

MEMORANDUM

January 5, 2017

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Request endorsement of the proposed Conceptual Term Sheet between the Port and JPPF OP Acquisitions, LLC (“Jamestown”) for a 15-year lease of approximately 20,000 square feet of space at the Pier 29 Bulkhead Building, located at Chestnut Street and the Embarcadero

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

EXECUTIVE SUMMARY

Port staff is seeking endorsement of a conceptual term sheet for the lease and continuous operation of a retail facility in the Pier 29 Bulkhead Building. The Term Sheet represents a conceptual agreement by the parties which outlines the terms of a transaction to achieve the objectives specified in the Port's December 23, 2015 Request for Proposals (“RFP”).

Following an extensive RFP process, in April 2016 Jamestown was awarded the exclusive right to negotiate for a 15-year lease for approximately 20,000 square feet of retail-based space located at the Pier 29 Bulkhead Building (“Site”). In September 2016, the Port and Jamestown entered into an Exclusive Negotiation Agreement (“ENA”) that sets forth the process, terms and conditions upon which the Port and Jamestown will negotiate terms for a lease as specified in the RFP.

Jamestown engaged with various community stakeholders, the Northeast Waterfront Advisory Group (“NEWAG”) and Port staff and has been working on project design. While NEWAG has generally expressed overall support for the project, one NEWAG member does not support the project and has raised questions about whether the project is consistent with the Waterfront Land Use Plan (“Waterfront Plan”). Further, the

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Neighborhood organizations, Sunset Parkside Education and Action Committee (“SPEAK”) and Coalition of San Francisco Neighborhoods, have written to the Port expressing this same concern. Other comments have been received from the Barbary Coast Neighborhood Association (BCNA), Telegraph Hill Dwellers, and the local chapter of the Sierra Club. The Port and Jamestown have and will continue to provide project updates and answers to questions as the project design details continue to be developed. This early exchange has addressed the majority of BCNA questions which led to a letter of support for the project. Attachment C includes comment letters and responses from Jamestown or the Port that have been received to date.

The community process has taken more time than Jamestown anticipated. This project is small (capital investment is estimated at \$5.8 million) with relatively modest revenue potential. As a result, Jamestown is concerned about the viability of the project given the neighborhood concerns and seeks endorsement of a conceptual term sheet from the Port Commission and the Board of Supervisors as an “early read” on the direction of the project. Jamestown seeks this assurance before making additional investment in design and engineering necessary to complete the lease negotiations.

Although this leasing project does not trigger the dollar thresholds for fiscal responsibility and feasibility analysis and is not a “development project” such that Board of Supervisors’ review of the Term Sheet is required, Port staff does recommend this “early read” to provide both Jamestown and Port an indication of support before Jamestown and Port staff invest more effort into the proposal.

Port staff have now negotiated a non-binding term sheet that represents the conceptual agreement for the continued negotiation of terms and conditions of the anticipated lease for Jamestown’s proposed use of the Site as a retail venue. The lease will also be subject to Port Commission and Board of Supervisor approval.

Staff recommends endorsement of the Conceptual Term Sheet to achieve the following Port objectives:

- Confirm that retail uses are trust-consistent uses and are Acceptable Uses for Pier 29 bulkhead, along with a variety of other activities, therefore confirming that Jamestown’s proposed uses are consistent with the Waterfront Plan.
- Meet the *engagement, livability, economic vitality and stability* objectives of the Port’s Strategic Plan, as explained in the next section of this staff report.
- Complement the Port’s \$114 million investment in the James R. Herman Cruise Terminal and Cruise Terminal Park.
- Provide a retail-based use concept that will serve to augment the rich experience of visitors, cruise ship passengers, businesses and residents in the Northeast Waterfront and highlight and promote that which is unique to our region and culture.
- Provide for an adaptive reuse of a vacant facility to a public-oriented use that conforms to the Secretary of the Interior Standards for Treatment of Historic Properties and contributes to the integrity of the Embarcadero Historic District.

- Provide, through collaboration with SFMade, a venue where San Francisco’s rich art, design and local manufacturing community can introduce, display and sell its products.

