REPORT

Economic Analysis of Acquisition of the Japan Center by a Community Land Trust

The San Francisco Planning Department
August 2011

Seifel CONSULTING INC.

221 Main Street
Suite 420
San Francisco CA
94105

415.618.0700
fax 415.618.0707
www.seifel.com

Table of Contents
San Francisco Planning Department
Analysis of the Japan Center

I. Introduction I-1

A. Background I-1

B. Purpose of Study I-3

C. Methodology and Limitations I-3

II. Japan Center Overview II-5

A. Building Efficiency II-5

B. Assessed Value II-6

III. Opportunities and Constraints Analysis III-8

IV. Japan Center Acquisition / Renovation IV-12

A. Estimate of Current Value IV-12

B. Acquisition Issues IV-13

C. Potential Renovation Program IV-13

D. Potential Funding Sources IV-28

E. Estimated Value Post-Renovation IV-29

F. Conclusions IV-30

V. Recommendations and Next Steps V-31

Table of Figures

Figure 1 Japantown Better Neighborhoods Plan Map I-2
Figure 2 Ownership Map II-7
Figure 3 Architectural Sketches of Japan Center Renovations IV-16

Table of Tables

Table 1 Ownership....II-5
Table 2 Building Efficiency....II-7
Table 3 Assessed Value....II-7
Table 4 Opportunities and Constraints....III-9
Table 5 Current Estimated Value....IV-12
Table 6 Planning Budget for Renovations....IV-27
Table 7 Overall Project Budget....IV-28
Table 8 Potential Funding Sources....IV-29
Table 9 Estimated Value Post-Renovation....IV-30

Appendices

Appendix A. Bond Financing

I. Introduction

A. Background

San Francisco's Japantown is located on the north side of Geary Boulevard, with the Fillmore District to the west, the Western Addition to the south, Cathedral Hill to the east, and Pacific Heights to the north. Japantown is comprised of numerous locally-owned, family-run restaurants, retail stores, and service providers in the Japan Center, Buchanan Mall, and along Post and Sutter Streets. Fillmore Street is another important neighborhood commercial street, which serves the Fillmore District south of Geary and the Upper Fillmore area to the north.

In May 2009, the Planning Department published the draft Japantown Better Neighborhood Plan ("Draft BNP"), which presented a vision for Japantown's future development, including substantial increases in allowable density at key properties such as the Japan Center. The map on the following page shows the boundaries of the Japantown Better Neighborhood's Plan Area. In June 2009, following public comment, the Planning Commission sent the Draft BNP back to the community for further review, analysis, and refinement. A Japantown BNP Organizing Committee was formally established by invitation of Supervisor Ross Mirkarimi and the Planning Department to conduct this review.

During the past year, the community has reviewed the Draft BNP and the Organizing Committee has formulated planning principles and recommendations focused on the following goal: "To preserve, restore and enhance Japantown as a vital, prosperous, and livable community that authentically reflects, embodies and continues its cultural heritage and history into the future."[1] Related to this goal, the Organizing Committee has been exploring the formation of a Japantown Community Land Trust (CLT). The idea of forming a CLT in Japantown has been discussed for over a decade as a way for the community to acquire ownership of key properties in order to preserve and enhance culturally relevant uses.[2]

The Organizing Committee and community have identified the Japan Center as one of the key properties for potential acquisition by a CLT. Japan Center is home to numerous Japanese-owned and Japanese-oriented businesses, including restaurants, clothing stores, food retailers, and a range of other specialty and general merchandise stores, and its long-term health is integral to the community's cultural heritage.

---

[1] Japantown Organizing Committee. *Planning Overview*. Community Meeting Handout, June 27, 2011. (http://www.sf-planning.org/ftp/files/Citywide/Japantown/Japantown_Meeting2_Handout_Final_Draft_6-27-2011.pdf).

[2] Formation of a CLT was recommend in the report, *Concepts for the Japantown Community Plan*, prepared by the BMS Design Group in 2000 and was recommended again in the Draft BNP.

JAPANTOWN BETTER NEIGHBORHOOD PLAN
Proposed Project Area
SACRAMENTO ST
PERINE PL
CALIFORNIA ST
ORBEN PL
PINE ST
STEINER ST
FILLMORE ST
WILMOT ST
WEBSTER ST
BUCHANAN ST
LAGUNA ST
OCTAVIA ST
AUSTIN ST
GOUGH ST
PIERCE ST
BUSH ST
COTTAGE ROW
SUTTER ST
POST ST
AVERY ST
GEARY BLVD
GEARY BRT PROJECT
SCOTT ST
OFARRELL ST
HOLLIS ST
INCA LN
ZAMPA LN
WESTERN SHORE LN
GALILEE LN
QUICKSTEP LN
CLEARY CT
ELLIS ST
WILLOW ST
Buddhist Church of San Francisco
Kinmon Gakuen
Konko Church of San Francisco
Kokoro
JCCCNC/Japanese American History Archives
Christ United Presbyterian Church
Former YWCA - Nihonmachi Little Friends
Kimochi Home
Sokoji Temple
Buchanan Mall
HEMLOCK ST
JPOP Center
1481 Post Street
Miyako Hotel (Hotel Kabuki)
Peace Plaza
Miyako Mall
Kintetsu Mall
A
Kabuki/ Sundance Theater
Kinokuniya Mall
Hamilton Playground
Rosa Parks Elementary School
Properties Within Japantown BNP Area
Redevelopment Area (A-2) Expires 01-01-09
0
1000
Feet
japantown_poster.pdf - mwebster - April 10, 2008
SAN FRANCISCO PLANNING DEPARTMENT

B. Purpose of Study

In early 2011, the Planning Department contracted with Seifel Consulting Inc (Seifel), Van Meter Williams Pollack (VMWP), and the Japantown Task Force to analyze the potential for a CLT to acquire and renovate the Japan Center East and West, also referred to as Miyako Mall and Kintetsu Mall. The team's work was done in collaboration with Burlington Associates who worked under a separate contract, funded by the Ford Foundation, to explore the feasibility of forming a Japantown CLT. The following report provides an analysis of the Japan Center; a discussion of opportunities and constraints related to a potential acquisition and renovation; and a financial analysis examining the potential cost of acquisition and renovation as well as potential funding sources. This analysis does not address other properties in Japantown such as the Kinokuniya Mall or Kabuki/Sundance Theater.

C. Methodology and Limitations

This Study provides a preliminary analysis of the potential for a CLT to acquire and renovate the Japan Center based on publicly available information including assessor parcel records; input from lenders and brokers; discussions with retail developers and mall operators; a review of relevant market data; and a preliminary structural assessment of the existing Japan Center parking structure. [3] Key assumptions and limitations are listed below:

- ***The analysis focuses on acquisition of properties owned by 3D within the Japan Center East and West Buildings.*** This study is focused on properties known as the Japan Center East and West, which are more commonly referred to in the community as the Miyako Mall and Kintetsu Mall. The Japan Center is bounded on the east by the Kabuki Hotel and on the west by Webster Street. This analysis also explicitly focuses on acquisition of those portions of the Japan Center East and West owned by 3D Investments ("3D"), and does not address costs for acquiring other portions of the Center. It is assumed that if a CLT could acquire the 3D properties, it could work with other owners to formulate a cooperative agreement for renovation of the Japan Center.
- ***The analysis focuses on renovation rather than replacement of the existing Japan Center buildings in order to minimize disruptions to existing businesses and garage operations.*** The Draft BNP considered various redevelopment scenarios for the Japan Center, but did not evaluate the potential to renovate rather than replace the buildings. In contrast, this Study explores the possibility of renovating the center without making substantial changes to the existing building footprints and/or the gross square footage. Based on a preliminary structural assessment, the Center could potentially be renovated within its existing footprint without triggering a need for substantial seismic upgrades of the mall buildings and/or parking garage. The Organizing Committee wanted to understand the potential for a renovation scenario in part because existing businesses could be better accommodated through the phasing of construction work and temporary relocations. Also, the Japan Center parking garage could continue to operate during a renovation if it did not trigger a need for substantial seismic work on the garage. By comparison, the redevelopment of buildings to add additional floors or replace them with new buildings would result in the closure of the Center and

[3] Rutherford & Chekene. *Memo: Summary of Propose Structural Schemes for Concepts A, B, and C.* May 19, 2008.

garage for a substantial time period (e.g., two years), disrupting existing businesses and affecting the broader neighborhood.

