



MEMORANDUM

April 18, 2025

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Gail Gilman, Vice President
Hon. Willie Adams
Hon. Stephen Engblom
Hon. Steven Lee

FROM: Elaine Forbes
Executive Director

SUBJECT: Request approval of a Mutual Termination Agreement with Scoma's Restaurant, Incorporated for Lease No. L-9170 and Lease No. L-9175 for Premises at Al Scoma Way SWL 302 San Francisco, CA 94111, subject to Board of Supervisor's approval.

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 25-22

EXECUTIVE SUMMARY

Scoma's Restaurant, Incorporated, a California corporation ("Tenant") leases premises under Lease L-9170 and Lease L-9175 ("Smokehouse") and both leases expire on April 30, 2036. The Smokehouse has fallen into disrepair and most of the Smokehouse has been red-tagged¹. Tenant pursued several opportunities to redevelop the Smokehouse, but none came to fruition and no further redevelopment plans are contemplated due to lack of capital.

Port staff are proposing to enter a mutual termination agreement with no termination fee for the Smokehouse for Real Estate, Resilience, and Planning purposes as described in

¹ Pursuant to the 3020-SUB13-1-2019 RSA Smokehouse Substructure report. See attached 2019 Rating Map – *Exhibit 1*.

this memorandum. Once the termination is complete, Port will demolish the buildings, deck, and piles, and retain a portion of the deck for a small public overlook, if feasible.

The termination saves Scoma's an average of \$44,000 per year in rent, further abatement of hazardous materials, reduction in liability, and improved aesthetics. Potential total Rent lost due to the termination through lease expiration in 11 years is approximately \$480,000.

Resilience supports the termination to pave the way for the demolition as part of the Wharf J9 Phase 1 project because it results in the removal of the red-tagged and seismically vulnerable wharf and buildings and eases the construction of a new raised seawall that includes improvements to Al Scoma Way. Funding is available for the approximately \$1.5 million project through General Obligation Bond funds.

The termination and subsequent demolition support Planning goals to provide an opportunity for expanded public access to the waterfront as well as open waterfront views. The project includes creating a small overlook to augment the rejuvenated public access provided by the nearly complete off-the-boat fish sales float at Wharf J9. Removal of the Smokehouse will pave the way for the Wharf J9 Phase 2 resilience work. There may also be fill removal credits from the San Francisco Bay Conservation and Development Commission (BCDC) for the removal of this in-water structure. With improved public access Port staff believe more people will notice and patronize Scoma's.

Port staff recommend approval of the proposed mutual termination agreement as Port staff believe the Port's interests are best served by regaining possession of the Smokehouse premises to allow for demolition commencing in DP fall 2025.

STRATEGIC PLAN ALIGNMENT

Termination of the Smokehouse leases and subsequent demolition supports the following goals of the Port's Strategic Plan:

Economic Recovery

Tenant Recovery: Scoma's is struggling to find stabilization in the post-COVID economy. The termination of Smokehouse Leases will save Scoma's an average of approximately \$44,000 in annual rent and a reduction in insurance costs. Improved public access may bring more customers to Scoma's.

Equity

Scoma's has a large diverse staff, and the termination of the Smokehouse leases will be a step towards stabilization and job retention.

Resilience

The termination of the Smokehouse leases will assist in making the seismically vulnerable seawall ready for upgrades as part of the Wharf J9 Phase 2 resilience project.

Evolution

Open Space: The Smokehouse premises block views of the inner lagoon from Al Scoma Way. The view of the inner lagoon and further is compromised by the Smokehouse from the restaurant locations on Taylor Street. Removal of the Smokehouse and construction of a small overlook will improve views and provide new public access to these waterfronts.

Engagement

Public Awareness: The removal of the Smokehouse and completion of the J9 off-the-boat fish sales float will provide new opportunities for activation and public access in this previously moribund area.

BACKGROUND

United Shellfish Company was the original tenant for the premises at Fisherman's Wharf under leases L-9170 and L-9175 ("Leases")². These premises are shown on the attached ***Exhibit 2*** from the 1994 assignment to Scoma's. The original tenant was Joseph Svedise, who operated United Shellfish Company at Fisherman's Wharf from the 1940s until he passed away in 1993. The Leases both commenced on April 1, 1975 and expire on April 30, 2036.