If the Port Commission endorses the Conceptual Term Sheet, it will be presented to the Board of Supervisors for endorsement. Obtaining the endorsement of the proposed Conceptual Term Sheet and the Port Commission’s finding that the proposed Lease is consistent with the Waterfront Plan is key in providing Jamestown a level of confidence for continuing to expend funds to move the project forward.

STRATEGIC OBJECTIVE

This leasing opportunity complies with the goals of the Port’s Strategic Plan as follows:

Engagement:

By proactively marketing Port maritime and commercial leasing opportunities through a robust multidimensional marketing campaign promoting the Port as a unique “brand”.

Livability:

By expanding the Port’s diversity in lease opportunities through increased outreach to the underserved communities and through developing partnerships, and by marketing industrial facilities to capture a share of boutique manufacturing businesses which provide space to grow and preserve light manufacturing and industrial job opportunities.

Economic Vitality:

By planning and executing a holistic and balanced strategy to the real estate portfolio and asset management to maximize asset value and income stream to the Port.

Stability:

By increasing Port annual revenues to \$125 million and continuing to expand ongoing revenue sources, and by retaining a diversified tenant base that will perform through economic cycles.

BACKGROUND

Since the success of the public-oriented activities during the 34th America’s Cup and the opening of the Pier 27 James R. Herman Cruise Terminal and Cruise Terminal Plaza, the Port has focused on a new leasing strategy to re-tenant the Pier 29 bulkhead. Prior to America’s Cup, the facility was leased for light industrial storage and/or parking, before it suffered a major fire and emergency rebuild that was completed just in time to serve as part of the America’s Cup Village. Pier 29 bulkhead was recast as a temporary restaurant, the Waiheke Island Yacht Club. This public-friendly venue made excellent use of the reconstructed bulkhead building, and provided a positive visitor experience fronting along the Embarcadero Promenade. After the conclusion of the America’s Cup, Port staff proposed a different leasing strategy for the Pier 29 bulkhead to target uses oriented to visitors, workers and residents rather than return to light industrial use and parking. The completion of the Pier 27 Cruise Terminal and the Exploratorium has

generated substantial growth in pedestrian volumes that would be served well by a public-oriented use in this location.

The re-tenancing proposal received encouragement and feedback from the Port Commission and the public. In investigating this use opportunity, Port staff conversed with stakeholders including numerous sessions with the NEWAG. The Waiheke Island Yacht Club provided an inviting attraction and was favored over light industrial and parking use. In July 2015, staff proposed a re-tenancing plan for the Pier 29 bulkhead to improve and operate a “San Francisco-flavored” destination and retail use within an approximately 20,000 square foot portion of the bulkhead. Staff’s vision included a master tenant to serve as the predominant manager or user of the Site, with provisions allowing for subleases for other complimentary uses. Staff’s goal was to augment the rich experience of visitors, cruise ship passengers, businesses and residents in the Northeast Waterfront and highlight and promote that which is unique to our region and culture. NEWAG expressed its support of this lease opportunity.

On December 8, 2015, the Port Commission approved Resolution No. 15-41 authorizing staff to issue the RFP for the Retail Leasing Opportunity at the Pier 29 Bulkhead Building.¹ Because this new business also was envisioned to serve residents and workers in the neighborhood, the Port Commission included a member of the NEWAG on the RFP review panel. The four panel members were individuals with expertise in real estate leasing and management, urban design and regulatory compliance, historic preservation, and financial feasibility analysis. The panel evaluated, scored and ranked each of the three proposals received, and the proposal from Jamestown received the highest overall score. On April 26, 2016, the Port Commission approved Resolution 16-17, which authorized the award of the RFP and further authorized staff to enter into exclusive lease negotiations with Jamestown.²

PROJECT PROPOSAL

Jamestown proposes to make a substantial capital improvement to the Site. This investment will include construction of base building core and shell improvements and tenant improvements, which are specific to Jamestown’s proposed retail use of the facility. Jamestown’s concept includes a retail destination that showcases and sells products manufactured in San Francisco supported through an association with local non-profit organization, SF Made. The proposed retail space will feature flexible displays made of industrial brand and recycled materials that will allow for different configurations to accommodate fluctuating merchandise presentation or open the space for events.

¹ The December 3, 2015 Port Commission staff report [<http://sfport.com/sites/default/files/FileCenter/Documents/10943-Item%2012B%20Pier%2029%20Bulkhead%20Leasing%20Opportunity.pdf>] provides more details regarding types of retail, creative goods and limited food services that were invited in the RFP, and the community engagement process.