- ***The analysis is based on best available data, but does not reflect actual financial and operational data from the property owners.*** As part of this analysis, the Japantown Task Force reached out to the majority property owner of the Japan Center, 3D; however, 3D declined to provide detailed financial and operational information that would support a more complete analysis of existing value of the center and other issues related to potential acquisition. A more complete acquisition analysis of the Center would require detailed information regarding operating income and expenses as well as additional architectural and structural assessments of the Center and parking structure. Consequently, this preliminary analysis provides a rough estimate of the cost to acquire and renovate the Center, which would require substantial refinement based on the full cooperation of the existing property owners if the CLT were to pursue acquisition.

II. Japan Center Overview

The Japan Center measures approximately 133,000 square feet: 56,000 square feet in the Japan Center East and 77,000 square feet in the Japan Center West. It is owned by three parties: 3D, Union Bank, and Kyo D & Hee Ae Lee. As shown in Table 1, 3D owns the majority of the property: 105,000 square feet, approximately 80 percent of the Center's gross area. The Japan Center Ownership diagram shows the Center's parcels and identifies the portions owned by each entity. Union Bank owns its branch location on Post Street and the retail space above. Kyo D & Hee Ae Lee own retail spaces in the southwest corner. As noted above, this analysis focuses on the potential cost of acquiring and renovating the 105,000 square feet owned by 3D.

Table 1
Ownership
Japan Center Analysis

	Floor Area in Square Feet		
Ownership	**3D**	**Other**	**Total**
Japan Center East (Miyako)			
Mall Level	22,785	8,035	30,820
Upper Level	18,717	6,880	25,597
Subtotal	**41,502**	**14,915**	**56,417**
Japan Center West (Kintetsu)			
Ground Level	11,275	13,261	24,536
Mall Level	52,000	-	52,000
Subtotal	**63,275**	**13,261**	**76,536**
Japan Center East + West	**104,777**	**28,176**	**132,953**

Source: Robin Chiang and Company.

A. Building Efficiency

Opened in 1968 as the Japanese Cultural and Trade Center, the Japan Center was designed primarily as an exhibit space rather than a shopping center. Consequently, the buildings have an unusual configuration. The Japan Center East is particularly inefficient, with approximately 50 percent of the structure dedicated to unleased common areas. The Japan Center West is more efficient, with approximately 75 percent of the building available for lease, but it also suffers from an awkward layout and poorly configured common areas. With a highly inefficient layout, the Center is not currently an attractive, dynamic space retailers and their customers.

Table 2
Building Efficiency
Japan Center Analysis

	Floor Area in Square Feet		
Ownership	**3D**		
Japan Center East (Miyako)	**Leasable**	**Gross**	**Efficiency**
Mall Level	9,595	22,785	42.1%
Upper Level	11,364	18,717	60.7%
Subtotal	**20,959**	**41,502**	**50.5%**
Japan Center West (Kintetsu)		-	
Ground Level	9,483	11,275	84.1%
Mall Level	36,834	52,000	70.8%
Subtotal	**46,317**	**63,275**	**73.2%**
Japan Center East + West	**67,276**	**104,777**	**64.2%**

Source: Robin Chiang and Company.

B. Assessed Value

Table 3 presents the recorded purchase price and current assessed value of 3D-owned properties in the Japan Center. Their 2006 purchase price was $19.7 million, and current assessed value is $20.9 million. As increases in assessed value are limited by Proposition 13, the current assessed value should not be considered an accurate estimate of current market value. Nonetheless, these figures provide a useful benchmark of the potential cost of acquiring properties from 3D. Approximately 75 percent of the value of the Japan Center properties ($15 million) is in the Japan Center West, which accounts for approximately two-thirds of the leasable area. This discrepancy in value is discussed in further detail below.

Table 3
Assessed Value
Japan Center Analysis

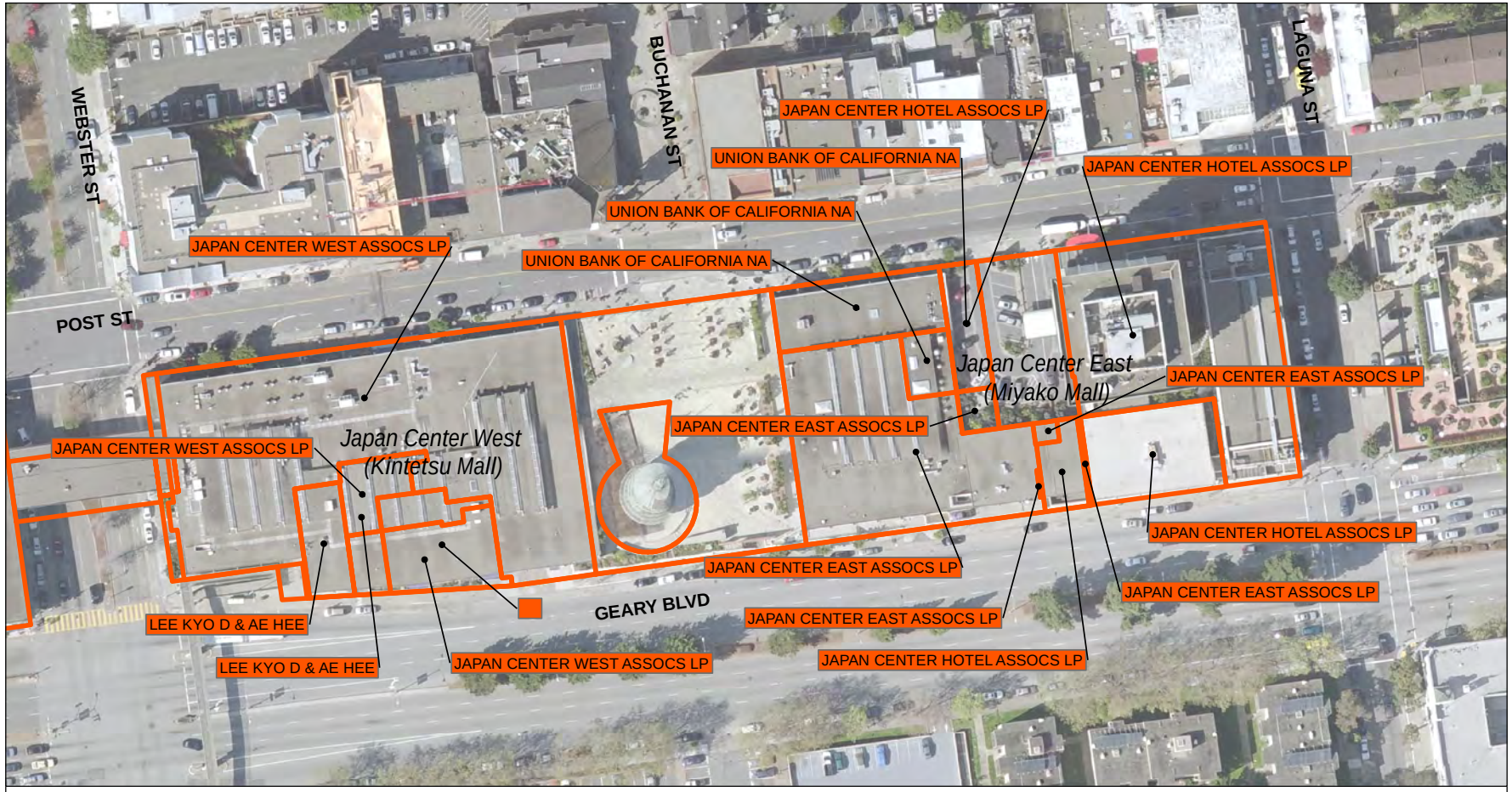
Owner/Details		APN [1]	Last Sale	Sale Price	FY 2010/11 AV[2]
Japan Center East Assocs LP (3D)		700024	5/17/2006	-	$2,643
22 Peace Plaza		700025	5/17/2006	-	$5,291
Square feet:	41,502	700026	5/17/2006	-	$2,643
Price/sq ft:	$120.48	700027	5/17/2006	-	$5,142,842
AV/sq ft:	$127.62	700031	5/17/2006	-	$142,922
			Subtotal	**$5,000,000**	**$5,296,341**
Japan Center West Assocs LP (3D)		700006	5/17/2006	-	$5,293
11 Peace Plaza		700006	5/17/2006	-	$26,464
Square feet:	63,274	700009	5/17/2006	-	$12,137,913
Price/sq ft:	$232.32	700010	5/17/2006	-	$1,868,591
AV/sq ft:	$245.96	700012	5/17/2006	-	$1,524,517
			Subtotal	**$14,700,000**	**$15,562,778**
Total				**2006 Sale Price**	**FY 2010/11 AV**
Japan Center East + West				**$19,700,000**	**$20,859,119**

[1] Assessor Parcel Number (APN).

