

PROPOSAL FOR THE FINANCING PROCESS  
FOR THE DEVELOPMENT OF THE FOUR-STOREY  
URBAN STRUCTURE  
IN SAN FRANCISCO WATERFRONT

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A community bank will be established whose primary interest will be the development of the waterfront site south of Mission Street. The bank's main responsibility will be to finance all visions approved by the community board. After the fifteen year development period, the bank will assume responsibility for coordinating loan and bond payments, and for finding continued resources to keep the community in good repair. In addition to its development responsibilities, the bank will also serve the residents and businesses of the community as the central financial institution.

Initially, the bank will be operated as an extension of the city. The city of San Francisco will lease the land to the bank for a 99 year period. The land leases will provide security for the bank and will act as a symbolic gesture of confidence on the part of the city. Although the city will be responsible for the initial organization, the community will gradually assume responsibility for the bank's operation as it becomes increasingly self-reliant and defined.

The cost for any urban renewal development is enormous. To determine the financing system and source of resources for the community bank, the amount of capital necessary for incremental development over 15 years first had to be calculated, (See Chart 1). These figures were developed by using the recommended distributions of building functions and a total buildable ground area of 700,000 ft.<sup>2</sup>. Afterwards, the total costs for each building type were divided by 15 to arrive at yearly costs.

A distinction was made between projects which will be funded from private vs. public sources to determine the reasonable contribution of government grants and loans. As evidenced by

CHART I: NEEDED CAPITAL FOR THE DEVELOPMENT

Building types	Distribution of building types	Total floor area (average 5 stories)	Construction cost	Expenses undertaken by private investors (per year)	Expenses undertaken by the community (per year)
housing	33%	1.155.000	69.30	4.00	0.65
parking	26%	910.000	8.20		1.00
offices	12%	420.000	25.20	1.70	
hotels	8%	280.000	16.80	1.10	
industry	8%	280.000	16.80	1.10	
community facilities	6%	210.000	12.60		0.80
commercial retail	3%	105.000	6.30	0.40	
restaurant	2%	70.000	4.20	0.28	
special retail	2%	70.000	4.20	0.28	

\*(not including inflation)

by Chart 1, it was assumed that government financing sources, at federal, city and community levels, will be responsible for funding the infrastructure, community projects, parking, and 15% of the housing. Expenses in Chart 1 were estimated at \$60/ft.<sup>2</sup> for typical building construction and \$20/ft.<sup>2</sup> for parking construction. Yearly inflation rates of 12% for expenses were included later in Chart 2.

Once the magnitude of financing was determined exploration of resources for project loans followed. Several sources of financing were examined for their feasibility. (See Chart 2). These sources included: government grants; community bonds; downpayments from private projects; returns from loans for private projects; parking; returns from land leases; and savings from community residents and businesses.

CHART 2: PROPOSED BUDGET FOR 15 YEAR DEVELOPMENT

Year	EXPENSES PER YEAR			RESOURCES PER YEAR							
	undertaken by private investors	undertaken by the community	total	gouverment grants	community bonds	down payments	loan returns	parking	land lease	residents' saving	total
1	8.50	5.50	14.00	7.00	5.00	1.70			0.17	0.12	14.00
2	9.50	5.00	14.50	6.00	5.50	1.90	1.00		0.33	0.12	14.50
3	10.60	5.60	16.20	5.50	5.00	2.10	2.10	1.00	0.50	0.12	16.20
4	11.80	6.20	18.00	5.00	4.60	2.30	3.40	2.00	0.67	0.12	18.00
5	13.20	6.90	20.10	5.00	4.50	2.60	4.80	3.00	0.84	0.12	20.10
6	14.70	7.70	22.40	4.10	3.90	2.90	6.40	4.00	1.00	0.12	22.40
7	16.20	8.60	24.80	4.00	3.20	3.20	8.10	5.00	1.17	0.12	24.80
8	18.10	9.60	27.70	3.70	3.00	3.60	10.00	6.00	1.34	0.12	27.70
9	20.30	10.70	31.00	3.10	2.90	4.10	12.20	7.00	1.51	0.12	31.00
10	22.70	12.00	34.70	3.00	2.70	4.50	14.60	8.00	1.68	0.12	34.70
11	25.40	13.40	38.80	3.00	2.40	5.10	17.35	9.00	1.85	0.12	38.80
12	28.40	15.00	43.40	3.00	1.80	5.70	20.40	10.00	2.02	0.12	43.40
13	31.80	16.80	48.60	3.00	1.60	6.30	23.80	11.00	2.18	0.12	48.60
14	35.60	18.80	54.40	3.00	2.20	7.10	27.60	12.00	2.35	0.12	54.40
15	39.90	21.00	60.90	3.00	1.90	8.00	32.40	13.00	2.50	0.12	60.90

