliers met with representatives from the SFMTA and the City and County of San Francisco staff to gather information and feedback as it relates to UMS. The information received contributed to the Data Gathering and Analysis sections of this report. Colliers also met with external stakeholders to provide them with the initial recommended retail plan for UMS and obtain feedback. A copy of the presentation shown to external stakeholders can be found in the Appendix A.

Date(s) Contacted	Organization	Primary Contact
March 13, 2017 – August 1, 2017 Biweekly Meetings	SFMTA Advisory Group for Colliers Agreement Contract	See Appendix A for Advisory Group members
April 18, 2017 Meeting	SFMTA Finance & Information Technology Division	Gail Stein, Finance Manager
April 19, 2017 Meeting	SF Planning Department	Tina Chang, Planner, Current Planning Kay Cheng, Planner, Long Range Planning
April 21, 2017 Meeting	Central Subway Project Team	Jane Wang, Senior Engineer
April 27, 2017 Meeting	SFMTA Communications and Marketing Division	Janis Yuen, Internal and Executive Communications Manager
May 2, 2017 Meeting	San Francisco Arts Commission (SFAC)	Jennifer Lovvorn, Senior Public Art Project Manager
May 12, 2017 Meeting	Office of Economic Workforce Development	Emily Lesk, Project Manager
May 29, 2017 Phonecall	SFMTA Accessible Services Program	Annette Williams, Manager of Accessible Services
June 15, 2017 Meeting	Union Square Business Improvement District (USBID) - Staff	Karin Flood, Executive Director Randall Scott, Services Manager
August 8, 2017 Meeting	Union Square Business Improvement District (USBID) - Public Affairs & Advocacy Advisory Committee	Karin Flood, Executive Director

sfac
san francisco
arts commission

UNION SQUARE
UNION SQUARE
BUSINESS IMPROVEMENT
DISTRICT

Key Takeaways:

- Safety in the public concourse level is the number one concern

- Powell Station and Civic Center Station were referenced as “what to avoid” as there are long empty corridor areas where people sleep on the ground
- USBID suggested that SFPD could have interest in the under Ellis Street commercial space for a police substation, which would help promote safety in the area
- USBID could also be interested in the Under Ellis Street space as an outpost for their Cleaning, Public Safety, and Hospitality Ambassadors.
- USBID could be contracted to do extra janitorial work at UMS
- USBID recommended that all retail be adequately secured to prevent smash and grab theft and suggested tourism focused retail, such as Big Bus Tours
- SFAC hopes to have a role in future discussions especially as they relate to the placement of advertisements and maintaining a zone of respect around art installations
- SFAC could potentially have funding available to do a poster series in the concourse if more art is desired

In an effort to eliminate undesirable behavior and create a more pleasant experience for all riders, Colliers recommends implementing a retail merchandising program to help activate the concourse level and bring amenities to UMS.

5.B.10 CASE STUDY CONCLUSIONS

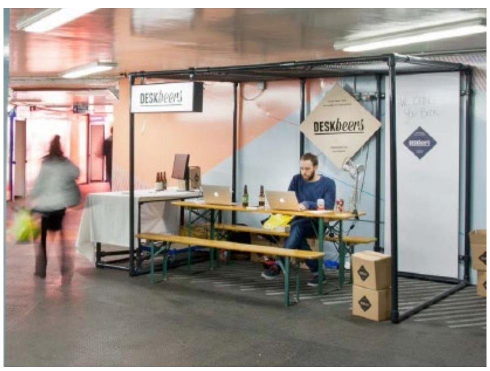
In order to ascertain the most appropriate approach to programming a retail merchandising plan for UMS, Colliers researched specific case studies. These case studies included observing retail in close proximity to other transit hubs, retail merchandising units, retail carts and kiosks, vending machines (automated retail), and advertising programs. The research provided insight as to what systems were and were not successful or recommended for retail programming in similar transit hubs. See Appendix B for full summaries of each case study.

Retail in Close Proximity to Transit

- **New York City MTA 59th Street Columbus Circle Subway Station - Turnstyle**: Turnstyle has more than 30 retailers in 27,000 s.f. of retail space located in a two block long corridor located under Columbus Circle. The MTA spent five years and $108 million to renovate the station and install new storefronts with in-take out-take ventilation to allow for food uses that employ “ventless” cooking technology. The MTA signed a 30 year master lessor development deal with Oases Real Estate. Oases Real Estate worked with architects, design and brand consultants as well as retail brokers to tenant the space. Rents were quoted at about 1/3 of the going rental rate above ground. The 92,000 daily commuters (two thirds higher than anticipated SFMTA ridership) and increased base building infrastructure contribute to the ongoing success of the retailers and are now the main determinant of rent prices, according to the Turnstyle leasing team.

Turnstyle - Columbus Circle

Example of 10 Food Service Retail Pod (White Crate)



London Underground

Cafe X, Metreon location

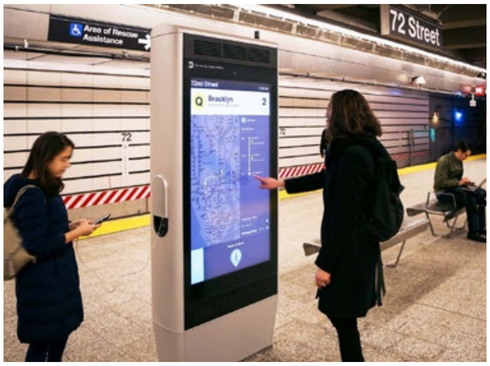
- **First Avenue Tokyo Station Retail Center:** Tokyo Ramen Street was created in one corner of a larger retail center with 100 stores and restaurants. Only the best ramen stores in Tokyo were invited to open at Tokyo Ramen Street making it a destination in and of itself. Since its opening there have been extensive lines from consumers for the eateries.

Key Takeaways:

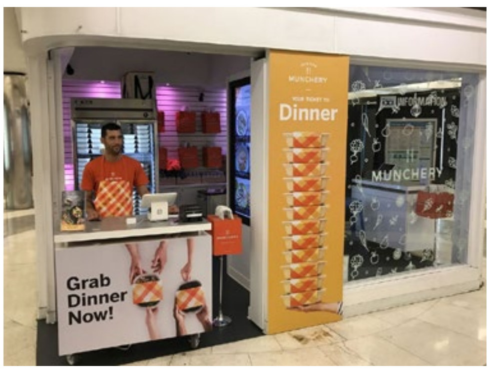
- Food and beverage amenities often contribute to a successful underground retail merchandising mix
- Retail turnover and vacancy may occur subject to tenants operating success and sales volumes
- Achievable rents for subterranean locations and transit hubs are significantly less than ground floor retail rents
- Underground retail and restaurants have the potential for huge success if programmed with a specific vision

Mobile/Non-Conventional Retail Uses/Temporary Uses

- **Storefront (thestorefront.com):** Storefront is a web based management platform for pop-up retailers operating internationally that acts as a conduit between landlords and tenants but is not engaged in Master Leasing scenarios. According to Storefront's marketing materials, they have worked with 100,000+ brands including local company TCHO.
- **Popshopolis/Shop Design Inc./Cayuga Displays:** These are retail pod/kiosk vendors who produce small kiosk shells that could be used for pop-up tenants. Popshopolis prefab crates range in price from $30,000-$50,000 with high end custom containers costing over $100,000. For the purpose of this report, the cost of purchasing kiosk shells was estimated at $50,000 in the Investment Analysis section.
- **Old Street London Underground Station:** Appear Here, a third party marketplace for retail space, partnered with Transport for London, the government agency in charge of the London Underground, to provide retail pods with no water or sewer services for use as pop-up shops in Old Street Station. Retail opportunities are available on an hourly, daily or monthly basis.
- **Illy Café/Café X:** Illy Café and Café X are two coffee operators in the San Francisco market who manufacture their own self-contained branded kiosks.
- **SFO Airport Retail:** SFO has experience with the new style vending machines that sell more varied items than the traditional soda and snack machines. Newer vending machines can sell high priced items such as handheld computer accessories, high-end cosmetics and brand named shoes and jackets. According to the SFO leasing team, the revenues associated with vending machines are based on $123,000 per year or 15% of sales to $500,000 and 20% of sales above $500,000.



LinkNYC kiosk



BART Montgomery Station - Kiosk Shell

Key Takeaways:

- There are extensive options for nontraditional retail uses and they should be explored for the UMS underground retail to maximize retail activation
- Pop-up stalls require minimal construction
- Daily commuters will gravitate towards grab-and-go, prepared food items and small convenience items they can easily carry with them

Advertising

- **LinkNYC:** Intersection (one of SFMTA's current advertising vendors) created the LinkNYC network in New York City, which is a series of kiosks with free services, including free high-speed Wi-Fi, phone calls, a tablet for maps and city services, and device charging outlets. As of June 2017, SFMTA is still evaluating Link kiosks. In New York City, they have presented challenges with policing improper use and data privacy concerns.
- **SFMTA Advertising Contracts:** For all advertising contracts (including the one planned for the Central Subway), SFMTA competitively bids out the process. Advertising in the stations requires minimal infrastructure investment with maximum revenue gain. For the purposes of this report, advertising revenue was assumed to be $250,000 per station in the Investment Analysis section, which is a placeholder estimate provided by SFMTA until a contract is signed.

Key Takeaways:

- Colliers recommends an advertising program be implemented in UMS for additional revenue

Management Models

- **BART contract with TransMart:** TransMart was hired to build and lease underground retail space following a six year discussion with BART. The intent was to enhance the ridership experience and allow a food and beverage experience outside of the ticketing area, accessible to the public. TransMart was contracted to do all foundation work for retail vendors in a single phase but could not secure the loans to build the construction without a 70% lease commitment. In 2016, BART declined to renew the contract citing unmet requirements.
- **Salesforce Transit Center:** The Transbay Joint Powers Authority (TJPA) has contracted Lincoln Properties to manage Salesforce Transit Center for a period of six years. The process to select Lincoln was conducted TJPA through a RFP process which requested prospective property management companies identify three major partners;1) Leasing 2) Park Programming/ Events 3) Sponsorship/Revenue and provide a pro-forma and timeline for each area as well as a master proforma and timeline incorporating all three partner areas.

- **SFMTA:** Due to market forces and potential additional revenue it is recommended SFMTA be in charge of leasing and maintenance management. Additional staff is contemplated in the enclosed investment analysis and would entail new security and leasing staff to be shared between both UMS and CTS. For the immediate activation of the retail pods, a pop-up specialist could be employed to find tenants and negotiate terms, or a strategic partnership could be made with an online platform to source the pop-up tenants with SFMTA handling the leasing.

Key Takeaways:

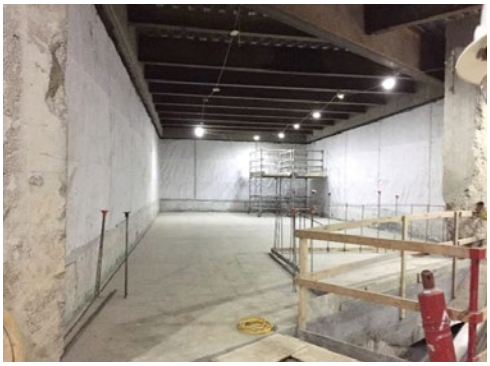
- When considering a Master Lessor scenario it is important to identify prospective groups through a rigid Request for Proposal (RFP) selection process
- Present a RFP that is manageable and profitable for a Master Lessor
- A retail leasing plan may face potential operational risks if plans are not developed and managed thoroughly under a specific timeline
- Programming for large transit hubs will require extensive planning and budgeting for the retail vision, management and event planning of the project
- A hypothetical financial analysis should be created and presented to prospective groups to show the potential revenue sources for a Master Lessor (This step was subsequently undertaken by the Colliers team)

5.B.11 BASE BUILDING ANALYSIS

Colliers received confidential architectural plans for the entire station and tried to confirm, when possible, relevant information with the Central Subway Project Team.

The general conditions of the concourse, as they relate to potential retail uses, are as follows:

- Heating Ventilation Air Condition (HVAC)
  - No roof for exhaust and supply air
- Plumbing
  - No drainage – will need sewage ejector and basin
  - Water line will need to be upsized
- Electrical
  - Additional conduits to provide power to the location and equipment (HVAC, kitchen, etc) needed
  - Additional Panels will be required



Under Ellis Street Commercial Space

Concourse level

5.B.12 BASE BUILDING CONCLUSION AND RECOMMENDATIONS

Under Ellis Street Commercial Space

For the approximately 1,400 s.f. space under Ellis Street, there is electrical service in the space, but otherwise it is in Cold Shell condition. To make the area under Ellis Street viable for anything more than storage, water and sewer lines for an ADA code compliant restroom must be brought to the space and capped for future use. The room is 27’ x 50’, the entrance is 9’ x 16’, and the door width is 9’. It is recommended the walls of the room be re-concreted (if this work is done the space will be smaller than the measurements above).

Concourse

For the concourse, the existing base building condition consists of standard electrical outlets every 25 feet on both sides of the concourse.

For potential retailers, there are currently only restrooms planned in the central concourse on the mezzanine floor, which is accessible by elevator. For this reason, manned retail kiosks and retail merchandising units (RMUs) are recommended for the central concourse only.

Each kiosk would require its own 100-300 amp connection. A feasibility study and quote from a general contractor is required to assess this possibility.

For brand recognized RMUs planned for the center of the concourse, power will need to be dropped from the ceiling, or cut into the floor. This recommendation is pending a response from a consultant on whether the existing circuits can support the additional loads.

Additionally, a sewage and water feasibility study is required.

Bathroom Service:

According to Table 4-3 in the 2010 California Plumbing Code (CPC) an ADA bathroom is required within 200 feet of an office or retail space.

For potential retailers, there are currently only restrooms planned in the central concourse area.

Colliers estimated construction costs based on industry standard costs and in consultation with SFMTA to develop two levels of capital expenditure investment for consideration as Tier 1 and Tier 2A/2B in the following Section 5C: Investment Analysis. Architectural plans and a feasibility study from a General Contractor, contracted by SFMTA, are required to more accurately determine construction estimates for proposed base building upgrades. Final cost estimates for budgeting purposes, must be based on permitted, site specific, architectural plans.

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

Proposed Buildout and Estimated Construction Cost Assumptions

UMS	Tier 1	Tier 2A/2B
Under Ellis Street: +/- 1,400 s.f.	• $1,285/s.f. • $1,800,000 total • Upgrade from Cold Shell to Vanilla Shell ($200/s.f.) + Addition of Bathroom	• $1,178/s.f. • $1,650,000 total • Upgrade from Cold Shell to Warm Shell ($100/s.f.) + Addition of Bathroom
6 Kiosks - 3 food; 3 non food (+/- 100 s.f. each)	• $50,000/Kiosk • $300,000 total	• $50,000/Kiosk • $300,000 total
2 Brand Recognized RMUs/Carts	• $200,000 total for electrical distribution	• $200,000 total for electrical distribution
6 Vending Machines	• $0	• $0

Underground Cityscape Theme

The theme and style of the new proposed kiosks and RMUs should be in keeping with the “retail world” inspiration from Robin Chiang & Company’s design for the station. The digital installment, Lucy in the Sky, will cast different color lights along the concourse throughout the day, and the design of the kiosks should take that into account. If the design of the kiosks are consistent and modern, the overall cityscape theme will be cohesive and visually pleasing.