[2] Fiscal Year 2010/11 Assessed Value (AV).

Source: City and County of San Francisco Assessor.

Figure 2
Ownership Map



0 100 200 300 400 Feet

Note: Parcels appear to overlap because first-story and second-story parcels are overlaid. Label dots indicate the center point of each parcel.

III. Opportunities and Constraints Analysis

Table 4 provides a summary of opportunities and constraints related to the existing operation of the Japan Center and its potential acquisition and renovation. The opportunities and constraints analysis includes observations provided by mall development and leasing experts who toured the site. This analysis was key to developing a recommended renovation program that would help to recast the Japan Center as a vibrant and contemporary retail space.

Table 4. Summary of Opportunities and Constraints
Japan Center

Japan Center Attributes	Opportunities	Constraints
Ownership	The Japan Center East and West (the "Center") is largely held in single-ownership, creating an opportunity to work with the primary owner (3D Investments) to preserve and enhance a substantial number of key retail uses in Japantown.	The Center is partially owned by other property owners, creating an obstacle to major redevelopment / renovation without securing cooperation of multiple parties, an complicating efforts to reconfigure building to provide attractive, street front spaces that would appeal to strong new anchor tenants.
Access / Visibility	The Center is located along a major transportation corridor (Geary Blvd) with planned bus rapid transit, creating the opportunity to attract substantial pass-by traffic into the Center by improving signage and building entrances, particularly along Geary Blvd and Post Streets. A strengthened connection between Japan Center and Buchanan Mall would strengthen the flow of patrons throughout Japantown.	The Center does not provide an open and welcoming presence to the surrounding streets. Entry points are non-descript and/or "hidden." The lack of visibility into the buildings from surrounding streets does not allow passers-by to see the retail/restaurant offerings inside. The poor choice of paving materials and the lack of continuity in design between the Buchanan Mall and Peace Plaza detract from their connectivity, inhibiting patrons from experiencing a holistic Japantown shopping experience.
Signage / Branding / Marketing	The Center and its retail offerings could be better integrated into the neighborhood. Improved signage on the exterior of the building, and design improvements with a more contemporary Japanese/Asian focus would better brand the Center and attract more patronage from visitors to San Francisco and from San Francisco residents and workers living in Pacific Heights and other nearby neighborhoods. Additional cross promotion of events and cultural programming by the Center and community organizations would attract additional customers.	The Center lacks a comprehensive marketing strategy. The lack of signage on the exterior of the building inhibits the success of retail/restaurant offerings inside. Signage along Geary Blvd is not scaled for a major arterial street, where large, bold signage would be typical for a major retail development. The Japantown Task Force plays the role of marketing coordination for the neighborhood, but lacks resources to provide a more comprehensive marketing campaign without the support of a business improvement district.
Age / Building Condition / Aesthetics	The mall's performance could be improved through investments to enhance the customer experience, create more vibrant retail and public spaces and convey a modern Japanese aesthetic. ULI notes a trend away from bland shopping environments toward beautiful, inviting, authentic places that entice people to linger and enjoy the shopping experience with features such as top-notch landscaping, interesting art work, and use of high quality materials for benches, fountains, and other common area features.*	Opened in 1968 as the Japanese Cultural and Trade Center, the mall was designed primarily as an exhibit space rather than a shopping center. More than 40 years old, the buildings show their age and suffer from the lack of upgrades. Deferred maintenance, drab interior and exterior finishes, poorly configured spaces and confusing circulation systems, detract from the Center's appearance and functionality as a vibrant retail center. Among the reported deferred maintenance issues is water leakage from the Japan Center into the parking garage.
Building Layout / Internal Configuration	The utilization and configuration of spaces within the mall buildings could be improved to create a first-rate food court that would activate some of the common areas, add kiosks or Retail Mobile Units (RMUs) to create additional retailing opportunities and energy, and modestly increase the size of certain spaces to improve the ratio of leasable to non-leasable areas.	Related to their original purpose as a Trade Center, the Center's buildings are inefficient (i.e., a large amount of unleasable common area relative to leasable space particularly in the Japan Center East (Miyako)). Also, there are not strong links between the Japan Center East (Miyako) and West (Kintetsu) buildings, as neither building has a strong relationship to Peace Plaza. The Center also lacks of a prominent entrance at Webster and Post that would help connect the Center to the Kinokuniya Mall and Kabuki Theater.

*See ULI's, *Ten Principles for Rethinking the Mall.*

Table 4. Summary of Opportunities and Constraints
Japan Center (continued)

Japan Center Attributes	Opportunities	Constraints
Garage	The Japan Center Garage offers ample, easily accessible parking for the Center and other uses in Japantown. Free parking is offered at the garage with validation. Most participating merchants offer one hour validation while some offering three hour validation. There are opportunities to expand the validation program to apply to all Japan Center tenants uniformly. The typical duration for validation could be increased to accommodate longer shopping and dining trips. Marketing of the validation option in conjunction with a comprehensive marketing strategy for the Center could enhance the Center's attractiveness The garage is owned by the City and operated under a lease to the non-profit Japan Center Parking Garage Corporation. The separate ownership of the garage and mall buildings constrains the ability of the Center owner to redevelop the buildings above; major reconstruction of the Japan Center mall would likely trigger a need for upgrades to and/or reconstruction of the garage. The Japantown community should explore opportunities to acquire the garage in order to preserve the parking as a community asset and to be able to obtain a degree of control over the long-term redevelopment of Japan Center.	The Center is built atop a publicly-owned parking garage as an air-rights development. Based on a preliminary seismic study, the existing garage structure under the East (Miyako) portion of the site could accommodate up to two stories of residential development over two stories of commercial development. The West (Kintetsu) portion of the site would require retrofit to increase structural capacity in order to accommodate this level of development. While the existing garage can potentially support additional development without a need for major seismic upgrades, a thorough seismic study will likely be required by potential lenders before lending for any substantial renovation or reconstruction of the mall buildings. Development of more than four stories of development above the existing garage podium would be expected to require closure and reconstruction of the parking garage.
Tenant Mix	The Center has the opportunity to be known as the leading location in the Bay Area for an authentic Japanese experience and the highest quality Japanese food, fashion, and other consumer goods. The Center should work to attract strong, new anchor tenants, by investing in needed tenant improvements and other upgrades / incentives that would attract the tenants that create a regional draw. Key tenants could include: -A world-class Japanese restaurant or Asian fusion restaurant of a similar caliber to the Slanted Door; -A major contemporary Japanese fashion retailer (e.g., UNIQLO); -More upscale food retailers, centered around a premier food court, similar to the Westfield San Francisco Center.	The Center offers an interesting mix of Japanese-themed restaurants and businesses, but lacks first-rate anchors that can attract new customers to the mall from throughout the region. Attracting strong new anchor tenants will be difficult based on the current condition and configuration of the buildings and a lack of high quality spaces that are attractive, visible, and easily accessed from the street.
Covenants / Use Restrictions	The Center was sold in 2006 to 3D Investments. During the sale process the City negotiated covenants, which provide that the new owners will maintain ownership of the mall buildings for at least 15 years and will maintain a Japanese and/or Japanese American design theme and leasing strategy. In 2006, the City established a Japantown Special Use District (SUD) which encompasses the Center and other parcels located between Fillmore, Bush, Laguna, and Geary. The SUD requires new land uses to be compatible with the neighborhood in character and design and requires a conditional use authorization for any change of use in excess of 4,000 square feet; the merger of existing uses in excess of 2,500 square feet; or the establishment of any formula retail (i.e., a business with 11 or more locations in the US).	Covenants and use restrictions can protect against rapid change in the neighborhood that would alter the historic and cultural character. These tools by themselves, however, cannot address many of the key challenges listed above, including the need for capital reinvestment in the property and development of a comprehensive marketing strategy.

