

Century | Urban

# Strategic Real Estate Advisory Services

Financial Review of the Pier 33 ½ Response  
to Request for Proposals

Presented to:

The Port of San Francisco

July 10, 2018



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**DRAFT PIER 33 1/2 - LEASE FINANCIAL REVIEW**

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**TO:** The Port of San Francisco  
*Sandra Oberle*

**FROM:** Century Urban, LLC

**SUBJECT:** Preliminary Financial Review of the Response to Request for Proposals for a Restaurant Lease at Pier 33 ½

**DATE:** May 14, 2018

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Century Urban, LLC (“Century | Urban”) has been engaged by the Port of San Francisco (“the Port”) to perform a financial review of a potential restaurant lease at Pier 33 ½. In October 2017, the Port of San Francisco released a Request for Proposals (“RFP”) for a restaurant lease opportunity at Pier 33 ½. The Port received one response. The respondent is a new single purpose entity, Anchor Hospitality Group, LLC (the “Tenant”), and is comprised of three managing members of which the majority owner is Highway One Hospitality, LLC (“H1H”). The Tenant has proposed to lease the restaurant space located at Pier 33 ½ for a Mexican-inspired multi-use restaurant concept called PuertoSF. Following is Century | Urban’s assessment of the Tenant’s financial capacity and pro forma projections.

### **Project Overview**

Pier 33 ½ sits along the waterfront of the Embarcadero Historic District and is located south of the popular Pier 39. The site consists of approximately 4,615 square feet of interior space, and was previously occupied by the Butterfly Restaurant, which vacated in January 2017. The restaurant space has been improved with a kitchen, dining space, a bar and other support space. According to a Condition Assessment prepared by Parsons | Lotus Water in September 2016, the majority of the current kitchen construction appears to have been completed in 1997. There is also approximately 2,000 square feet of exterior space available for storage, and refuse/recycling management.

### **Minimum Qualifications**

According to the Request for Proposals, respondents must meet certain minimum requirements. Furthermore, if the respondent is a newly formed entity, all principals who own an aggregate of 51% or more must meet the following minimum qualifications:

- a) Have a minimum of five years (5) within the past seven (7) years (“qualifying years”) in the ownership or management of a full service restaurant (“qualifying business”); and
- b) Respondents must have a qualifying business that has achieved a minimum gross sales of \$2,000,000 per qualifying year.



Below is a brief review of the Tenant’s satisfaction of the minimum requirements.

### *The Operating Structure*

The ownership entity is Anchor Hospitality Group, LLC (“Anchor Hospitality”) and the managing members will include the entities listed below. Each managing member’s respective ownership of Anchor Hospitality is also provided below.

- Highway One Hospitality, LLC - 51%
- Derek Smith - 24.5%
- Michael Suverkrubbe - 24.5%

### *Experience of the Primary Managing Member*

As noted above, H1H will be the primary managing member of Anchor Hospitality. H1H operates Nick’s Cove in Tomales Bay, California; Halcyon, a music and event venue in San Francisco; and Contrada, a Tuscan-inspired restaurant and wine bar in the Union Street district, among other entities.

According to the Tenant’s response to the RFP, Nick’s Cove Restaurant, Oyster Bar and Cottages includes 12 luxurious, modern and private cottages along the waterfront and has been in existence for 80 years. Nick’s Cove Restaurant serves seasonal, sustainable California cuisine sourced from its own on-site garden.

It is unclear when H1H began managing Nick’s Cove; however, H1H provided financial statements for the years 2013 through 2017, therefore the managing member has demonstrated that it has a minimum of 5 years of operating experience as per the RFP minimum requirements.

### *Gross Sales of the Primary Managing Member*

H1H reported gross sales over the past 5 years as follows:

*Table 1: H1H Gross Sales*

	2013	2014	2015	2016	2017
<b>Total Sales Revenue</b>	\$3,111,122	\$3,047,533	\$3,192,936	\$3,412,406	\$3,489,039

As shown above, H1H has had gross sales exceeding \$2 million in each of the past 5 years, meeting the second minimum requirement.

### **Capital Investments**

According to the RFP, proposals must include a description of proposed tenant improvements and the anticipated amount of proposed capital investment. The minimum capital investment must be sufficient to complete all improvements and address required code upgrades, ADA



requirements, furnishings, fixtures, equipment, etc., and provide an appealing design for the proposed concept.