5C: INVESTMENT ANALYSIS

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

5.C INVESTMENT ANALYSIS

In order to evaluate retail programming concepts for UMS, multiple pro-forma models were developed to analyze the economic value of different strategies, categorized as Tiers 1, 2A, 2B, and 3.

The tiers for all three service areas were structured in the same format. The tiers move from highest level of SFMTA investment and leasing involvement to the lowest level of SFMTA investment and leasing involvement.

For Tiers 1, 2A, and 2B, the financial models quantified assumptions for the anticipated rental income; the operating expenses - management, security, janitorial (Tiers 1 and 2A only, as these are costs handled by a Master Lessor for Tier 2B); and the estimated capital and leasing costs to SFMTA for construction costs and tenant improvements. Colliers estimated buildout costs based on industry standard costs and in consultation with SFMTA to develop two levels of capital expenditure investment for consideration as Tier 1 and Tier 2A/2B. Architectural plans and a feasibility study from a general contractor, contracted by SFMTA, are required to more accurately determine construction estimates for proposed base building upgrades. Final cost estimates for budgeting purposes, must be based on permitted, site specific, architectural plans.

- For Tier 1, the total initial capital expenditure was estimated at $2,300,000
- For Tier 2A, the total initial capital expenditure was estimated at $2,225,000

For Tier 2B, financial models quantified assumptions for a Master Lessor to be contracted by the SFMTA to manage and lease the stations as developed by SFMTA using the Tier 2A framework.

- For Tier 2B, the total initial capital expenditure was estimated to be $2,150,000. Tier 2B was calculated assuming a $52,000 per year management fee payable by SFMTA to a Master Lessor. This is the annual payment, with 3% per year increases that Colliers estimates a Master Lessor would require in order to achieve a 15% return over the life of an assumed 10 year Master Lease. A separate financial model was created to understand the Master Lessor's potential revenue.

For Tier 3, the financial models quantified assumptions for a Master Lessor to be contracted by the SFMTA to develop, manage, and lease the station retail space. There would be no additional SFMTA capital expenditures beyond those already planned for the concourse and under Ellis Street commercial space as part of the Central Subway project. An outside Master Lessor would be responsible for further buildout and tenant improvement allowances as well as the leasing and management of the retail spaces and adjacent public area.

- For Tier 3, it was determined that there is no amount a Master Lessor could afford to pay SFMTA in order to achieve a 15% return over the life of an assumed 40 year Master Lease. The modest annual income from the retail spaces is not enough to overcome the significant upfront capital expenditures required. In fact, SFMTA would have to pay a Master Lessor a management fee of $280,000 per year with 3% per year increases, in order to encourage a Master Lessor to take on the responsibility and liability

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

while still earning a 15% return over 40 years.

Analysis Results:

- Tier 1 resulted in negative cash flow over 10 years. The net present value over 10 years when the 6% discount was applied is -$354,777 and undiscounted is $220,063 The return on investment (internal rate of return over 10 years) is 1.93%.
- In order to calculate the Net Present Value for the projected cash flow from the property, Colliers used a 6% discount rate. The discount rate represents the hurdle interest rate, or opportunity cost, to SFMTA of investing capital in the property. The theory is that there are always competing projects seeking investment and 6% represents the hurdle rate the SFMTA expects to achieve on a future projected cash flow, reflecting expectations of risk, inflation and a required return on investment.
- Tier 2A, resulted in an approximate $254,422 net income over 10 years and a discounted value of -$312,936. The return on investment is 2.30%.
- Tier 2B required a $2,150,000 upfront capital investment in addition to a yearly management fee of $52,000. The net income after ten years would be approximately $119,849 and the discounted value is -$381,178. The return on investment is 1.16%.
- Tier 3 required no upfront capital investment but SFMTA would be required to pay a management fee of approximately $280,000 per year (increasing at 3% per year). The net income to SFMTA over 10 years would be negative and the discounted value and return on investment would also be negative.

The final recommendation is Tier 2A as it has a higher return on investment than Tier 1. For Tier 2A, SFMTA is responsible for capital expenditures to provide the under Ellis Street commercial space in Warm Shell condition, the purchase of kiosk shells, and electrical upgrades to the concourse level, and proposes a tenant improvement allowance, in line with market conditions. SFMTA is responsible for leasing and management of spaces. Tier 2A allows SFMTA to benefit from any increase in rent due to percentage rent or better than expected sales performance.

The UMS assumptions used for Tier 2A are shown below and the assumptions used for the other models are shown in Appendix A.

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

UMS Tier 2A Assumptions

Base Rental Income	
Under Ellis Street Space: +/- 1,400 s.f.	• Starting Rent: $45/s.f./Year, NNN ($5,250/Month, NNN) • Initial Lease Term: 10 year lease with 3% per year increases. 3 months rent abatement is provided and no leasing commissions are paid. • 60% retention rate is assumed during rollover. • 10 year lease is assumed after a 12 month downtime period following expiration of the previous tenant. • No rent abatement is provided and no leasing commissions are paid. • No tenant improvement allowance is offered to a renewing tenant, however a new tenant is assumed to receive a $25/s.f. tenant improvement allowance.
6 Kiosks - 3 food; 3 non food (+/- 100 s.f. each)	• Starting Rent: $1,500/Month/Kiosk, NNN for food use $900/Month/Kiosk, NNN for non-food use • Initial Lease Term: 1 year term • 50% retention rate is assumed during rollover • 1 year lease is assumed following a 1 month downtime period upon expiration of the previous tenant. • No rent abatement, tenant improvement allowance or leasing commissions.
2 Brand Recognized RMUs/Carts	• Starting Rent: $1,500/Month/Cart, NNN • Initial Lease Term: 4 years with 3% increases • 50% retention rate is assumed during rollover. • 4 year lease is assumed following a 2 month downtime period upon expiration of the previous tenant. • No rent abatement, tenant improvement allowance or leasing commissions are included.
6 Vending Machines	• Starting Rent: $200/Month/Machine, NNN • Initial Lease Term: 5 years with 3% per year increases • 50 percent retention rate is assumed during rollover. • 5 year lease is assumed after a 4 month downtime period upon expiration of the previous tenant. • No rent abatement, a tenant improvement allowance or leasing commissions are included.
CAM Charges	• Under Ellis Street space and Branded Recognized RMUs pay pro-rata share of Security, Janitorial and 3% Management fee.
Advertising	• $250,000/Year (estimate per SFMTA; to be determined by separate contract)
Vacancy Credit Allowance	• 3% vacancy allowance plus 2% credit loss

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

UMS Tier 2A Assumptions

Operating Expenses	
Leasing & Management	• $75,000/Year (SFMTA estimate for 50% of FTE salary)
Security (considered in addition to Station Security)	• $95,368/Year ($32.75/hour union wage; 56 hours/week)
Janitorial (considered in addition to Station Janitorial Services)	• $53,144/Year ($36.50/hour union wage; 28 hours/week)
Capital Expenditures	
Under Ellis Street (+/- 1,400 s.f.)	• $1,178/ s.f. • $1,650,000 total • Upgrade from Cold Shell to Warm Shell ($100/s.f.) with
6 Kiosks - 3 food; 3 non food (+/-100 s.f.)	• $50,000/Kiosk (based upon estimates from various vendors profiled in case studies)
2 Brand Recognized RMUs/Carts	• $200,000 total for electrical distribution from concourse walls to center, to be further assessed via feasibility study and general contractor estimate.
6 Vending Machines	• $0 total

All numbers used in the analysis were a “conservative scenario”; in other words they are purposefully on the low side to incentivize retailers to open in an unproven, below ground environment. Percentage rent is a very likely additional revenue source, but one that cannot be quantified until the stations are open and operating. However, under Tiers 2B and 3, any upside gained through increased ridership and sales would be given to the Master Lessor. In Tier 1 and 2A scenarios, any upside in revenue would go to SFMTA. In those scenarios, SFMTA would also retain more control over the planning and activation of the space.

To better understand the overall capital expenses and return on investment for SFMTA running the retail leasing programs at both UMS and CTS, the cash flows for each station were aggregated to form combined models for each tier.

Tiers 1 Combined resulted in an approximately $4,660,000 income over 10 years with a combined upfront investment of approximately $3,700,000. The total discounted value over 10 years is -$140,845 and undiscounted is $947,077.

Tiers 2A Combined show a total discounted value of $106,483 and an undiscounted value of $1,151,535 over 10 years with a combined upfront investment of approximately $3.25 million. The return on investment is 6.83%.

Tiers 2B Combined was calculated assuming a -$102,000 per year management fee payable by SFMTA for both UMS and CTS stations combined. This is the annual amount, with 3% per year increases, a Master Lessor would require from

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SFMTA, in order for them to achieve a 15% return over the life of an assumed 10 year Master Lease of both stations combined. Tiers 2B Combined projects a total discounted value of -$53,068 and an undiscounted value of $797,056 over 10 years with a combined upfront investment of approximately $2,900,000. The return on investment is 5.52%.

Tiers 2A Combined is therefore recommended as it has the highest values and return to SFMTA and allows SFMTA to benefit from any increase in rent due to percentage rent or better than expected performance of the retail spaces.

TIER 2A UNION SQUARE STATION ONLY: CASH FLOW ANALYSIS (JULY 2019 START)

Total Initial SFMTA Capital Expenditure: $2,225,000 IRR: 2.3%

Fiscal Year	$/SF	1 07/19 06/20	$/SF	2 07/20 06/21	3 07/21 06/22	4 07/22 06/23	5 07/23 06/24	6 07/24 06/25	7 07/25 06/26	8 07/26 06/27	9 07/27 06/28	10 07/28 06/29
INCOME												
Base Rental Income	$42.83	$133,200	$65.68	$204,269	$210,171	$216,249	$222,501	$228,838	$235,362	$242,169	$249,166	$259,539
Absorption & Turnover Vacancy	$0.00	$0	($2.38)	($7,416)	($7,638)	($7,866)	($11,479)	($11,130)	($8,598)	($8,856)	($12,920)	$0
Base Rent Abatements	$0.00	$0	$0.00	$0	$0	$0	$0	$0	$0	$0	$0	$0
Expense Reimbursement: Management	$0.12	$376	$0.18	$561	$589	$601	$589	$627	$648	$661	$666	$662
Expense Reimbursement: Janitorial	$1.37	$4,273	$1.68	$5,214	$5,372	$5,532	$5,558	$5,868	$6,045	$6,226	$6,255	$6,606
Expense Reimbursement: Security	$2.47	$7,667	$3.01	$9,358	$9,639	$9,927	$9,973	$10,532	$10,847	$11,173	$11,224	$11,853
Advertising	$80.39	$250,000	$82.80	$257,500	$265,225	$273,182	$281,377	$289,819	$298,513	$307,468	$316,693	$326,193
Gross Income	**$127.18**	**395,516**	**$150.96**	**469,486**	**483,358**	**497,625**	**508,519**	**524,554**	**542,817**	**558,841**	**571,084**	**604,853**
Vacancy/Credit Allowance	3.01%	($11,906)	2.00%	($9,390)	($9,667)	($9,953)	($10,170)	($10,491)	($10,856)	($11,177)	($11,422)	($19,883)
Gross Effective Income	**$123.35**	**383,610**	**$147.94**	**460,096**	**473,691**	**487,672**	**498,349**	**514,063**	**531,961**	**547,664**	**559,662**	**584,970**
Management	$24.12	$75,000	$24.84	$77,250	$79,568	$81,955	$84,413	$86,946	$89,554	$92,241	$95,008	$97,858
Janitorial	$17.09	$53,144	$17.60	$54,738	$56,380	$58,072	$59,814	$61,608	$63,457	$65,360	$67,321	$69,341
Security	$30.66	$95,368	$31.58	$98,229	$101,176	$104,211	$107,338	$110,558	$113,874	$117,291	$120,809	$124,434
Total Expenses	**$71.87**	**$223,512**	**$74.02**	**$230,217**	**$237,124**	**$244,238**	**$251,565**	**$259,112**	**$266,885**	**$274,892**	**$283,138**	**$291,633**
NET OPERATING INCOME	**$51.48**	**160,098**	**$73.92**	**229,879**	**236,567**	**243,434**	**246,784**	**254,951**	**265,076**	**272,772**	**276,524**	**293,337**
CAPITAL EXPENDITURES												
Tenant Improvements		$75,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Leasing Commissions		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Under Ellis - Office		$1,650,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Vending Machine #1		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Vending Machine #2		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Vending Machine #3		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Vending Machine #4		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Vending Machine #5		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Vending Machine #6		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Pop Up Stall - Food #1		$50,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Pop Up Stall - Food #2		$50,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Pop Up Stall - Food #3		$50,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Pop Up Stall - DryUse #1		$50,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Pop Up Stall - DryUse #2		$50,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Pop Up Stall - DryUse #3		$50,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Branded Cart #1		$100,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Branded Cart #2		$100,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Capital Expenditures	**$715.43**	**2,225,000**	**$0.00**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
CASH FLOW BEFORE DEBT	**($663.96)**	**(2,064,902)**	**$73.92**	**229,879**	**236,567**	**243,434**	**246,784**	**254,951**	**265,076**	**272,772**	**276,524**	**293,337**

Cash Flow

TIER 2A UNION SQUARE STATION ONLY: VALUE CONCLUSIONS (JULY 2019 START)

Discounted 10 Year Net Present Value: - $312,936

Undiscounted Total Net 10 Year Cash Flow: $254,422

	Hold Year	Net Operating Income	Net Cashflow	Free Rent / Lag Vacancy	Cum. PV Cashflow	PV Reversion	Total Value
1	06/20	$160,098	($2,064,902)	$0	($1,948,021)	$0	($1,948,021)
2	06/21	229,879	229,879	7,416	($1,743,429)	$0	($1,743,429)
3	06/22	236,567	236,567	7,638	($1,544,803)	$0	($1,544,803)
4	06/23	243,434	243,434	7,866	($1,351,981)	$0	($1,351,981)
5	06/24	246,784	246,784	11,479	($1,167,569)	$0	($1,167,569)
6	06/25	254,951	254,951	11,130	($987,839)	$0	($987,839)
7	06/26	265,076	265,076	8,598	($811,548)	$0	($811,548)
8	06/27	272,772	272,772	8,856	($640,408)	$0	($640,408)
9	06/28	276,524	276,524	12,920	($476,733)	$0	($476,733)
10	06/29	293,337	293,337	0	($312,936)	$0	$\boxed{(\$312,936)}$

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

TIER 2A UMS + CTS: CASH FLOW ANALYSIS (JULY 2019 START)