Table 4. Summary of Opportunities and Constraints
Neighborhood Context and Adjacent Uses

Neighborhood Context	Opportunities	Constraints
Peace Plaza	Peace Plaza serves as an important gathering place, particularly during community events such as the Cherry Blossom Festival. The plaza could be activated during other times by creating more outdoor restaurant/cafe seating in the plaza. Increasing visibility between Geary Blvd and Japan Center would create a more gradual transition between the Plaza and Geary, which would open site lines from Geary toward the Center.	Peace Plaza does not read as one of the City's premier outdoor gather spaces. Paving materials are cracked and in need of replacement. The orientation and configuration of the Center entrances on the Plaza do not help draw customers across the Plaza between the East (Miyako) and West (Kintetsu) buildings. Existing entrances to the Center from the Plaza are small and non-descript, and the lack of well-designed, activated seating areas inhibit use of the Plaza.
Buchanan Mall	Buchanan Mall is a prime location for property acquisitions by a Community Land Trust (CLT). By bringing outside, grant and/or philanthropic resources to the table, a CLT could help incentivize redevelopment of older buildings with poor retail configurations. Redevelopment of the Tower Building at the corner of Buchanan and Post (1700 Post) would be key toward establishing a link between the Japan Center and the Buchanan Mall and could help anchor the Buchanan Mall by creating space for an active use such as a restaurant or cafe with outdoor seating.	Buchanan Mall is the heart of the Japantown community, with several long-standing family-owned businesses. Nonetheless, the Buchanan Mall faces long-term challenges. Buildings have become dated in appearance and are in need of reinvestment. The Tower Building at the corner of Buchanan and Post presents a particular challenge with basement-level and second floor retail space that is generally viewed as undesirable by retailers. The Buchanan Mall is in need of substantial reinvestment to ensure its long-term viability; however, height limits and multiple ownerships pose challenges for being able to identify financial feasible redevelopment opportunities.
Hotels	Japantown is home to two hotels, the Best Western Hotel Tomo and the Hotel Kabuki, which is connected to the Japan Center. These hotels are important anchors for Japantown. A comprehensive marketing strategy for Japan Center could help strengthen the link between these uses and the Center through greater cross promotion, while physical modifications at the Japan Center East (Miyako) building could create a more inviting retail environment that would draw hotel guests toward Peace Plaza, the Buchanan Mall, and Japan Center West (Kintetsu).	While the Hotel Kabuki is connected to the Japan Center East (Miyako) building, there are not clear sightlines from the interior of the Japan Center East building out to Peace Plaza and the surrounding neighborhood that would encourage further exploration of the neighborhood.
Kabuki Theater	The Kabuki Theater is the key entertainment anchor in the Japantown area, drawing visitors from through the City and region for film festivals as well as regular film programming. The corner of Fillmore and Post is among the most active in the Japantown Neighborhood. The theater is situated across from one of the City's top Indian restaurants, Dosa, bringing opportunities to build on this success. Modifications to available tenant spaces would likely be required within the Japan Center to create space for a premier restaurant that interfaced with Post Street and could draw theater patrons east of Webster Street.	Adjacent uses along Post Street do not generate energy and excitement that might draw theater patrons farther east along Post Street to the other side of Webster. The entrance to the Kinokuniya Mall is bland and uninviting. Similarly, the Japan Center West (Kintetsu) building has no windows fronting onto Webster and lacks a strong entrance point and bold signage that might invite patrons toward the Center from the theater.
Viz Cinema and New People	VIZ Cinema is a 143-seat underground cinema inside the New People building, across Post Street from Japan Center. VIZ Cinema's programming focuses on contemporary films from Japan, as well as an incredible legacy of classics, favorites, documentaries and anime – making it the only venue of its kind in the United States. The New People building features a ground floor cafe and contemporary Japanese retailers. The buildings bold and inviting design helps to create needed retail energy along Post Street.	The lack of direct, physical relationship and coordinated signage between Japan Center and the Viz Cinema/New People across Post Street does not encourage patrons to perceive them as part of a unified Japantown experience. While the New People building has dramatic windows that invite patrons to enter the space, the building facade for Japan Center across the street is monolithic and does not encourage entry off of Post Street. The lack of directional signage to Viz Cinema from major pedestrian cross walks and Peace Plaza, detracts from the synergy it could offer with Japan Center.

IV. Japan Center Acquisition / Renovation

The following section discusses the potential acquisition of the Japan Center by a CLT and a recommended program of renovations under such a scenario. It analyzes the potential current value of the Center based on estimated net operating income, the cost of renovations, and potential sources of funding for acquisition and renovation.

A. Estimate of Current Value

Based on a review of market conditions in the Japantown area, Table 5 estimates the current net operating income of 3D's holdings in the Japan Center. Rents in the Japan Center East are estimated at $2.00 per square foot per month. Rents in the Japan Center West, with more desirable locations and a higher share of restaurant space, are estimated at $3.00 per square foot per month. Based on these estimates, the current capitalized value of the Japan Center is approximately $22.5 million, with approximately 75 percent of this value in the Japan Center West. This is consistent with the Assessor's data on current assessed value and the purchase price paid by 3D, presented in Table 3. This analysis suggests that the cost to acquire 3D's holdings in the Japan Center would likely be $20 million to $25 million.

Table 5
Current Estimated Value
Japan Center Analysis

	East (Miyako)	West (Kintetsu)	East + West Combined
Assumptions			
NNN Rent ($/Leasable SF/Month)[1]	$2.00	$3.00	$ 2.60
Vacancy Rate	*10%*	*10%*	*10%*
Non-Reimbursable Expenses[2]	*10%*	*10%*	*10%*
Capitalization Rate	7.5%	7.5%	7.5%
Leasable Retail Square Feet	20,959	46,317	67,276
Project Valuation			
Gross Potential Rental Income	$503,016	$1,667,412	$2,099,011
Less Vacancy	($50,302)	($166,741)	($209,901)
Less Non-Reimbursable	($50,302)	($166,741)	($209,901)
Net Operating Income	**$400,000**	**$1,300,000**	**$1,700,000**
Capitalized Value	**$5,500,000**	**$17,000,000**	**$22,500,000**

1. Does not include Common Area Maintenance (CAM) charges, which are estimated at $2.25 for non-restaurant tenants and $3.35 for restaurant tenants.
2. Non-reimbursable expenses include all expenses of building operations borne by the building owner which are not passed through to tenants as CAM charges, including lease up and lease negotiation costs.

Source: Japantown Task Force

B. Acquisition Issues

Based on conversations with developers, brokers and lenders, several key issues emerged related to the potential acquisition of the Center by 3D.