The Port engaged Parsons | Lotus Water to perform a Condition Assessment in September 2017. The Conditions Assessment specifically evaluated the adequacy and functionality of existing mechanical, electrical and plumbing systems (“MEP”), fire protection systems, plus code compliance of architectural, ADA and SFDPH codes. Furthermore, the Port will require that the new tenant install a compliant fire sprinkler system as part of the new lease.

The Condition Assessment report identified the following items requiring upgrading or replacement:

- a) A new mechanical ventilation system for the gas meter closet/enclosure to meet PG&E standards.
- b) The entry door does not currently meet the maximum exit separation distance between exits of 56’4” for non-sprinklered construction. An alteration to the entry door layout would be required to meet the current code, however, if the tenant installs a fire sprinkler system, no alteration may be needed.
- c) An exit door leading from the kitchen to the shed does not swing in the direction of egress and is, therefore, not compliant.
- d) The Condition Assessment could not definitively confirm that all walls of the restaurant interior are fire rated. If further testing is performed or if walls are opened during renovation and existing walls are found to not be fire rated, walls would need to be retrofitted with gypsum board.
- e) Construction at the existing mechanical penthouse floor assembly may be required to create a horizontal occupancy separation.
- f) Three mechanical shaft walls extend from the top of the plywood deck of the mechanical penthouse to the underside of the wooden roof deck of the shed for the exhaust ducts from the kitchen equipment. The Condition Assessment could not determine if a fire rated wall extends continuously through to the mechanical penthouse. The condition of the mechanical shaft was highlighted as a significant concern and may require further testing.
- g) A push plate at the take-out door will need to be installed or the existing upper replaced to be compliant with path of travel code requirements.
- h) Nearly all toilet accessories, including grab bars, toilet paper and seat cover dispensers, soap and paper towel dispensers do not meet accessible mounting height for all restrooms.

Per the RFP response the Tenant has committed to investing \$1.5 million, or approximately \$325 per net rentable square feet, to “improve or replace existing equipment, structure and functional or design elements”. In addition, the Tenant has proposed a floor plan that would require the demolition of the existing bar and the construction of a new bar in the center of the restaurant. The Tenant is also proposing to construct a semi-enclosed private dining area, create an outdoor seating area at the front of the restaurant as well as an outdoor seating area along the exterior deck. Per a call with the Tenant on May 9, 2018, the Tenant now estimates a budget of \$1.8 million



(\$390 per net rentable square feet) for code upgrades, ADA requirement upgrades, furnishings, fixtures, equipment (“FFE”), HVAC system upgrade and design costs.

Based on discussions with current restaurant leasing brokers as well as various restaurant operators that own restaurants in the North Beach and Financial District areas, restaurants currently require tenant improvements ranging from \$400 to \$500 per square foot above a restaurant shell. This estimate does not include all costs that would be incurred for a development project such as financing, marketing, start-up and certain FF&E costs as well as other typical construction soft costs. As the site has a fully built-out kitchen with the required electrical and plumbing, a bar and dining areas given its previous use as a restaurant, the Tenant anticipates cost savings relative to a new restaurant build out. As the Tenant intends to minimize costs by utilizing as much of the existing improvements as possible, it is Century | Urban’s opinion that the capital investment budget should be sufficient.

### **Financial Capacity of the Tenant to Fund Capital Costs**

As noted above, the RFP requires that all principals who own an aggregate of 51% or more of the ownership entity must meet the minimum qualifications. As such, only financial statements for H1H were provided with the RFP response.

The RFP response indicates that H1H intends to self-fund the cost of the initial restaurant improvements, design and construction and the Tenant has indicated in subsequent discussions that it will also source outside investors. The RFP response indicated that H1H has access to an additional line of credit if needed, but the availability of the credit line was not provided.