Total Initial SFMTA Capital Expenditure: $3,249,999 IRR: 6.83%

Fiscal Year	1 07/19 06/20		2 07/20 06/21		3 07/21 06/22	4 07/22 06/23	5 07/23 06/24	6 07/24 06/25	7 07/25 06/26	8 07/26 06/27	9 07/27 06/28	10 07/28 06/29
	$/SF	TOTAL	$/SF	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
INCOME												
Base Rental Income	$21.16	$178,400	$34.69	$292,398	$300,881	$309,618	$318,605	$327,757	$336,637	$346,410	$356,462	$370,889
Turnover Vacancy	$0.00	$0	($1.12)	($9,476)	($9,760)	($10,052)	($13,731)	($31,533)	($10,986)	($11,316)	($15,454)	$0
Expense Reimbursement Revenue	$2.50	$21,068	$3.44	$28,988	$29,900	$30,789	$31,080	$28,542	$33,493	$34,578	$35,164	$36,661
Advertising & Plaza Rentals Income	$62.73	$528,800	$64.61	$544,664	$561,004	$577,835	$595,169	$613,025	$631,415	$650,356	$669,869	$689,963
Gross Income	**$123.44**	**728,268**	**$145.18**	**856,574**	**882,025**	**908,190**	**931,123**	**937,791**	**990,559**	**1,020,028**	**1,046,041**	**1,097,513**
Vacancy/Credit Allowance	($2.36)	($19,917)	($2.10)	($17,716)	($18,239)	($18,779)	($19,253)	($18,756)	($20,461)	($21,068)	($21,606)	($33,076)
Gross Effective Income	**$84.03**	**708,351**	**$99.51**	**838,858**	**863,786**	**889,411**	**911,870**	**919,035**	**970,098**	**998,960**	**1,024,435**	**1,064,437**
Operating Expenses												
Reimbursable Expenses	$49.44	$416,800	$50.93	$429,303	$442,183	$455,450	$469,112	$483,185	$497,682	$512,611	$527,988	$543,829
Total Expenses	**$49.44**	**416,800**	$50.93	**429,303**	**442,183**	**455,450**	**469,112**	**483,185**	**497,682**	**512,611**	**527,988**	**543,829**
NET OPERATING INCOME	**$34.58**	**291,551**	**$48.58**	**409,555**	**421,603**	**433,961**	**442,758**	**435,850**	**472,416**	**486,349**	**496,447**	**520,608**
CAPITAL EXPENDITURES												
Tenant Improvements	$41.52	$349,999	$0.00	$0	$0	$0	$0	$9,564	$0	$0	$0	$0
Capital Expenditures	$344.01	$2,900,000	$0.00	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Capital Expenditures	**$385.53**	**3,249,999**	**$0.00**	**0**	**0**	**0**	**0**	**9,564**	**0**	**0**	**0**	**0**
CASH FLOW BEFORE DEBT	**($350.94)**	**(2,958,448)**	**$48.58**	**409,555**	**421,603**	**433,961**	**442,758**	**426,286**	**472,416**	**486,349**	**496,447**	**520,608**

TIER 2A UMS + CTS: VALUE CONCLUSIONS (JULY 2019 START)

Discounted 10 Year Net Present Value: $106,483

Undiscounted Total Net 10 Year Cash Flow: $1,151,535

	Hold Year	Net Operating Income	Net Cashflow	Free Rent / Lag Vacancy	Cum. PV Cashflow	PV Reversion	Total Value
1	06/20	$291,551	($2,958,448)	$0	($2,790,989)	$0	($2,790,989)
2	06/21	409,555	409,555	0	($2,426,486)	$0	($2,426,486)
3	06/22	421,603	421,603	0	($2,072,500)	$0	($2,072,500)
4	06/23	433,961	433,961	0	($1,728,762)	$0	($1,728,762)
5	06/24	442,758	442,758	0	($1,397,908)	$0	($1,397,908)
6	06/25	435,850	426,286	0	($1,097,393)	$0	($1,097,393)
7	06/26	472,416	472,416	0	($783,209)	$0	($783,209)
8	06/27	486,349	486,349	0	($478,068)	$0	($478,068)
9	06/28	496,447	496,447	0	($184,222)	$0	($184,222)
10	06/29	520,608	520,608	0	$106,483	$0	$\boxed{\$106,483}$

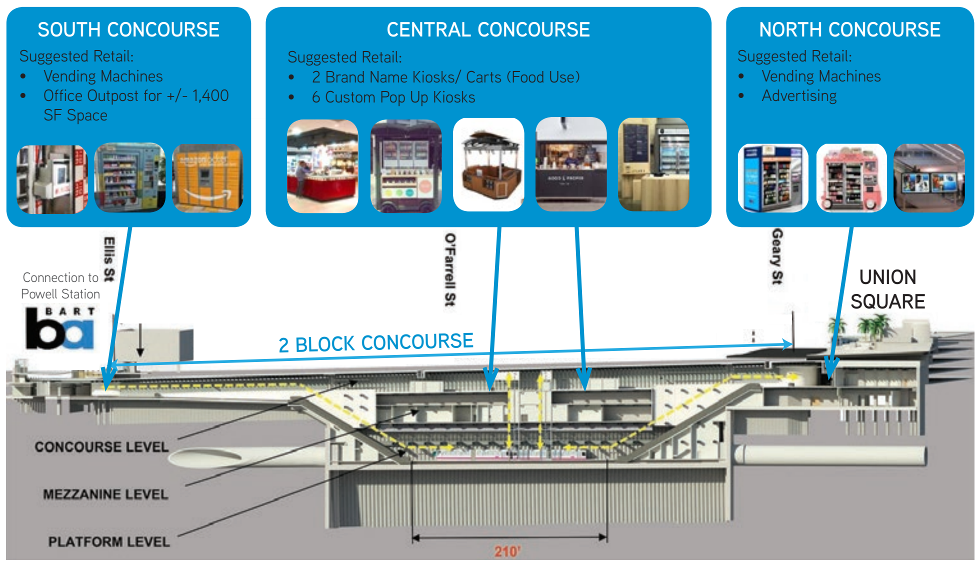
The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

5D: LEASING STRATEGY

5.D LEASING STRATEGY

Colliers developed a UMS Leasing Strategy by first analyzing the base building delivery conditions, then reviewing the passenger demographics, followed by brainstorming a prospective tenant mix and potential station amenities. Lastly, meetings with external and internal stakeholders were conducted. From the above data gathering, a retail merchandising plan and a leasing timeline were created.

5.D.1 MERCHANDISING PLAN



A recurring theme with the stakeholder outreach was a concern for public safety. The primary goal for the merchandising plan was refocused to address public safety.

Under Ellis Street Commercial Space – 1,400 s.f.

The commercial space for lease currently planned for under Ellis Street will be delivered in Cold Shell condition but will include electricity. The proposed Cold Shell delivery condition requires additional investment to make it viable for commercial uses. Alternatively, the space can be kept in its current condition and used as storage space.

If the space is leased to a commercial use, the space will require a restroom and therefore plumbing will be necessary. A bathroom must exist within the premises in order to accommodate any commercial uses due to ADA requirements. The restrooms planned for the central concourse are too far away, per CPC code, to qualify.

Suggested Tenants/Uses:

- **San Francisco Police Department:** It is recommended by the USBID that the San Francisco Police Department be engaged as a commercial office tenant.

- **USBID Outpost:** Office location for USBID ambassador program.

Alternate Tenant/Uses:

- **Bicycle Storage and repair**: Bicycle storage space for MUNI passengers to support bike commuters.
- **Traditional bar or wine bar**: A social gathering place in the station for passengers to wait for their trains.
- **Restrooms**: Additional restrooms to satisfy the restroom requirement for potential retail vendors in the southern concourse.

Proposed Concourse Retail Plan

- When studying underground retail models, food usage was determined to be the differentiating factor in successful projects. However, there would be a few issues to overcome in incorporating food concepts into the retail concourse plan, including restroom access, ADA requirements, venting and plumbing.
- Traditional restaurant usage will not apply to the site. Due to technical base building restraints, traditional cooking and ventilation is not feasible. Additionally, there are no dedicated restrooms for a retail user and there are general concerns regarding odor and cleanliness.
- Creating a diverse line up of retail uses will be also be a difficult task until the concourse becomes a proven attraction to retail vendors.
- Retail shopping patterns have begun to shift to online sales at a very fast pace due to increased rental rates and consumers being less responsive to the face-to-face retail experience.
- One successful avenue for traditional retailers has been the creation of high tech vending machines. Examples of this new model include Uniqlo clothing's shirt and jacket vending machine, vending machines for women's shoes, makeup and cosmetics and curated food options in the traditional beverage and snack machines.

Central Concourse

- The central concourse provides the best opportunity for pop-up kiosks based on the available square footage and the proximity to restrooms. Permanent, human operated, retailers functioning out of 250-500 s.f. kiosks would create the greatest diversity of offerings as well as the safest option for permanent retailers to take personal ownership of the area. Pop-up retailers provide an immediate solution to fill kiosk space that may take more time to fill with permanent kiosk operators. The operators of pop-ups will take less personal ownership of the area, but they will provide the same "eyes and ears" that traditional, human operated, retailers would. Pop-up tenants or temporary tenants are a growing segment of retail tenant demand, as tenants see them as a quick and affordable way to "test-market" an area or concept that is non-traditional or unproven. The alternative robotic machines provide amenities at the lowest cost, most of which will require low maintenance and little access to power

North Concourse

- Due to the narrow curve and short run, this area is the least suitable for kiosks. For revenue purposes, the space will be most effective if used for advertising and a potential interactive Link kiosks provided by Intersection.

South Concourse

- Due to the lack of restroom access for vendors, vending machines are recommended in the southern concourse. If semi-public restrooms are created in the under Ellis Street commercial space, one to two, 500-1000 square foot RMUs could be considered for additional revenue.
- For both the southern and northern concourse, the idea of pushing back the fare gates to allow for more kiosk opportunities was considered but rejected due to structural constraints.

Recommendations

Colliers recommends activating the concourse level with kiosk, RMUs, and vending machine retail opportunities to create a welcoming and pleasant ridership experience.

The commercial space for lease located under Ellis Street has the potential to be an office or a retail space. According to USBID, there has been some initial interest in the under Ellis Street commercial space from the SFPD for use as a police substation. USBID recommended this use for the consideration of the SFMTA. An increased police presence could act as a visible deterrent to theft and illegal activity.

The concourse level could also be a magnet for the transient population, especially in times of inclement weather. By adding retail opportunities to the concourse, police can use the current “Sit and Lie” Ordinance to request people “move along” in an attempt to eliminate loitering and other illegal activity.

In summary:

- It is recommended that the under Ellis Street commercial space be brought to Warm Shell condition and the SFPD or USBID be engaged as an office tenant
- It is recommended the concourse be populated with a combination of permanent and temporary retail uses
- Due to specific infrastructure limitations, retail merchandising units and kiosk vendors are recommended on the concourse level
- In addition to retail merchandising units and kiosks, retail vending machines (automated retail) are also recommended for the concourse level

MERCHANDISING PLAN

NORTH CONCOURSE

3x

VENDING MACHINES
+/- 5' W x 3' D
Approximate Rent:
$2,400/Year/Machine
$200/Month/Machine

CENTRAL CONCOURSE

1x

BRAND NAME RMU
+/- 8' W x 5' D (40 s.f.)
Approximate Rent:
$18,000/Year/Kiosk NNN
$1,500/Month/Kiosk NNN

6x

POP-UP KIOSKS
+/- 10' W x 10' D (100 s.f).
Approximate Rent (NNN):
$6,000-12,000/Year/Kiosk
$900-1,500/Month/Kiosk

1x

BRAND NAME RMU
+/- 8' W x 5' D (40 s.f.)
Approximate Rent:
$18,000/Year/Kiosk NNN
$1,500/Month/Kiosk NNN

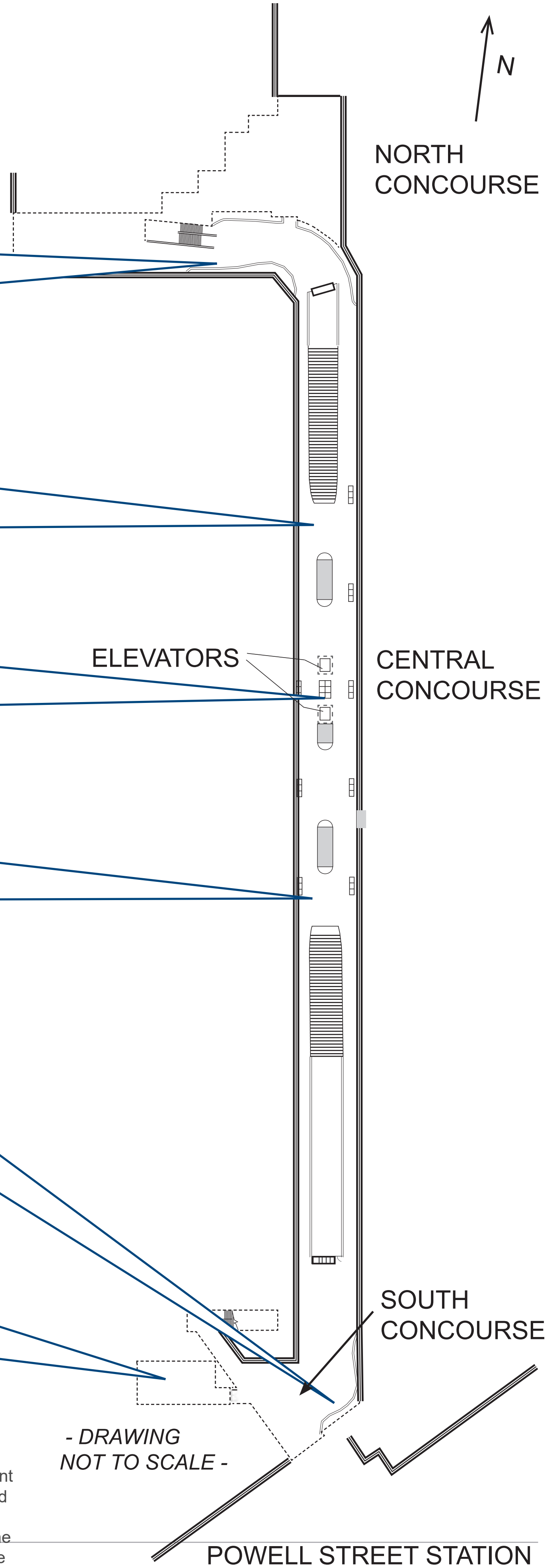
SOUTH CONCOURSE

3x

VENDING MACHINES
+/- 5' W x 3' D (15 s.f.)
Approximate Rent:
$2,400/Year/Machine
$200/Month/Machine

1x

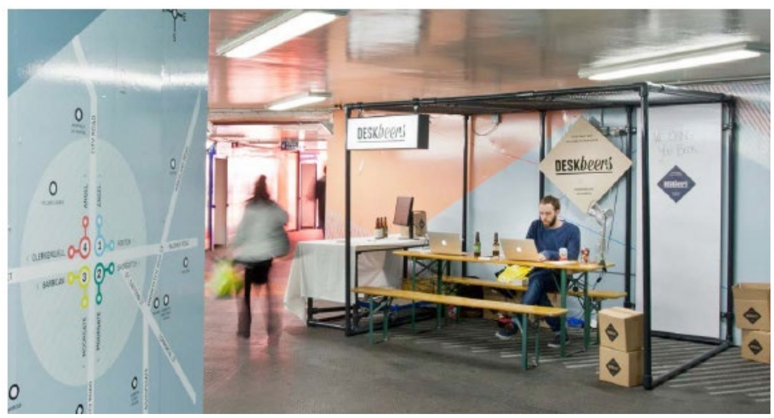
OFFICE SPACE
+/- 1,400 s.f.
Approximate Rent:
$45-48/s.f./Year NNN
$5,250-5,600/Month NNN



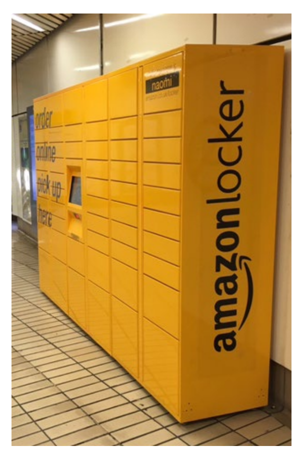
*Final retail mix subject to tenant needs and market demand. This proposal has been prepared by Colliers International for informational purposes only and does not represent an endorsement. Information contained herein has been obtained from sources deemed reliable, has not been independently verified, 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.