² The April 21, 2016 Port Commission staff report [<http://sfport.com/sites/default/files/Commission/Documents/Commission%20Meeting%20Staff%20Reports/2016%20Commission%20Meeting%20Items/APR26/Item%2011A%20Pier%2029%20Bulkhead%20-%20Award%20of%20RFP.pdf>] provides more details regarding the results of the RFP and award of the exclusive right to negotiate to Jamestown.

Jamestown also proposes a local craft beverage operation that will feature a craft brewery, urban winery and coffee roastery. The back wall of the bulkhead will be anchored by a craft alcohol manufacturer and the zone closest to The Embarcadero is envisioned as a café showcasing a local San Francisco coffee roastery. The beverage-focused uses will have limited food service. The central portion of the space would be dedicated to the retail uses and would use the central arch as the main entrance. The beverage spaces are currently laid-out on the perimeter of the central retail space, establishing a large, engaging hall. Beverage production and storage, as well as public restrooms, would also be located within a portion of the bulkhead.

Pier 29 bulkhead is a contributing resource in the Embarcadero Historic District. All improvements will be designed to meet the Secretary of the Interior's Standards for the Treatment of Historic Properties ("Secretary's Standards"). Jamestown's efforts will include partitioning the proposed retail space from the shed space, creating accessible entries to the Site, installing ADA accessible restrooms and providing as needed electrical, fire safety, phone, data, water, sewer and gas utilities that will conform to meet applicable code requirements. In addition, Jamestown will construct all tenant improvements necessary to fulfill the needs of its retail concept described above.

SUMMARY OF TERM SHEET

Attachment B is the Conceptual Term Sheet proposed for endorsement. The key business terms and conditions include:

Tenant: JPPF OP Acquisitions, LLC, a Georgia limited liability company

Premises: The Premises is currently estimated to occupy 22,600 sf, but may vary slightly depending on occupancy calculations.

Lease Term: 15 years.

Base Rent: Fair market rent to be determined by the parties after taking into account costs of build-out for the project, with periodic fixed adjustments, which amount was estimated at the proposal stage to be \$25,000 per month.

Participation Rent: The Lease will provide the Port with an upside participation in revenues, including as a result of a sale of the Lease, that takes into account a reasonable and market-based return to Jamestown and the Port.

Funding: Jamestown will be solely responsible for the funding of all soft and hard project costs, estimated at the proposal stage to be \$5,830,000, subject to rent credits as provided below.

Rent Credits: Jamestown will be eligible for a rent credit against Base Rent for certain reasonable hard costs actually incurred for specified capital

improvements that benefit the Port, estimated at the proposal stage to be \$1,182,000.

**Waterfront Plan/
Public Trust:**

All uses permitted under the Lease shall be consistent with the public trust and Waterfront Land Use Plan, based upon findings by the Port Commission in accordance with the Burton Act and City Charter.

This proposal represents a Conceptual Term Sheet because the parties are in the early stage of negotiations regarding the financial aspects of the project, the analysis of the financial terms have not been highly developed as yet and are also conceptual at this point.

DESIGN DEVELOPMENT AND THE WATERFRONT PLAN

Upon the Port Commission's selection, Jamestown immediately initiated a comprehensive due diligence examination of the Site and began to develop its design concepts. Jamestown engaged with various local stakeholders and NEWAG, as well as work with Port staff from the Real Estate, Planning and Engineering Divisions.

Jamestown has appeared at the May 4, July 13 and November 10, 2016 NEWAG meetings to present project design, and project update reports. Port staff also initiated architectural and historic design review and provided direction to address Secretary Standards' requirements. While the NEWAG has expressed overall support of this re-use of the bulkhead building, the proposed design has generated questions and comments regarding the compatibility of architectural and public art features with the Embarcadero Historic District setting, which Jamestown will continue to address. Jamestown has worked diligently to revise its project concept to respond to these concerns which will continue, while also preparing for environmental review under the California Environmental Quality Act ("CEQA").