The community bank will have total control over all funds except the community bonds which will be given by outside investors. For this reason, all outside investment will be limited to less than 49% per year. This imposed limit will insure city and community control over the waterfront development area.

The major source of initial capital will come from federal government grants. Dependence upon federal money will diminish as the community develops and other funding sources become more substantial. The contributed grants will be the minimum necessary to permit development to continue smoothly each year. These figures will be calculated by subtracting all the available resources from the projected yearly expenses.

The total federal government's contribution will equal only \$65.3 million, (less than what has been spent on the Yerba Buena development project up to this date), and will be provided from programs such as Community Development Block Grants and HUD's Urban Development Action Grants.

Money from the grants will be used to provide the community infrastructure, build the community projects and subsidize low-income housing. In addition, these funds will provide security for outside investment in the community bonds.

The community bonds will be another large initial source of capital. These bonds will provide the only opportunity for investment from people and corporations outside of the community, and therefore, will be the only resource which the community does not directly contribute.

Initially, development will rely upon 40% of its finances from outside investors. By the end of the 15th year, however, only 4% of construction funds will be contributed in this manner. This drastic reduction will clearly demonstrate the community bank's growing self-dependence.

The community bonds will be floated for a 20 year period at an 8% interest rate. Each bond, after the 20 year maturation period, will subsequently, be paid in full. Therefore, from the

20th year to the 45th year the community bank will be responsible for paying back the bonds using funds they will collect from the parking and returns on construction loans.

The third source of funding will be the conventional down payments from construction loans. To insure that everyone whose vision is approved by the community board will be able to follow through and construct their project, there will be a variable percentage required for the down payment; wealthier business may contribute a greater percentage, smaller businesses and community buildings may contribute a lesser percentage. This variable down payment rate will reduce the amount of interest leage successful businesses will owe to the community bank, and simultaneously will give the community a greater amount of initial capital. The calculations in Chart 2 are based on an average 20% down payment.

The community bank will be responsible for funding all visions approved by the board. This responsibility of finding initial funds over the years will provide the greatest amount of capital for the community bank. As an increasing number of loans will be made over the 15 year development period, greater returns may be expected. The loan repayment will initially provide less than 10% of the yearly required funding, yet, by the last year of development, this financing source will help to fund 50% of all new development loans. Upon construction's completion, the returns on construction loans will be collected to pay back the community bonds.

All loans will be make assuming 12% interest and a 30 year mortgage. Each year a portion of the loan plus yearly interest due on the outstanding debt will be collected. (See Chart 3).

It became clear, after several calculations, that parking will be an invaluable community resource. For, parking is not only considerable inexpensive to build, it also yeilds high profit returns.