EXAMPLES OF TENANT CONSTRUCTED BRAND NAME KIOSK/CART - FOOD USE

EXAMPLES OF CUSTOM DESIGNED KIOSKS FOR POP-UP VENDORS



EXAMPLES OF VENDING MACHINES - FOOD AND RETAIL USES



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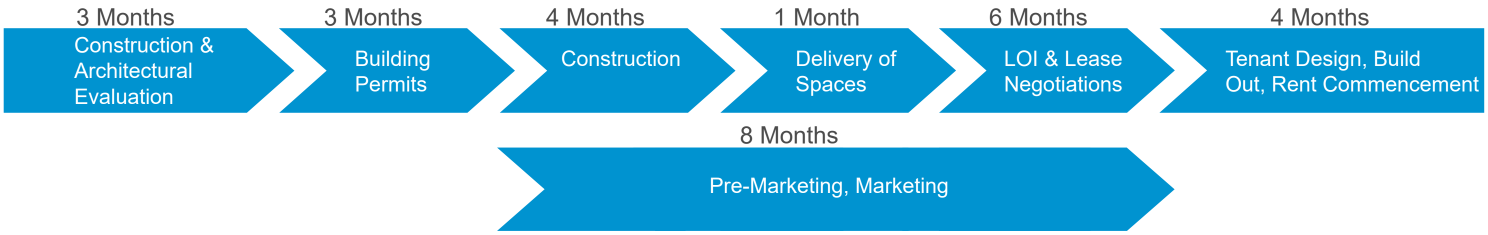
5.D.2 UMS LEASING TIMELINE

A leasing timeline for UMS is shown below. The proposed timeline was created with a target opening date of November 2019 and is based on Tier 2A investment. Phase 5-8 can run concurrently with Phases 1-4 if the spaces are in Warm Shell condition, but spaces that are in Cold Shell condition should begin Phase 5 when final plans are permitted by the city to ensure proper marketing.



1	**Construction & Architectural Evaluation - 3 Months** • Hire a licensed architect and engineer to assess the architectural, mechanical and electrical systems; review existing floor plans; review fire and life safety requirements; assess structural systems and any other existing conditions. • Field verify the concourse level measurements for kiosks and commercial space under Ellis Street. • Receive square footage calculations and dimensioned floor plans from architect for all pop-up spaces, kiosks and under Ellis Street commercial space. • Architect and Design team to determine locations and size of proposed pop-up retail spaces and vending machines. • Concurrently with the architectural and engineering assessment, hire a licensed general contractor to assess the kiosk spaces and commercial space under Ellis Street and begin preparing construction estimates for base building delivery conditions – Tier 1, Tier 2 A. • Review construction estimates and determine SFMTA's base building delivery conditions. • Receive construction drawings from a licensed general contractor.
2	**Building Permits - 3 Months** • Submit construction design to the Planning Department.
3	**Construction - 4 Months (Phase 5 could also begin)** • Upon receipt of building permits, the construction can begin. Construction time may vary but can occur concurrently with pre-marketing and marketing of the retail spaces – Phase 5. • Create detailed breakdown or summary of SFMTA's base building delivery conditions for prospective tenant's review. This can be done before, during or after the construction is complete.
4	**Delivery of Spaces - 1 Month** • Upon completion of SFMTA's work, the spaces are ready for delivery to tenant. • Begin RFP process for vending machine operator.
5	**Pre-Marketing - 2 Months (Running concurrently with Steps 3-4)** • Create distinctive and dynamic marketing brochures for each retail space. • Include the following in the marketing brochure: retail floor plans; retail space specifications (i.e. square footage, ceiling heights, frontage width measurements, restroom access, etc.); population and demographic information; proximity to public transportation; neighborhood retail map showing neighboring restaurants, retail and other services; signage renderings; and photos of retail premises. • Obtain foot traffic and vehicular traffic counts. • Identify potential retail tenants for each retail space.

6	**Marketing and Leasing - 6 Months (Running concurrently with Steps 3-4)** • Submit final marketing brochures to commercial real estate internet platforms such as CoStar and LoopNet. • Create an email blast of the retail brochure to be sent to the retail brokerage community, community stakeholders, retailers and restaurants. • Research real estate point person for prospective retailers and obtain contact information. Cold call and email potential retail and restaurant tenants. • Set up meetings with prospective tenants to discuss retail leasing opportunities. • Call and email retail brokers and set up meetings to discuss retail leasing opportunities within the project. • Organize and conduct broker and tenant networking events at the property to expose the space and heighten awareness within the brokerage community. • Create a leasing report, call log and tour log to keep track of all retail leasing efforts and activity. • Read blogs, retail news and trade publications to stay current on retail trends. • Schedule property tours with brokers and tenants to showcase the retail spaces and discuss the opportunities in further detail. • Follow up with brokers and retail tenants who have shown interest in the project to determine their level of interest.
7	**Letter of Intent and Lease Negotiations - 6 Months** • The Letter of Intent (LOI) is a preliminary non-binding agreement between SFMTA and the prospective tenant. • The LOI will include the basic business deal terms and contemplates the negotiation of the retail lease transaction underway. The LOI process typically takes 2-3 months on average. • Once the LOI has been agreed to, the document will be mutually executed. • The mutually executed LOI will be submitted to the City Attorney to begin preparing the lease document with all the business terms that were pre-negotiated during the LOI phase. • City Attorney and tenant's attorney will work together with SFMTA and tenant to negotiate the lease document. • The lease negotiation process typically takes 3-4 months on average but can be more or less and is different with every transaction. • Once the lease is mutually agreed to between SFMTA and tenant, the lease is mutually executed and the lease will commence.
8	**Tenant Design, Buildout and Rent Commencement - 4 Months** • The design and permit process can occur concurrently with lease negotiations. However, tenant's construction cannot begin until lease commencement. • Once tenant has received its design drawings from their architectural and design teams they will submit the space plans to the Planning Department for receipt of the construction permit. • Upon receipt of construction permit and rent commencement, the tenant's construction can begin. The construction period may vary with each individual project. • Rent commencement will occur per the lease agreement.

5.D.E LEASING RECOMMENDATIONS

In addition to the construction upgrades, Colliers also recommends the following leasing strategies:

Pop-Ups: To address the un-proven nature of underground retail in San Francisco it is recommended that the concourse be initially activated with pop-up retailers. They can be operational with less downtime for lease negotiation and buildout, ensuring the concourse is populated in a relatively quick time frame.

Food Where Possible: The underground retail case studies indicated food is a major draw and traffic generator. This would enhance traditional retail leasing efforts.

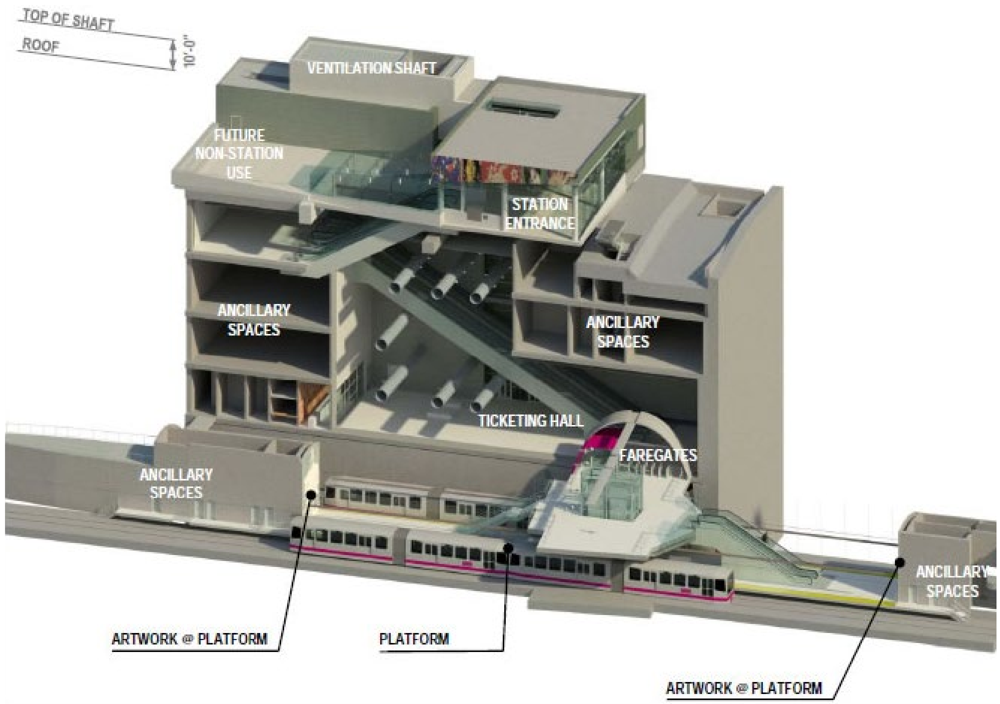
Percentage Rent: Please see Glossary and section 4.F.3. for a description of percentage rent. In the event traditional retailers resist paying a base rent on unproven underground retail, a percentage rent only agreement could be reached. In this scenario the tenant would have to agree to report sales to SFMTA and those numbers would need to be audited by SFMTA until such time as percentage rent is due and collectible.

Outside Broker/Tenant Broker Commissions: In their current marketing efforts, SFMTA has been restricted from paying leasing commissions to outside broker/tenant brokers. It is recommended SFMTA find a way to incentivize tenant representatives to ensure the vacant properties are diligently marketed to prospective tenants.

REPORT 3: CHINATOWN STATION

6A: BACKGROUND

6.A BACKGROUND



The Central Subway Project is currently under construction and estimated completion is November 2019. The Chinatown Station (CTS) will be approximately 100,000 s.f. and extend approximately 100 feet deep, making it the deepest building exaction ever carried out by the City and County of San Francisco. The Central Subway is the second phase of the Third Street Light Rail project which begins at 4th and King and will extend to Chinatown through stops in South of Market and Union Square.

CTS was designed with a proposed 1,100 s.f. of retail space for lease, and a 3,900 s.f. open space public plaza on the roof of the stationhouse.

This report provides an investment analysis and merchandising and leasing recommendations for CTS. It also includes management and programming recommendations for the open space plaza. The information provided in this report is built on information and data Colliers received in order to develop a retail leasing and merchandising plan for CTS.

The cohesive design and style of this station negates the need for an additional cityscape theme.

6B: DATA GATHERING AND ANALYSIS

Tomie Arai's, *Urban Archeology*, will illustrate the life and history of the area surrounding the station through large-scale contemporary imagery of the vibrant Chinatown community translated into architectural glass elements on the station's parapet façade along Stockton and Washington streets. The artwork at the façade will be approximately 100' in length with a height ranging from 9' to 4'. The artwork project will continue at the platform level with historical imagery translated into glass panels covering the 25' high walls at each end of the platform. (Description courtesy of SFAC)

Traditional Chinese paper cut artist Yumei Hou is creating two large-scale laser-cut metal artwork installations for Chinatown Station based on the Yang Ge (Sprout Dance), a spontaneous outdoor folk dance from the Northeastern provinces of China. The cut metal panels will be painted a vibrant red and installed so that they stand slightly off from the wall to allow for shadow casting. The artwork at the mezzanine landing will be approximately 16' high by 37' wide and the artwork in the ticketing hall will be approximately 30' high by 35' wide. (Description courtesy of SFAC)

6.B DATA GATHERING AND ANALYSIS

To understand the challenges and opportunities facing CTS, the following areas of market expertise were analyzed:

- Service area/project description
- Review of existing plans and documents
- SFMTA and governmental regulations
- Location overview
- Demographic analysis
- Co-tenancy analysis
- Review of comparable lease transactions
- Review of occupancy data
- Stakeholder input
- Case study conclusions
- Base building analysis

6.B.1 SERVICE AREA/ PROJECT DESCRIPTION

CTS will be located on the corner of Stockton and Washington Streets and will be the second phase of the Central Subway project. The station was designed with 1,100 s.f. of retail space and a 3,900 s.f. open space plaza on the roof of the stationhouse.

The Station was designed by Kwan Henmi and incorporates modern Chinese aesthetics as well as art by national and local artists. A contest for a couplet written in calligraphy will be printed on a red opaque glass on the entrance. The winning submission says, ""In the past we traveled across the Pacific to mine for gold; Now, we break through earth to form a silver dragon."

The San Francisco Arts Commission is managing the implementation of a public art program at CTS (described in the sidebar).

6.B.2 REVIEW OF EXISTING DOCUMENTS

Colliers was provided with current "as-built" floor plans, the Central Subway EIR, the Central Subway Chinatown Station Chinatown Plaza Conceptual Design, Implementation, and Funding Study (October 2013) and evaluated the open space plaza renderings prepared by RHAA. The main takeaway from the site specific studies were that the local residents required an outdoor space that is shaded from the sun and wind. The CTS open space was created with that requirement in mind. The additional pre-planned retail spaces were designed to offset the cost of maintaining the open space with revenue from the retail space.

6.B.3 SFMTA AND GOVERNMENTAL REGULATIONS

Zoning

The following zoning information was provided by The San Francisco Planning Department.

Clare Rojas's artwork imagery is based on Chinese textile samples patterned in the style of Cathedral Quilting. Each individual and distinct colorful swatch will appear to be framed within a small circle closely connected to other circles. The result will be an overall collection of images representing the Chinatown community held together by a common history and culture. The artwork will be permanently installed on a wall on the concourse level with the approximate dimensions of 36' wide by 18' high and 480 square feet. (Description courtesy of SFAC)

- The building is zoned CRNC - CHINATOWN- RESIDENTIAL-NEIGHBORHOOD COMMERCIAL

Formula Retail Restriction

San Francisco Formula Retail restrictions were enacted in 2004 and revised in 2015. Retailers with more than 11 stores internationally are currently restricted from opening in designated Business Districts without Conditional Use Permits.

The Chinatown neighborhood is designated as a Formula Retail Restricted Zone, which means, only tenants with 11 stores or less can be considered for the retail spaces.

SFMTA Ordinances

Eating and drinking are not currently allowed at Muni Metro Stations per the Muni Rider's Guide. This may need to be reconsidered to allow for retail programming at UMS and CTS.

