



MEMORANDUM

February 24, 2023

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Proposed lease amendment to L-16997 Lease with Andre-Boudin Bakeries, Inc. for Chowder Hut restaurant to extend the deadline for construction of improvements to patio and revise the scope of development to patio improvements to reduce total patio area enclosed.

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

Andre-Boudin Bakeries, Inc. (“Boudin”), an affiliate of Boudin Properties, which operates the Boudin flagship location on Jefferson Street, is currently the tenant under Port Lease No. L-16697. The Port Commission approved the 10-year plus one 5-year extension lease in September 2020, the Board of Supervisors approved in December 2020 and the lease commenced January 1, 2021 and expires December 31, 2030.

Under the terms of the lease, Boudin was required to install improvements costing at least \$800,000 by January 1, 2023 in order to retain tenant’s right to a 5-year extension in the lease. Given the difficulty of conducting business or construction in San Francisco in 2020, 2021, and into 2022, it was not feasible to construct the enclosure as early as originally contemplated. In August 2022, Boudin approached Port staff to advise that the bid for the project ranged from \$1.9 million to enclose 50% of the outdoor area to \$4.5 million to enclose 100% of the outdoor area and that they would like to work with architects to refine the design to meet Boudin’s budget and operational needs. Port staff support this request because:

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- **The Port has already gained revenue increases under the lease, thus providing this extension does not substantively reduce the Port’s bargained-for benefits in the lease.** At the time of approvals (during the onset of COVID-19), the Port negotiated for the construction of the improvements in order to gain additional revenue by providing customers additional weather protected outdoor space. Due to the tenant’s continued operations and success, the tenant’s sales from the time of lease commencement increased 76% the first year (from 2021 sales compared to 2020 sales, generating about \$338K in rent to the Port) and 7.5% the second year (2022 sales compared to 2021 sales, generating \$364K rent to the Port). These increases are beyond the 4.3% annual increase in sales estimated by Port’s consultant to likely result from the tenant’s investment in an enclosure structure.¹
- **The amendment extending this deadline will help incentivize this investment by a tenant in good standing, during a period of market distress for retail and restaurants.** Boudin has operated continuously as required under the lease during these difficult times. The lease requires the tenant to construct the improvements in order to preserve the right to a 5-year extension. Extending the deadline will help incentive the investment by the tenant (along with the tenant’s expected increase in sales with the enclosure improvement).
- **Lease provides Executive Director the ability to consider tenant requests to extend timeframes as part of the Work Letter exhibit to the lease.** This common provision in Port leases recognizes that planning, permitting, and construction timeframes often are longer than anticipated.² While staff may use this provision to extend deadlines when tenants are working on projects, out of an abundance of caution and in consultation with the City Attorney, staff wish to bring this issue to the attention of the Port Commission for consideration.

Port staff recommend that the Port Commission direct staff to bring the lease amendment back for approval and forwarding to the Board of Supervisors for consideration.

STRATEGIC OBJECTIVE

This lease amendment support’s the Port’s Strategic Plan Stability Goal:

Stability: By extending the date which allows Chowder Hut to qualify for its 5-year option, Port will secure continued and improved revenue which helps achieve the goal of managing the real estate portfolio to maximize value and income to the Port

¹ Note that this estimate was made just after the onset of COVID and thus unsurprisingly is off the mark. The 4.3% increase in sales do reflect the revenue-benefit the Port expected to gain by requiring the tenant to make the improvement. Because the tenant managed operations during the economic distress of COVID, the Port still saw revenue benefits as described above.

² Work Letter (Exhibit C to the Lease) gives the Executive Director authority as follows... “1.5. Extensions by Port. Upon the request of Tenant, Port’s Executive Director may, by written instrument, extend the time for Tenant’s performance of any term, covenant or condition of this Work Letter or permit the curing of any default of this Work Letter upon such terms and conditions as she or he determines appropriate, including but not limited to the time within which Tenant must perform such terms and/or conditions...”

and to foster a tenant that would be better able to perform through economic cycles. Strategic contributions to meeting this objective are of particular importance during the current recovery cycle.

BACKGROUND

Boudin currently operates a casual take-out restaurant called the Chowder Hut (“Chowder Hut”) also known as the Octagon Building in the heart of Fisherman’s Wharf, located at 2890 Taylor Street under Lease No. L-16697. The lease covers approximately 5,400 square feet of existing building and exterior patio space and operates as an indoor/outdoor casual dining restaurant, including public restrooms. Boudin is one of San Francisco’s oldest continuously operating companies with roots back to the Gold Rush days of 1849. Boudin has been in business for over 170 years and is known world-wide for its famous sourdough French bread. Its cafés and bakeries serve its signature sourdough bread baked daily with a stated mission to offer fresh, quality food at fair, affordable prices. Boudin also has a long history of investing in Fisherman’s Wharf highlighted by the 2005 opening of its flagship location: a 26,000 square foot Baker’s Hall demonstration bakery, marketplace, café and restaurant, and Bakery Museum on Jefferson Street.

Boudin has also operated the Chowder Hut at the Taylor Street location since 1993 when Boudin assumed Lease L-9164 (approximately 30 years ago) near the flagship location. Under previous leases, Boudin was required to complete two capital improvement projects on the premises: (1) investment of at least \$335,000 - completed in 2011; and (2) investment of another \$365,000 - completed in 2013. In both cases the work was completed in an efficient and timely manner.

