

MEMORANDUM

September 21, 2018

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. Gail Gilman
Hon. Victor Makras
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Request award of the Restaurant Opportunity at Pier 33 ½, located at Bay Street and The Embarcadero, to Anchor Hospitality Group LLC (Anchor) and authority to enter into exclusive negotiations with Anchor for a lease subject to Port Commission approval.

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

EXECUTIVE SUMMARY

The Port Commission held an informational presentation on August 14, 2018 on the results of the Request for Proposals (RFP) for a restaurant lease opportunity at the Pier 33 ½ bulkhead building. Based on the Port Commission supportive response to the informational presentation, Port staff requests authorization to award the opportunity to Anchor as a qualified Respondent to the RFP and enter into exclusive negotiation with Anchor for a lease subject to future Port Commission approval.

BACKGROUND

The retail space at Pier 33½ has been operated as a restaurant for over 30 years, most recently as Butterfly Restaurant, offering Asian fusion cuisine with full service dining and take-out counter. The space has been vacant since Butterfly Restaurant ceased operations in January 2017.

Situated on the marginal wharf between Piers 33 and 35, this restaurant site has views of San Francisco Bay from the window wall on the east side of the building. The site is just north of Alcatraz Landing, which draws over 1.7 million visitors per year, and is close to multiple office buildings and private residences. It has a full kitchen, storage

and food preparation area, dining room and lounge and is comprised of approximately 4,600 sq. ft. Maximum capacity for the current restaurant layout is approximately 120 persons seated. There is additional support space of up to 2,000 sq. ft. not included in the restaurant square footage that is available adjacent to the restaurant space in Pier 33 for storage, trash/recyclables management and deliveries at additional rent.

Pursuant to the Port Commission Retail Leasing Policy and the San Francisco Administrative Code, retail leasing opportunities must be offered through a competitive public solicitation and any lease with a term of ten (10) years or more and/or having anticipated revenue to the Port of one million dollars or more requires Board of Supervisors approval.

The Port conducted an extensive Lease Condition Assessment report with consultant Parson / Lotus Water that was attached to the RFP. The restaurant space will require upgrades to meet current code requirements, along with new tenant improvements such as lighting, kitchen ventilation, pollution control units to filter grease, smoke and odors, grease interceptors and fire suppression systems. Due to the current condition of the premises, a significant investment will be required to enable a restaurant operator to open for business and therefore will also require sufficient lease term to amortize the investment.

The Port Commission authorized staff to issue a Request for Proposals (RFP) for a restaurant lease opportunity at the Pier 33 ½ bulkhead building on May 23, 2017 (Resolution No. 17-25).

Based on Port Commission authorization to issue an RFP for both Pier 33 ½ and Pier 40, staff prepared and issued two comprehensive RFPs that were specifically tailored to each respective site. Each RFP included a description of the opportunity, an overview of the Port, site information, summary of key lease terms, submission requirements, the evaluation and award process, terms and conditions and necessary approvals. Each RFP also included site plans, a form lease, rules and regulations, a facility assessment survey, BCDC Permits, summary of gross sales and a summary of the Seawall Earthquake Vulnerability Study. Submittal requirements included a statement of minimum qualifications, statement of ability to comply with governmental requirements, evaluation criteria, financial pro forma, letter of credit sample form and minimum rent offer.

The RFP's were released on October 12, 2017 with the original submittal deadline of Friday December 8, 2017. Subsequently Port staff extended the submittal deadline to January 26, 2018, and held additional informational meetings and site visits with prospective proposers in order to encourage maximum participation in the process.

Based on this broad outreach, the Pier 33 ½ RFP attracted a fair amount of preliminary interest but realized only a single proposal from Anchor Hospitality Group, LLC ("Anchor"). This California limited liability company is comprised of three managing members, of which the majority owner is Highway One Hospitality, LLC ("H1H"). Anchor timely submitted a comprehensive, well-crafted and qualified proposal for the Pier 33½ location.

