



MEMORANDUM

July 3, 2013

TO: MEMBERS, PORT COMMISSION
Hon. Doreen Woo Ho, President
Hon. Kimberly Brandon, Vice President
Hon. Willie Adams
Hon. Leslie Katz
Hon. Mel Murphy

FROM: Monique Moyer *M. Moyer*
Executive Director

SUBJECT: Request approval of Retail Lease No. L-15255 between the Port of San Francisco and East Street San Francisco, a Limited Liability Company for a term of fifteen (15) years, with one (1) five-year renewal option for the development and the operation of the restaurant site located at 295 Terry François Boulevard, subject to the Board of Supervisors' approval

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

Executive Summary

Port staff is requesting approval of a lease with East Street San Francisco, LLC ("ESSF") for the restaurant site located at 295 Terry François Boulevard, subject to the Board of Supervisors' approval.

Background

On August 14, 2012, Port staff requested and received authorization from the Port Commission (Resolution No. 12-63) to issue a Request for Proposal ("RFP") for a restaurant operator for the development and operation of the restaurant site located at 295 Terry François Boulevard, formerly known as Jelly's, a Dance Café.

The Port solicited proposals from qualified restaurant operators ("Respondents") for the design and renovation of the existing building and operation of a new restaurant at the site located near Pier 48.

The Port's objective is to select the most qualified Respondent that has the demonstrated ability to finance, design, construct, and operate a restaurant on the site, with the goal of negotiating a lease and related documents for the development and lease of the site.

THIS PRINT COVERS CALENDAR ITEM NO. 12A

Negotiations with the most qualified Respondent failed and at the direction of the Port Commission, staff began negotiations with the second most qualified Respondent, ESSF.

The principles of ESSF are the developers of Hivive Restaurant located at Pier 28½. Hivive has been a top tier performing revenue generating Port restaurant. It currently pays the second highest total rent per square foot of \$67.81 and the highest amongst Port property restaurants. Hivive has been a tenant since 2002 and is a tenant in good standing.

LEASE PROPOSAL

Port staff and ESSF have mutually agreed on acceptable terms and conditions for Lease L-15255. The Lease provides for a term of fifteen years with one five-year extension option at the tenant's option (providing they are a tenant in good standing). The premise comprises 3,389 square feet of interior space, and 6,824 square feet of exterior space. The Lease includes an initial minimum base rent of \$10,011.81 per month (or \$2.33 per square foot per month) for the interior space and \$0.31 per square foot per month for the exterior space (increased annually by 3%) or 7% of all gross sales, whichever amount is greater. At the exercise of the renewal option, the minimum base rent will be adjusted by the greater amount of either 3% or the average of the three prior years' gross revenues, multiplied by the percentage rent of 7% then multiplied by 85% and divided by 12 months. This is a standard industry methodology for determining base rent for retail leases.

ESSF is making a significant capital investment into Port property. The total required project cost is \$2 million and includes base building core and shell and tenant improvements. The Lease provides for a nine (9) month construction period in which no rent is paid plus a maximum rent credit amount of \$380,000 for base building core and shell upgrades only.

In general, core and shell improvements consist of the base building envelope and building level systems. Tenant improvements in general are alterations made to rental premises in order to customize it for the specific needs of a tenant such as painting, installing partitions, changing the flooring, putting in customized light fixtures and so on. Typically, these improvements increase the value and the marketability of rental space.

The project includes a general renovation and upgrade of the entire premises. Specifically, installation of new electrical service, plumbing upgrades, installation of new mechanical systems, seismic bracing upgrades, life safety upgrades such as a fire suppression sprinkler system, and accessibility improvements required by the Americans with Disabilities Act ("ADA") improvements will also include installation of an elevator lift, accessible bathrooms on the first and second floors, accessible paths of travel, accessible counter and bar heights, and construction of ground level and second floor outdoor dining areas.

The Lease includes Rules and Regulations for Restaurants, which includes among other guidelines the management of fats, oils and grease that could enter the City's sewer system ("FOG Program"). The FOG Program is a City-based program aimed at

the elimination of fats, oil, and grease being introduced into the City's combined sewer system.

The FOG Program requires ESSF to adopt Best Management Practices to control the introduction of fats, oils, and grease into the City's Sewer System. By controlling the introduction of these substances into the sewer system, the Port can realize savings by minimizing maintenance expenditures to address down-stream sewer issues that are the responsibility of the Port.

ANALYSIS

The Lease requires ESSF to invest a minimum of \$2 million in base building core and shell, all of which benefit the Port and will remain with the facility. ESSF's gross investment is \$590 per square foot. The rent abatement period and tenant improvement credits represent a maximum credit of \$138 per square foot. The net capital investment into Port property is \$452 per square foot or \$1.53 million in direct capital investment into Port property.

Under the proposed Lease, the monthly rent is the greater amount of either the minimum base rent of \$10,011.81 or 7% of all gross sales. ESSF estimates its first year sales to be approximately \$2.4 million. The total rent paid to the Port in the first year of operation is anticipated to be \$168,000 annualized which is \$14,000 per month or \$49.57 per square foot annualized. The average range for similarly-sized Port restaurants is from \$21 to \$38 per square foot per year.