As of December 31, 2017, H1H reported total assets of \$32,712,580 including \$25,159,369 of investments in other hospitality ventures and \$3,058,034 of current assets, largely comprised of a note receivable in the amount of \$2,484,000. H1H also reported total liabilities of \$629,003. As the majority of H1H’s reported assets are investments in other hospitality ventures, which are typically not liquid, Century | Urban requested that the Tenant provide additional information demonstrating immediate access to \$1.8 million of capital to fulfill the Tenant’s capital investment commitment. On June 14, 2018, the Tenant provided financial documents for a private investor that had not been previously identified. The financial documents show liquid assets in excess of \$1.8 million. The Tenant has informed the Port that the investor will invest in the project in conjunction with other outside investors, though the investor has not committed to a specific equity amount. Given the large balance sheet of H1H and the financial documents showing liquid assets in excess of \$1.8 million, Century | Urban believes the Tenant has demonstrated financial capacity to fund its capital commitment.

### **5-Year Pro Forma**

The RFP required that respondents provide a 5-year pro forma indicating projected sales, expenses and net income. The Tenant submitted a 5-year pro forma that projects net income over the first five years of operation. A replicated pro forma as provided by the Tenant is shown as Exhibit A below.



Century | Urban performed a careful review of the pro forma and found several operating assumptions to be inconsistent with the current restaurant market in San Francisco:

### *Sales Revenue*

The table below summarizes the projected annual revenue per the Tenant pro forma. As shown below, the Tenant estimates sales revenue growth of 20% in Year 2 and Year 3 and 10% sales revenue growth in Year 4 and Year 5. While it is typical for a restaurant to realize significant growth in the first couple of years of operation as it develops a customer base, it is not typical for restaurants in San Francisco to realize revenue growth of the magnitude assumed in the pro forma as described in the following paragraphs.

*Table 2: Sales Revenue Projections*

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Total Sales Revenue</b>	\$4,500,000	\$5,400,000	\$6,480,000	\$7,128,000	\$7,840,800
<b>YOY Growth %</b>	NA	20%	20%	10%	10%

As sales revenue for a full-service restaurant and bar is constrained by seating capacity and table turnover, sales growth naturally stabilizes after an initial ramp up period. A typical restaurant pro forma estimates annual sales revenue by estimating the average check per customer multiplied by the total covers per year (i.e. the total number of customers served in a given year). The average check is assumed to be constant over the course of the year and is driven by menu prices. Furthermore, the maximum number of turns that the restaurant can support is also presumed to be fixed and is determined by the type of dining establishment. The primary variable in a sales revenue projection is occupancy (i.e. the number of customers that dine at the restaurant). The occupancy rate for a new restaurant is typically 70% or lower as the business works to attract new customers.

Per a call with the Tenant on May 9, 2018, the Tenant is conservatively assuming a Year 1 occupancy rate of about 50% with strong growth in the first few years. The Tenant believes that heavy foot traffic and a lack of a Mexican casual dining restaurant in the immediate area will result in strong revenue growth during the first 3 years. While it is typical for a new restaurant to see significant revenue growth during its first few years of operation, the San Francisco restaurant industry has, in general, experienced slow same store revenue growth between 2014 and 2017. Indeed, six restaurants located in Port-owned assets reported an average annual sales revenue decrease of 0.10% between January 2014 and August 2017. One restaurant, which opened in April 2013 reported sales growth of 6% between 2014 and 2015, 3% sales growth between 2015 and 2016 and 2% sales growth between August 2016 and August 2017 (the last month of reported sales). Furthermore, according to an article by the San Francisco Business Times published on December 11, 2017, Bay Area restaurant operators in October of that year reported “a drop in customer traffic for the seventh consecutive month of the year.”



Century | Urban also compared the Tenant's sales revenue projections on a \$ per square footage basis to other similarly sized full-service restaurants in the Port portfolio. As the table below shows, sales revenue PSF is estimated at \$975 in Year 1 and \$1,699 in Year 5. If adjusted for inflation (assuming 3% per year), revenue PSF at Year 5 would be the equivalent of \$1,509 in today's dollars, which would exceed most restaurants in the Port portfolio including Pier 23 Café, which averaged \$1,049 PSF from December 2016 through November 2017.

*Table 3: Sales Revenue PSF*

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales \$ PSF	\$975	\$1,170	\$1,404	\$1,545	\$1,699

Per the Tenant pro forma, approximately 51% of revenue is expected to come from the sale of liquor, beer and wine. Another 13% of revenue is projected to come from Catering & To-Go sales, which will include a breakfast service. The Tenant indicated in the proposal that it will provide a happy hour service, which will be a source of revenue in between lunch and dinner service.

