




MEMORANDUM

November 4, 2022

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

FROM: Elaine Forbes
Executive Director 

SUBJECT: Request approval to enter into direct negotiations on a sole source basis with Hotaling & Co., LLC for a retail use at Pier 50 Shed B

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution No. 22-52

BACKGROUND

On March 8, 2011, by Resolution No. 11-15, the Port Commission approved the Port Commission's Retail Leasing Policy ("Retail Leasing Policy"). Per the Retail Leasing Policy, Port staff may engage in direct negotiations with non-retail tenants seeking to become retail tenants if the tenant and proposed use meet certain criteria and if the Port Commission approves a resolution authorizing such direct negotiations.

Hotaling is an existing non-retail Port tenant leasing approximately 5,571 square feet of shed space at Pier 50 Shed B under Lease No. L-16659 (the "Lease"). The Tenant's operations include distillation, bottling and storage of spirits and merchandising items, and manufacturing, packaging, shipping and incidental handling of distilled spirits. The Lease commenced in 2019 and has been on month-to-month holdover status since January 1, 2021. Port and Tenant are currently finalizing a lease renewal for the current premises plus an additional 2,565 square feet of storage space with an estimated commencement date of November 1, 2022. Renewal of the current shed lease is

anticipated to go forward with or without the proposed retail lease that is the subject of this Memorandum.

Hotaling has approached Port staff with a proposal to lease additional space in the Pier 50 Shed B Southwest Bulkhead to operate a tasting room, an education area for employees and trade partners, and to host events in connection with its current activities. Tenant intends to charge guests for tours and tastings and sell its products in connection with tours and tastings. Hotaling and Port staff wish to enter into direct negotiations for a new lease allowing such retail uses. The Tenant is in good standing and has demonstrated to Port staff that it has the business acumen and financial wherewithal to operate a retail business. Port staff has also determined the proposed use is consistent with the Port's Waterfront Land Use Plan and the proposed draft Waterfront Plan. Renewal of the current shed lease is anticipated to go forward with or without the proposed retail component.

The space that the Tenant is interested in activating was previously used for office uses, has been vacant for 5 months, and is not a space that Port staff view as a suitable competitive solicitation site. Absent this proposal, Port staff would market the space for office use. Due to the increased vacancy rates for office space and prior leasing trends for the Pier 50 Shed B bulkhead, staff expects difficulty leasing the premises as office space. This retail proposal presents an opportunity to increase revenues through participation rent.

Authorizing Port staff to engage in direct negotiations will not create any agreement or obligation by Port to negotiate a definitive lease and imposes no duty whatsoever on Port to continue negotiations, including without limitation any obligation to negotiate in good faith or in any way other than at arms' length. Port may pursue alternative plans for the space and will have no contractual obligations to Hotaling unless and until the Port Commission and Board of Supervisors (if required) have approved a retail lease following review under the California Environmental Quality Act and all applicable governmental approvals (including from the Department of Alcohol Beverage Control) have been obtained.

STRATEGIC OBJECTIVE

If approved, the proposed lease will support the following objectives of the Port's Strategic Plan:

Productivity: Reactivate vacant space at the Pier 50 Bulkhead while generating economic benefits and enlivening Port of San Francisco property

Economic Recovery: Maintains Port's financial strength by generating base rent plus participation rent.

RECOMMENDATION

Building upon the success of an existing tenant with expansion into a new unique,

engaging business line is a positive economic recovery action for the Port to take. In addition, use of this space for retail, instead of office uses, presents an opportunity for Port to increase revenues through participation rent. Port staff recommends the Port Commission approve the attached resolution authorizing staff to enter into direct negotiations with Hotaling & Co., LLC for a retail use. If negotiations are successful, staff will return to the Port Commission to seek approval of lease terms.

Prepared by: Jennifer Gee, Senior Property Manager
Real Estate & Development

For: Rebecca Benassini, Deputy Director
Real Estate & Development

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

RESOLUTION NO. 22-52

- WHEREAS, Hotaling & Co., LLC, a non-retail tenant ("Tenant"), entered into a one-year lease (Lease No. L-16659, the "Lease") commencing on January 1, 2020 and on holdover status since January 1, 2021 for Pier 50 Shed B, Bays 4-14 and Bay 24 for distillation, bottling and storage of sprits and merchandising items, and manufacturing, packaging, shipping and incidental handling of distilled spirits; and
- WHEREAS, Tenant now wishes to explore conducting retail activities for sales to the public, a tasting room, an education area for employees and trade partners and to host events in connection with its non-retail activities; and
- WHEREAS, The Port Commission's Retail Leasing Policy (Port Commission Resolution 11-15 ("Retail Leasing Policy")) provides that Port staff may engage in direct negotiations with such tenants if the tenant and proposed use meet certain criteria and if the Port Commission approves a resolution authorizing such sole source negotiations; and
- WHEREAS, Tenant has demonstrated to Port staff that it has the business acumen and financial wherewithal to operate a retail business; and
- WHEREAS, Port staff has determined that the proposed use is consistent with the Port's Waterfront Land Use Plan and draft Waterfront Plan; now therefore be it
- RESOLVED, Based on satisfaction of the criteria in the Retail Leasing Policy as described in the Memorandum to the Port Commission dated September 9, 2022, the Port Commission authorizes Port staff to enter into direct negotiations for a retail use with Tenant, and, if such negotiations are successful, to seek Port Commission approval of the lease terms; and be it further
- RESOLVED, Authorizing Port staff to engage in direct negotiations will not create any agreement or obligation by Port and imposes no duty whatsoever on Port to continue negotiations or to approve a final lease; and be it further
- RESOLVED Port shall not take any discretionary actions committing it to lease terms until it has reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of November 8, 2022.

Secretary