- Any transaction involving the Japan Center will require a willing seller. While the preliminary financial analysis above suggests a likely negotiating range for the purchase of the Center from 3D, the transaction would require that 3D be willing to sell. The CLT should continue to engage with 3D about their interest in selling the property and should continue to consider other acquisitions in the community in lieu of the Japan Center, recognizing that it may not be possible to acquire the Center at this time.
- An acquisition loan would require a comprehensive plan to renovate / reposition. Lenders indicated that they would be unwilling to provide an acquisition loan for the Center if it were going to be operated in its current condition. Real estate lending standards remain tight, and lenders are generally focusing on loans for high quality and conventional real estate product types. Even with an approved plan to comprehensively renovate and reposition the center, it may still be challenging to secure conventional financing. Additionally, lenders expressed concern about providing funding for renovation of the mall buildings without a thorough seismic study of the underlying parking garage, particularly given the age of the parking structure (constructed in the late 1960s).
- Acquisition will require partnership with an experienced developer. Related to the above point, lenders indicated that any effort to renovate or reposition the center must be led by an experienced developer. Consequently, the CLT needs to partner with an experienced developer who would oversee the program of renovations and remain active in the operation of the mall for several years, to assure the lender of the long-term financial stability of the project.

C. Potential Renovation Program

Summarized below are key upgrades to building elements and systems that should be prioritized in renovating and repositioning the Japantown Center. These renovations are essentially a “kit of parts” which can be incorporated as the project budget allows. A summary budget for this “kit of parts” is included for planning purposes. As noted before, based on a preliminary structural assessment, the Center could potentially be renovated within its existing footprint without triggering a need for substantial seismic upgrades of the mall buildings and/or parking garage. Consequently, the program of renovations described below does not include seismic upgrades.

The program of renovations is intended to address the following challenges:

- A lack of prominent entries into the shopping center;
- A lack of transparency and visual interest along street frontages;
- Outdated interiors and limited interior and exterior signage;
- Deferred maintenance affecting electrical and mechanical systems and roofing; and
- Poor connections between the Japan Center, Peace Plaza and Geary Boulevard.

The renovations described below are identified by their location (e.g., #1, #2, etc.) in the Japan Center Site Improvements Diagram and are represented in a series of sketches on the following pages, which provide a preliminary sense of the potential for a renovated Japan Center.

Japan Center East (Miyako Mall) Renovations

Existing building entries are small and non-descript. They do not provide the Mall with a strong focal point nor do they suggest the presence of an important shopping center. The entries from Geary Boulevard (#1) and Peace Plaza (#2) should be completely reconfigured to provide a spacious, two-story entry lobby. The upper floor in the entry areas should be removed, the retail spaces reconfigured, and prominent stairs, escalators and elevators provided to the upper floor. This reconfiguration may include lifting the roofline in a dramatic clerestory to admit more light. New exterior canopies of steel and glass should provide cover, opportunities for signage, and a focal point for visitors entering from Geary Boulevard and Peace Plaza.

The exterior should also be renovated. Emphasis should be placed on the façade facing Peace Plaza. New storefronts and entries oriented toward the Plaza should be created. The tenant spaces adjacent to the plaza should open onto the plaza, with seating and sales spilling into it and adding to a sense of activity. Cafes and restaurants, which could take advantage of these seating areas, should be strongly considered for these spaces.

The Geary Boulevard and Post Street façades should be renovated to a lesser extent. They should have new signage, new exterior streetscape color, and new storefronts that add transparency and visibility into the stores. The tenants' spaces should orient to the street. They should not use street-fronting windows as back walls but as displays, adding activity and interest to the street.

The interior should be entirely reconstructed to provide a large central space allowing shops to spill out into a central court with food and seating. The large stair in the center prevents shops from orienting towards the central space and prevents customers from using that space as a gathering area. It should be removed in favor of prominent stairs/escalators at the renovated entry points. The rest of the interior space should be renovated with an emphasis on high-quality finishes, storefronts and a new signage program for tenants.

Japan Center West (Kintetsu Mall) Renovations

Like the East building, the Japan Center West requires new entries to provide a strong street presence and open the Mall and shops to the street, adding activity and visual interest. The Peace Plaza entry should be emphasized. A tall entry lobby from the plaza is recommended, with a raised ceiling to create an open and visible point of entry. In addition to the existing entries, two additional street entries should be strongly considered:

- ***New Entry at Geary Boulevard and Webster Street (#6).*** This would allow patrons from the planned Geary Boulevard Bus Rapid Transit (BRT) and pedestrian walking on Geary from points west to access the Mall from the southwest corner of the site. This would require a complete reconfiguration of the southwest corner, with a new two-story lobby. Escalators to the Mall level shops should be considered. Tying into the existing pedestrian overpass should also be considered if it remains with the BRT station design.
- ***New Entry Along Post Street (#7).*** A second new entry at or near the existing Benihana's entry could provide a strong visual connection between Post Street and the mall interior. This would require tenant cooperation. Like the Peace Plaza entry, a new tall entryway here would allow adjacent shops and restaurants to be accessed from this new lobby.

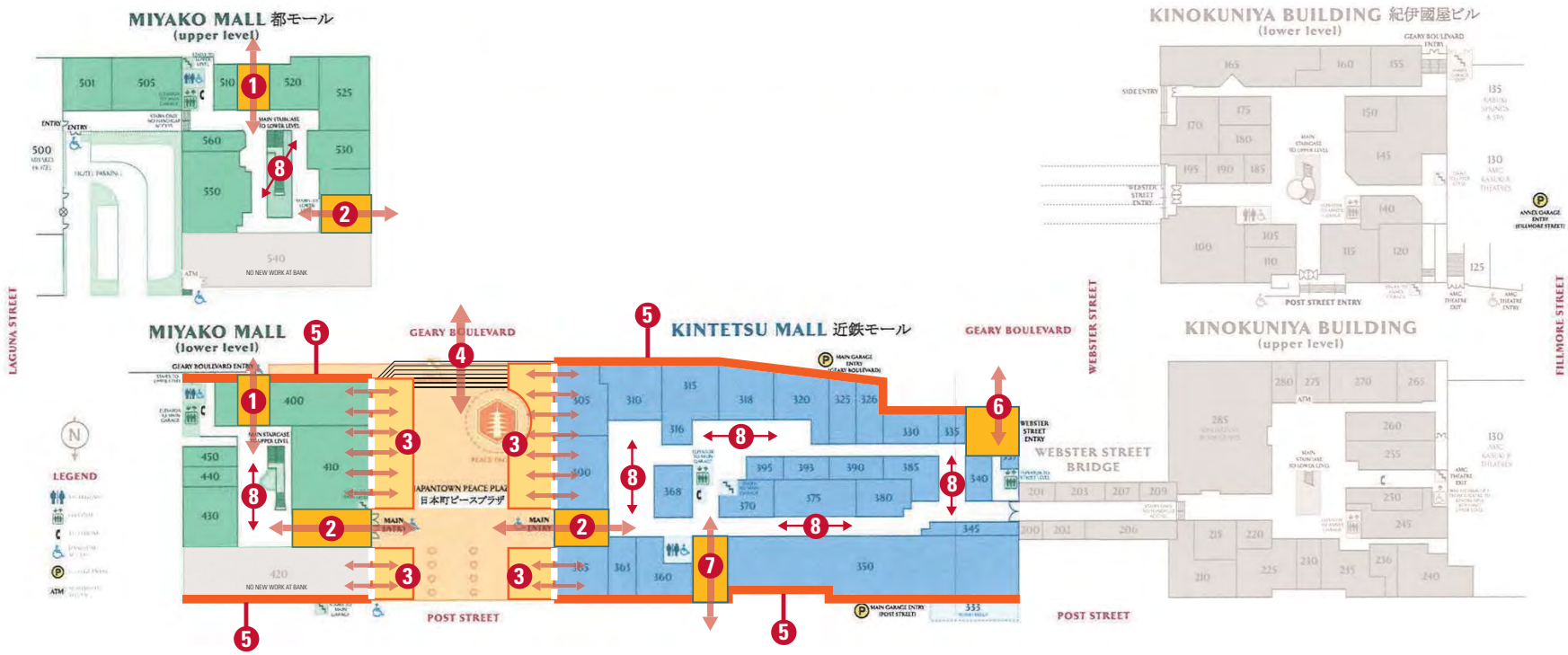
In conjunction with these new entries, the exterior façades and tenant spaces should be opened up as new storefronts. This would create more transparency and visual interest along the streetscape. Areas raised above the street could provide outdoor seating for cafes or restaurants. The exterior façades should include new signage as part of a comprehensive new signage program. The existing tile roofs should be removed and new exterior façade features added to modernize the appearance.

