



MEMORANDUM

October 6, 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: Informational presentation regarding leasing efforts for the Pier 33.5 restaurant space located at Bay Street and The Embarcadero and recommendation of Kuleto's Waterside Italian Bistro as the most qualified proposer.

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

The Port Commission adopted Resolution No. 22-37 on July 12, 2022, approving the Interim Broker Policy (Policy) to support leasing efforts for the Pier 33.5 and Ferry Plaza East Building spaces. The Policy allowed Port staff to select a commercial broker to support the marketing and leasing of these locations. Following the process outlined in the Policy, staff selected Cushman & Wakefield ("C&W") to market these locations on behalf of the Port. The Agreement for Brokerage Services for the Pier 33.5 restaurant space was executed on January 13, 2023.

C&W undertook an extensive marketing campaign for the Pier 33.5 space. Efforts included outreach to multiple local chambers and interested groups, including parties who had previously indicated an interest in Port restaurant locations. C&W distributed marketing flyers to approximately 923 contacts. Marketing flyers for the space were posted on the C&W and Port websites. A total of 12 potential tenants toured the restaurant space, some making multiple visits.

THIS PRINT COVERS CALENDAR ITEM NO. 8D

A date for submission of proposals was set for July 28, 2023 and four proposals were received. C&W provided a summary of business terms submitted by each proposer, along with a recommendation on the top two proposers. A panel of Port staff reviewed the proposals and ranked them, followed by interviews with the top three proposers; the fourth proposal received was deemed to be non-responsive.

PB&K, LLC, doing business as Kuleto's Waterfront Italian Bistro ("Kuleto's") was identified as the most qualified proposer. The Kuleto's team – including Pete Sittnick, former operating partner at Kuleto's, Brian Walsh, current General Manager at EPIC Steak, and Pat Kuleto, designer and namesake for the original – has decades of experience opening and operating restaurants in San Francisco. Their proposal indicates they understand the significant improvements and investment needed to successfully open the Pier 33.5 location. The restaurant concept and Kuleto's plan to utilize the walk-up entrance at Pier 33.5 are indicative of their familiarity with the demographics of this location.

Based on the evaluation of the proposals by Port staff and the recommendations of C&W, Port staff has determined that Kuleto's proposal meets the minimum requirements approved by the Port Commission on July 12, 2022. Further, Port staff believe Kuleto's will be an excellent addition to the Port's restaurant community in terms of concept, experience, and financial ability and will fill a much-needed void for a full-service restaurant in the northeastern waterfront, serving locals and visitors alike.

STRATEGIC PLAN ALIGNMENT

A new restaurant at Pier 33.5 will support the following Strategic Plan goals:

Economic Recovery: The Pier 33.5 restaurant space has been vacant for over 6 years. Successful activation of this space by an experienced operator will generate new, stable income for the Port.

Economic Growth: Utilizing stimulus funds, Port investment in capital, and tenant improvements at the Pier 33.5 space will improve the value of the property, increase the likelihood of success for the new operator, and encourage increased tenant investment in Port property.

Equity: The new restaurant tenant at Pier 33.5 will present new Local Business Enterprise (LBE) contracting opportunities for restaurant service businesses, including laundry, floral, custodial, food and beverage supply, pest control, and maintenance. The tenant will be encouraged to attend the Port's annual contracting open house to expand their network of LBE business contacts.

BACKGROUND

The restaurant space at Pier 33.5 was in operation for over 30 years, most recently as Butterfly Restaurant, but has been vacant since Butterfly Restaurant ceased operations in January 2017.

Situated on the marginal wharf between Pier 33 and 35, this site has views of San Francisco Bay from the window wall on the northeast side of the building. The site is just north of Alcatraz Landing and close to adjacent residential neighborhoods. It has a full kitchen, storage and food preparation area, dining room, and lounge totaling approximately 4,918 sq. ft.

Port staff released a Request for Proposals (RFP) for Pier 33.5 space on October 12, 2017. Despite broad outreach, the RFP resulted in only one proposal being received. After the tenant's funding for the project fell through, the Lease was terminated, and the space has remained vacant.

On July 12, 2022, the Port Commission adopted Resolution No. 22-37 approving the Interim Broker Policy (Policy) for Pier 33.5, allowing Port staff to select a commercial broker to support the marketing and leasing of these locations. Staff selected Cushman & Wakefield (C&W) to market these locations on behalf of the Port. The Agreement for Brokerage Services for the Pier 33.5 restaurant space was executed on January 13, 2023.

C&W undertook an extensive marketing campaign for the Pier 33.5 space. Efforts included outreach to multiple local chambers and interested groups, including parties who had previously indicated an interest in Port restaurant locations. C&W distributed marketing flyers to approximately 923 contacts. Marketing flyers for the space were posted on the C&W and Port websites. A total of 12 potential tenants toured the restaurant space, some making multiple visits.