Port staff reviewed the Anchor proposal to ensure it was complete and met the minimum qualifications required by the RFP. Due to the fact there was only one proposal received, the Port did not convene the planned advisory panel to provide formal scoring of the submittal. The Port engaged one of its as-needed economic consultants, Century Urban, to review the response to the RFP to ensure the proposal met the minimum requirements. The consultants evaluated the proposal in relation to terms of meeting the minimum qualifications, capital investment, financial capacity of the tenant to fund capital costs and the submitted 5-year pro forma. Century Urban met with the Anchor partners on numerous occasions to fully understand the organization, sources of funding and capability to perform its financial obligations.

Based on the evaluation of the proposal by Port staff and its consultant, Port staff has determined that Anchor's proposal meets or exceeds the minimum requirements outlined in the RFP. Further, Port staff believes that Anchor would be an excellent addition to the Port's restaurant community in terms of concept, proposed food and beverage sample menu, experience, financial ability and its commitment to community participation. The proposed restaurant would fill a much needed void for a full service restaurant in the northeastern waterfront serving locals and visitors alike. Renowned restaurateur and chef, Richard Sandoval, will lend his wealth of experience developing and operating 45 restaurants worldwide, including the former Maya Restaurant in San Francisco. Anchor has proposed a modern Latin inspired full service restaurant combined with take-out service that is envisioned to be a neighborhood destination.

STRATEGIC OBJECTIVE

A new, modernized restaurant at Pier 33½ is expected to contribute in a substantial way to meeting the Engagement, Economic Vitality and Stability objectives of the Port's Strategic Plan.

- *Engagement Objectives:* Anchor provides an opportunity to expand the Port's diversity in lease opportunities through increased outreach to underserved communities and through developing partnerships. The RFP opportunity was presented at the Port's Contract Opportunities Open House and has been shared with local business organizations, including the African American Chamber of Commerce and the San Francisco Small Business Office.
- *Economic Vitality Objectives:* Anchor will support the Economic Viability objective to create value and a stable income stream to the Port.
- *Stability Objectives:* The proposer will retain and modernize an important Port restaurant location and improve Port revenue, supporting key Stability objectives aimed at retaining a diversified tenant base and increasing Port revenue.

SELECTION PROCESS

The RFP selection process was initially anticipated to utilize an advisory panel consisting of up to five individuals with experience in real estate, retail leasing, restaurant operations and related industries. The advisory panel would review and

score all of the written proposals received by the Port, as well as engaging in interviews with the highest-scoring proposers. Port staff would recommend the most qualified proposal based on the information contained in the response to the RFP, an investigation of the proposer's financial capability, past projects and performance, oral interviews and other pertinent factors to make a final recommendation to the Port Commission.

Since Anchor was the sole proposer, Port staff did not convene the advisory panel. Instead the Port engaged one of its as-needed economic consultants, Century Urban LLC, to conduct an extensive review to evaluate and determine whether the proposal met all the required Capital Investment, Experience and Financial Strength, Proposed Rent and Business Plan categories identified in the RFP and outlined in **bold** below. The Century Urban report direct excerpts are included after the selection category and are *italicized*.

Proposed Concept - 20 points

- Overall appeal of the proposer's concept to area residents, tourists and businesses.
- Proposer's plan for marketing the restaurant, and maximizing sales, revenue and customer satisfaction.
- Proposed operations plan, including hours of operation, menu, pricing, staffing, and sourcing of product and services.

The Port evaluation of the Anchor proposal confirms Anchor has more than sufficiently demonstrated the required submittals per section A of the attached proposal, included as Attachment A to this memo.

Proposed Design and Capital Investment - 20 points

- Overall appeal, interior design, signage, floor plan, front elevation, and images depicting interior and exterior.
- Amount of initial capital investment.

The Port evaluation of the Anchor proposal confirms Anchor has more than sufficiently demonstrated the required submittals per section B of the attached proposal.

