

PUERTOSF

PROPOSAL FOR PIER 33 1/2

BY

ANCHOR HOSPITALITY GROUP

DEREK SMITH, MICK SUVERKRUBBE,

AND HIGHWAY ONE HOSPITALITY

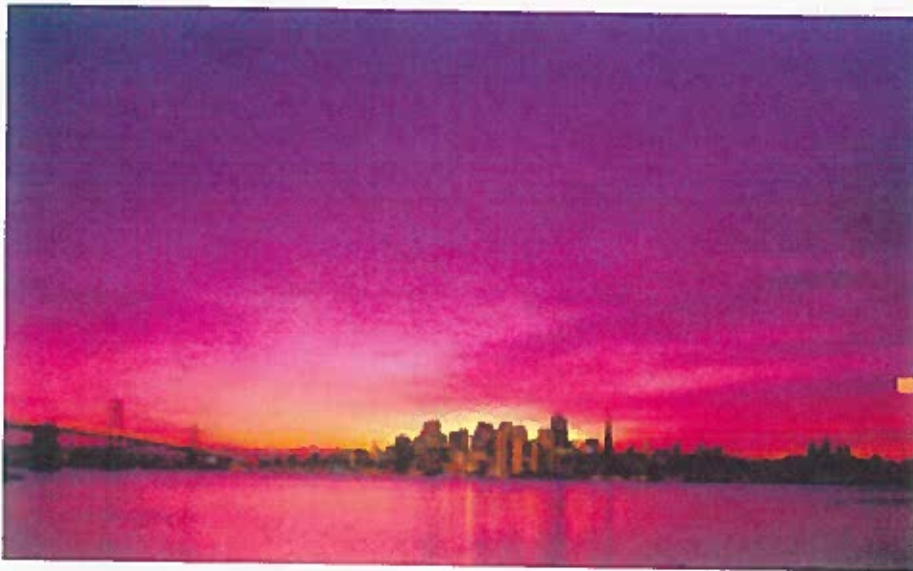


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Submittal D: Financial Pro Forma

Submittal F: Minimum Rent Offer

Submittal E: Proposal Deposit OR Letter of Credit

From Section C:

Financial Statements for

Highway One Hospitality & Nick's Cove

Derek Smith

Mick Suverkrubbe

INTRODUCTORY COVER LETTER

The Port of San Francisco is the gateway to a world-class city. The team at PuertoSF supports the Port's efforts in bringing this landmark back to life for present and future generations to enjoy.

We envision PuertoSF as a connection between the Embarcadero and the Bay -- an exciting and dynamic waterfront restaurant will cater to San Francisco's diverse local residents, businesses, and visitors from around the world.

PuertoSF will offer fresh, Baja-inspired Mexican food in a lively and gracious atmosphere within a vibrant setting. From casual drinks at the bar, to enjoying a lavish dinner, to organizing a special event or a company celebration, PuertoSF will continue to activate the Embarcadero corridor and enhance its maritime presence while contributing to the culinary richness of the city.

The ultimate goal of the project is to create a new window between the Embarcadero and the Bay. Water traffic will be attracted by its one-of-a-kind on-the-water take-out, welcoming small boats to purchase food to go or set anchor alongside its pier to disembark through the waterfront terrace. Its pedestrian take-out window facing the Embarcadero will appeal to pedestrians by teasing their curiosity to pause and peek inside, providing an indoor/outdoor lounge area to enjoy.

PuertoSF will create dozens of jobs across its different spaces and services including lounge areas for wine and spirits tasting, tapas, or coffee; private dining, terraces, a bayside bar, pedestrian bar, take-out window and retail space, servicing other businesses as well as contributing to the local economy.

We firmly believe that PuertoSF complements the overall vision of The Port of San Francisco and Embarcadero corridor by contributing a space that celebrates diversity by providing top exotic culinary and recreation options while recognizing the past, present and future of this exclusive location.

SUBMITTAL CONTENTS

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SECTION A PROPOSED CONCEPT

A.1 Describe the Restaurant proposed. Include information on the theme, ambiance, hours of operation, days of operation, menu, and pricing.

PuertoSF is a chic, fun, Mexican-inspired multi-use restaurant located at Pier 33 1/2 in the Port of San Francisco. Drawing inspiration from the rich seafood traditions of Baja California, PuertoSF appeals to tourists, locals, families, and businesses with its myriad offerings. From a full bar for after-work drinks, to a bayview private dining room perfect for corporate gatherings; from grab and go breakfast and lunch items to a full, seasonal menu perfect for date nights, family nights out, and groups of foodie friends, PuertoSF is the ideal concept and location to serve vast array of dining needs.