6.B.4 LOCATION AND NEIGHBORHOOD OVERVIEW

Chinatown is bordered by Sutter Street to the south, Broadway and Columbus to the north, Stockton Street to the west and Montgomery Street to the east. CTS is expected to be used by locals and tourists coming from the hotel rich area of Union Square and SOMA. This trade area report focuses one block to the east of the station and four blocks to the west of the station. This encompasses the majority of what is considered "San Francisco's Chinatown". As the largest and oldest Chinatown in the United States, it embodies the history of challenge and change that have defined the Chinese experience in America for over a hundred years.

Popular tourist attractions include the annual Chinese New Year Parade, numerous alleyways dotted with historical architecture, the Chinatown Gateway, Golden Gate Fortune Cookie Factory, Portsmouth Square, historic churches and schools. The restaurants and retail in Chinatown are enjoyed by both locals and tourists who visit the area and are also a vibrant tradition in this area. According to the San Francisco Planning Department, outside of New York City, Chinatown is the most densely populated neighborhood in the United States.

Sources: Updated Demographic Summary Report of Magnify Maps, San Francisco Planning Department, Chinatowncdc.org

6.B.5 DEMOGRAPHIC ANALYSIS

According to the Central Subway Blog, the Central Subway ridership is projected to hit 35,100 daily passengers by 2030.

8,900 people live in the Chinatown 4x8 block area. The daytime population increases up to approximately 17,000 people as visitors and tourists fill the streets.

The population is predominantly Asian, at 83%, with a median age of 53. 40.7% of the population is over 65, making nearly half of the residents eligible for Social Security. Another 33.4% of the population is between the ages of 45-64. The median income of all residents is approximately $25,000 per year.

An average home price in the area is estimated at over $1,000,000, creating an environment where over 95% of the population are renters. 43.6% of residents live in an occupancy with 10-49 units and 31.8% are living in buildings with 50 or more units for a total of 75.4% of the population living in high density urban apartment buildings.

The demographic findings support stakeholder concerns regarding a need for open space for aging residents looking for a place to rest and relax in the fresh air.

Sources: See Appendix A, Updated Demographic Summary Report of Magnify Maps, Central Subway EIR

6.B.6 CO TENANCY ANALYSIS

Based on Colliers informal walking survey of Chinatown, tenants are primarily local operators. In 2004 San Francisco enacted the Formula Business Restriction policy which prevented companies with more than 11 store nationally to open and operate in protected business districts around San Francisco. Since that time, the restrictions have become more stringent. Chinatown has been a protected business district since the policy's inception. As such, only national chains that have been open and operating since 2004 have been allowed to continue to operate. All leases signed after 2004 have been subject to the policy which can only be surmounted by engaging in a six month Change of Use Permit process that requires a signed lease to initiate and has no guaranteed outcome.

The co-tenancy in the area immediately surrounding the new station include:

- Wells Fargo Bank
- Citibank
- CVS
- Locally owned grocery such as Ming Lee Trading
- Locally owned heritage business such as the Golden Gate Fortune Cookie Factory

Retail: Bank of America, Wells Fargo, Long Hua's Grocery

Restaurants: Hang Ah Dim Sum, R&G Lounge, China Live, Good Mong Kok Bakery

Hotels: Hilton San Francisco Financial District Hotel, Hotel North Beach, Balmoral Hotel

Nearby Open Space: Willie "Woo Woo" Wong Playground; Portsmouth Square

6.B.7 REVIEW OF COMPARABLE LEASE TRANSACTIONS AND FAIR MARKET RENT

Colliers researched recent retail leasing transactions in the immediate and surrounding neighborhoods and identified rent comparables for a mix of 10 retail spaces of similar space, size and location. Colliers researched retail spaces on the ground floor of other neighboring commercial projects as the most reasonable comparables for consideration for the purpose of this study. Additionally, Colliers reached out to multiple San Francisco commercial real estate brokers who completed retail leasing transactions in the trade area to obtain the necessary comparables information. Based on Colliers review of recent retail leasing transaction in Chinatown, it is clear that retail rent comparables vary depending on street, location, space identity, square feet and condition of premises.

In order to determine fair market rent for the available retail spaces at CTS, Colliers first evaluated the size, location, available utility services, delivery conditions and potential uses for each retail space. Retail rents in and around Chinatown fluctuate depending on size and location. Current retail rents in and around Chinatown range from $50.00 per square foot per year NNN to $120.00 per square foot per year NNN. (NNN stands for “triple net” which is a lease agreement on a property where the tenant agrees to pay their pro-rata share of property taxes, building insurance, and common area maintenance in addition to rent and utilities.)

In conclusion, based on Colliers analysis of the available retail for lease in Chinatown, asking rental rates range from range from $50.00 per square foot per year NNN to $120.00 per square foot per year NNN. Depending on the size of the space and SFMTA’s construction investment, the fair market rent for CTS is $50.00-$65.00 per square foot per year NNN.

6.B.8 COMMERCIAL LEASE DATA: REVIEW OF OCCUPANCY DATA

Chinatown landlords do not always employ commercial brokers and therefore all vacant spaces are not always listed on the MLS forums as required by The Department of Real Estate. According to Invest in Neighborhoods (a collaboration between San Francisco’s Mayor’s office, the Office of Economic and Workforce Development and the Planning Department) the Chinatown vacancy rate is less than 4%. The general consensus among the interviewed stakeholders was that the vacancy rate along Stockton Street had increased. Colliers informal walking tour of the surrounding Chinatown streets confirmed a low vacancy rate on adjacent streets (approximately 1 vacancy per block) while Stockton Street for the two blocks before and after Washington Street, had more than approximately 4-5 vacancies per block.

6.B.9 INTERNAL AND EXTERNAL STAKEHOLDER ENGAGEMENT

A series of interviews were conducted with SFMTA staff and external stakeholders to gain input and feedback on the retail leasing criteria, the base building assessment and the CTS Merchandising Plan.

Date(s) Contacted	Organization	Primary Contact
March 13, 2017 – August 1, 2017 Biweekly Meetings	SFMTA Advisory Group for Colliers Agreement Contract	See Appendix A for Advisory Group members
April 18, 2017 Meeting	SFMTA Finance & Information Technology Division	Gail Stein, Finance Manager
April 19, 2017 Meeting	SF Planning Department	Tina Chang, Planner, Current Planning Kay Cheng, Planner, Long Range Planning
April 21, 2017 Meeting	Central Subway Project Team	Jane Wang, Senior Engineer
April 27, 2017 Meeting	SFMTA Communications and Marketing Division	Janis Yuen, Internal and Executive Communications Manager
May 2, 2017 Meeting	San Francisco Arts Commission	Jennifer Lovvorn, Senior Public Art Project Manager
May 12, 2017 Meeting	Office of Economic Workforce Development	Emily Lesk, Project Manager
May 26, 2017 Meeting at Chinatown Community Development Center (CCDC)	Committee for Better Parks and Recreation in Chinatown (CBPRC) Chinatown Community Development Center (CCDC)	Carol Kuong (CBPRC) Erika Gee Senior Planner Chinatown Community Development Center (CCDC)
May 29, 2017 Phone call	SFMTA Accessible Services Program	Annette Williams, Manager of Accessible Services
June 16, 2017 Emailed	Chinese United Methodist Church	Reverend Ernest Kan
June 29, 2017 Meeting	Chinatown YMCA	Kari Lee, Executive Director
July 7, 2017 Phone call	Chinese Congregational Church	Katie Taylor, Chairperson of Chinese Congregational Church's Church Council
August 3, 2017 Meeting	Presbyterian Church in Chinatown	Pastor Kimberly Elliot

sfac
san francisco arts commission

Chinatown Community Development Center
華協中心

Chinese Congregational Church
中華綱紀慎教會
San Francisco

PRESBYTERIAN CHURCH IN CHINATOWN

Key Takeaways - CTS Retail:

- SFAC hopes to have a role in future discussions especially as they relate to the placement of advertisements and maintaining a zone of respect around art installations
- Support for local retailers but retailers that respect local traditions and customs are welcomed
- Suggested uses for Retail Space #1: Cafe/drink place similar to Chinatown businesses like Icafe and tea bar that serves coffee, milk tea, boba tea potentially combined with a bakery (Icafe is both a bakery and drink place) or place for quick snacks from Hong Kong, Taiwan street stalls like fishball, tea, egg, bento box lunch, buns, etc.
- Suggested uses for Retail Space #2: Cultural and visitor center selling locally-made art and design products (located on ground level instead of concourse level to be closer to the plaza). Examples: fortune cookies (staff can then point out where to go to see hand-folded fortune cookies in Chinatown), postcards to specially designed t-shirts, candy, snacks, maps of subway souvenirs etc.
- Suggested uses for Retail Space #3: Snack shop that focuses on Asian snacks like Mings Trading Company, newspapers and magazine stand that has both Chinese and mainstream publications, and prepared, grab and go food. Chinese sweet desert, with drinks and or light food for afternoon tea or supper for night eating. The lobby area adjacent to Retail Space #3 could be activated with tables and chairs, pop-up exhibits and cultural events and performances
- Presbyterian Church in Chinatown would be interested in staffing a possible Chinatown cultural/visitor center

Key Takeaways - CTS Open Space Activation:

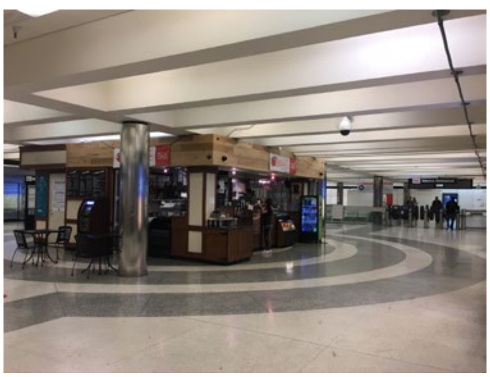
- Stakeholders are thus far satisfied with the inclusion of open space as “Chinatown’s Living Room”
- Suggested activities include: cultural movie night hosted by local filmmaker group, community activities with a reservation system similar to Willie “Woo Woo” Wong Playground Clubhouse, performance events
- Committee for Better Parks and Recreation in Chinatown (CBPRC) / Chinatown Community Development Center (CCDC) would be interested in a strategic partnership for the open space plaza activation with day to day management issues handled by a different group
- Chinatown YMCA suggested the open space be activated by a group like Juma Ventures, a local nonprofit that employs at risk youth, giving them job training and customer service skills
- Other non-profits are Community Youth Center and Self Help for the Elderly.
- Many of the people YMCA supports would like to see more community services for immigrants

- Presbyterian Church in Chinatown (directly adjacent to CTS) has services on Sundays from 9 AM -12:30 PM in Mandarin, English, and Cantonese.
- Presbyterian Church in Chinatown is interested programming the open space with choir and instrumental performances and would need a small storage area to store the AV system
- Suggested push cart activation: carts with snacks from local restaurants/ businesses, carts with Asian influenced drinks, snacks and grab and go food, carts with locally-designed Chinatown branded T-shirts, postcards, tote bags, carts that would have activities that children and adults can check out, like Chinese chess, drawing materials, chalk, etc.

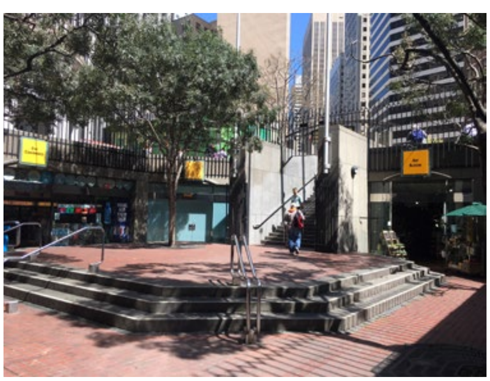
6.B.10 CASE STUDY CONCLUSIONS

Colliers researched retail projects in close proximity to transit hubs in order to determine recommendations and “lessons learned”. Additionally, Colliers researched how other public space in San Francisco is managed and programmed for the purpose of case studies relating to the open public plaza. Full case study descriptions can be found in the Appendix B.

Retail In Close Proximity to Transit



Seismic Coffee at Montgomery Station



One Post Plaza

- **BART underground café spaces:** Seismic Coffee is the current coffee operator for the Montgomery BART stations underground café space occupying approximately 1,000 s.f. Seismic Coffee is paying approximately $1,500 per month in rent NNN and the other newsstand/flower stand tenants requested rent relief to maintain rents in the $1,000-$1,400/month NNN range.
- **One Post Plaza:** One Post Plaza is an open air plaza located below street level that leads to a Montgomery BART station entrance and is lined with small retail shops. It has had some long term vacancies and rent averages $36/s.f./Year, NNN.

Key Takeaways:

- Prospective retail tenants should be properly evaluated prior to entering a lease agreement
- Prospective tenants should be required to submit a business budget and sales projections for review prior to being considered for a retail lease
- Achievable rents for subterranean locations and transit hubs are significantly less than ground floor retail rents

Open Space Plaza Activation

- **Union Square-MJM**: Union Square Park is currently managed by MJM Management group. Compensation for the management is generated through underground parking fees. In exchange, MJM is responsible for day-to-day management, event programming, janitorial and maintenance.


Portsmouth Square (SFRPD)

- **People in Plazas**: People in Plazas produces free musical concerts in San Francisco public places. They do not provide consistent management or maintenance but they create activation in the form of music, poetry readings, movie nights and fairs.
- **San Francisco Recreation and Parks Department (SFRPD):** SFRPD has evaluated the possibility of stewardship of the CTS plaza but has determined the space is too small to qualify for their services. SFRPD charges a ranging scale of clubhouse rental fees and special events fees that were evaluated to assist in determining the proposed event fees for the open space plaza at CTS.
- **The SF Plaza Program:** The SF Plaza Program is a joint effort of the Office of Economic and Workforce Development (OEWD) in partnership with the Real Estate Division (RED) and the Department of Public Works (DPW). The program is designed to allow interested non-profit stakeholder groups to steward the long term care, maintenance and/or activation of plazas, larger than 2,000 s.f. Activation events like art and music events, farmers' markets, movie nights, local food and retail opportunities are envisioned. Revenue can be generated from activities but must be used to support the activation, management and maintenance of that plaza with any excess revenue put into a limited reserve fund for the City's use at other plazas.

Key Takeaways:

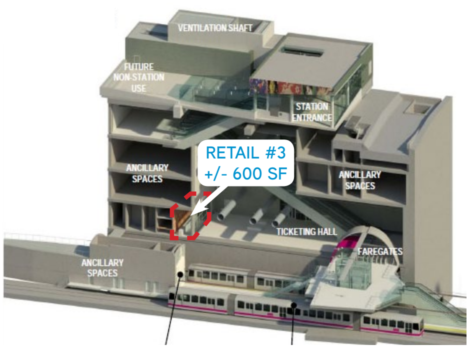
- Pop-up concerts and other forms of activation creates a destination that drives foot traffic which also helps bring new customers to a retail destination
- There are fee structures, standardized agreements and administrative processes that describe and manage steward obligations, liabilities, and requirements that could be useful models for the CTS open space plaza

6.B.11 BASE BUILDING ANALYSIS

The proposed retail at CTS consists of three retail spaces for lease.

Retail Space #1 – Approximately 150 s.f.