Century Urban Analysis of the initial capital investment

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. 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.

Experience and Financial Strength - 20 points

- Documented experience operating a full service restaurant.
- Annual gross revenue for the latest 3 years of operation.
- Source of funds for the initial capital investment (cash, loan types).

Century Urban Analysis of the Experience and Financial Strength

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 and Halcyon, a music and event venue in San Francisco, 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.

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. (Note: H1H acquired Nick's Cove in 2011.)

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
Total Sales Revenue	\$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.**

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.

Century Urban Analysis of the Pro Forma

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. 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. However, as shown in the adjusted pro forma below, the restaurant is estimated to produce positive net operating income over the next 5 years. A summary of the revised pro forma is provided below and the Tenant’s original pro forma is shown as Exhibit A.

Table 2: 5-Year Pro Forma Summary (Revised from the original Anchor pro forma by Century Urban)

PuertoSF 5-Year Pro Forma Summary – Revised by Century | Urban

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Gross Revenue	\$ 4,500,000	\$ 5,400,000	\$ 5,940,000	\$ 6,534,000	\$ 6,730,020	\$ 29,104,020
Less: Cost of Sales	\$(1,080,000)	\$(1,296,000)	\$(1,425,600)	\$(1,568,160)	\$(1,615,205)	\$ (6,984,965)
Less: Salaries and Wages	\$(1,740,375)	\$(2,081,250)	\$(2,282,775)	\$(2,507,753)	\$(2,579,895)	\$ (11,192,048)
Less: Management Fee	\$ (135,000)	\$ (162,000)	\$ (178,200)	\$ (261,360)	\$ (269,201)	\$ (1,005,761)
Less: Operating Expenses	\$ (697,625)	\$ (787,280)	\$ (892,866)	\$ (963,512)	\$(1,040,666)	\$ (4,381,949)
Less: Rent	\$ (315,000)	\$ (378,000)	\$ (415,800)	\$ (457,380)	\$ (471,101)	\$ (2,037,281)
NET INCOME	\$ 532,000	\$ 695,470	\$ 744,759	\$ 775,835	\$ 753,952	\$ 3,502,016

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 3: Sales Revenue Projections

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

Local Business Participation - 15 points

- Proposer’s Community Engagement Plan that includes programs such as the Office of Economic and Workforce Development Hospitality Initiative.
- Proposer’s Local Business Utilization Plan includes LBE professional and service providers hired by proposer for the design, permitting and construction phases and/or maintenance, janitorial, suppliers and vendors of the restaurant.

Anchor managing member Derek Smith has extensive experience and history in working with and hiring local residents on many projects, primarily in the Bayview Hunter’s Point neighborhood. The proposal indicates Mr. Smith’s company, Marinship Development Interest, LLC is an LBE and will provide construction management services. Anchor will engage with local community based organizations and the Mayor’s Office of Employment and Workforce Development to develop a local workforce hiring plan. Anchor has committed to co-sponsor with OEWD a local job fair and host a restaurant industry training program, with a goal of hiring a minimum of 50% of the restaurant staff from the San Francisco resident pool, with a focus on District 10 residents.

Anchor is currently in discussions with Andrea Baker Consulting for support in hiring restaurant staff and identifying LBE service providers with whom they can contract for a variety of required services, including security, pest control and janitorial support.

KEY BUSINESS TERMS

Premises: The premises consist of approximately 4,615 square feet of former restaurant space inside the Pier 33 Historic Bulkhead.

Up to an additional approximately 2,000 square feet of adjacent shed space in the Pier 33 shed can be leased separately for storage, trash/recyclables management and deliveries at additional rent.

Term: Ten (10) years with a potential five (5) year option to extend at the Port’s sole discretion. The Port will evaluate tenant performance, tenant proposed capital improvements and the Port Commission broader goals for leasing in formulating a recommendation.

Rent: Greater of base rent or percentage of gross revenue.