Given that the Tenant assumed a relatively low occupancy rate during the first year of operations, and that the Tenant anticipates multiple sources of revenue, which will include happy hour sales, and a to-go service that will offer breakfast menu items, Century | Urban believes that the PuertoSF restaurant may realize strong annual sales growth during the first three years. However, as noted above, the Tenant's pro forma assumptions on sales per square foot would make it one of the highest grossing restaurants in the Port portfolio on a dollar per square foot basis, and as the restaurant industry in San Francisco has not experienced significant sales growth, Century | Urban believes a more conservative estimate for annual sales revenue growth is appropriate. Therefore, Century | Urban has adjusted the pro forma to assume sales growth of 20% in Year 2, 10% in Year 3, 10% in Year 4 and 3% thereafter.

### *Cost of Sales*

Cost of Sales is typically estimated as a percentage of sales revenue and represents the cost of food and beverages available for sale to customers. Cost of Sales currently range from 30% - 35% of Sales Revenue for typical full-service restaurants whereby food cost as a percentage of sales tend to be higher and beverage costs as a percentage of sales tend to be lower. H1H reported an average of 35% Cost of Sales for the restaurants and food and beverage establishments it operates. As shown below, the Tenant's projections for Cost of Sales are lower than is typical for similar casual full service restaurants.

Per a call with the Tenant on May 9, 2018, the Tenant estimates that liquor, beer and to-go sales will have a cost of sales that is less than 20%. The Tenant also estimates that wine cost of sales will average around 25%-35% of revenue and food cost of sales will average around 25% of revenue. The Tenant explained that food sales are lower than typical because of the Mexican-inspired menu, which will include several food items that have a lower cost than other regional cuisines.

**Table 4: Cost of Sales**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Total Cost of Sales</b>	\$984,000	\$1,180,800	\$1,416,960	\$1,558,656	\$1,714,521
<b>% of Revenue</b>	22%	22%	22%	22%	22%

Based on the discussion with the Tenant as well as Century | Urban's research of other restaurant operators' cost of sales, Century | Urban adjusted the Tenant pro forma to reflect a Cost of Sales of 24% of revenue.

### *Operating Expense Inflation*

Certain operating expenses are variable and linked to sales revenue. These operating expenses include advertising and marketing, credit card expenses and utilities among other expenses. Expenses that are generally fixed include drinkware, trash removal, landscaping and plant care costs, among other fixed expenses. Fixed expenses are not variable but generally change over time due to inflation. Although the Tenant pro forma did not indicate whether the pro forma reflects annual projected revenue and expense inflation, it is customary for a pro forma to adjust revenue and expenses each year for inflation. For underwriting purposes, a 3% inflation rate is typically applied to both revenue and expense projections. Given the high sales revenue growth projections as per Table 2 above, we assume that sales revenue is inflated by 3% and therefore, a 3% operating expense inflation assumption should also be applied. It should be noted that the pro forma appears to be missing possessory interest tax, which the Tenant will be required to pay. Furthermore, the pro forma projects valet parking expenses but does not provide an estimate for valet parking revenue.

### *Revised 5-Year Pro Forma*

Per the comments above, Century | Urban revised the Tenant's original 5-year pro forma to reflect assumptions that are in line with the current restaurant market in San Francisco. These revisions are based on Century | Urban's research of the operations of other restaurant leases in Port-owned facilities as well as discussions with restaurant leasing brokers and restaurant operators in San Francisco. The variance of the revised pro forma to the Tenant's pro forma is shown in the column labeled "5-Year Variance" below.