Retail Space #1 is approximately 150 s.f. and is located on the ground floor near the main entry/exit off of Stockton Street. The space is currently planned to be delivered in Warm Shell condition with sewer, water and electricity already stubbed to premises, but not distributed. There is no kitchen exhaust or floor drains which limits food uses as three compartment and mop sinks are required for on-site food preparation. In renderings prepared by Kwan Henmi, the space has been envisioned as a coffee use. Special consideration should be made with regards to the possible line formation as the space is near an exit and therefore potentially in the way of a path of travel. A clearly defined line should be marked on the ground to keep patrons away from the path of travel. This will accommodate ADA considerations requiring four feet of clearance. For this space, Colliers considered uses that would be accommodated by the planned buildout with minimal investment



resulting in a Vanilla Shell delivery condition and no investment resulting in a Warm Shell delivery condition.

Retail Space #2 – Approximately 300 s.f

Retail Space #2 is approximately 300 s.f. and will have limited visibility. The space is planned to be delivered in Cold Shell condition. There is no potential to add water or sewer lines due to building conditions. There is also no kitchen exhaust or floor drains available, which limits food uses. Only food prepared and packaged off site can be sold here. For this space, Colliers considered Vanilla Shell and Warm Shell delivery conditions.

Retail Space #3 – Approximately 600 s.f.

Retail Space #3 is approximately 600 s.f. and is located on the concourse level, which is below ground level and located above the station platform level. The space is adjacent to a large open area. The space is planned to be delivered in Cold Shell condition. There are no gravity floor drains due to building conditions. A sewage ejector pump would need to be built to collect drainage and be pumped. If the addition of a sink in the retail space is economically feasible, it would be a recommended upgrade as it will increase the number of suitable uses; however, the water line will need to be upsized to accommodate retail use. Additional electrical panels will be needed to accommodate retail use. There is also no kitchen exhaust available making food uses a challenge. Given the base building conditions, the recommended use for this space is a visitor/cultural center or a tour hub without water service.

Retail Space #4 – Open Space Plaza – Approximately 3,900 s.f.

The open space plaza will be an opportunity for a public gathering and public event space. There is currently no retail planned for the open space plaza. The plaza is projected to be approximately 3,900 square feet and potentially used for recreational activities, and small food vendors, such as rolling food carts. Activities that could be programed for the open space include: group exercise; health and wellness fairs; movie night, and music events.

6.B.12 BASE BUILDING CONCLUSION AND RECOMMENDATIONS

Based on the information Colliers gathered, it is recommended construction upgrades are considered in order to deliver all the retail spaces in Vanilla Shell condition. Some of the suggested upgrades include electricity for Retail Space #2 and Retail Space #3 and electrical outlets with locks placed in the open space to accommodate food carts.

The storage area in the open space should be used for the storage of food carts and trash storage. A separate trash storage area must be identified, and will likely be located on a mezzanine level and designated for the ground and concourse level retail spaces.

Colliers estimated construction costs based on industry standard costs and in consultation with SFMTA to develop two levels of capital expenditure investment for consideration as Tier 1 and Tier 2A/2B in the Investment Analysis section.

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

Architectural plans and a feasibility study from a General Contractor, contracted by SFMTA, are required to more accurately determine construction estimates for proposed base building upgrades. Final cost estimates for budgeting purposes, must be based on permitted, site specific, architectural plans.

Proposed Buildout and Estimated Construction Cost Assumptions

CTS	Tier 1	Tier 2A/2B
Ground Floor Retail Space #1: 150 s.f.	• $2,000/s.f. • $300,000 total • Upgrade space from Warm Shell to Vanilla Shell condition (includes HVAC and all utilities stubbed and distributed)	• $0/s.f. • Space let in “as-is” Warm Shell condition
Ground Floor Retail Space #2: 300 s.f.	• $857/s.f. • $300,000 total • Upgrade space to Vanilla Shell (includes HVAC and electricity stubbed and distributed). No water service available	• $571/s.f. • $200,000 total • Space delivered in Warm Shell condition with electricity stubbed for tenant’s distribution. No water service available.
Ground Floor Retail Space #3: 600 s.f.	• $1,167/s.f. • $700,000 total • Upgrade space from Cold Shell to Vanilla Shell (includes HVAC, and all utilities stubbed and distributed. (No water service.)	• $750/s.f. • $450,000 total • Deliver space in Warm Shell condition with electricity stubbed for tenant’s distribution. (No water service.)
Open Space Plaza for Push Carts	• $100,000 total • General plaza upgrades to support retail operators	• $100,000 total • General plaza upgrades to support retail operators

6C: INVESTMENT ANALYSIS

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

6C. INVESTMENT ANALYSIS

In order to evaluate retail programming concepts for CTS, multiple pro-forma models were developed to analyze the economic value of different strategies, categorized as Tiers 1, 2A, 2B, and 3 moving from highest level of SFMTA investment and leasing involvement to the lowest level of SFMTA investment and leasing involvement. CTS also required the contemplation of the management of the open space, which involves various expenses as shown in the cash flow.

For Tiers 1, 2A, and 2B, the financial models quantified assumptions for the anticipated rental income, the operating expenses - management, security, janitorial (Tiers 1 and 2A only, as these are costs handled by a Master Lessor for Tier 2B), and the estimated capital and leasing costs to SFMTA for construction costs and tenant improvements. For Tier 3, the financial model quantified assumptions for a Master Lessor to be contracted by the SFMTA to develop, manage, and lease the station retail space. There would be no additional SFMTA capital expenditures beyond those already planned for the station.

Colliers estimated construction costs based on industry standard costs and in consultation with SFMTA to develop two levels of capital expenditure investment for consideration as Tier 1 and Tier 2A/2B. Architectural plans and a feasibility study of from a general contractor, contracted by SFMTA, are required to more accurately determine construction estimates for proposed base building upgrades. Final cost estimates for budgeting purposes, must be based on permitted, site specific, architectural plans.

Analysis Results:

- For Tier 1 the total initial capital expenditure was estimated at $1,400,000, which resulted in approximately $727,014 of net income over 10 years. The net present value over 10 years when the 6% discount was applied is $213,932. The return on investment (internal rate of return over 10 years) is 9.84%.

- The anticipated starting rents for Retail Space #2 and Retail Space #3 and the estimated construction costs decrease for Tier 2A when compared to Tier 1. For Retail Space #1, Tier 2A has no construction cost assumptions but there is a tenant improvement allowance. For Tier 2A, the total initial capital expenditure was estimated at $1,024,999, which resulted in an approximate $897,113 net income over 10 years and a discounted value of $419,419. The return on investment is 15.95%.

- Tier 2B required a $750,000 upfront capital investment in addition to a yearly management fee of $110,000. The net income after ten years would be approximately $677,207 and the discounted value is $328,111. The return on investment is 16.98%.

- Tier 3 required no upfront capital investment but SFMTA would be required to pay a management fee of approximately $197,000 per year (increasing at 3% per year). The net income to SFMTA over 10 years would be $429,851 and the discounted value would be $311,923. The return on investment is not applicable as there is no up-front investment.

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

The analyses results are similar to UMS. Tier 2A is recommended as the course of action as it has higher discounted and undiscounted values than the other tiers, and allows SFMTA to benefit from any increase in rent due to percentage rent or better than expected performance of the retail spaces. Tier 2A also allows for the potential cost saving measure of partnering with a community group for the activation of the public space.

CTS assumptions used for Tier 2A are shown below and the assumptions used for the other models are shown in the Appendix A.

CTS Tier 2A Assumptions

Base Rental Income	
Retail Space #1 – 150 s.f. Ground Floor	Starting Rent: $176/s.f./Year, $2,200/Month, NNN
Retail Space #2 – 350 s.f. Ground Floor	Starting Rent: $51.43/ s.f./Year, $1,500/Month, NNN
Retail Space #3 – 600 s.f. Concourse	Starting Rent: $30/ s.f./Year, $1,500/Month, NNN
Retail Space #1, #2, #3	• Initial Lease Term: 5 years with 3% increases • 2 months rent abatement is provided • No leasing commissions are paid
Open Space Plaza Carts	• $1,000/Month Per Cart $2,000/Month Total • 1 month rent abatement is provided • No leasing commissions are paid
Open Space Plaza Use Fees (Plaza Rentals)	• $400 per non profit event; $800 per commercial event • Assumed 2 non profit events and 2 commercial events per month • Total = $2,400/month
CAM Charges	• Retail Spaces 1, 2 and 3 pay a pro-rata share of Janitorial and a 3% Management fee.
Advertising	• $250,000/year (estimate per SFMTA; to be determined by separate contract)
Absorption and Turnover Vacancy	• Retail Spaces 1, 2, 3 – 6 months • Plaza Carts - 1 month
Base Rent Abatements	• None on rollover
Vacancy Credit Allowance	• 3% vacancy allowance plus 2% credit loss

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

CTS Tier 2A Assumptions

Operating Expenses	
Leasing and Management	• $75,000/Year (SFMTA estimate for 50% of FTE salary)
Event Security (considered in addition to Station security)	• $23,040/Year ($30/hour)
Janitorial (considered in addition to Station Janitorial Services)	• $53,144/Year ($36.50/hour union wage; 28 hours/week)
Capital Expenditures	
Retail Space #1 – 150 s.f. Ground Floor	• As is - $0
Retail Space #2 – 350 s.f. Ground Floor	• $571/ s.f. • $200,000 total • Upgrade space to Warm Shell condition with electricity stubbed for tenant's distribution. • Proposed tenant improvement allowance: $171/ s.f. or $60,000 total
Retail Space #3 – 600 s.f. Concourse	• $750/ s.f./ $450,000 total • Upgrade space to Warm Shell condition with electricity stubbed for tenant's distribution. • Proposed tenant improvement allowance: $108/ s.f. or $65,000 total
Open Space Plaza	• $100,000 total for general plaza upgrades to support retail operators

The results of the cash flow analyses show that Tier 2A has the highest value on a discounted and undiscounted basis. Tier 2B is next on a discounted basis, although Tier 1 is higher on an undiscounted basis.

If SFMTA were in control of the leasing and management process, such as under Tier 1 or Tier 2A, a fee free or low cost agreement could, perhaps, be reached with a local non-profit to activate the open space, and janitorial and security would fall to the SFMTA. Please refer to UMS Investment Analysis for a description of possible upside revenue generation from percentage rent.

Tier 2A is recommended as the course of action as it has 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.

To better understand the overall capital expenses and return on investment for SFMTA running the retail leasing programs at both UMS and CTS, the cash flows for both UMS and CTS station were aggregated to form combined models for each tier.

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

Tiers 1 Combined resulted in an approximate $4,660,000 income over 10 years with a combined upfront investment of approximately $3,700,000. The total discounted value over 10 years is -$140,845 and undiscounted is $947,077.

Tiers 2A Combined show a total discounted value of $106,483 and an undiscounted of $1,151,535 over 10 years with a combined upfront investment of approximately $3.25 million. The projected return on investment is 6.83%.

Tiers 2B Combined was calculated assuming a -$102,000 per year management fee paid by SFMTA for both UMS and CTS stations combined. This is the annual amount, with 3% per year increases, a Master Lessor would require from SFMTA, in order for them to achieve a 15% return over the life of an assumed 10 year Master Lease of both stations combined. Tiers 2B Combined shows a total discounted value of -$53,068 and undiscounted of $797,056 over 10 years with a combined upfront investment of approximately $2.9 Million. The return on investment is 5.52%.

Tiers 2A Combined is therefore recommended as it has the highest values and return to SFMTA and allows SFMTA to benefit from any increase in rent due to percentage rent or better than expected performance of the retail spaces.

TIER 2A CHINATOWN STATION ONLY: CASH FLOW ANALYSIS (JULY 2019 START)

Total Initial SFMTA Capital Expenditure: $1,024,999 IRR: 15.95%

Fiscal Year	1 07/19 06/20		2 07/20 06/21		3 07/21 06/22	4 07/22 06/23	5 07/23 06/24	6 07/24 06/25	7 07/25 06/26	8 07/26 06/27	9 07/27 06/28	10 07/28 06/29
	$/SF	TOTAL	$/SF	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
INCOME												
Base Rental Income	$40.36	$45,200	$78.69	$88,129	$90,710	$93,369	$96,104	$98,919	$101,275	$104,241	$107,296	$111,350
Turnover Vacancy	$0.00	$0	($1.84)	($2,060)	($2,122)	($2,186)	($2,252)	($20,403)	($2,388)	($2,460)	($2,534)	$0
Plaza Rentals	$25.71	$28,800	$26.49	$29,664	$30,554	$31,471	$32,415	$33,387	$34,389	$35,420	$36,483	$37,577
Expense Reimbursement: Management	$1.22	$1,370	$2.26	$2,534	$2,640	$2,719	$2,590	$1,943	$2,829	$3,001	$3,096	$3,199
Expense Reimbursement: Janitorial	$6.59	$7,382	$10.11	$11,321	$11,660	$12,010	$12,370	$9,572	$13,124	$13,517	$13,923	$14,341
Advertising Income	$223.21	$250,000	$229.91	$257,500	$265,225	$273,182	$281,377	$289,819	$298,513	$307,468	$316,693	$326,193
Gross Income	**$297.10**	**332,752**	**$72.76**	**387,088**	**398,667**	**410,565**	**422,604**	**413,237**	**447,742**	**461,187**	**474,957**	**492,660**
Vacancy/Credit Allowance	2.41%	($8,011)	2.15%	($8,326)	($8,572)	($8,826)	($9,083)	($8,265)	($9,605)	($9,891)	($10,184)	($13,193)
Gross Effective Income	**$289.95**	**324,741**	**$71.20**	**378,762**	**390,095**	**401,739**	**413,521**	**404,972**	**438,137**	**451,296**	**464,773**	**479,467**
OPERATING EXPENSES												
Management	$14.10	$75,000	$14.52	$77,250	$79,568	$81,955	$84,413	$86,946	$89,554	$92,241	$95,008	$97,858
Landscaping	$1.50	$8,000	$1.55	$8,240	$8,487	$8,742	$9,004	$9,274	$9,552	$9,839	$10,134	$10,438
Janitorial	$9.99	$53,144	$10.29	$54,738	$56,380	$58,072	$59,814	$61,608	$63,457	$65,360	$67,321	$69,341
Maintenance	$2.26	$12,000	$2.32	$12,360	$12,731	$13,113	$13,506	$13,911	$14,329	$14,758	$15,201	$15,657
Pest Control	$0.45	$2,400	$0.46	$2,472	$2,546	$2,623	$2,701	$2,782	$2,866	$2,952	$3,040	$3,131
Event Security	$4.33	$23,040	$4.46	$23,731	$24,443	$25,176	$25,932	$26,710	$27,511	$28,336	$29,186	$30,062
Fire Life Safety	$0.83	$4,440	$0.86	$4,573	$4,710	$4,852	$4,997	$5,147	$5,302	$5,461	$5,624	$5,793
Maintenance/Lighting Supplies	$0.79	$4,200	$0.81	$4,326	$4,456	$4,589	$4,727	$4,869	$5,015	$5,165	$5,320	$5,480
Elevator Contract (25%)	$0.61	$3,264	$0.63	$3,362	$3,463	$3,567	$3,674	$3,784	$3,897	$4,014	$4,135	$4,259
General Building Repairs	$1.47	$7,800	$1.51	$8,034	$8,275	$8,523	$8,779	$9,042	$9,314	$9,593	$9,881	$10,177
Total Expenses	$36.33	193,288	$37.42	199,086	205,059	211,212	217,547	224,073	230,797	237,719	244,850	252,196
NET OPERATING INCOME	**$24.71**	**131,453**	**$33.77**	**179,676**	**185,036**	**190,527**	**195,974**	**180,899**	**207,340**	**213,577**	**219,923**	**227,271**
CAPITAL EXPENDITURES												
Tenant Improvements		$274,999		$0	$0	$0	$0	$9,564	$0	$0	$0	$0
Construction Costs												
Unit 1 - As Is: Warm with TIs		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0
Unit 2 - Warm with TIs		$200,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Concourse - Warm with TIs		$450,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Open Space Plaza		$100,000		$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Capital Expenditures	$192.67	1,024,999	$0.00	0	0	0	0	9,564	0	0	0	0
CASH FLOW BEFORE DEBT	**($167.96)**	**(893,546)**	**$33.77**	**179,676**	**185,036**	**190,527**	**195,974**	**171,335**	**207,340**	**213,577**	**219,923**	**227,271**