Additionally, one NEWAG member raised questions about the project's consistency with the Waterfront Plan, and whether the Port should proceed with this lease while the Waterfront Plan Update is in process. This concern was reiterated by the Coalition for San Francisco Neighborhoods and Sunset Parkside Education and Action Committee ("SPEAK"). The NEWAG member comment also asserted that Pier 29 is designated for active recreation use, and should not allow the proposed Jamestown project in the bulkhead portion of the facility. Port staff provided the following responses regarding the Waterfront Plan questions:

- The Waterfront Plan includes a matrix of Acceptable Land Uses for each Port property, which identifies a menu of allowable long-term uses (up to 66 years under the Burton Act). Retail and restaurants are trust-consistent uses and are listed as Acceptable Uses for Pier 29 (bulkhead and shed), along with a variety of other activities. The Jamestown project uses therefore are consistent with the Waterfront Plan.

- The Waterfront Plan includes the Waterfront Design & Access which provides additional direction regarding architectural and urban design, and historic rehabilitation, which applies to the Jamestown project.
- The Waterfront Plan includes policy language that indicates a broad range of mixed-use development opportunities for Piers 27-29 and 31, including a maritime mixed use recreation development. The former large, clear-span Pier 27 shed, which offered the best opportunity for active recreation uses, was replaced by the James R. Herman Cruise Terminal and Cruise Terminal Park. A prior public-private mixed use recreation development project for these facilities was unsuccessful.³
- Following the conclusion of the 34th America's Cup, the Port Commission has been focused on strategic leasing for Piers 19, 23 and 29 that enables the Port to reestablish revenue generation and business opportunities for these facilities, while also supporting the public process to update the Waterfront Plan. The Pier 29 Bulkhead re-tenanting effort is one of several projects that were in the pipeline when the Port Commission directed staff to undertake the Waterfront Plan Update. The Port Commission indicated that the Jamestown lease proposal should continue. Long-term use and development opportunities for Pier 29 shed should be informed by the Waterfront Plan Update process, although short-term leases (five years or less) will continue to address revenue objectives.

FURTHER COMMUNITY OUTREACH

Representatives of Jamestown remain committed to early and thorough public involvement in the review of the proposed leasing project. They have continued outreach to stakeholders, including meeting with the Barbary Coast Neighborhood Association (BCNA), and Telegraph Hill Dwellers. With assistance from Port staff, they have presented the proposed and revised design concepts to the NEWAG, and plan to make further presentations to NEWAG as the project evolves. Members of NEWAG continue to express support for the proposal. Both Port staff and Jamestown representatives will continue to apprise NEWAG of key project developments. This early exchange has addressed the majority of BCNA questions which led to a letter of support for the project. Attachment C includes comment letters and responses from Jamestown or the Port that have exchanged to date. Jamestown has committed to continue to work closely with the NEWAG and the community throughout the design and public approvals process.

Approval Process

Jamestown is expected to complete the following by early 2017: 1) obtain Port Commission endorsement of the Term Sheet, then seek Board of Supervisors' endorsement of the Term Sheet, 2) continue its due diligence, 3) complete environmental

³ The Piers 27-31 Mixed Use Recreation Project proposed by Mills Corporation (2000-2005), with YMCA is discussed in detail in the Port's Waterfront Plan Land Use Review Report [http://sfport.com/sites/default/files/FileCenter/Documents/9896-WLUP_Review_Chapter4_June2015_part2.pdf], June 2015; Chapter 4, pp. 205-206.

evaluation and discussions with the San Francisco Bay Conservation and Development Commission (“BCDC”), 4) complete negotiation of the Lease with the Port. Thereafter, Jamestown will seek Port Commission adoption of CEQA findings and approval of the Lease, which are also subject to approval of the Board of Supervisors, and BCDC permit approval.

After endorsement of the Conceptual Term Sheet by the Port Commission and the Board of Supervisors, the project concept will be refined and subject to a historic resources evaluation. The construction improvements will require review by the Port and Planning Department to determine their consistency with the Secretary Standards. The proposed improvements and use of the buildings are subject to review under the CEQA.

Endorsement of the proposed Conceptual Term Sheet does not commit the Port Commission to approve any project, enter into a Lease with Jamestown or take any other action. The Port will not take any discretionary actions in connection with this project until it has been reviewed and considered the environmental documentation prepared in compliance with CEQA.