SELECTION PROCESS

A date for submission of proposals was set for July 28, 2023 and four proposals were received. C&W provided a summary of business terms submitted by each proposer, along with a recommendation on the top two proposers. A panel of Port staff reviewed the proposals and ranked them, followed by interviews with the top three proposers. A summary of the scoring is shown in Attachment A.

Port staff utilized the following criteria for evaluating the proposals:

Proposed Concept – 20 points

- The overall appeal of the proposer's concept to meet Port objectives
- Proposer's plan for marketing to increase patronage and drive sales/revenues
- Proposed operations plan, including hours of operation, menu, pricing, staffing, sourcing of products and services, and how to maintain customer satisfaction

Proposed Design and Capital Investment – 20 points

- Overall appeal, interior design, exterior design if applicable, signage, floor plan, front elevation, and images depicting interior and exterior
- Capital investment plan, including sources of capital funding

Experience and Financial Strength – 20 points

- Documented experience operating the type of operation proposed
- Annual gross revenue for calendar years 2018 through 2020 of operation
- Balance Sheet and Credit Rating

Proposed Rent and Business Plan – 25 points

- Proposed base rent
- Proposed percentage rent
- Five-year financial pro forma with projected sales, revenue to the Port, expenses, and net income, with a demonstrated ability to fund continuing operations from the cash flow generated by the operation

Local Business Participation & Diversity Equity Inclusion Program – 15 points

- Proposed plan to meet Port's LBE and Diversity Equity Inclusion goals

The highest scoring proposal is for Kuleto's Italian Waterside Bistro, described as "a tribute to the legendary Union Square restaurant Kuleto's that operated on Powell Street from 1986 to 2016." The menu will feature classic Italian dishes with inspiration from Northern California, seafood-based main courses, and an open kitchen to the dining room. The south entrance to the space is planned for use as a "to go" window with a quick service walkaway selection. The concept is expected to appeal to residents and tourists alike. The Kuleto's proposal also received the top recommendation from C&W, based on the team's extensive restaurant background, their experience operating restaurants on waterfront property, their understanding of the improvements required to get this location open and operating, and their belief the concept will be well received by visitors and locals alike, as Italian food is a cuisine missing in the immediate area.

Other proposers included a Peruvian concept with locations in the North Bay. The proposal was attractive but there was concern that it would be in direct competition with La Mar. An additional proposal for Indian cuisine was considered but the proposer has never owned or operated a restaurant and did not have an experienced ownership partner to meet the minimum experience requirements.

The staff has determined that Kuleto's proposal meets or exceeds the criteria outlined in Resolution 22-38. In addition to being a qualified proposer, the staff believes the proposed concept, partnership, experience in successfully operating restaurants in San Francisco, and commitment to developing a robust community engagement plan represent a viable and attractive addition to the Port.

RECOMMENDATION

Port staff intends to return to the Port Commission with negotiated business terms to seek authorization to enter into a lease with Kuleto's for the Pier 33.5 restaurant space.

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

Attachment A - General Terms and Selection Process Scoring

**ATTACHMENT A
GENERAL TERMS AND SELECTION PROCESS SCORING**

Restaurant Name (Operator)	Base Rent/sf/yr	Annual Increase	Percentage Rent	Tenant Allowance	Tenant Investment
Ayawaska RestoBar (Kevin Dagnino)	\$45/sf	10% in year 6	None	\$1MM	\$3MM-\$4MM
Baatein (Bhanu Tak)	\$40/sf	3% annually starting in year 3	6% over natural breakpoint	\$1MM	\$3MM-\$4MM
Butterfly Sushi Boat (James Paik)	\$41.48/sf	2% annually	None	\$950k	\$3MM-\$4MM
Kuleto's Italian Waterside Bistro (Pete Sittnick)	\$36/sf	3% annually starting in year 4	5.5% over natural breakpoint	\$1MM	\$3MM-\$4MM

Proposal Review – Average Scores (100 Points Possible)						
Restaurant Name	Concept	Design/Capital Investment	Experience / Financial	Proposed Rent/Business Plan	Local Business & DEI Program	Total
Ayawaska RestoBar (Peruvian)	13	14	13	17	6	62
Baatein (Indian)	16	17	12	21	9	74
Butterfly Sushi (Sushi Boat)	11	10	13	16	6	56
Kuleto's (Italian)	16	15	18	19	5	73

Final Ranking Post-Interview	
Ayawaska RestoBar	2
Baatein*	3
Kuleto's	1

*The Baatein proposal did not meet the minimum experience qualifications outlined in the evaluation criteria approved by the Port Commission.