ANALYSIS

Staff believes that the proposed extension of the completion date is beneficial to the Port. Completion of the improvements will add additional 100 seats on a controlled outdoor environment leading to higher sales and percentage rent paid. Without the potential extension, the Boudin has indicated the investment may not be worth it due to limited amortization time (7 years versus 13 years). By providing the construction extension, the Tenant will complete the proposed improvements and likely exercise its 5-year option to extend the expiration date to December 31, 2035, Chowder Hut consistently maintains its Tenant in Good Standing status.

Table 1 summarizes keys in the lease and under the recommended amendment.

Table 1. Existing and Proposed Lease Provisions

Lease Provision	L-16697	Proposed Amendment
Date to Complete Initial Tenant Improvements	December 31, 2022	March 31, 2024
Scope of Development	Tenant will demolish existing patio enclosure which surrounds the Premises and replace with a new attractive patio enclosure with retractable windows at an estimated cost of \$800,000. The enclosure will provide a more comfortable dining experience for guests during periods of inclement weather and will allow the business to continue to operate at increased capacity during such time.	Tenant will demolish a significant portion of the existing patio enclosure which surrounds the Premises and replace with a new attractive patio enclosure with retractable windows covering at least 38% of the patio at an approximate cost of \$1.15 million but Tenant will invest not less than \$900,000 in such improvements. The enclosure will provide a more comfortable dining experience for guests during periods of inclement weather and will allow the business to continue to operate at increased capacity during such time.

RECOMMENDATION

Port staff recommends that the Port Commission direct staff to bring this item: revising the scope of the project extending the completion date; and increasing the minimum investment amount as described above for approval and for presenting to the Board of Supervisors for consideration.

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

For: Rebecca Benassini, Deputy Director
Real Estate and Development

Attachments: Attachment 1 – Original and Proposed Initial Improvements Narrative and Renderings

Attachment 1

Original Narrative

Tenant will demolish existing patio enclosure which surrounds the Premises and replace with a new attractive patio enclosure with retractable windows. The enclosure will provide a more comfortable dining experience for guests during periods of inclement weather and will allow the business to continue to operate at increased capacity during such time.

The patio enclosure will be constructed to match the architectural design attached to this Exhibit as prepared by Tenant's Architect. The cost of the project is estimated to be \$800,000 as estimated by Tenant's contractor. The estimated time of construction is 90 days and will be completed during non-peak season. Bids from late 2022 range from \$1.9 million to enclose 50% of the building's outdoor area in the style originally contemplated up to \$4.5 million to enclose 100% of the outdoor area. Tenant reports this cost is economically prohibitive.

Original Rendering

DETAIL

ABOVE



RENDER PACKAGE ■ DETAIL - ABOVE

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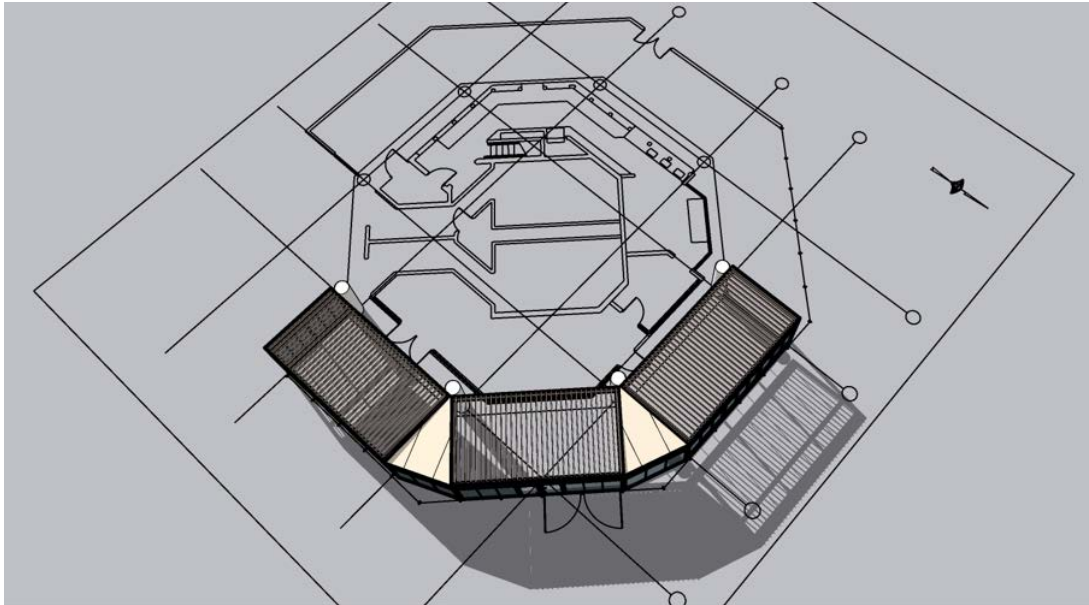
Proposed Amended Narrative

Instead of the originally contemplated retractable glass windows, Tenant is proposing high-end motorized louvered coverings for the enclosed areas. These can be closed in a watertight fashion during inclement weather or be opened during warmer weather to allow fresh air into the covered space.

Tenant believes that since some of its customers are sensitive to being in enclosed areas, it would be better to enclose a portion of the outdoor area of the patio. Tenant is proposing to enclose three of the eight sides of the building's outdoor space at an estimated cost of \$1.15 million. The enclosed area will have seating for approximately 100 customers.

Two of the eight sides are reserved for the entrance to the restaurant and the bathrooms, and the remaining three sides will be an open patio.

Rendering



3D Rendering