Table 5: Adjusted 5-Year Pro Forma

PuertoSF 5-Year Pro Forma – Revised by Century   Urban							
	Year 1	Year 2	Year 3	Year 4	Year 5	Total	5-Year Variance
<b>REVENUE</b>							
Sales - Food	\$ 1,600,000	\$ 1,920,000	\$ 2,112,000	\$ 2,323,200	\$ 2,392,896	\$ 10,348,096	\$ (798,144)
Sales - Liquor	1,600,000	1,920,000	2,112,000	2,323,200	2,392,896	10,348,096	(798,144)
Sales - Beer	500,000	600,000	660,000	726,000	747,780	3,233,780	(249,420)
Sales - Wine	200,000	240,000	264,000	290,400	299,112	1,293,512	(99,768)
Sales - Catering & To-Go	600,000	720,000	792,000	871,200	897,336	3,880,536	(299,304)
<b>Total Revenue</b>	<b>\$ 4,500,000</b>	<b>\$ 5,400,000</b>	<b>\$ 5,940,000</b>	<b>\$ 6,534,000</b>	<b>\$ 6,730,020</b>	<b>\$ 29,104,020</b>	<b>\$ (2,244,780)</b>
Annual Growth %		20%	10%	10%	3%		
<b>COST OF SALES</b>							
Purchases - Food	\$ 384,000	\$ 460,800	\$ 506,880	\$ 557,568	\$ 574,295	\$ 2,483,543	\$ (414,479)
Purchases - Liquor	384,000	460,800	506,880	557,568	574,295	2,483,543	477,220
Purchases - Beer	120,000	144,000	158,400	174,240	179,467	776,107	79,467
Purchases - Wine	48,000	57,600	63,360	69,696	71,787	310,443	(107,541)
Purchases - Catering	144,000	172,800	190,080	209,088	215,361	931,329	95,361
<b>Total Cost of Sales</b>	<b>\$ 1,080,000</b>	<b>\$ 1,296,000</b>	<b>\$ 1,425,600</b>	<b>\$ 1,568,160</b>	<b>\$ 1,615,205</b>	<b>\$ 6,984,965</b>	<b>\$ 130,028</b>
% of Revenue	24%	24%	24%	24%	24%	24%	
<b>SALARIES AND WAGES</b>							
Payroll - Management Salaries	\$ 450,000	\$ 540,000	\$ 594,000	\$ 653,400	\$ 673,002	\$ 2,910,402	\$ (224,478)
Payroll - Hourly Staff	900,000	1,080,000	1,188,000	1,306,800	1,346,004	5,820,804	(448,956)
Payroll Tax Expense	202,500	243,000	267,300	294,030	302,851	1,309,681	(101,015)
Insurance - Workers Comp	50,625	60,750	66,825	73,508	75,713	327,420	(25,254)
Insurance - Health	101,250	121,500	133,650	147,015	151,425	654,840	(50,508)
Insurance - General	36,000	36,000	33,000	33,000	30,900	168,900	(11,100)
<b>Total Salaries and Wages</b>	<b>\$ 1,740,375</b>	<b>\$ 2,081,250</b>	<b>\$ 2,282,775</b>	<b>\$ 2,507,753</b>	<b>\$ 2,579,895</b>	<b>\$ 11,192,048</b>	<b>\$ (861,310)</b>
% of Revenue	39%	39%	38%	38%	38%	38%	
<b>MANAGEMENT FEE</b>	<b>\$ 135,000</b>	<b>\$ 162,000</b>	<b>\$ 178,200</b>	<b>\$ 261,360</b>	<b>\$ 269,201</b>	<b>\$ 1,005,761</b>	<b>\$ (84,391)</b>
% of Total Revenue	3.00%	3.00%	3.00%	4.00%	4.00%	3.46%	
<b>ADMINISTRATIVE &amp; MARKETING COSTS</b>							
Advertising & Marketing	\$ 67,500	\$ 81,000	\$ 97,200	\$ 106,920	\$ 117,612	\$ 470,232	\$ -
Accounting & Legal Expense	50,625	60,750	72,900	80,190	88,209	352,674	-
Bar Supplies	45,000	54,000	64,800	71,280	78,408	313,488	-
Cleaning Services	40,000	41,200	42,436	43,709	45,020	212,365	12,365
China & Silverware	12,000	12,360	12,731	13,113	13,506	63,710	3,710
Credit Card Expense	121,500	145,800	174,960	192,456	211,702	846,418	-
Glassware	15,000	15,450	15,914	16,391	16,883	79,637	4,637
Kitchen Supplies	45,000	54,000	64,800	71,280	78,408	313,488	-
Laundry & Linen	45,000	54,000	64,800	71,280	78,408	313,488	-
Licenses & Permits	8,000	8,240	8,487	8,742	9,004	42,473	2,473
Landscaping	12,000	12,360	12,731	13,113	13,506	63,710	3,710
Equipment Leases	24,000	24,720	25,462	26,225	27,012	127,419	7,419
Paper Goods	36,000	39,600	43,560	47,916	52,708	219,784	-
Utilities	36,000	39,600	43,560	47,916	52,708	219,784	-
Valet Parking	36,000	37,080	38,192	39,338	40,518	191,129	11,129
Plants/Flowers	12,000	12,360	12,731	13,113	13,506	63,710	3,710
Public Relations Expense	50,000	51,500	53,045	54,636	56,275	265,457	135,457
Repairs & Maintenance	12,000	12,360	12,731	13,113	13,506	63,710	3,710
Rubbish Removal	30,000	30,900	31,827	32,782	33,765	159,274	9,274
	<b>\$ 697,625</b>	<b>\$ 787,280</b>	<b>\$ 892,866</b>	<b>\$ 963,512</b>	<b>\$ 1,040,666</b>	<b>\$ 4,381,949</b>	<b>\$ 197,593</b>
% of Total Revenue	16%	15%	15%	15%	15%	15%	
<b>RENT</b>							
Rent (Greater of base or % rent)	\$ 315,000	\$ 378,000	\$ 415,800	\$ 457,380	\$ 471,101	\$ 2,037,281	\$ (157,135)
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 2,888,000</b>	<b>\$ 3,408,530</b>	<b>\$ 3,769,641</b>	<b>\$ 4,190,005</b>	<b>\$ 4,360,863</b>	<b>\$ 18,617,039</b>	<b>\$ (905,243)</b>
<b>NET INCOME</b>	<b>\$ 532,000</b>	<b>\$ 695,470</b>	<b>\$ 744,759</b>	<b>\$ 775,835</b>	<b>\$ 753,952</b>	<b>\$ 3,502,016</b>	<b>\$ (1,469,565)</b>