Over the term of the Lease, Port staff anticipates a direct and corresponding increase in ESSF sales as a result of its investment in the premises which is described in detail below. First, by integrating the first and second floors, ESSF will create a more unified restaurant operation and better utilization of space. Secondly, by creating a more inviting restaurant atmosphere, ESSF will provide an enhanced dining and entertainment experience for its customers. The Port believes that all improvements will enhance sales and therefore revenue to the Port.

Restaurant Concept

San Francisco Architectural firms The Design Partnership and IS Architects designed a conceptual restaurant project which won the America Institute of Architects green award in 2013. This project is the model that the design of the 295 Terry Francois restaurant is based on. This restaurant will be the first stand-alone LEED-CI restaurant on Port property. The focus will be on creating meaningfully sustainable space that engages the public and supports ESSF's focus on Green building. The restaurant space will be sustainably focused and will further enhance the building, the neighborhood and the experience of diners. With a menu focused on causal sustainably and seasonally harvested food and beverages, within a space designed to highlight this philosophy, the restaurant both broadens and intensifies the customers' understanding of sustainable strategies.

LEASE TERMS - SUMMARY

Tenant:	East Street San Francisco, LLC
Lease Number:	L-15255
Premises:	Approximately 3,389 square feet of interior space and approximately 6,824 square feet of exterior space.
Term:	15 years
Term Extension Option:	One 60 month term extension option
Lease Commencement Date:	Anticipated by October 1, 2013.
Rent Commencement Date:	Anticipated June 1, 2014.
Lease Expiration Date:	Anticipated September 30, 2028 unless extended by option
Initial Monthly Rent:	\$10,011.81
Percentage Rent	7% of all gross revenue
Rent Adjustment	3% increase on each anniversary of the Rent Commencement Date.
Use:	Development and operation of casual dining restaurant to include alcohol service and entertainment.
Tenant Improvements:	No less than \$2 million of core and shell and tenant improvements
Rent Abatement Period:	270 days (9 months)
Rent Credit:	Tenant shall receive a maximum rent credit in the amount of \$380,000 that may be deducted from the monthly rent at a rate of 75% starting in the later of month 9 or the date Port issues a certificate of completion for the Improvements until expiration of the term. Rent credit is only for base building core and shell improvements and contingent on the completion of the improvements.
Maintenance and Repairs:	Tenant's sole responsibility
Security Deposit:	Tenant shall provide a Security Deposit equal to two (2) month's Base Rent due in the last year of Lease.
As Is:	The Premises shall be accepted in its "As Is" condition.
Insurance:	Tenant shall provide standard insurance coverage acceptable to Port and City Risk Manager.

City Requirements:	The lease includes provisions requiring Tenant to comply with all applicable City laws, including but not limited to, Non-Discrimination, First Source Hiring, Health Benefits Coverage, Limitation on Contributions, Prevailing Wages and other applicable laws.
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STAFF RECOMMENDATION

Port staff recommends that the Port Commission approve the attached Resolution authorizing approval of Lease No. L-15255 with East Street San Francisco, LLC for the development and operation of the restaurant site located at 295 Terry François Boulevard on such terms and conditions as are described in this staff report, subject to the Board of Supervisors' approval.