At an assumed construction cost of \$20/ft.<sup>2</sup>, parking structures will cost the community an average of \$1million to build

CHART 3: LOAN PAYMENT SCHEDULE

Year	Loans given per year	Cumulative loans	Loan payment per year	Cumulative loan payment	Interest due	Total loan payment per year
1	6.7	6.7	0.22	0.22	0.77	1.00
2	7.8	14.5	0.26	0.48	1.68	2.10
3	8.5	23.0	0.28	0.76	2.66	3.42
4	9.5	32.5	0.32	1.00	3.77	4.80
5	10.6	43.1	0.35	1.35	5.01	6.40
6	11.8	54.9	0.39	1.74	6.30	8.10
7	13.0	67.9	0.43	2.17	7.88	10.00
8	14.5	82.4	0.48	2.65	9.57	12.20
9	16.2	98.6	0.54	3.19	11.45	14.60
10	18.2	116.8	0.60	3.79	13.56	17.35
11	20.3	137.1	0.67	4.50	15.90	20.40
12	22.7	159.8	0.75	5.25	18.50	23.80
13	25.5	185.3	0.85	6.10	21.50	27.60
14	31.9	217.2	1.06	7.16	25.20	32.40
15						

61,000ft.<sup>2</sup> of parking per year. Assuming one car requires 600ft.<sup>2</sup>, the parking will be large enough to provide shelter for 1000 cars per day. If a \$5-a-day fee is charged per car, the parking will yeild \$1 million per year: enough to pay for itself the first year; pay for more parking construction the second year; and provide a valuable source for community funds every following year. (See Chart 4).

CHART 4. PROFIT FROM PARKING

Year	Expenses	Gross profit	Net profit
1	1.00		
2	1.00	1.0	
3	1.00	2.0	1.0
4	1.00	3.0	2.0
5	1.00	4.0	3.0
6	1.00	5.0	4.0
7	1.00	6.0	5.0
8	1.00	7.0	6.0
9	1.00	8.0	7.0
10	1.00	9.0	8.0
11	1.00	10.0	9.0
12	1.00	11.0	10.0
13	1.00	12.0	11.0
14	1.00	13.0	12.0
15	1.00	14.0	13.0
16		15.0	15.0
17		15.0	15.0

The land leases will provide an additional source of income for the community bank. Although this resource will contribute little in the initial development stages, it will become more significant in the following years by providing funding for community maintenance and repair.

As mentioned previously, the city will lease the land to the bank for 99 years. Subsequently, <sup>h</sup>the bank will lease the land to developers for a period of 84 to 99 years, depending



upon the year the project was built.

The calculations which determined monetary returns from leases were very rough and under-estimated; none-the-less, they helped to give a feeling of how much money may be expected relative to other returns. The value of prime city property was taken at \$150/ft.<sup>2</sup>. Considering 700,000 ft.<sup>2</sup> of buildable land on the San Francisco waterfront site, the total land worth was calculated to be \$100 million. The total worth, divided by 15 years of incremental developments, yielded a value of \$7 million per year. However, community projects, parking and federal housing will be exempt from leases and represent 35% of the proposed development:  $\$7 \text{ million/year} \times 35\% = \$4.5 \text{ million/year}$ .

Approximate lease values were determined by dividing this value by a supposed 30 year mortgage with 12% interest:  
 $\$4.5 \text{ million}/30 \text{ years} = \$150,000 \times 12\% = \$160,000/\text{year}$ .  
This value will increase arithmetically over the 15 years and will level off to provide \$2.4 million/year for the length of the lease.

Savings from community residents and businesses were the last financial resource examined. Essentially, this resource will provide an insignificant amount of initial capital. However, symbolically the savings will remain an important consideration, for they will strengthen the community's interest in the development and will tie together the people who will live and work in the community.

Although, as Chart 2 indicates, projected savings from the community residents will be small, it was felt that the undetermined amount of savings from community businesses will be quite considerable after the tenth year of development when the businesses will be more stabilized. These uncalculated funds will provide a monetary cushion for the bank's security.

All of these funding resources, when combined, will establish a strong financial institution within the community; one which will help to make the visionary projects, reality.