TIER 2A CHINATOWN STATION ONLY: VALUE CONCLUSIONS (JULY 2019 START)

Discounted 10 Year Net Present Value: $419,419

Undiscounted Total Net 10 Year Cash Flow: $897,113

Discount Rate:	6.00%	**Square Feet: Total Area:**	5,320	**Retail Area:**	1,120
Terminal C.R.:	0.00%	**Disposition Costs:**	0.00%		
Hold (Years):	10	**Value Rounded:**	$10,000		

	Hold Year	Net Operating Income	Net Cashflow	Free Rent / Lag Vacancy	Cum. PV Cashflow	PV Reversion	Total Value
1	06/20	$131,453	($893,546)	$0	($842,968)	$0	($842,968)
2	06/21	179,676	179,676	2,060	($683,057)	$0	($683,057)
3	06/22	185,036	185,036	2,122	($527,697)	$0	($527,697)
4	06/23	190,527	190,527	2,186	($376,782)	$0	($376,782)
5	06/24	195,974	195,974	2,252	($230,339)	$0	($230,339)
6	06/25	180,899	171,335	20,403	($109,554)	$0	($109,554)
7	06/26	207,340	207,340	2,388	$28,339	$0	$28,339
8	06/27	213,577	213,577	2,460	$162,339	$0	$162,339
9	06/28	219,923	219,923	2,534	$292,512	$0	$292,512
10	06/29	227,271	227,271	0	$419,419	$0	$\boxed{\$419,419}$
11	06/30	209,707	198,619	23,654	$524,049	$0	$524,049
12	06/31	240,178	240,178	2,768	$643,410	$0	$643,410
13	06/32	247,605	247,605	2,852	$759,497	$0	$759,497

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

TIER 2A UMS + CTS: CASH FLOW ANALYSIS (JULY 2019 START)

Total Initial SFMTA Capital Expenditure: $3,249,999 IRR: 6.83%

Fiscal Year	1 07/19 06/20		2 07/20 06/21		3 07/21 06/22	4 07/22 06/23	5 07/23 06/24	6 07/24 06/25	7 07/25 06/26	8 07/26 06/27	9 07/27 06/28	10 07/28 06/29
	$/SF	TOTAL	$/SF	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
INCOME												
Base Rental Income	$21.16	$178,400	$34.69	$292,398	$300,881	$309,618	$318,605	$327,757	$336,637	$346,410	$356,462	$370,889
Turnover Vacancy	$0.00	$0	($1.12)	($9,476)	($9,760)	($10,052)	($13,731)	($31,533)	($10,986)	($11,316)	($15,454)	$0
Expense Reimbursement Revenue	$2.50	$21,068	$3.44	$28,988	$29,900	$30,789	$31,080	$28,542	$33,493	$34,578	$35,164	$36,661
Advertising & Plaza Rentals Income	$62.73	$528,800	$64.61	$544,664	$561,004	$577,835	$595,169	$613,025	$631,415	$650,356	$669,869	$689,963
Gross Income	**$123.44**	**728,268**	**$145.18**	**856,574**	**882,025**	**908,190**	**931,123**	**937,791**	**990,559**	**1,020,028**	**1,046,041**	**1,097,513**
Vacancy/Credit Allowance	($2.36)	($19,917)	($2.10)	($17,716)	($18,239)	($18,779)	($19,253)	($18,756)	($20,461)	($21,068)	($21,606)	($33,076)
Gross Effective Income	**$84.03**	**708,351**	**$99.51**	**838,858**	**863,786**	**889,411**	**911,870**	**919,035**	**970,098**	**998,960**	**1,024,435**	**1,064,437**
Operating Expenses												
Reimbursable Expenses	$49.44	$416,800	$50.93	$429,303	$442,183	$455,450	$469,112	$483,185	$497,682	$512,611	$527,988	$543,829
Total Expenses	**$49.44**	**416,800**	$50.93	**429,303**	**442,183**	**455,450**	**469,112**	**483,185**	**497,682**	**512,611**	**527,988**	**543,829**
NET OPERATING INCOME	**$34.58**	**291,551**	**$48.58**	**409,555**	**421,603**	**433,961**	**442,758**	**435,850**	**472,416**	**486,349**	**496,447**	**520,608**
CAPITAL EXPENDITURES												
Tenant Improvements	$41.52	$349,999	$0.00	$0	$0	$0	$0	$9,564	$0	$0	$0	$0
Capital Expenditures	$344.01	$2,900,000	$0.00	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Capital Expenditures	**$385.53**	**3,249,999**	**$0.00**	**0**	**0**	**0**	**0**	**9,564**	**0**	**0**	**0**	**0**
CASH FLOW BEFORE DEBT	**($350.94)**	**(2,958,448)**	**$48.58**	**409,555**	**421,603**	**433,961**	**442,758**	**426,286**	**472,416**	**486,349**	**496,447**	**520,608**

TIER 2A UMS + CTS: VALUE CONCLUSIONS (JULY 2019 START)

Discounted 10 Year Net Present Value: $106,483

Undiscounted Total Net 10 Year Cash Flow: $1,151,535

	Hold Year	Net Operating Income	Net Cashflow	Free Rent / Lag Vacancy	Cum. PV Cashflow	PV Reversion	Total Value
1	06/20	$291,551	($2,958,448)	$0	($2,790,989)	$0	($2,790,989)
2	06/21	409,555	409,555	0	($2,426,486)	$0	($2,426,486)
3	06/22	421,603	421,603	0	($2,072,500)	$0	($2,072,500)
4	06/23	433,961	433,961	0	($1,728,762)	$0	($1,728,762)
5	06/24	442,758	442,758	0	($1,397,908)	$0	($1,397,908)
6	06/25	435,850	426,286	0	($1,097,393)	$0	($1,097,393)
7	06/26	472,416	472,416	0	($783,209)	$0	($783,209)
8	06/27	486,349	486,349	0	($478,068)	$0	($478,068)
9	06/28	496,447	496,447	0	($184,222)	$0	($184,222)
10	06/29	520,608	520,608	0	$106,483	$0	$\boxed{\$106,483}$

The construction estimates used in this report were not based on a detailed specification or on bids from contractors, and should only be used for general estimating and informational purposes. The projected landlord construction costs, included in this Investment Analysis section, are preliminary estimates from general contractors and are not to be relied upon without further due diligence by SFMTA, architects, general contractors, and consultants.

6D: MANAGEMENT STRATEGY

6.D MANAGEMENT STRATEGY

Property management for an outdoor space includes responsibility for operations of the custodian staff, security systems, landscaping, electrical and mechanical systems, and implementation of projects and events identified within the managed space. Activating and maintaining an outdoor park, open space, or building grounds requires extensive management to respond and address safety concerns, vandalism and any service requests (i.e. electrical, plumbing, etc.) and to ensure these requests are resolved in a timely manner. Property management will ensure the safety and protection of the property along with security, quality and accessibility to activate the open space to the fullest ability.

The inter-agency nature of SFMTA and the San Francisco Recreation and Park Department make the latter a natural fit for the management of the open space. Due to the small size of the CTS open space, San Francisco Recreation and Park has determined they cannot offer their services.

In the event SFMTA elects to lease and maintain the retail and open space, a partnership with a non-profit is recommended for the activation of the open space. CCDC has expressed interest in doing the public service programming but the janitorial and maintenance of the open space would still be the responsibility of SFMTA.

In the event SFMTA elects to enlist a Master Lessor, the management of the open space, including programming, janitorial and maintenance would become the responsibility of the Master Lessor.

MANAGEMENT OPTIONS:

MANAGEMENT TO OVERSEE:

- Programming & Activation
- Landscaping
- Janitorial Services
- Maintenance
- Pest Control
- Event Security
- Fire/Life Safety

PROGRAMMING & ACTIVATION:


› Movie Nights


› Tai Chi


› Community Events


› Health & Wellness


› Temporary Merchants


› Music Concerts

6E: LEASING STRATEGY

6.E LEASING STRATEGY

The leasing strategy for CTS is driven by the current political and socio-economic constraints facing Chinatown. Chinatown locals have expressed interest in activating the retail spaces and the open space plaza, giving CTS a head start with retail leasing success and open space activation.

The contracted retail operators must own and operate less than 11 stores internationally to qualify under the Formula Restriction Guidelines. It is recommended that special consideration be given to tenants who have been displaced by the ongoing construction.

6.E.1 MERCHANDISING PLAN

The CTS Merchandising Plan is directed by the pre-existing size, location and base building infrastructure of the CTS.

On the ground floor, there are two planned retail spaces.

Retail Space #1 will be 150 s.f. and will have the best visibility from Stockton Street with an opportunity for signage.

- Vanilla Shell delivery is recommended to provide the necessary construction requirements for a potential coffee or café use.

Retail Space #2 will be 300 s.f. but will have limited visibility from Stockton Street. The retail space will be positioned above the electrical room and therefore water service is not feasible.

- Recommended uses for this space are pre-packaged food vendors or dry goods such as sundries and convenience items.

Retail Space #3 will be approximately 600 s.f. and will be located underground on the concourse level. Due to its deep subterranean location and proximity to public transport, food is not recommended for this space. Additional food service infrastructure may be cost prohibitive and taking food onto the train should be discouraged.

- It is recommended the site be used as a tour and/or cultural center space. The adjacent large “living room” area could be activated by large tour groups who could convene there for short periods.

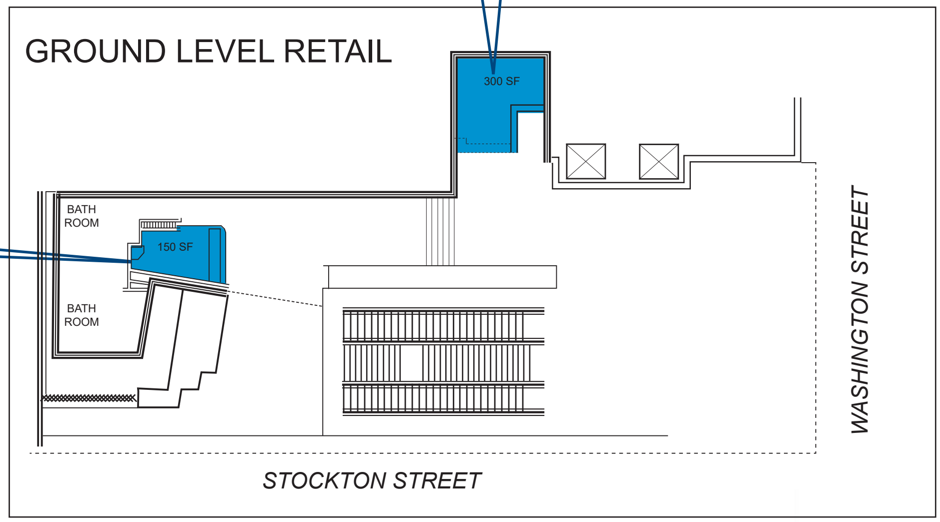
In addition to the three retail spaces location in the station, there will be a 3,900 s.f. open space area with a small storage closet and permanent seating. It is anticipated to be used on a daily basis by the local community, as nearby outdoor space is limited.

- Food carts or movable retail vendors are recommended to provide food amenities to the public open space.

CHINATOWN STATION MERCHANDISING PLAN

RETAIL SPACE #1
+/- 150 s.f.
Suggested Retail:
Coffee/Drinks
Approximate Rent:
$176/s.f./Year NNN
$2,200/Month NNN

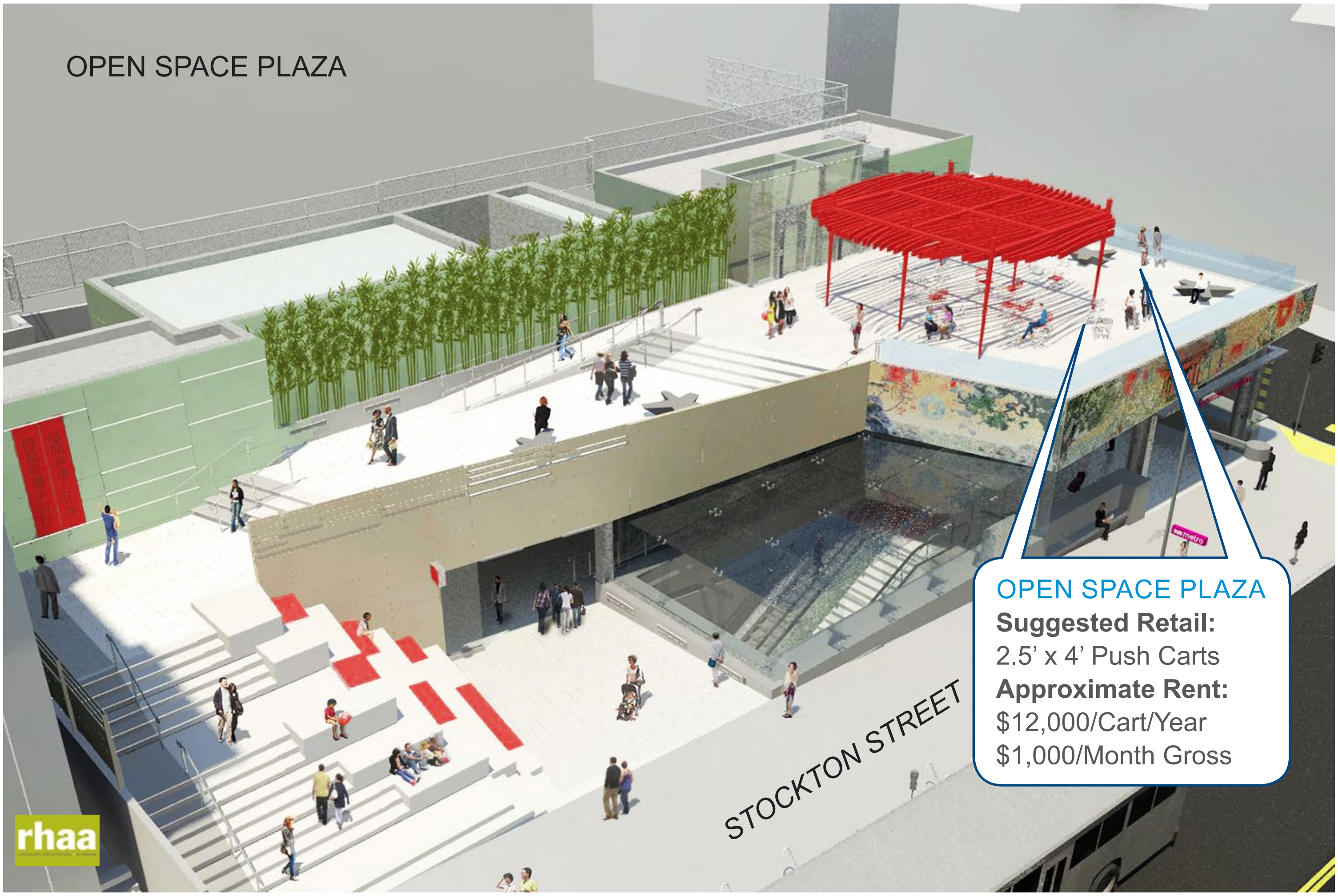
RETAIL SPACE #2
+/- 300 s.f.
Suggested Retail:
Dry Goods
Approximate Rent:
$60/s.f./Year NNN
$1,500/Month NNN



RETAIL SPACE #3
+/- 600 s.f.
Suggested Retail:
Cultural Center
Approximate Rent:
$30/s.f./Year NNN
$2,000-2,500/Month NNN

*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.