Prepared by: Jeffrey A. Bauer, Senior Commercial Leasing Manager

For: Susan Reynolds, Deputy Director, Real Estate

Attachment A: Site Map

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 13-27

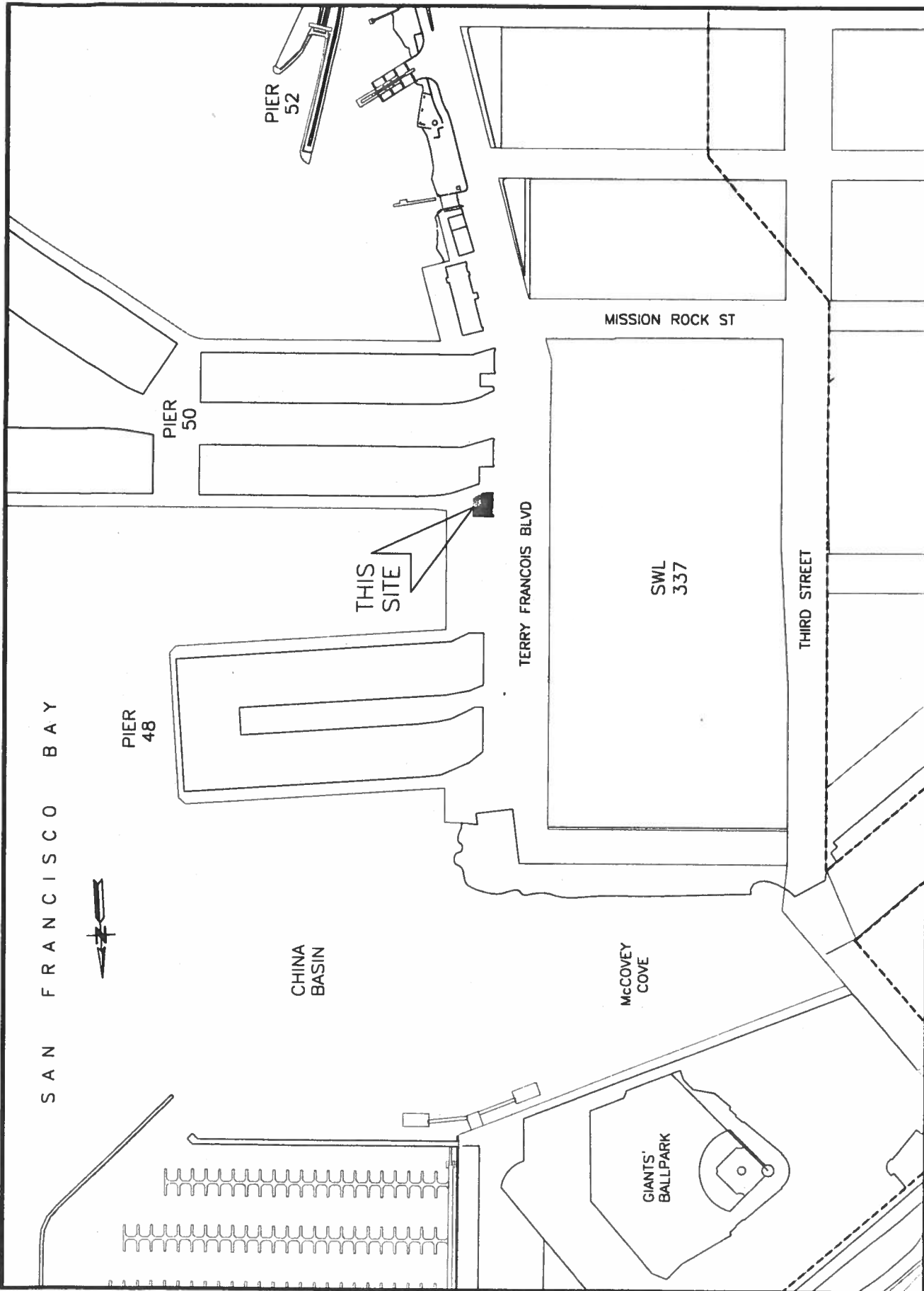
- WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control Port area of the City and County of San Francisco; and
- WHEREAS, pursuant to Port Commission Resolution No. 93-52 as amended by Resolution No. 11-15 in March 2011 (the Retail Leasing Policy), it is the policy of the Port Commission to competitively bid retail leasing opportunities; and
- WHEREAS, on August 15, 2012, the Port issued a Request for Proposals ("RFP") (Port Commission Resolution No. 12-63), for a restaurant site located at 295 Terry François Boulevard for the development and operation of a restaurant at the site; and
- WHEREAS, on the basis of certain selection criteria to evaluate each proposal including, as a result of the review, scoring, and interview of the Respondents and their proposals, the Port Commission authorized negotiations with East Street, San Francisco, LLC ("ESSF") by Port Commission Resolution No. 12-95; and
- WHEREAS, Port staff and ESSF have mutually agreed on terms and conditions described in the staff report for a fifteen year retail lease with one-five year extension option for the development and the operation of the restaurant site located at 295 Terry François Boulevard, subject to the Board of Supervisors' approval; and
- WHEREAS, the Lease requires ESSF to make a capital investment for base building core and shell and tenant improvements in the amount of \$2 million; the Lease further provides for a 270 day (9 months) rent abatement period for the purpose of constructing such improvements and a maximum rent credit in the amount \$380,000; and
- WHEREAS, the permitted use will be a continuation of the existing and related uses and is therefore covered under the General Rule Exclusion pursuant to the California Environmental Quality Act; now, therefore be it
- RESOLVED, that the Port Commission approves, subject to Board of Supervisors' approval, the Lease and authorizes the Executive Director or her designee to forward the Lease to the Board of Supervisors (the "Board") for approval, pursuant to the Board's authority under Charter Section 9.118, and upon the effectiveness of such approval, to execute the Lease; and, be it further

RESOLVED, that the Port Commission authorizes the Executive Director to enter into any additions, amendments or other modifications to the Lease that the Executive Director, in consultation with the City Attorney, determines are in the best interest of the Port, do not materially increase the obligations or liabilities of the City or Port, and are necessary or advisable to complete the transactions which the Lease 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 the Lease, and any such amendments thereto.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of July 9, 2013.



Secretary



DRAWN BY: ECC	DATE: ANY DAY
CHECKED BY: J. BAUER	SCALE: ANY SCALE
PLACE CODE NO.	SHEET NO.
1485-BLOO1	OF SHEETS

SAN FRANCISCO PORT COMMISSION
 PORT OF SAN FRANCISCO
 DEPARTMENT OF ENGINEERING



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