- Minimum base rent per square foot, to be quantified by proposer in the proposal but in no event less than \$3.50 per square foot monthly escalated annually by 3%.
- Minimum percentage rent based on gross revenue, to be quantified by proposer in the proposal.
- Port may agree to a rent-free construction period of up to 12 months from the date the Lease is fully executed to complete design, permitting and construction conditioned based upon Port ’s review of the proposer’s proposed design, permitting and construction schedule.
- Ancillary shed space in Pier 33 may be leased independently at the then current Fair Market Value but in no event less than \$1.50 per square foot escalated annually by 3%.
- Proposer may offer a base rent and/or a percentage rent in excess of the minimums required by the RFP. The Port’s typical “market percentage rent” is 7.0 % or greater of Gross Sales less Sales Tax.

Anchor Hospitality Business Terms Proposal

Premises	4,615 sq. ft. of restaurant space / 500 sq. ft. storage
Term	10 years with 5 year option to extend at the Port’s sole discretion.
Minimum Rent	\$3.50 sq. ft. for restaurant / \$1.65 sq. ft. storage
Minimum Rent Adjust	3 % annually
Percentage Rent	7% of Gross Sales

Review of the proposed business terms submitted by Anchor confirms they have met the minimum requirements set forth in the RFP.

PROJECTED SCHEDULE

Staff Information Memo on RFP result	August 2018
Port Commission approval to award	September 2018
Port Commission lease approval	October 2018
Board of Supervisors’ lease approval	November 2018

This schedule is an estimate and may vary.

CONCLUSION

Staff has determined that Anchor meets or exceeds the criteria outlined in the RFP and is a qualified proposer. In addition to being a qualified proposer, staff believes the

proposed concept, design, partnership, financial investment and commitment to developing a robust community engagement plan represents a viable and attractive addition to the Port.

Based upon its review of the information provided by the Tenant in response to the RFP, as well as 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.*

Based on the Port's review of the proposal from Anchor and the Century Urban analysis, Port staff finds the Anchor proposal for the restaurant opportunity at Pier 33½ represents a complete, responsive and a viable project. Staff recommends that the Port Commission award the opportunity to Anchor and authorize Port staff to negotiate a lease for Port Commission consideration and approval. Board of Supervisors consideration of the lease would follow.

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Senior Property Manager, Real Estate

Sandra Oberle
Property Manager, Real Estate

For: Michael Martin, Deputy Director
Real Estate and Development

Attachments

- A. Anchor Hospitality Group LLC Proposal
- B. Century Urban Report

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

RESOLUTION NO. 18-54

- 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, pursuant to Port Commission Resolution No, 93-52 as amended by Resolution No. 11-15 in March 2011 (the Retail Leasing Policy), it is the policy of the Port Commission to competitively bid retail leasing opportunities; and
- WHEREAS, on May 23, 2017, the Port Commission approved the issuance a Request for Proposals (“RFP”) (Port Commission Resolution No. 17-25), of a restaurant opportunity located at Pier 33½ for the development and operation of a restaurant on the site; and
- WHEREAS, the Port received one proposal from Anchor Hospitality Group LLC (Anchor), a limited liability company that intends to offer a casual restaurant serving Latin inspired cuisine; and
- WHEREAS, on the basis of the RFP’s selection criteria, and the Port’s and its consultants, Century Urban, evaluation of the proposal, Anchor was found to be a qualified proposer ; and
- WHEREAS, this Resolution does not commit the Port Commission to approve a final lease or related documents, and any negotiated lease is subject to Port Commission approval at its sole discretion, and
- RESOLVED, the Port Commission has reviewed the Port staff recommendation set forth in the accompanying Memorandum and based on the information set forth therein hereby awards the lease opportunity to Anchor and further authorizes Port staff to exclusively negotiate a lease with Anchor on terms acceptable to Port and Anchor that provides maximum benefits to the Port consistent with the RFP’s objectives for Port Commission approval.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of September 25, 2018.

Secretary