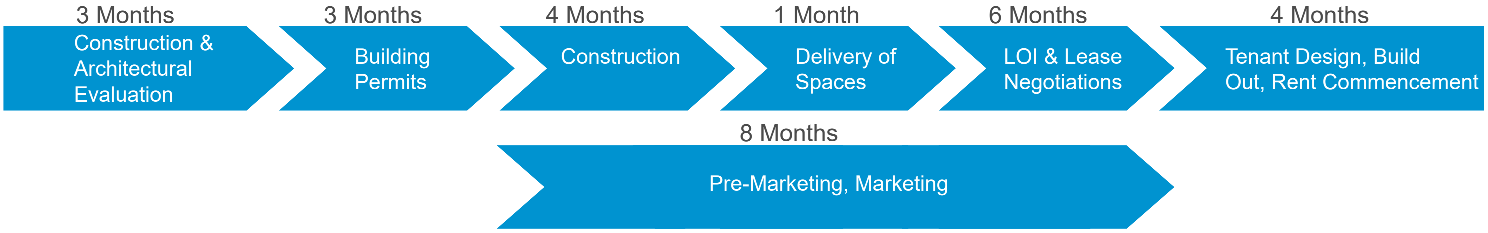
CHINATOWN STATION MERCHANDISING PLAN



*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.

6.E.2 CHINATOWN STATION LEASING TIMELINE

A leasing timeline for the Chinatown Station is shown below. The proposed timeline was created with a target opening date of November 2019 and is based on Tier 2A investment. Phase 5-8 can run concurrently with Phases 1-4 if the spaces are in Warm Shell condition, but spaces that are in Cold Shell condition should begin Phase 5 when final plans are permitted by the city to ensure proper marketing.



1	**Construction & Architectural Evaluation - 3 Months** • Hire a licensed architect and engineer to assess the architectural, mechanical and electrical systems; review existing floor plans; review fire and life safety requirements; and assess structural systems and any other existing conditions. • Receive square feet calculations and dimensioned floor plans from architect. • Concurrently with the architectural and engineering assessment, hire a licensed general contractor to assess the retail spaces and begin preparing construction estimates for base building delivery conditions – Tier 1 and Tier 2A. • Receive construction estimates from licensed general contractor for Tier 1 and Tiers 2A. • Review construction estimates and determine SFMTA's base building delivery conditions. • Receive construction drawings from a licensed general contractor.
2	**Building Permits - 3 Months** • Submit construction design to the Planning Department.
3	**Construction - 4 Months *(Phase 5 could also begin)*** • Upon receipt of building permits, the construction can begin. Construction time may vary but can occur concurrently with pre-marketing and marketing of the retail spaces – Phase 5. • Create detailed breakdown or summary of SFMTA's base building delivery conditions for prospective tenant's review. This can be done before, during or after the construction is complete.
4	**Delivery of Spaces - 1 Month** • Upon completion of SFMTA's work, the spaces are ready for delivery to tenant.
5	**Pre-Marketing - 2 Months (Running concurrently with Steps 3-4)** • Create distinctive and dynamic marketing brochures for each retail space. • Include the following in the marketing brochure: retail floor plans; retail space specifications (i.e. square footage, ceiling heights, frontage width measurements, restroom access, etc.); population and demographic information; proximity to public transportation; neighborhood retail map showing neighboring restaurants, retail and other services; signage renderings; and photos of retail premises. • Obtain foot traffic and vehicular traffic counts. • Identify potential retail tenants for each retail space.

6	**Marketing and Leasing - 6 Months (Running concurrently with Steps 3-4)** • Submit final marketing brochures to commercial real estate internet platforms such as CoStar and LoopNet. • Create an email blast of the retail brochure to be sent to the retail brokerage community, community stakeholders, retailers and restaurants. • Research real estate point person for prospective retailers and obtain contact information. Cold call and email potential retail and restaurant tenants. • Set up meetings with prospective tenants to discuss retail leasing opportunities. • Call and email retail brokers and set up meetings to discuss retail leasing opportunities within the project. • Organize and conduct broker and tenant networking events at the property to expose the space and heighten awareness within the brokerage community. • Create a leasing report, call log and tour log to keep track of all retail leasing efforts and activity • Read blogs, retail news and trade publications to stay current on retail trends. • Schedule property tours with brokers and tenants to showcase the retail spaces and discuss the opportunities in further detail. • Follow up with brokers and retail tenants who have shown interest in the project to determine their level of interest.
7	**Letter of Intent and Lease Negotiations - 6 Months** • The Letter of Intent (LOI) is a preliminary non-binding agreement between SFMTA and the prospective tenant. • The LOI will include the basic business deal terms and contemplates the negotiation of the retail lease transaction underway. The LOI process typically takes 2-3 months on average. • Once the LOI has been agreed to, the document will be mutually executed. • The mutually executed LOI will be submitted to the City Attorney to begin preparing the lease document with all the business terms that were pre-negotiated during the LOI phase. • City Attorney and tenant's attorney will work together with SFMTA and tenant to negotiate the lease document. • The lease negotiation process typically takes 3-4 months on average but can be more or less and is different with every transaction. • Once the lease is mutually agreed to between SFMTA and tenant, the lease is mutually executed and the lease will commence.
8	**Tenant Design, Buildout and Rent Commencement - 4 Months** • The design and permit process can occur concurrently with lease negotiations. However, tenant's construction cannot begin until lease commencement. • Once tenant has received its design drawings from their architectural and design teams they will submit the space plans to the Planning Department for receipt of the construction permit. • Upon receipt of construction permit and rent commencement, the tenant's construction can begin. The construction period may vary with each individual project. • Rent commencement will occur per the lease agreement.

6.E.3 LEASING RECOMMENDATIONS

In addition to the construction upgrades, Colliers also recommends the following retail merchandising and leasing strategies:

Food Operators: Suggested retail for CTS and the open space includes quick service food vendors that do not require on-site cooking and can provide a complimentary amenity to the station.

Local Operators: Based on the feedback Colliers received, there is a strong interest from local groups to be considered as retail vendors for the stations. This is a recommended approach.

Outside Broker/Tenant Broker Commissions: In their current marketing efforts, SFMTA has been restricted from paying leasing commissions to outside/tenant brokers. It is recommended SFMTA find a way to incentivize outside/tenant brokers to ensure the vacant properties are diligently marketed to prospective tenants.

7: CONCLUSION

7. CONCLUSION

If the 5th & Mission Garage, UMS, and CTS retail spaces are left in their current condition and no capital investments are made, it is likely they will remain unleased and/or undervalued.

By assuming control of the leasing process via Tier 1 for 5th & Mission Garage and Tier 2A for both UMS and CTS, SFMTA will ensure the retail spaces are brought up to market conditions, a higher rate of occupancy is achieved and that the capital investments made are paid back in both revenue and community good will.

SUMMARY OF RECOMMENDATIONS:

5th & Mission:

- Invest Tier 1 level capital expenditures to achieve market rents and a higher occupancy rate at 5th & Mission Garage
- Charge $45.00-65.00/s.f./year, NNN rental rates depending on size and condition
- Include 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
- Fill vacancies immediately with short term, pop-up tenants

UMS/Chinatown:

- 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 USBID to rent and occupy the under Ellis Street commercial space
- Engage with, at minimum, two brand recognized retailers to install two retail merchandising 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

GLOSSARY

A

ADA: Americans with Disabilities Act

B

Base Rent: the initial rent agreed to for year one of a lease agreement. Depending on the lease provisions it may change over the term of the lease. In commercial properties, the base rent is the minimum due each month, with extra payments due based on, for example, a percentage of sales.

C

Cold Shell: A commercial space with an unfinished interior and with no heating, ventilation, or air conditioning (HVAC) system, and usually without electricity, plumbing, ceilings, or walls. A cold shell is ready for warm shell or vanilla shell improvements, which are usually completed once the lease agreement has been signed. Synonymous with grey shell or base shell.

Comparables: Recent lease transactions with location proximity and/or similar premises conditions

Co-tenancy: The mix of retail uses in a specified area

Curb Appeal: The level of attractiveness of the exterior of a Premises

D

Discount Rate: represents the hurdle interest rate, or opportunity cost of investing capital that the investor expects to achieve on a future projected cash flow, reflecting expectations of risk, inflation and a required return on investment.

E

F

Fair Market Rent: the amount of money a retail space would rent or lease at (market rental value) given the location and quality of the retail space even if the actual (contract) rent pursuant to a lease may be different. In order to determine fair market rent one must consider the location, condition of the spaces, base building challenges and the relevant lease comparables.

FF&E (Furniture Fixtures and Equipment): The movable furniture, fixtures, or other equipment that have no permanent connection to the structure of a building or utilities.

Formula Retail: Synonymous with chain stores

Formula Retail Restrictions: Section 303.1 of the San Francisco Planning Code, regulated by the San Francisco Planning Code. San Francisco Formula Retail restrictions were enacted in 2004 and further revised in 2015. Retailers with more than 11 stores internationally are currently restricted from opening in designated Business Districts without Conditional Use Permits.

G

H

I

Industrial Gross Rent: Rent that includes certain operating expenses (such as property taxes and insurance) in the base rent but excludes other operating expenses (such as utilities). Also called “modified gross rent.” A lease bearing this type of rent is often referred to as an “industrial gross lease” or a “modified gross lease.”

J

K

L

Leasing Timeline: The projected time line for leasing a vacant commercial space, from initial marketing to tenant paying rent.

License Agreement: A legal contract between two parties, known as the licensor and the licensee. In a typical licensing agreement, the licensor grants the licensee the right to produce and sell goods, apply a brand name or trademark, or use patented technology owned by the licensor. A license agreement differs from a traditional lease agreement in that the landlord retains more control over the premises. They are typically much shorter in length compared to a traditional lease agreement

M

Master Lease: A Master Lease gives a Master Lessor control of an asset for a period not extending the term of the Master Lease. The various parts of the asset are then “sub-leased” to retail tenants. All commission, improvements and additional costs assumed with leasing are paid by the Master Lessor.

Master Lessor: A group or organization who signs a “Master Lease” with the actual owner of an asset

Merchandising Plan: A systematic approach to retail leasing aimed at maximizing return on investment through thoughtful mixed tenant uses and optimal paths of travel in order to increase profitability. It does this by maximizing sales potential through ease of use and desirability of planned uses.

N

NNN (Triple Net Lease): The three N’s stand for Taxes, Insurance and Common Area Maintenance (CAM) NNN signifies a lease agreement on a property where the tenant agrees to pay their pro-rata share of property taxes, building insurance, and common area maintenance in addition to rent and utilities.

O

Occupancy Cost: the price of rent as a percentage of sales

Occupancy Rate: the percentage of units in a rental property that are occupied.

P

Percentage Rent: Percentage rent is extra rent paid to landlord based on a percentage of gross sales, above the minimum rent paid (base rent). Percentage rent is paid after a certain amount of gross sales are met. The point at which it is paid is call a “breakpoint” and can be natural or artificial. A natural breakpoint is calculated by dividing the base rent by the established percentage rent. An artificial breakpoint is a dollar amount in sales both parties agree to.

Pop-Up Space: A turn-key retail space, ready for immediate activation by a retailer who agrees to a short term license agreement

Pop-Up Tenants: See Temporary Tenants

Q

R

Retail Merchandising Unit (RMU): Display units for indoor or outdoor use that can refer to kiosks and carts.

S

Sit and Lie Law-San Francisco: (Section 168, “Promotion of Civil Sidewalks) and is enforced in all of San Francisco. The sit-lie ordinance prohibits anyone from sitting or lying on the sidewalk or other public spaces. The current law can be enforced on public sidewalks between the hours of 7am and 11pm. The mechanism for enforcing “sit-lie” typically begins with an anonymous call from a private merchant who is not required to be involved in the final process. This provides the police the chance to “move along” loitering people or groups without the need for citation or official reporting.

Stubbed Services: Various service lines (water, sewer, gas and electric) that reach the Premises with ends that are capped and ready for use in the space.

T

Temporary Tenants: Retail tenants who agree to occupy a premises for 1-12 consecutive months.

Tenant Improvement Allowance: The amount offered by a landlord to a tenant to build interior improvements.

Tenant Improvements: Improvements to commercial space to meet the needs of tenants. They may be new improvements or remodeling and may be paid for by the landlord, the tenant, or shared.

Trade Area: the geographic area from which a community generates the majority of its customers. This often is the geographic area that represents 75-percent of current customers.

Turnkey: The construction of tenant improvements to the customized requirements and specifications of a future owner or tenant. All utilities stubbed and distributed. Tenant’s FF&E is all that is required for move-in.

Turnover Vacancy: See Vacancy Rate

U

V

Vacancy Rate: the percentage of all available units in a rental property that are vacant or unoccupied at a particular time. It is the opposite of the occupancy rate, which is the percentage of units in a rental property that are occupied.

Vanilla Shell: A commercial space with a minimally finished interior, usually with ceilings, lighting, plumbing and with a heating, ventilation, air conditioning (HVAC) system, interior walls (painted or unpainted), electrical service, electrical outlets, rest rooms (dependent), and a concrete floor. A vanilla shell is considered ready to lease and ready for tenant improvements.

Ventless Cooking Technology: Self-contained fryers, ovens, etc. that process the fumes and vapors associated with traditional grease and fire cooking methods.

W

Warm Shell: The customary interior condition in which new or renovated retail space is offered for lease. It typically includes a concrete floor, bare walls, an exposed heating, ventilation, air conditioning (HVAC) system, electrical service, some electric outlets, possibly a partition or door to separate the storage from the customer area, and possibly a restroom. The ceiling may be unfinished, painted or include acoustical tiles. Lighting may or may not be included.

X

Y

Z