



MEMORANDUM

August 4, 2023

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Request approval of proposed Lease No. L-17080 between the Port of San Francisco and Hotaling & Co., LLC, a California limited liability company (“Hotaling”), for a term of five (5) years for the operation of a tasting room at Pier 50 Shed B Southwest Bulkhead.

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 23-39

EXECUTIVE SUMMARY

Hotaling & Co., LLC (“Hotaling”) has been an existing non-retail Port tenant leasing approximately 7,240 square feet of shed space at Pier 50 Shed B since 2019. Lease No. L-16599 expired on December 31, 2020, and Hotaling entered into Lease No. L-16974 which commenced on January 1, 2023, and will expire on December 31, 2027, for operations including distillation, bottling, and storage of spirits and merchandising items, and manufacturing, packaging, shipping, and incidental handling of distilled spirits.

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 (“Tasting Room”). Consistent with the Port’s Retail Leasing Policy, the Port Commission approved staff to enter into sole source negotiations with Hotaling for the proposed retail use at Pier 50 Shed B Southwest Bulkhead (Resolution 22-52). Hotaling and Port staff now wish to enter into a new Lease No. L-17080 (the “Lease”) allowing such retail uses for a term of five (5) years for the use of Pier 50 Shed B Southwest Bulkhead.

THIS PRINT COVERS CALENDAR ITEM NO. 9A

Port staff is requesting approval of a new lease with Hotaling, an existing non-retail tenant seeking to become a retail tenant, to operate a tasting room at Pier 50 Shed B Southwest Bulkhead.

STRATEGIC OBJECTIVE

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

- Economic Growth: 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 revenues

BACKGROUND

Since 2019, Hotaling has been leasing Pier 50 Shed B Bays 4-14 and 20-24 for the distillation, bottling, and storage of spirits and merchandising items and manufacturing, packaging, shipping, and incidental handling of distilled spirits. Hotaling now wishes to expand its operation to include 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.

The proposed space that the Tenant is interested in activating was previously used for office uses, has been vacant for fifteen 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 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.

Current parameter rates for offices at Pier 50 Shed B Bulkhead is \$3.60 per square foot. For reference, the monthly base rent for the previous tenant occupying this location was \$3.71 per square foot for office and \$1.85 per square foot for office storage with no percentage rent component. Comparably, the monthly base rent for the interior spaces of nearby Port retail tenants is \$2.91 per square foot (AtWater Tavern) and \$2.69 per square foot (Mission Rock Resort).

Under the proposed Lease, the monthly base rent for Hotaling will be \$3.75 per square foot for the first year plus a 3% annual increase each subsequent year. In addition to the monthly base rent, Hotaling will pay the Port 7% in participation rent. Tenant shall obtain all applicable governmental approvals including the Department of Alcohol Beverage Control. All other terms and conditions, including Monthly Base Rents, conform to the Port Commission's approved FY 23/24 parameter terms and conditions (Port Resolution No. 23-36).

The lease provides a 90-day rent abatement period to allow Hotaling to complete tenant improvements, including any code-compliant accessibility improvements throughout the Premises and any utilities related to the installation of interior equipment for a tasting room.

PROPOSED LEASE TERMS

The proposed new Lease No. L-17080 contains the following terms:

Lease Number: **L-17080**

Tenant: Hotaling & Co., LLC, a California limited liability company

Premises: Pier 50 Shed B, Southwest Bulkhead

Premises: Parcel A – Approx. 2,319 rentable square feet of indoor space

Parcel B – Approx. 734 rentable square feet of indoor space

Permitted Use: Parcel A and Parcel B shall be used solely for the following and for no other purpose:

- Operation of a public tasting room that includes on-site service of alcohol
- Education area for employees and trade partners
- Events in connection with the Distillery
- Sale of products in connection with tours and tastings

Length of Term: Sixty (60) months

Commencement Date: January 1, 2024

Rent Commencement Date: April 1, 2024

Expiration Date: December 31, 2028

Monthly Base Rent:	Months	Sq. Ft.	Monthly Base Rate	Total Monthly Base Rent
Parcel A	0-3	2,319	\$0.00	\$0.00
Parcel B		<u>734</u>	<u>\$0.00</u>	<u>\$0.00</u>
<i>Construction Period</i>		3,053	\$0.00	\$0.00
Parcel A	4-12	2,319	\$3.75	\$8,696.25
Parcel B		<u>734</u>	\$3.75	<u>\$2,752.50</u>
		3,053		\$11,448.75
Parcel A	13-24	2,319	\$3.86	\$8,951.34
Parcel B		<u>734</u>	\$3.86	<u>\$2,833.24</u>
		3,053		\$11,784.58
Parcel A	25-36	2,319	\$3.98	\$9,229.62
Parcel B		<u>734</u>	\$3.98	<u>\$2,921.32</u>
		3,053		\$12,150.94
Parcel A	37-48	2,319	\$4.10	\$9,507.90
Parcel B		<u>734</u>	\$4.10	<u>\$3,009.40</u>
		3,053		\$12,517.30
Parcel A	49-60	2,319	\$4.22	\$9,786.18
Parcel B		<u>734</u>	\$4.22	<u>\$3,097.48</u>
		3,053		\$12,883.66