Like those of the Japan Center East, the exterior facades of the Japan Center West should be updated with contemporary storefronts and signage. The Peace Plaza façades should have the same treatment as the Japan Center East, with storefronts, tenant spaces, and seating areas orienting to the plaza (#3). The Post Street façades and tenant spaces should also orient to the street, and seating areas, possibly semi-enclosed, should be incorporated into the streetscape treatments for suitable tenants (#5). The Geary Boulevard façade provides an opportunity for larger signage, where large images of the interior mall and shops could communicate the exciting new experience in the Japan Center to passers-by (#5).

The interior should also be entirely reconstructed to provide a large central "food court" with food, seating and other retail opportunities, allowing shops to spill out into the central court. The new southwest entry would reorient some activity and make the rear of the Mall much more accessible. The rest of the interior should be renovated with an emphasis on high-quality finishes, storefronts and a new signage program for all tenants (#8).

Peace Plaza Renovations

Though integral to the Japantown Center, Peace Plaza is a public park under the jurisdiction of the San Francisco Recreation and Parks Department. Consequently, while this analysis discusses potential renovations for the plaza, it does not include a budget for these renovations. It has been assumed that any major renovations to the plaza would be paid for by the City or through another mechanism, such as a community facility district. Based on input from retail experts, the City should consider a program of renovation to Peace Plaza that would open the plaza to Geary Boulevard, providing a stronger visual connection between Geary and Japantown. A series of large promenade stairs and landscaping could provide a new window into Peace Plaza, Japantown Center and the Buchanan Street Mall (#4). Allowing seating areas around the edge of the Plaza to be extensions of surrounding restaurants and cafes would add substantial life and activity to the Plaza as well (#3).



LEGEND

1. NEW 2-STORY ENTRY LOBBY TO MIYAKO MALL AT GEARY
2. NEW 2-STORY ENTRY LOBBIES AT PEACE PLAZA
3. CREATE OPEN STOREFRONT CONNECTIONS TO PEACE PLAZA AND ADD NEW SEATING AREAS
4. OPEN UP PEACE PLAZA TO GEARY BOULEVARD WITH NEW VISUAL CONNECTION & PROMENADE STAIRS
5. NEW SIGNAGE AND FACADE TREATMENTS ALONG GEARY BLVD & POST ST.
6. NEW 2-STORY ENTRY LOBBY TO KINTETSU MALL AT CORNER OF GEARY AND WEBSTER
7. NEW 2-STORY ENTRY LOBBY TO KINTETSU MALL AT POST
8. NEW INTERIOR DESIGN PACKAGE WITH NEW FINISHES, LIGHTING, SIGNAGE AND STOREFRONTS

JAPAN CENTER | SITE IMPROVEMENTS DIAGRAM

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

JAPAN CENTER | OVERHEAD VIEW OF PLAZA

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

5 NEW SIGNAGE AND FACADE TREATMENTS ALONG GEARY BLVD & POST ST.

6 NEW 2-STORY ENTRY LOBBY TO KINTETSU MALL AT CORNER OF GEARY AND WEBSTER

JAPAN CENTER | VIEW OF CORNER AT GEARY AND WEBSTER

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

1 NEW 2-STORY ENTRY LOBBY TO MIYAKO MALL AT GEARY

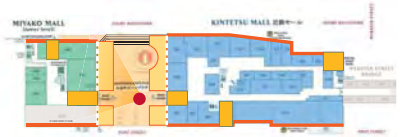
4 OPEN UP PEACE PLAZA TO GEARY BOULEVARD WITH NEW VISUAL CONNECTION & PROMENADE STAIRS

5 NEW SIGNAGE AND FACADE TREATMENTS ALONG GEARY BLVD & POST ST.

JAPAN CENTER | VIEW OF ENTRY TO MIYAKO MALL FROM GEARY BLVD

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP



2 NEW 2-STORY ENTRY LOBBIES AT PEACE PLAZA

3 CREATE OPEN STOREFRONT CONNECTIONS TO PEACE PLAZA AND ADD NEW SEATING AREAS

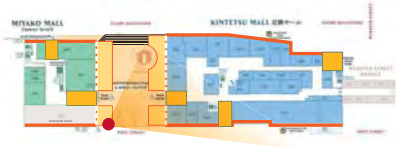
JAPAN CENTER | VIEW OF ENTRY TO MIYAKO MALL FROM PLAZA

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

2 NEW 2-STORY ENTRY LOBBIES AT PEACE PLAZA

3 CREATE OPEN STOREFRONT CONNECTIONS TO PEACE PLAZA AND ADD NEW SEATING AREAS



JAPAN CENTER | VIEW OF ENTRY TO KINTETSU MALL FROM PLAZA

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

2 NEW 2-STORY ENTRY LOBBIES AT PEACE PLAZA

3 CREATE OPEN STOREFRONT CONNECTIONS TO PEACE PLAZA AND ADD NEW SEATING AREAS

7 NEW 2-STORY ENTRY LOBBY TO KINTETSU MALL AT POST

JAPAN CENTER | VIEW FROM POST AND BUCHANAN

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

2 NEW 2-STORY ENTRY LOBBIES AT PEACE PLAZA

3 CREATE OPEN STOREFRONT CONNECTIONS TO PEACE PLAZA AND ADD NEW SEATING AREAS

5 NEW SIGNAGE AND FACADE TREATMENTS ALONG GEARY BLVD & POST ST.

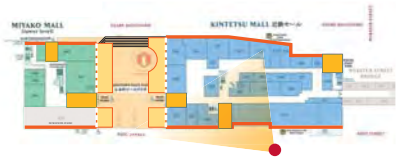
JAPAN CENTER | VIEW OF PLAZA FROM POST ST

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

5 NEW SIGNAGE AND FACADE TREATMENTS ALONG GEARY BLVD & POST ST.

7 NEW 2-STORY ENTRY LOBBY TO KINTETSU MALL AT POST



JAPAN CENTER | VIEW OF ENTRY TO KINTETSU MALL FROM POST ST

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

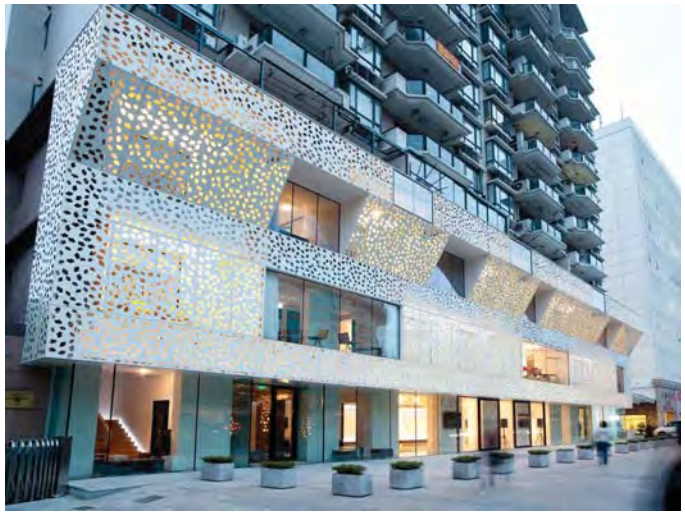
JAPAN CENTER | OVERALL AXONOMETRIC VIEW

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER
WILLIAMS
POLLACK LLP

SHOPPING CORRIDOR

ESCALATOR



PATTERN SCREEN

PLAZA SEATING

FOOD COURT

SUPERGRAPHICS

JAPAN CENTER | NEW INTERIOR DESIGN EXAMPLE IMAGES

SAN FRANCISCO, CA | JULY 22, 2011 | SEIFEL CONSULTING, INC.