The Port's rapid structural assessment from May 2006 concluded that a significant number of the substructure cap beams and stringers were dry rotted and the seawall at the north-west corner suffered considerable undermining. The allowed overwater load was limited to 50 pounds psf (yellow). By the 2019 survey, the two buildings and an open canopy structure over the substructure looked to be vacant and abandoned as shown in the 2019 *Figure 1* photo on the next page.

In 2019 the facility was designated as unsafe (red) and access prohibited. Subsequently, Scoma's subtenant terminated operations in 2020. Scoma's began dismantling the structures, including removing asbestos and performing pile work in anticipation of redeveloping the facility.

However, due to capital constraints, work on the redevelopment stopped and the sub and superstructures have continued to deteriorate as shown in *Figure 2* on the next page.

² Also included was Lease L-9174 which is not part of this recommendation as it is separate from Smokehouse.



Figure 1 - 2019

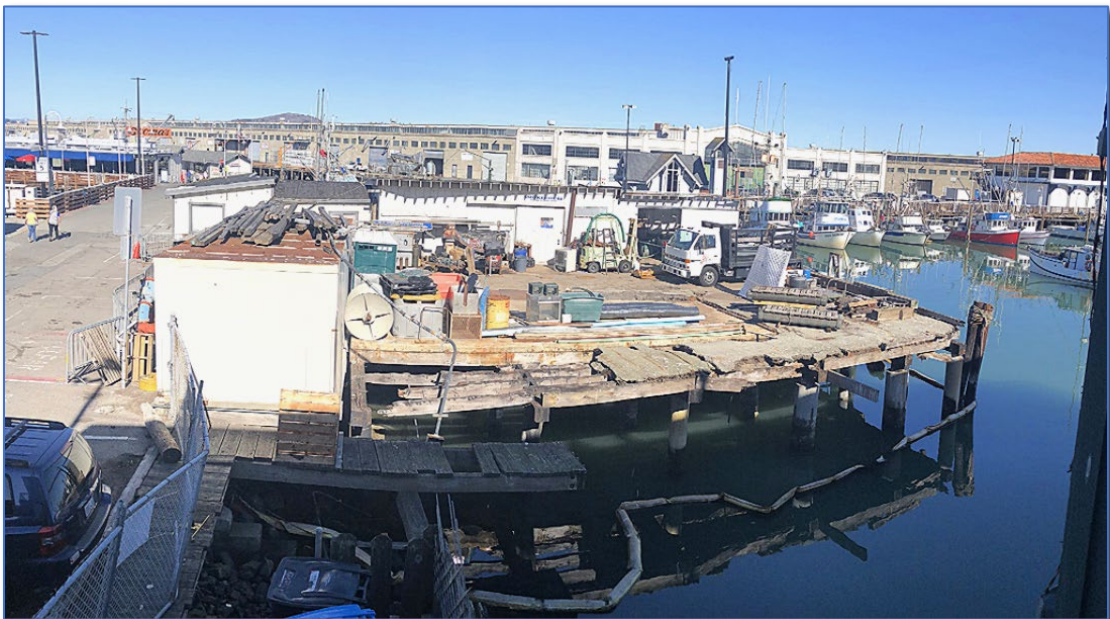


Figure 2 – Summer 2024

The Leases require that on termination the Premises are to be surrendered in as-good-as-received condition, or, at Port’s election, Tenant shall be obligated at its own expense to demolish and remove down to ground level.

Neither of these is a viable option because a large part of Scoma’s ownership has transitioned into a younger generation of family members with approximately 18 different ownership interests. A common theme among most of the ownership is to conserve capital. Rebuilding Smokehouse is not a current investment objective. Due to financial constraints, it is unlikely that Scoma’s at lease expiration in 2036 will be able to return the Premises in their original condition or demolish the improvements.

