



March 16, 2015

**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 for Approval – Ellis O’Farrell Parking Garage Commercial Lease,
for the Lease of 44 Ellis Street***

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA) requests that the San Francisco Board of Supervisors approve the commercial lease agreement for the commercial space at 44 Ellis Street, within the Ellis O’Farrell Garage.

Background

On Feb. 17, 2015, the SFMTA Board of Directors adopted Resolution No. 15-040, authorizing a commercial lease agreement with Les Joulins, USA, Inc., a California Corporation, and Osman Uner, an individual, doing business as Les Joulins Jazz Bistro, for 44 Ellis Street, located at the Ellis-O’Farrell Garage.

The Garage is located at 123 O’Farrell Street, provides about 950 parking spaces and includes three retail/commercial spaces totaling 11,000 square feet. The tenant space at 44 Ellis Street provides 5,368 square feet of restaurant/night club space.

In 1965, the City leased the Garage to the City of San Francisco Ellis-O’Farrell Parking Corporation (Corporation) through a master lease agreement, which was subsequently replaced with another lease agreement dated June 1, 1991 (Master Lease). Under the Lease, the Corporation managed the day-to-day operation of the Garage with oversight and policy direction from the SFMTA.

The Corporation entered into a commercial lease agreement with Les Joulins, USA, Inc. (Les Joulins) in April 1997 (Original Lease). The Original Lease was amended in May 1998, May 2002, and again in April 2012, when the Corporation entered into Amendment No. 3 to its lease with Les Joulins, which established a month-to-month tenancy that became effective on May 1, 2012. At present, Amendment No. 3 still governs Les Joulins’ tenancy at 44 Ellis Street.

Effective Jan. 31, 2013 the City terminated its Lease with the Corporation, and on Feb. 1, 2013, the SFMTA assumed complete responsibility for managing the garage as well as all retail leases and agreements. The termination of the Lease had no material effect on Garage operations or its

tenants.

The SFMTA desired a new term lease for the 44 Ellis Street space and therefore worked with the City's Real Estate Division to issue a Request for Proposals (RFP). The RFP, which solicited interest in a 10-year lease that would pay the City a minimum of \$4.98 Million in base rent over the term, was issued on May 17, 2013. Prior to issuance of the RFP, the city reviewed comparable rents in the area. The total minimum base rent required over the ten years was based on the city receiving market rent, plus routine consumer-price-index increases, over the whole term. Proposers were offered the ability to propose their own rent schedule over the ten years so they could have more financial flexibility in the early years of the lease term while tenant-improvement work was undertaken. The sole respondent to the RFP was Les Joulins.

Subsequent to the RFP process, SFMTA and Les Joulins entered what became a protracted negotiation process. In Jan. 2015, the parties reached final agreement on terms for a new 10-year lease, with two additional five-year options, which will pay the SFMTA \$5.127 Million in base rent over the initial 10 years.

The 44 Ellis Street space is in need of significant repair, maintenance and updating following almost 20 years with no such investment. The plumbing and ventilation systems are in need of complete overhaul. Moreover, Les Joulins, who has been a tenant in good standing throughout its long tenure, would like to make some architectural and finish upgrades to modernize the space. To facilitate the completion of physical improvements to the space, which will be mutually beneficial to the SFMTA and Les Joulins, the lease includes \$250,000 in rent credits that the tenant will be authorized to take following completion, and SFMTA verification, of a mutually agreed-upon list of tenant-improvement projects. The complete ten-year rent schedule and a full list of improvement projects are both included within the lease document.

The approval of the proposed commercial lease with Les Joulins will result in base rent of \$5.127 Million during the base lease term (10 years) excluding extension options.

Recommendation

The SFMTA recommends that the Board of Supervisors approve the commercial lease agreement for the commercial space at 44 Ellis Street, within the Ellis O'Farrell Garage.

Sincerely,



Edward D. Reiskin
Director of Transportation

