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October 17, 2025

**The Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place, Room 244
San Francisco, CA 94102**

Subject: Request to enter into a Lease Agreement with San Francisco C&C, doing business as Mel's Drive-In, for SFMTA retail space at 801 Mission Street, San Francisco

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA) requests that the San Francisco Board of Supervisors authorize the Director of Transportation to execute a Commercial Lease Agreement (Lease) between San Francisco C&C, doing business as Mel's Drive-In (Mel's), as Tenant, and the San Francisco Municipal Transportation Agency (SFMTA), as Landlord, for the retail space located at 801 Mission Street in the Fifth and Mission Garage, for an initial five-year term that will result in an estimated \$1,908,684 in revenue, and one five-year option to extend the lease.

Background

The Fifth and Mission Garage (Garage), located at 833 Mission Street, is owned by the City and County of San Francisco (City) and is under the jurisdiction of the SFMTA. It provides about 2,585 parking spaces and includes 19 commercial retail spaces totaling 26,829 square feet. The retail space associated with the lease is a 5,720 square feet space, which Mel's is the current tenant, that operates as a restaurant at 801 Mission Street. In fiscal year 2024-2025, the retail tenants Fifth and Mission Garage generated over \$1.2 million in revenue for the SFMTA.

The tenant Mel's has occupied the existing space for decades. It is a well-known franchise with a rich history dating back to the first drive-in restaurant that opened in San Francisco in 1947. Its restaurants have been featured in movies such as American Graffiti (1973) and Guess Who's Coming to Dinner (1967). It is known for American fare, with burgers, fries, milkshakes, and late hours, and as a result, is a popular hangout spot for those who out past midnight. Currently, there are nine restaurants under the Mel's banner, with four locations in San Francisco, four in the greater Los Angeles area, and one location in Nashville.

The last time Mel's signed a lease agreement for 801 Mission Street was in April 2000. That agreement was 124 months long and included three 5-year options to extend. Such agreement terminated on August 31, 2025.

Proposed Lease Agreement

This proposed lease agreement would secure Mel's as a tenant for the next five years, with a five-year option to extend (ten-year total occupancy, if option exercised). Hours of operation are 7:00 am to 11:00 pm on Sunday to Thursday, and 7:00 am to 3:00 am on Friday to Saturday. The rental rate for the initial term is \$0 base rent per month plus 8% of the gross revenues. If

Mel's exercises its option to extend the lease, the rent for the option period will consist of base rent in the amount of \$20,020 per month plus 4% of the gross revenues. The trade-offs of this approach are described below.

While a percentage rent is less certain than a fixed base rent, the economy is too unstable to secure tenants willing to pay a fixed base rent. Many office workers are still telecommuting, and many office employers have allowed their spaces to lapse—opting to relocate their business out of San Francisco or continue with a hybrid telecommuting business model. According to [sf.gov/data](https://www.sf.gov/data), the first quarter of 2025 vacancy rate is 35% (see: <https://www.sf.gov/data-office-vacancy-rate>). The San Francisco Shopping Center has experienced an exodus of tenants, with the Westfield management company giving the keys to their lender. An entire floor has been shut down, and Bloomingdales and Nordstrom have vacated the shopping center.

That said, the percentage rent in the proposed lease has its benefit. It gives the SFMTA and Mel's a partnership-like common interest: continuity of a long-term tenant will help revitalize the area and higher rents if tenant has higher sales and more manageable rent when sales are lower. If restaurant revenues go back to 2019 levels, the actual rent the SFMTA receives will exceed any base rent it could otherwise negotiate for the space. Furthermore, 8% of the current gross sales is about \$31,811 per month or \$66.73 per square foot (psf) per year, which is above the current fair market rental value of \$30.44 psf per year, as Costar, a commercial real estate data platform, has captured from comparable rents in the neighborhood. The option period rent being \$20,020 per month plus 4% of gross revenue, gives the SFMTA more certainty of cash in hand to expect, while still having upside if Mel's does well.

Additionally, Mel's has performed well under the prior lease - paying rents on time, maintaining the leased premises, and having a general level of professionalism that has been positive for the agency. Mel's is the anchor tenant at the Fifth and Mission Garage, and as such, maintaining such

a tenant in this property could encourage business in other tenant spaces within Fifth and Mission Garage.

STAKEHOLDER ENGAGEMENT

The space was advertised for lease to the public on the SFMTA's webpage. Mel's was the only respondent.

ALTERNATIVES CONSIDERED

The SFMTA considered entering into an agreement with a similar 5-to-10-year term with a fixed base rent, but Mel's was not willing to lock into a fixed rent with the volatile downtown situation. The SFMTA wants to retain this local small business in the SOMA/Yerba Buena District for the long term. The alternative of a longer lease term was also considered but Mel's disfavored because of the volatile downtown situation. The other alternative of keeping the existing tenancy on a month-to-month agreement was also considered but both parties disfavored this, as it offers neither the SFMTA nor Mel's the certainty of even short-term stability, as either party could terminate with little notice.

FUNDING IMPACT

The current Lease and the initial term for the proposed lease agreement with Mel's have the same rent structure of 8% of gross revenues, or an estimated \$1,908,684 in revenue for a five-year term. If Mel's exercises its option to extend the lease, the rent for the option period will consist of base rent in the amount of \$20,020 per month plus 4% of the gross revenues. The option period gives the SFMTA more certainty of cash in hand to expect, while possible upside if Mel's revenue improves. Staff anticipate no difference in revenue to the SFMTA.

SFMTA BOARD ACTION

On October 7, 2025, the SFMTA Board of Directors approved Resolution 251007-092 which authorized the Director of Transportation the SFMTA to execute a Commercial Lease Agreement with San Francisco C&C, doing business as Mel's for the retail space located at 801 Mission Street in the Fifth and Mission Garage, for an initial five-year term that will result in an estimated \$1,908,684 in revenue, and one five-year option to extend the lease.

RECOMMENDATION

The SFMTA requests that the San Francisco Board of Supervisors authorize the Director of Transportation to execute a Commercial Lease Agreement between San Francisco C&C, doing business as Mel's Drive-In, as Tenant, and the SFMTA, as Landlord, for the retail space located at 801 Mission Street in the Fifth and Mission Garage, for an initial five-year term that will result in an estimated \$1,908,684 in revenue, and one five-year option to extend the lease.

Thank you for your time and consideration of this proposed Lease agreement. Should you have any questions or require more information, please do not hesitate to contact me at any time.

Sincerely,

A handwritten signature in purple ink, appearing to read "Julie", with a stylized flourish at the end.

Julie Kirschbaum
Director of Transportation