Percentage Rent: Percentage rent shall be 7% of Gross Revenues

Initial Tenant Improvements: Tenant must complete improvements, including any code-compliant accessibility improvements throughout the Premises and any new utilities related to the installation of interior equipment for a tasting room.

Maintenance and Utilities: Tenant's sole responsibility

Insurance Provisions: Tenant shall provide standard insurance coverage acceptable to Port and City's Risk Manager to include Liquor Liability and Food Products Liability

Regulatory Requirements: The lease includes provisions requiring Tenant to comply with all applicable City, governmental, and regulatory laws, including but not limited to Alcohol Beverage Control and Department of Public Health permitting, Non-Discrimination, First Source Hiring, Health Benefits Coverage, Prevailing Wages and other applicable laws.

RETAIL LEASING POLICY

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. On September 9, 2022, Port staff requested and received authorization from the Port Commission (Resolution 22-52) to enter into direct negotiations on a sole source basis with Hotaling and Co., LLC for retail use at Pier 50 B Southwest Bulkhead.

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 Waterfront Plan.

Port staff has negotiated parameter terms and conditions with Hotaling and is recommending the new lease to the Port Commission for approval.

ENVIRONMENTAL REVIEW

In a letter dated May 8, 2006, the San Francisco Department of City Planning determined the Environmental Evaluation Application for Change of Use of Pier 50 Shed B Southwest Bulkhead from vacant warehouse to retail, and the proposed use is in compliance with California Environmental Quality Act (CEQA). No further environmental review is required.

RECOMMENDATION

Port staff recommends that the Port Commission approve the attached resolution authorizing approval of Lease No. L-17080 with Hotaling & Co., LLC for the operation of a tasting room at Pier 50 Shed B Southwest Bulkhead on such terms and conditions as are described in this staff report.

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

For: Kimberley Beal, Acting Deputy Director
Real Estate and Development

Attachment: Proposed Lease No. L-17080

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

RESOLUTION NO. 23-39

- WHEREAS, Charter 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, Hotaling & Co., LLC, a non-retail tenant ("Tenant"), entered into a five-year lease (Lease No. L-16974) which commenced on January 1, 2023 and will expire on December 31, 2027 for Pier 50 Shed B, Bays 4-14 and Bay 20-24 for distillation, bottling and storage of spirits and merchandising items, and manufacturing, packaging, shipping and incidental handling of distilled spirits; and
- WHEREAS, Port Staff has mutually agreed on terms and conditions described in the Memorandum to the Port Commission dated August 4, 2023 of a new five-year Lease No. L- 17080 (the "Lease") to conduct 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, On September 9, 2022, the Port Commission approved staff to enter into sole source negotiations with Hotaling and Co., LLC for retail use at Pier 50 B Southwest Bulkhead (Resolution 22-52); and
- WHEREAS, 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; and
- WHEREAS, Port staff has determined that the proposed use is consistent with the Port's Waterfront Land Use Plan and draft Waterfront Plan and the San Francisco Department of City Planning determined the proposed use is in compliance with California Environmental Quality Act (CEQA); and
- WHEREAS, Port staff recommends approval of the proposed Lease with Hotaling & Co., LLC on terms described in the Memorandum to the Port Commission dated August 4, 2023 and substantially in the form of the Lease on file with the Commission Secretary; and 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 August 4, 2023, the Port Commission authorizes Port staff to enter into a sole source lease for retail use with Tenant; and be it further
- RESOLVED, The Port Commission determines that the uses permitted by the proposed Lease are in compliance with California Environmental Quality Act, and hereby approves the terms of the proposed Lease with Hotaling & Co., LLC on terms described in the Memorandum to the Port Commission dated

August 4, 2023 and substantially in the form of the Lease on file with the Commission Secretary and authorizes the Executive Director or her designee to execute the Lease; and be it further

RESOLVED, That the Port Commission authorizes the Executive Director or her designee, 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 Port or materially decrease the public benefits accruing to the Port, and are necessary and advisable to complete the transaction 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 any such documents.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of August 8, 2023.

Secretary