The project name is *WRP Wharf J9 Replacement Project, Phase 1.5 - Smokehouse Demolition*. The budget for the project is approximately \$1.5 million and likely eligible to be paid for with General Obligation Bond proceeds. The project will be supported by San Francisco Public Works As-Needed Design and Job Order Contract (JOC) Construction as well as Port Planning, Real Estate, Maritime, and Engineering divisions.

The physical demolition is slated to commence in September 2025 based on the mid-January 2025 schedule provided by the project manager:

Schedule: <i>*Dependent on ability to contract on time, env. permits, & successful negotiations with JOC contractor</i>	
Hazmat Survey (G. Bibbins, in-progress)	September 2024 - January 2025
Bring on Designer (DPW As-Needed)	January 2025 - February 2025
Develop Demo Plans, Specs	March 2025 - May 2025
Bring on Contractor (DPW JOC)	April 2025 - June 2025
	<i>*JOC negotiations can start early*</i>
Contractor Mobilization	July 2025 - September 2025
Abatement and Building Demolition (on-land)	September 2025 - October 2025
Deck and Pile Demolition (in-water)	October 2025 - November 2025
Public platform construction	November 2025 - December 2025
Closeout	December 2025 - January 2026

As noted, the schedule could change depending on design, permitting, regulatory approval, and negotiations with a contractor.

PROPOSED TERMS OF AGREEMENT

Port staff propose to waive Smokehouse’s remaining rent due on the Effective Date of the Mutual Termination Agreement (“MTA”). There is no termination fee proposed for the early termination.

Originally, Leases No. L-9170 and No. L-9175 were set for termination the day before demolition was slated to commence in approximately September 2025, but could be later if demolition was delayed. However, Scoma's objected to the floating termination date, and through subsequent discussions, Port agreed to a termination date of the earlier of demolition commencement or December 31, 2025, regardless of the date of demolition commencement.

Port staff agreed to this change because Resilience is reasonably confident of commencing demolition of the structures in September 2025 (before the fixed termination date of December 31, 2025), and if the timing slips, the next opportunity to demolish would arise in Spring 2026 not adding significantly to Port's exposure to liability.

The MTA requires continued compliance with the terms of the Leases up to the actual termination date, primarily maintaining the required insurance. The MTA includes mutual releases of liability and other standard terms. Tenant must also meet its obligations and be in good standing under its remaining leases³.

A copy of the proposed MTA for Scoma's Smokehouse leases L-9170 and L-9175 is on file with the Port Commission Secretary.

STAFF ANALYSIS AND DISCUSSION

The Smokehouse is in poor condition and unsafe and would require a complete rebuild, including pile replacement to become operational. This would be an expensive endeavor and could take several years to accomplish.

On top of the time and cost to rebuild, the Leases expire April 30, 2036 and this relatively near-term expiration would make it hard for Scoma's or an independent investor to achieve a risk-adjusted return based on the remaining term of the Leases. Port has the option to extend the term of the Leases, making it a more attractive investment opportunity, but this may have a negative impact on Port's plans for Phase 2 of the J9 Wharf resilience work.

Since 2020 (the COVID era), Scoma's has seen a decline in annual sales, and while 2022-2024 sales average 90% of 2019 sales, inflationary increases in labor and cost of goods and other operating expenses have reduced cashflow to the extent that the restaurant has not been profitable since 2019.

Since Port has the means and funding to start to demolish the Smokehouse by fall 2025, this is a good opportunity to not only help Scoma's stabilize operations but also achieve Port goals.

³ L-8996 (Restaurant)
L-9174 (Storage)
License No. 16926 (Outdoor Dining)
License No. 9959 (Parking)
TRF 013 (Landing Fees)

Rationale for the termination of the Smokehouse Leases includes:

- The red-tagged structure is a liability and Scoma's does not have the financial means to improve it. Termination and subsequent demolition will reduce potential liability for Scoma's and perhaps provide insurance savings.
- The wharf and building are seismically vulnerable, and demolition would avoid an uncontrolled collapse, particularly after an earthquake and the need to manage the aftermath.
- The structure is a navigation hazard because of the containment booms and occasionally piles have fallen into the water and floated in the inner lagoon.
- Termination of the Leases and demolition of the red-tagged and unsafe structure will improve the aesthetics of the inner harbor and provide an opportunity for expanded public access to the new J-9 Wharf float for off-the-boat fish sales. Removal creates better views of the inner harbor, particularly from the restaurants surrounding the inner lagoon.
- The Port desires to support its restaurants as they regain footing in this new local economy. Termination of the leases will save Scoma's approximately \$35,000 in rent per year, obviate continuing maintenance responsibilities, and eliminate the repair or demolish obligations when the Leases expire.
- The removal of the structure will ease Wharf J9 Phase 2 construction issues for improvements to Al Scoma Way and a new raised seawall protecting against sea level rise and earthquake risk.

Fill Credits: As part of the process, Port Planning recommends seeking a fill removal credit from BCDC for the demolition and further recommends Port submits a regionwide permit request with BCDC to have a record of the removal. However, Port cannot assume a replacement in kind in the future. If BCDC approves the fill credit it would be available as an offsetting mitigation for future development. Future replacement proposals would need to go through a new permitting/approval process with BCDC.

Total Rent due under the Leases from May 2025 (assumed rent termination date) through April 2036 totals approximately \$480,000. The loss of this potential rent is offset by the benefits of the demolition discussed above. If there was an uncontrolled collapse of the structure, for example, it could lead to potential liability more than the potential rent. Based on 2023 and 2024 operating performance, there is no guarantee that Scoma's can continue to pay this rent for the balance of the lease term.

RECOMMENDATION

Port staff recommend that the Port proceed to finalize the Mutual Termination Agreement on the stated terms and seek Port Commission and Board of Supervisor's approval of the Mutual Termination Agreement.

Prepared by: Don Kavanagh, Senior Property Manager
Real Estate and Development

Through: Kimberley Beal, Assistant Deputy Director
Real Estate and Development

For: Scott Landsittel, Deputy Director
Real Estate and Development

Attachments: Exhibit 1 – Smokehouse – 2019 Structural Rating Map
Exhibit 2 – Premises

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 25-22**

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate, and control the Port area of the City and County of San Francisco; and
- WHEREAS, Scoma's Restaurant, Incorporated, a California corporation ("Tenant") leases premises under Lease L-9170 and Lease L-9175 ("Leases") for premises along Al Scoma Way over bay waters ("Smokehouse"); and
- WHEREAS, Smokehouse was deemed unsafe and red-tagged in 2019 and the sub-tenant subsequently ceased operating and despite Tenant's efforts Smokehouse continues to deteriorate; and
- WHEREAS, Tenant has no financial ability or willingness to redevelop Smokehouse or when the Leases expire return Smokehouse in as-good-as-received condition or demolish it; and
- WHEREAS, The Leases expire on April 30, 2036 and have no early termination option and Port and Tenant desire to terminate the leases before the natural expiration; and
- WHEREAS, Port and Tenant now wish to agree on an orderly termination of the Leases per the terms of the Mutual Termination Agreement on file with the Commission Secretary (the "Mutual Termination Agreement") and as described in the memorandum accompanying this resolution; and
- WHEREAS, Among other things, the Mutual Termination Agreement paves the way to demolish the Smokehouse, does not require payment of a termination fee due to the benefits that accrue to Port and public by such demolition, and Tenant's continued performance of the obligations of the Leases, particularly payment of rent and maintaining insurance coverage, and continues to require that the Tenant perform under Tenant's other leases, all as more particularly described in the Memorandum to the Port Commission dated February 21, 2025; now, therefore be it
- RESOLVED, That, subject to Board of Supervisors' approval, the Port Commission approves the Mutual Termination Agreement and authorizes the Executive Director or her designee to execute such agreement in substantially the same form on file with the Port Commission Secretary; and be it further
- RESOLVED, That the Port Commission authorizes the Executive Director to enter into any additions, amendments, or other modifications to the Mutual Termination Agreement that the Executive Director, in consultation

with the City Attorney, determines, when taken as a whole, to be in the best interest of the Port, do not materially increase the obligations or liabilities of the City or the Port, and are necessary or advisable to complete the transactions which this Resolution contemplates and effectuate the purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of such documents.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of April 22, 2025.