## Conclusion

Based upon its review of the information provided by the Tenant in response to the RFP, a review of sales activity by other restaurants operating in Port-owned facilities, Century | Urban makes the following findings:

- a) The Tenant satisfies the minimum requirements as outlined in the RFP.
- b) The capital budget of \$1.8 million should be sufficient to cover all project costs including costs to meet code compliance and ADA requirements, FF&E, building hard costs and other soft costs.
- c) Century | Urban believes that the Tenant has demonstrated financial capacity to fund project costs based on the financial statements provided for H1H and financial documents from a prospective private investor.
- d) The Tenant 5-year pro forma utilizes sales and expense assumptions that may be aggressive when compared to other projects in San Francisco. However, when adjusted to reflect Century | Urban's estimate for sales and expense assumptions, the project is anticipated to generate positive net income over the first five years.

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## Appendix A – Tenant Pro Forma

## PuertoSF 5-Year Pro Forma -- Per RFP Submittal

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>REVENUE</b>						
Sales - Food	\$ 1,600,000	\$ 1,920,000	\$ 2,304,000	\$ 2,534,400	\$ 2,787,840	\$ 11,146,240
Sales - Liquor	1,600,000	1,920,000	2,304,000	2,534,400	2,787,840	11,146,240
Sales - Beer	500,000	600,000	720,000	792,000	871,200	3,483,200
Sales - Wine	200,000	240,000	288,000	316,800	348,480	1,393,280
Sales - Catering & To-Go	600,000	720,000	864,000	950,400	1,045,440	4,179,840
<b>Total Revenue</b>	<b>\$ 4,500,000</b>	<b>\$ 5,400,000</b>	<b>\$ 6,480,000</b>	<b>\$ 7,128,000</b>	<b>\$ 7,840,800</b>	<b>\$ 31,348,800</b>
Annual Growth %		20%	20%	10%	10%	
<b>COST OF SALES</b>						
Purchases - Food	\$ 416,000	\$ 499,200	\$ 599,040	\$ 658,944	\$ 724,838	\$ 2,898,022
Purchases - Liquor	288,000	345,600	414,720	456,192	501,811	2,006,323
Purchases - Beer	100,000	120,000	144,000	158,400	174,240	696,640
Purchases - Wine	60,000	72,000	86,400	95,040	104,544	417,984
Purchases - Catering	120,000	144,000	172,800	190,080	209,088	835,968
<b>Total Cost of Sales</b>	<b>\$ 984,000</b>	<b>\$ 1,180,800</b>	<b>\$ 1,416,960</b>	<b>\$ 1,558,656</b>	<b>\$ 1,714,521</b>	<b>\$ 6,854,937</b>
% of Revenue	22%	22%	22%	22%	22%	22%
<b>SALARIES AND WAGES</b>						
Payroll - Management Salaries	\$ 450,000	\$ 540,000	\$ 648,000	\$ 712,800	\$ 784,080	\$ 3,134,880
Payroll - Hourly Staff	900,000	1,080,000	1,296,000	1,425,600	1,568,160	6,269,760
Payroll Tax Expense	202,500	243,000	291,600	320,760	352,836	1,410,696
Insurance - Workers Comp	50,625	60,750	72,900	80,190	88,209	352,674