With vibrant pinks, oranges, and teals, the bright color palette of PuertoSF evokes a breezy baja vibe and cheerful ambiance that is reflected in the design, the menu, and the service. Fresh coastal seafood is ever present on the menu, and a tempting array of fresh fruit cocktails and local California wines complement the lively cuisine. In order to serve the various needs of the diverse population of guests, PuertoSF will be open seven days a week for lunch, dinner, an early and a late happy hour, and weekend brunch. A grab and go window offering coffee, fresh breakfast burritos, and a variety of sandwiches and salads will be open Monday-Friday 8 a.m. - 5 p.m.

SAMPLE MENU

BOTANAS

CHICHARRONES, CHARRED PINEAPPLE-HABANERO HOT SAUCE \$10

BROKAW FARMS GUACAMOLE, SERVED WITH CRISPY CORN TORTILLAS CLASSIC \$12

WITH WOOD GRILLED BRENTWOOD SWEET CORN \$13

WITH DUNGENESS CRAB \$16

SMOKED TROUT TOSTADA, ACHIOTE VERDI, HEIRLOOM TOMATO, CILANTRO FLOWERS \$16

SEA URCHIN CEVICHE, HABANERO, FINGER LIME, AGUA CHILI \$18

TAMAL, SMOKED SWEET POTATO, SALSA QUEMADA \$12

BLUE CORN QUESADILLA, BLACK BEANS, QUESO FRESCO, HUITLACOCHÉ, TOMATILLO SALSA \$14

CHOCOTES, MASA DUMPLINGS, PEPIAN VERDI, COTIJA \$14

WOOD OVEN

ENCHILADAS TRES QUESOS, CHILI ROJO BRAISED CHICKEN, CRISPY CHICKEN SKIN \$20

RAJAS, SMOKED POTATOES, ROASTED POBLANOS, GARLIC MOJO, PAPALO \$18

QUESO FONDITO, HOUSE CHORIZO, PICKLED ONION, CILANTRO, WARM TORTILLAS \$18

BIRIA – BRAISED DON WATSON GOAT, CHILI NEGRO SALSA, BLUE CORN TORTILLAS \$28

MOLE PABLANO, CONFIT SONOMA TURKEY, COTIJA, PIETAS \$28

WOOD GRILL

WHOLE LOCAL SNAPPER, SOFRITO, AVOCADO YOGURT, RADISH \$32

CITRUS & ACHIOTE MARINATED MARY'S CHICKEN \$28

CARNE ASADA – FLANNERY N.Y. STEAK, CHARRED ONIONS, SALSA NEGRA \$40

COCHINA PIBIL – OAK GRILLED AND BRAISED PORK SHOULDER, CARROT ESCABECHE \$28

SIDES

CHIPS – CRISPY HANDMADE TORTILLAS \$6

SALSA – SELECTION OF OUR HOUSE MADE SALSAS \$5

HANDMADE TORTILLAS – YELLOW CORN, BLUE CORN, FLOUR \$7

GRILLED AVOCADO, LIME, CHILI SALT \$10

A.2 Describe how the proposed Restaurant will complement the neighborhood and surrounding environment.

The area surrounding Pier 33 1/2 currently lacks any Mexican-inspired fare, and no other restaurant offers such a wide array of multi-use spaces. PuertoSF offers a glassed-in private dining room overlooking the Bay, a large bustling bar area, patio seating, and a variety of tables to suit any configuration of large and small groups. PuertoSF aims to serve families visiting the nearby Exploratorium; groups embarking on or returning from tours of Alcatraz; nearby businesses looking for a suitable place to host a variety of corporate functions; tourists visiting Fisherman's Wharf, Pier 39, and the Ferry Plaza; and local residents who are currently underserved by chic, exciting, welcoming restaurants. PuertoSF is friendly for a large variety of local residents and groups, and has tailored offerings depending on the time of day, day of the week, or experience sought. Ultimately, it is a neighborhood destination with a reach far beyond the immediate neighborhood.

A.3 Include a detailed plan for marketing the restaurant and maximizing sales, revenue and customer satisfaction.