VAN METER WILLIAMS POLLACK LLP

Upgrades to Mechanical and Other Systems

In addition to the various features visible to the community and shoppers, facilities such as water, mechanical and electrical systems should be upgraded. A new roof is also advisable as part of any renovation and maintenance program. These systems upgrades apply to both the East and West buildings.

Renovation Costs

The program of renovations described is estimated to cost between $7 million and $10 million including renovations to exteriors, interiors, signage, mechanical and other systems, and to address deferred maintenance. Table 6 shows an approximate budget for these costs. This includes hard costs (materials and labor) as well as architectural and engineering work. This budget focuses on the approximately 105,000 square feet of space owned by 3D and is equivalent to approximately $75 per gross square foot of building area. Other owners in the Japan Center would need to participate in renovating their portions of the Mall in order to make a comprehensive program of renovations feasible. Costs for renovating other portions of the Mall can be estimated on a per square foot basis. This investment in renovations would give Japan Center a contemporary appearance with major improvements in access, visibility, storefronts, signage, and exterior and interior façades. As noted, these costs do not include a budget for seismic upgrades nor for major renovations of Peace Plaza.

Table 6
Planning Budget for Renovations
Japan Center Analysis

Exterior renovations and signage	$5,100,000
Interior renovations and signage	$1,300,000
Upgrades and deferred maintenance	$1,600,000
Total renovation budget	$8,000,000

Source Van Meter Williams Pollack

Overall Project Budget

Table 7 gives a preliminary estimate of the total cost of acquiring 3D's holdings in the Japan Center and substantially renovating the property. This includes predevelopment costs, financing costs and other soft costs. Based on an acquisition cost in the range of $22.5 million and renovation hard costs of $8.0 million, the total project cost would be approximately $37.1 million. This includes $1.0 million for temporary tenant relocation and re-leasing of space following renovations. A goal of renovation would be to accommodate existing tenants as much as possible by completing renovations in phases and working with existing tenants to minimize disruptions.

Table 7
Overall Project Budget
Japan Center Analysis

Project Costs (Uses)	
Acquisition Cost	$22,500,000
Pre-Development Costs	$800,000
Renovation Cost	$8,000,000
Soft Costs	$1,200,000
Developer Fee	$500,000
Construction / Acquisition Loan Interest & Fees	$3,100,000
Re-lease Up / Temporary Relocation / Tenant Compenstation	$1,000,000
Total Project Cost	**$37,100,000**
Assumptions	
Cost Assumptions	
Renovation Cost ($/Gross Sq Ft)	$75
Pre-Development (% of Renovation Cost)	10%
Additional Soft Costs (% of Renovation Cost)	15%
Developer Fee (% of Pre-Dev, Renovation, Soft Cost)	5%
Construction / Acquisition Loan Assumptions	
Amount Financed	65%
Interest Rate	7.00%
Duration (Years)	2
Average Amount Outstanding	80%
Points	1.5%

D. Potential Funding Sources

In order to fund this type of project, a CLT would need to raise funds from a range of different sources including debt, equity, and grants/philanthropy. Listed below are potential funding sources for the acquisition and renovation of the property.

- ***Conventional Mortgage.*** Working together with an experienced development partner, the CLT may be able to secure a conventional mortgage for a renovated Center. Typical Loan-to-Value (LTV) ratios are in the range of 65 percent. Project value would potentially be lower than overall project costs, limiting the amount of funds that could be raised through a bank loan. The value of a renovated Center (assuming average triple net rents of $4.00 per square foot) would be approximately $34.5 million. Accordingly, a conventional mortgage could fund approximately $22.5 million of total project costs.
- ***New Markets Tax Credits.*** The New Markets Tax Credit (NMTC) Program was established by Congress in 2000 to generate investment in existing businesses and/or real estate projects located in low-income communities. The Japan Center is located within a Qualifying Census Tract (QCT) and meets criteria as a higher distress area with median incomes of less than 60 percent of area median income. The NMTC Program attracts investment capital to QCTs by permitting private investors to receive a Federal income tax credit in exchange for equity investments through specialized financial institutions called Community Development Entities (CDE). Based on recent experience, the NMTC Program can generate 20 to 25 percent of total project costs for real estate development/renovation projects. This would translate to approximately $7.5 million to $9.5 million for the Japan Center project. NMTCs are competitive and require a project to attract investor and CDE interest based on assessments of financial feasibility and the project's alignment with the community development objectives of an interested CDE. This funding source is subject to annual

reauthorizations by Congress. The list of QCTs will be updated in late 2011 or early 2012 based on data collected during the 2010 Census.

- ***Grants / Program Related Investment / Other.*** Assuming that a CLT could secure a conventional mortgage and raise equity through the NMTC Program, substantial additional funds (approximately $5.1 million to $7.1 million) would still need to be secured through a fund raising campaign. Foundations could provide funding as grants and/or as Project Related Investment (PRI), a type of subordinated loan funding made available at favorable interest rates. Other sources could include individual donations from wealthy individuals. Finally, the CLT may be able to attract support from the City and/or other public entities, including contributions from the sale of revenue bonds (discussed in Appendix A).

Table 8
Potential Funding Sources
Japan Center Analysis

Sources of Funds (Permanent)	
Conventional Mortgage	$22.5 million
New Market Tax Credits	$7.5 to $9.5 million
Other Equity (Grants / Program Related Investments)	$5.1 to $7.1 million
Total Project Cost	$37.1 million
Assumptions	
NMTC Value (% of Total Project Cost)	20 to 25%
Loan-to-Value Ratio	65%
Loan Amount	$22.5 million
Interest Rate (Discounted)	5.00%
Amortization Period (Years)	25
Annual Loan Payments	$1,600,000
Debt Coverage Requirement	1.25
NOI Needed to Meet Debt Coverage	$2,000,000

E. Estimated Value Post-Renovation

As noted earlier, rents at the Center are currently estimated to range between $2.00 to $3.00 per square foot per month (with an estimated average rent of approximately $2.60). Based on assumptions regarding operating expenses, capitalization rate and other factors, the Center has a current estimated value of approximately $22.5 million. In order to justify substantial reinvestment in the property, rents will need to be increased substantially. As shown in Table 9, a 50 percent increase in rents, to an average of approximately $4.00 per square foot per month, would result in an estimated value for the Center of approximately $34.5 million. Even based on this increase in rent, the value of the Center would still be less than the project cost to acquire and renovate the Center (estimated at $37.1 million). Consequently, based on this analysis, it appears unlikely that the private sector would act alone to undertake such a renovation scenario. However, by attracting NMTCs and/or philanthropic equity, the CLT could undertake renovation of the Center.

Table 9
Estimated Value Post-Renovation
Japan Center Analysis

	Current	50%+ Increase in Rent
Assumptions		
NNN Rent ($/Leasable SF/Month)[1]	$2.60	$4.00
Vacancy Rate	*10%*	*10%*
Non-Reimbursable Expenses[2]	*10%*	*10%*
Capitalization Rate	7.5%	7.5%
Leasable Retail Square Feet	67,276	67,276
Project Valuation		
Gross Potential Rental Income	$2,099,011	$3,229,248
Less Vacancy	($209,901)	($322,925)
Less Non-Reimbursable	($209,901)	($322,925)
Net Operating Income	**$1,700,000**	**$2,600,000**
Capitalized Value	**$22,500,000**	**$34,500,000**

1. Does not include Common Area Maintenance (CAM) charges, which are estimated at $2.25 for non-restaurant tenants and $3.35 for restaurant tenants.
2. Non-reimbursable expenses include all expenses of building operations borne by the building owner which are not passed through to tenants as CAM charges, including lease up and lease negotiation costs.