DocuSigned by:

A blue ink signature of Jenica Lin, written in a cursive script.

Secretary

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Exhibit 1

Smokehouse – 2019 Structural Rating Map

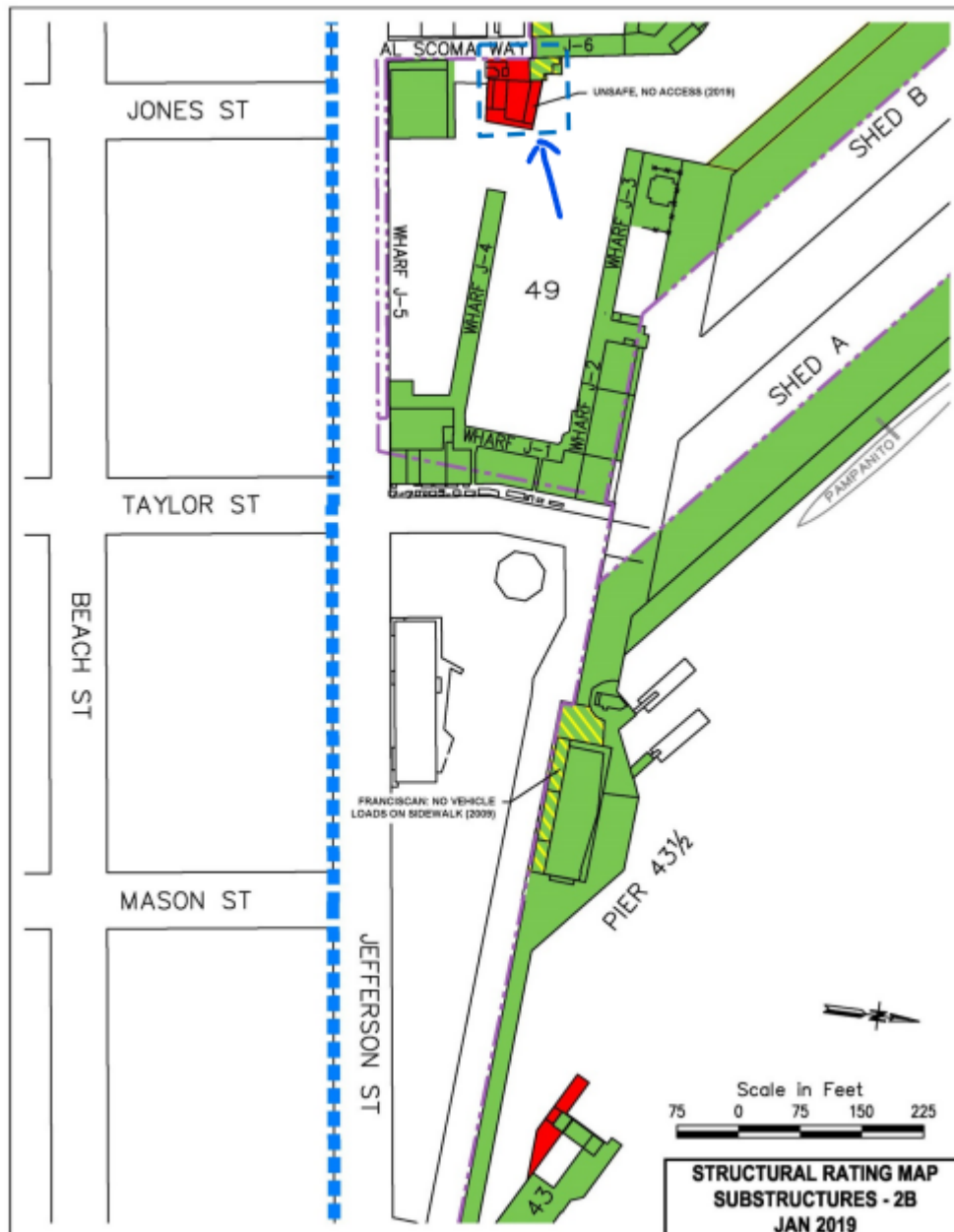


Exhibit 2
Premises