Insurance - Health	101,250	121,500	145,800	160,380	176,418	705,348
Insurance - General	36,000	36,000	36,000	36,000	36,000	180,000
<b>Total Salaries and Wages</b>	<b>\$ 1,740,375</b>	<b>\$ 2,081,250</b>	<b>\$ 2,490,300</b>	<b>\$ 2,735,730</b>	<b>\$ 3,005,703</b>	<b>\$ 12,053,358</b>
% of Revenue	39%	39%	38%	38%	38%	38%
<b>MANAGEMENT FEE</b>						
	<b>135,000</b>	<b>162,000</b>	<b>194,400</b>	<b>285,120</b>	<b>313,632</b>	<b>\$ 1,090,152</b>
% of Total Revenue	3.00%	3.00%	3.00%	4.00%	4.00%	3.48%
<b>ADMINISTRATIVE &amp; MARKETING COST</b>						
	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	
Advertising & Marketing	\$ 67,500	\$ 81,000	\$ 97,200	\$ 106,920	\$ 117,612	\$ 470,232
Accounting & Legal Expense	50,625	60,750	72,900	80,190	88,209	352,674
Bar Supplies	45,000	54,000	64,800	71,280	78,408	313,488
Cleaning Services	40,000	40,000	40,000	40,000	40,000	200,000
China & Silverware	12,000	12,000	12,000	12,000	12,000	60,000
Credit Card Expense	121,500	145,800	174,960	192,456	211,702	846,418
Glassware	15,000	15,000	15,000	15,000	15,000	75,000
Kitchen Supplies	45,000	54,000	64,800	71,280	78,408	313,488
Laundry & Linen	45,000	54,000	64,800	71,280	78,408	313,488
Licenses & Permits	8,000	8,000	8,000	8,000	8,000	40,000
Landscaping	12,000	12,000	12,000	12,000	12,000	60,000
Equipment Leases	24,000	24,000	24,000	24,000	24,000	120,000
Paper Goods	36,000	39,600	43,560	47,916	52,708	219,784
Utilities	36,000	39,600	43,560	47,916	52,708	219,784
Valet Parking	36,000	36,000	36,000	36,000	36,000	180,000
Plants/Flowers	12,000	12,000	12,000	12,000	12,000	60,000
Public Relations Expense	50,000	20,000	20,000	20,000	20,000	130,000
Repairs & Maintenance	12,000	12,000	12,000	12,000	12,000	60,000
Rubbish Removal	30,000	30,000	30,000	30,000	30,000	150,000
	<b>\$ 697,625</b>	<b>\$ 749,750</b>	<b>\$ 847,580</b>	<b>\$ 910,238</b>	<b>\$ 979,163</b>	<b>\$ 4,184,356</b>
% of Total Revenue	16%	14%	13%	13%	12%	13%
<b>RENT</b>						
Percentage Rent	\$ 315,000	\$ 378,000	\$ 453,600	\$ 498,960	\$ 548,856	\$ 2,194,416
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 2,888,000</b>	<b>\$ 3,371,000</b>	<b>\$ 3,985,880</b>	<b>\$ 4,430,048</b>	<b>\$ 4,847,354</b>	<b>\$ 19,522,282</b>
<b>NET INCOME</b>	<b>\$ 628,000</b>	<b>\$ 848,200</b>	<b>\$ 1,077,160</b>	<b>\$ 1,139,296</b>	<b>\$ 1,278,925</b>	<b>\$ 4,971,581</b>



**DISCLAIMER:**

The preliminary financial review summary for the Pier 33 ½ has been prepared for the sole and exclusive use of the Port of San Francisco and shall not be disseminated to other organizations without the express written consent of the Port of San Francisco and Century Urban, LLC.

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