Crucial to the success of a restaurant in this crowded culinary landscape will be the marketing and public relations plan. PuertoSF has retained Caitlin Sandberg of Poppyseed PR to spearhead initial PR efforts. A comprehensive marketing plan will follow the initial PR push, and includes a full week of kick-off events that will include a VIP party for local concierges, neighbors, and notable San Francisco residents; friends and family dinners; a media preview night for local and regional press; and a community open house day that will introduce PuertoSF to the general public with a sampling of bites, drinks, and a gift certificate raffle with proceeds going to local SF charity.

Once in operation, PuertoSF will continue to engage with various local communities by participating in events such as Eat Drink SF, the Star Chefs & Vintners Gala benefitting Meals on Wheels, CUESA demonstrations at the Ferry Plaza Farmer's Market, and other events. In addition to the a direct e-mail marketing program, a deeply connected social media presence, and ongoing public relations efforts, PuertoSF is sincerely committed to every guest's experience. Beyond reading comment cards and responding to individual online reviews, PuertoSF takes all customer feedback seriously, and plans to discuss new methods to continually exceed guest expectations at monthly staff and manager meetings.

CAITLIN SANDBERG
PUBLICIST

After ten years of working front of house in some of San Francisco's top restaurants while simultaneously freelancing as a food and travel writer, Caitlin Sandberg decided to dive head first into hospitality public relations in 2010 in order to help restaurants and hotels tell their stories to a wider audience. For the first few years of her her career in PR she worked in agencies, but soon realized that she could better serve smaller restaurants (with smaller budgets) if she went off on her own. In 2015 she started Poppyseed PR so she could offer high-touch culinary communications to a small group of San Francisco-based clients and has been able to garner impressive recognition for them including top tier placements in local and national food, travel and lifestyle publications. She is currently working with Lord Stanley, Nick's Cove and Cottages, Contrada, Serpentine, SF Cheese Fest, and Commonwealth.

A.4. Provide a Proposed Operations Plan, including Management and Operational Structure of the business, and staffing

OPERATING STRUCTURE
FOR
ANCHOR HOSPITALITY GROUP, LLC

MANAGING MEMBERS

H1H, LLC – Financial and Legal Director
Derek Smith – Public Relations Director
Michael Suverkrubbe - Director of Operations
Chef Carlos Gaytan – Culinary Director

GENERAL MANAGER
John Jasso

EXECUTIVE CHEF
Robert Hurtado

Assistant GM
TBD

Sous Chef
TBD

Position Title	Staff Name	Experience Qualifications	General Responsibilities
Director of Finance, HR & Legal	Dena Grunt for H1H, LLC	20-years experience in restaurants, hotels, and human resources	Finance, Legal and Human Resources
Director of Public Relations	Derek Smith	32-years of business and entrepreneurial experience, including owning/operating more than 10 businesses	Oversight of Marketing, Advertising, and PR opportunities
Director of Operations	Michael Suverkrubbe	25 years experience as manger and owner of numerous award winning restaurants including 19-years in SF Bay Area	Oversight of Management Staff and Executive Chef - Marketing, Budgeting and Cost Control
Culinary Director	Chef Carlos Gaytan	15-years as Chef and owner of restaurants in Mexico and Chicago - Michelin Star Award	Oversight of Menu Culinary Direction and Executive Chef - Budgeting and Cost Control
General Manager	John Jasso	15 years as manager and owner of restaurants in SF Bay Area including several Michelin Star Award winners	Oversight of AGM and Floor Manager - Budgeting and Cost Control
Executive Chef	Chef Robert Hurtado	5-years as restaurant chef in SF Bay Area including several Michelin Star Award winners	Oversight of Sous Chef, Kitchen Staff, menu execution - Budgeting and Cost Control
Sous Chef	TBD	3-5 years experience in fine dining restaurants	Oversight of Kitchen Staff and menu execution and Cost Control
Assistant General Manager	TBD	3-5 years experience in fine dining restaurants	Beverage Management, supervision of bartenders, servers, bussers and hosts
Floor Manager	TBD	3-5 years experience in fine dining restaurants	supervision of bartenders, servers, bussers and hosts
Service Staff	20 employees TBD	2 years experience in fine dining	Customer service, order taking, food and drink service
Kitchen Staff	21 employees TBD	2 years experience in fine dining	Food preparation and production
Admin Staff	5 employees TBD	1 year hospitality experience	Customer service, reservations and private events

Key Management Staff

MICK SUVERKRUBBE
GENERAL MANAGER AND PARTNER

Mick is a seasoned restaurateur who has worked in the hospitality industry for over 25 years. Mick started out his career in hospitality with the renowned restaurant organization, The Mastro Group, while attending college at Arizona State University. After graduating, Mick joined The Mastro Group to develop a seven-unit chain of Maloney's Taverns. Mick became a partner with the Mastro Group in Los Angeles at the age of 25.