Source: Japantown Task Force

F. Conclusions

If 3D were willing to sell the property in the price range identified before, this analysis indicates that it would be possible for a CLT to acquire the Japan Center and reposition it as a strong, contemporary retail destination, assuming it could overcome several significant challenges/considerations:

- A CLT would need to secure the cooperation of 3D to participate as a willing seller who would provide full access to financial information regarding the property and full access to the buildings to complete needed studies and assessments of structures and systems.
- A CLT would need to work with an experience development partner, in order to be able to secure needed capital, particularly conventional loans for acquisition, construction, and permanent (mortgage) financing. A CLT would likely need to structure some type of long-term arrangement with a development partner in order to satisfy lenders that there would be long-term involvement and oversight by an entity with a long track record of successful retail development. Even if a CLT can line up a development partner, securing conventional financing will be challenging given the tight condition of the capital markets
- As noted above, the completed value of a renovated Center may not be sufficient to entice a private entity, acting alone, to undertake renovation. It would be essential for a CLT to attract philanthropic and/or other grant funding in order to make the Project "pencil," with fundraising requirements from these sources expected to be in the range of $5.1 million to $7.1 million and potentially much higher if NMTCs cannot be secured.
- Finally, the CLT may need to substantially increase rents at the property in order to be able to raise sufficient conventional financing for the project. Based on recently signed leases at the Center, it may be possible to achieve $4.00 rents per square foot per month at a newly renovated Center. However, the ability of the CLT to provide below market rents would depend on its ability to raise additional grant equity.

V. Recommendations and Next Steps

If the Japantown community decides to pursue formation of a CLT, it should consider undertaking the following:

- ***Continue to lobby for a complete seismic study of the Japan Center Parking Garage.*** The Garage is owned by SFMTA, and there are significant unknowns about the long-term seismic safety of the Garage structure. Lenders will be reluctant to provide funds toward the acquisition, renovation, and/or redevelopment of the Center without a fuller understanding of the seismic safety of the structure. SFMTA should be encouraged to fund a seismic study of the Garage, which would indicate the expected performance of the Garage during a seismic event and identify any needed retrofits to strengthen the structure.
- ***Raise predevelopment monies.*** In order to pursue the acquisition of the Japan Center and/or other properties, a CLT will need to raise substantial predevelopment funds in order to complete planning, architectural, legal, and other due diligence work. A CLT would need to raise approximately $1.0 million in predevelopment monies in order to be able to acquire and begin work to renovate the Japan Center.
- ***Continue to explore other property acquisition opportunities in Japantown.*** This analysis examines the possibility of a CLT acquiring and renovating the Japan Center. While this property is key to the long-term health of the neighborhood, other properties also make significant contributions to Japantown's cultural and commercial heritage and could be good candidates for acquisition by a CLT. In particular, the Buchannan Mall is home to many long-standing, family-owned businesses that are important fixtures within the Japantown community. The acquisition of properties along the Buchannan Mall aimed toward business retention and long-term reinvestment, renovation, or redevelopment of properties could be equally important to the long-term health of Japantown. In particular, the Tower Property at the corner of Buchanan and Post is key toward the retail environment in the neighborhood. A CLT may wish to explore opportunities to participate in redevelopment of this building with a more active retail space that creates a strong presence along Post Street and a strong pedestrian connection between the Buchanan Mall and the Japan Center/Peace Plaza. In addition to properties along the Buchannan Mall, other retail properties along Post Street could also be good candidates for acquisition by a CLT. In addition, a CLT may wish to explore the acquisition of the Japan Center Garage, if it becomes available for sale. The Garage is a key neighborhood asset that provides parking for businesses throughout the neighborhood.
- ***Explore alternative redevelopment scenarios for the Japan Center East (Miyako) building.*** This analysis describes the potential to renovate the Japan Center based on existing building footprints. Such renovations seem relatively more workable for the West building, which has a more efficient layout and is substantially larger, compared to the East building. Due to the inefficient layout and relatively small size of the East building, some development experts consulted during the course of this analysis strongly indicated the East building should be replaced rather than renovated. It is recommended that if a CLT pursues acquisition of the Japan Center, it should consider renovating the West building while replacing the East building. Possible scenarios for the replacement of the East building could include mixed use development of residential over street-level retail.

Appendix A:

Bond Financing

Appendix A. Bond Financing

Described below are various types of bond financing mechanisms and their potential applicability toward acquisition and renovation of the Japan Center by a CLT.

501(c)(3) Revenue Bonds

Tax-exempt 501(c)(3) revenue bonds could potentially be used in place of a conventional mortgage and would be repaid from lease revenues generated by commercial tenants. Such a financing stream could offer favorable interest rates. However, tax-exempt 501(c)(3) revenue bonds cannot be used in conjunction with New Markets Tax Credits and should only be considered if NMTC financing cannot be secured.

Tax-exempt bonds have long been used by governmental entities and certain types of nonprofit corporations to finance the construction and/or acquisition of improvements with a broad public benefit including roadways, libraries, hospitals, parks, public safety facilities, and cultural and educational facilities. Because the interest paid on tax-exempt debt is exempt from federal and state income tax, investors are typically willing to buy tax-exempt bonds at rates that are two to four percent lower than comparable taxable debt. Consequently, tax-exempt bonds can provide a relatively inexpensive financing source when used by eligible entities to finance eligible projects and when the project can achieve a good underlying credit rating.

Generally, only state or local governmental entities can issue tax-exempt bonds. Nonprofit corporations, however, can borrow the proceeds of tax-exempt bonds issued by a governmental entity and take advantage of the favorable interest rates. In order to be eligible to borrow using tax-exempt bonds, a nonprofit corporation must generally be a 501(c)(3) corporation as defined under the Federal Internal Revenue Code.[1] If a Japantown CLT is formed as a 501(c)(3) and it is determined that owning and leasing commercial property for purposes of cultural preservation is a qualifying purpose under the Internal Revenue Code, a CLT could explore the use of tax-exempt 501(c)(3) revenue bonds as a funding source.

Based on current market conditions, taxable 501(c)(3) revenue bonds would be expected to have less favorable interest rates than conventional mortgage financing.

Parking Revenue Bonds

Parking revenue bonds are a type of bond whose repayment is guaranteed by parking garage and/or parking meter revenues. Within San Francisco the use of parking revenues and, by extension, the issuance of parking revenues bonds is controlled by Section 8A 105 of the City Charter. According to the City Charter, "it is the policy of the City and County of San Francisco to use parking-related revenues to support public transit" and revenues from off-street parking facilities owned by MTA, such as the Japan Center Garage, must be used to support MTA's transit functions.[2] Section 8A 105 of the City Charter was amended by voter passage of Proposition A in November 2007. As it is currently written, the City Charter would appear to preclude the issuance of a parking revenue bond to support the activities of a Japantown CLT, as

---

[1] Certain exemptions apply. See *Nonprofit Corporations Borrowing With Tax-Exempt Bonds.* Orrick, Herrington & Sutcliffe. 2001.

[2] San Francisco City Charter Section 8A.105(e).

this would not be a "transit function." The City Charter would not appear to preclude MTA from issuing parking revenue bonds to make necessary capital upgrades to the garage facility, in order to ensure seismic safety and continued operability. Because the operation of this garage is so integral to the Japan Center, and because parking revenues may be one of the few available financial resource available to the City to help in the creation of a Japantown CLT, it may be worthwhile to investigate amending the City Charter or releasing the garage to ownership by a non-profit entity so that revenue bonds could be issued to support the activities of a Japantown CLT.

Hotel Tax Revenue Bonds

The San Francisco Redevelopment Agency (SFRA) receives transient occupancy tax revenues from within a Levy Area consisting of the following Redevelopment Project Areas: Yerba Buena, Golden Gateway, Western Addition A-1, Western Addition A-2, South of Market, and the Chinese Cultural and Trade Center. The Japan Center is located in Western Addition A-2. In 2011, SFRA issued hotel occupancy tax revenue bonds, which were secured by revenues from 12 hotels in the City, including the Hotel Kabuki, Hotel Tomo and three other hotels in the Western Addition A-2. It may be possible for SFRA to issue additional hotel tax revenue bonds in the future and/or to use proceeds from its 2011 issuance to support activities of the Japantown CLT. The 2011 bond issuance was for tax-exempt purposes so that proceeds from this issuance would need to meet applicable tests under the Internal Revenue Code.

In addition to the revenue bonds described above, the City and other public agencies may be able to issue revenue bonds secured by other public revenue sources, in order to support the Japantown CLT.