Next Steps

If the Port Commission endorses the Conceptual Term Sheet, Port staff will submit the Conceptual Term Sheet to the Board of Supervisors for endorsement. The Board of Supervisors’ action will include public hearings and opportunities for public comment.

If the Port Commission and the Board of Supervisors endorse the Term Sheet, Jamestown and Port staff will move forward with project review and negotiation of the lease for the project. The lease will be subject to Port Commission and Board of Supervisor approval. Throughout this process, there will be further opportunities for public comment and review of the proposed project.

RECOMMENDATION

Port staff recommends that the Port Commission approve the attached resolution endorsing the Conceptual Term Sheet shown in Attachment B.

Prepared by: Mark Lozovoy, Acting Deputy Director, Real Estate
Diane Oshima, Assistant Director, Planning

For: Elaine Forbes, Executive Director

Attachments

- A. Pier 29 Area Map
- B. Term Sheet
- C. Comment Letters

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

RESOLUTION NO. 17-04

- 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, on December 8, 2015, the Port Commission, by Resolution 15-41, authorized Port staff to issue a request for proposals for the Retail Leasing Opportunity at the Pier 29 Bulkhead Building located at Chestnut Street and the Embarcadero; and
- WHEREAS, on December 23, 2015, the Port issued the Request for Proposals for the Retail Leasing Opportunity at the Pier 29 Bulkhead Building (the “RFP”); and
- WHEREAS, on April 26, 2016, by Resolution 16-17, the Port Commission awarded Jamestown an exclusive right to negotiate with the Port for a 15-year lease of approximately 20,000 square feet located at the Pier 29 Bulkhead Building (the “Lease”); and
- WHEREAS, the Port and Jamestown entered into an Exclusive Negotiation Agreement (“ENA”) that sets forth the process, terms and conditions upon which the Port and Jamestown will negotiate terms for a lease; and
- WHEREAS, Jamestown and Port staff have negotiated the Conceptual Term Sheet attached as Attachment B to the staff report accompanying this resolution (the “Term Sheet”), which sets forth the essential terms upon which the Port and Jamestown will negotiate in good faith to reach agreement on the final Lease; and
- WHEREAS, the Term Sheet is not itself a binding agreement that commits the Port or Jamestown to proceed with the approval or implementation of the project and the project will first undergo environmental review under the California Environmental Quality Act (“CEQA”) and will be subject to public review in accordance with the processes of the Port Commission, other City departments and offices, and other government agencies with approval over the proposed Lease before any entitlements and other regulatory approvals required for the Lease will be considered; now, therefore be it
- RESOLVED, that the Port Commission finds that the use proposed in the Term Sheet for a retail use in the Pier 29 Bulkhead Building is consistent with the Waterfront Land Use Plan (the “WLUP”), and hereby endorses the Term Sheet and further, authorizes and directs the Executive Director

of the Port, or her designee, to present the Term Sheet to the Board of Supervisors for its endorsement of the Term Sheet; and, be it further

RESOLVED, that provided the Board of Supervisors endorses the Term Sheet for the Lease, the Port Commission authorizes and directs the Executive Director of the Port, or her designee, to work with Jamestown to undertake project review and negotiate the terms and conditions of the Lease, with the understanding that the final terms and conditions of the Lease negotiated between Port staff and Jamestown during the exclusive negotiation period will be subject to the approval of the Port Commission and as applicable, the Board of Supervisors and the Mayor; and, be it further

RESOLVED, that endorsement of the Term Sheet and direction to Port staff does not commit the Port Commission or the City to approval of the final Lease or implementation of the Lease or grant any entitlements to Jamestown, nor does the Term Sheet foreclose the possibility of considering alternatives to the proposal, mitigation measures or deciding not to grant entitlement or approve or implement the Lease, after conducting appropriate environmental review under CEQA, and while the Term Sheet identifies certain essential terms of a proposed transaction with the Port, it does not necessarily set forth all of the material terms and conditions of any final Lease; and, be it further

RESOLVED, that the Port Commission will not take any discretionary actions committing the Port to implement the project, and the provisions of the Term Sheet are not intended and will not become contractually binding on the Port unless and until the Port Commission has reviewed and considered environmental documentation prepared in compliance with the CEQA for the Project and the Port Commission, and as applicable, the Board of Supervisors and the Mayor, have approved the final Lease.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of January 10, 2017.

Secretary