Mick has opened and operated 12 restaurants and bars across the country, including in Phoenix, Los Angeles, Boston, and most recently in San Francisco. Mick moved to San Francisco in 2000, and has opened and operated several successful bars and restaurants in SF including The Cosmopolitan, Cozmo's Corner Grill, CIRCA, Social Club, The Parlor Bar and most recently Contrada on Union Street. Since arriving in The Bay Area, Mick has been heavily involved with local community affairs, especially in the Marina District, where he served as President of the Marina Merchants Association from 2003-2008. He has also served on the board of Directors of the Fisherman's Wharf Merchant Association and the Golden Gate Restaurant Association for many years. Mick brings a lifetime of restaurant experience, a one-of-a-kind understanding of all restaurant operations, and unrivaled savvy and business sense.

JOHN JASSO

BEVERAGE DIRECTOR

John is lifelong restaurant professional from Los Angeles who has truly done it all. His career has spanned 20 years on both coasts and has included stints in the front of house and back of house with roles that include short order cook, Michelin star Maitre d', and owner of a neighborhood cocktail bar just to name a few. There's no aspect of restaurant operations that John isn't familiar with.

After college at San Diego State, John moved to New York and spent time at numerous restaurants and nightclubs, in San Francisco, as Maitre d' and Assistant Sommelier at Gary Danko, John helped build a wine program that went on to win the "Grand Award" from Wine Spectator Magazine. From there John transitioned to the GM position at the renowned Fifth Floor Restaurant, continuing to sharpen his considerable skills.

In 2003 John realized a lifelong dream opening Tablespoon with Partner Robert Reischer. The Modern American Bistro was a favorite in the neighborhood and specialized in gracious service combined with French and Spanish techniques. In 2007 John and his partners sensed the craft cocktail movement early and transformed Tablespoon into Bar Johnny. The Modern Day Pub was a hit, serving refined but unpretentious cocktails and food to a thirsty Polk St. crowd. John brings a remarkable front-of-house pedigree, a voluminous wine and spirits knowledge, and a genuine approach to service and leadership.

CARLOS GAYTAN

CONSULTING CHEF

Chef Carlos Gaytan arrived in Chicago in early 1991, quickly working his way up from pantry cook to line cook at Sheraton North Shore Hotel. After earning a position as Chef Garde Manger, Carlos discovered his creative ability to carve on ice, fruit and vegetables, winning several awards for his talent. In 1996, Carlos earned a position as Chef Garde Manger at the Union League Club of Chicago, ranked as the best private club in the nation. In April of 2004 Carlos became the Chef de Cuisine at Bistrot Margot where he worked with renowned French Chef Dominique Tougne and participated in such events as the Confrerie de la Chaide de Rotisseurs, the Moet and Chandon Brunch and the Annual Flora Springs Dinner Auction in Napa Valley. In May of 2008, Carlos opened his own restaurant -- Mexique on Chicago Avenue in Chicago. With great creativity, love, and dedication he applies his knowledge of French cooking techniques and ingredients to his roots of traditional Mexican cuisine, creating a revolution of Mexican gastronomy. Mexique has received much recognition since its opening, including one of Chicago magazine's top new restaurants of 2009, best restaurant of 2010 and received its first star in the Michelin Guide in 2013. Most recently Carlos was awarded "Chef of the Year 2011," by the American Culinary Federation.

SECTION B

DESIGN INTENTION AND CAPITAL INVESTMENT

B.1 Provide a narrative description of the design concept.

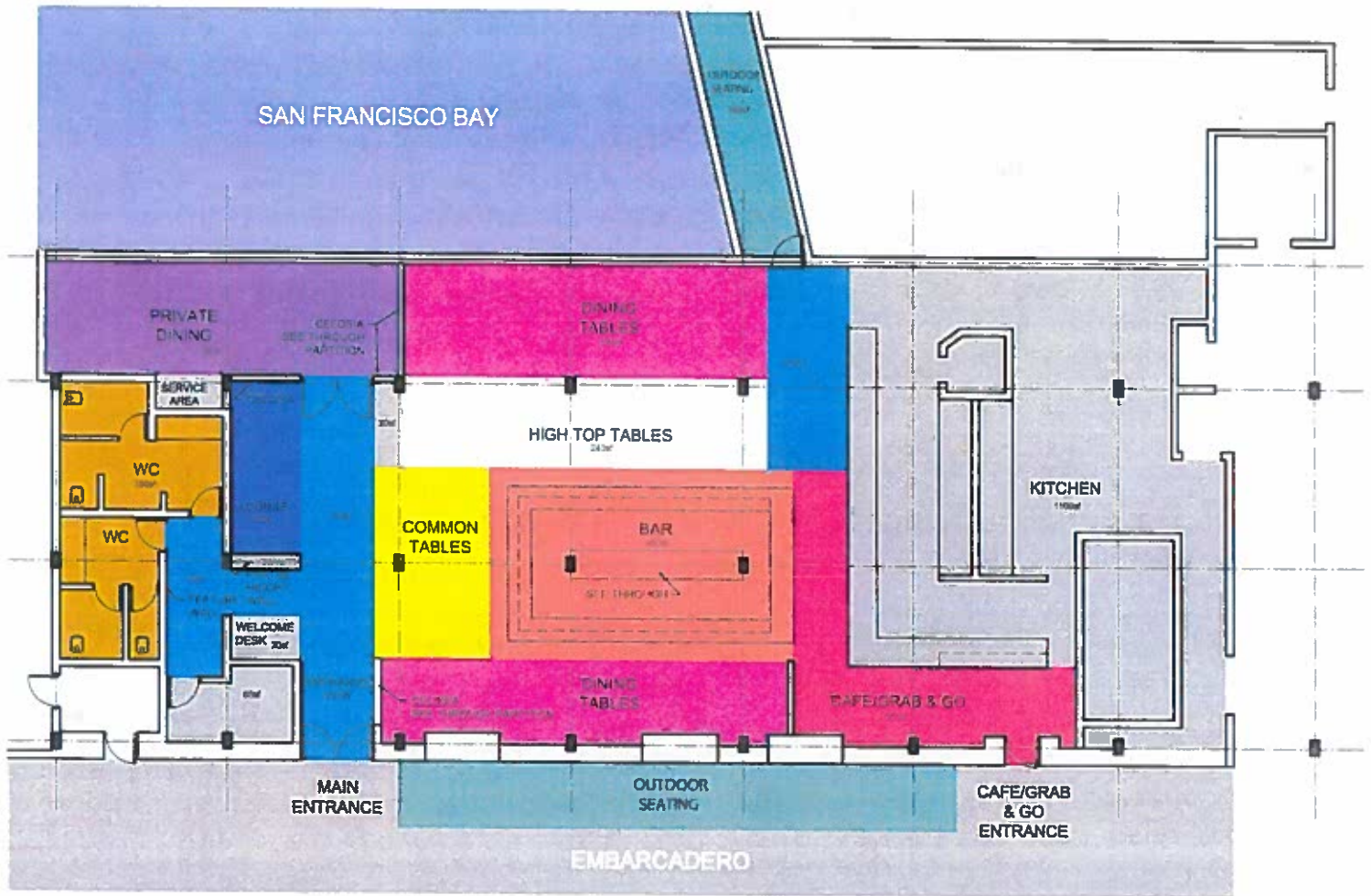
PuertoSF's vibrant, chic, inviting, and multifunctional appeal is present in every aspect of its design. The location at Pier 33 ½ lends itself to being a true gateway between the San Francisco Bay and the Embarcadero, and it is designed to be welcoming to diverse types of visitors. From small boats dropping anchor at the pier and looking for dockside takeout; to families en route to the Exploratorium or Alcatraz Island; to corporate groups looking for a dramatic private dining room; to a few friends in search of drinks and a meal -- PuertoSF's design will make these distinct groups, and many more, feel utterly captivated and at home.

Upon entrance from the Embarcadero, visitors are greeted with a large square bar area, filled with plenty high top tables and comfortable stools. Dramatic picture windows are visible in the background, providing a view of the bay beyond. Moving into the restaurant, multiple seating areas of booths, tables, and chairs provide plenty of distinct areas for quick afternoon lunches, long leisurely meetings, and elegant, festive dinners. Off to the left there is a dramatic private dining area, with its sparkling glass walls allowing beautiful outdoor light to illuminate the space. Once outside, the pier is neatly appointed with an outdoor bar and multiple, mixed-height seating areas. A to-go takeout window offers daytime options for those looking for a quick bite or a warming cinnamon latte.

Inside and out, hallmarks of PuertoSF's vibrant, contemporary design is influenced by Mexican-American cultural touchstones, lush tropical greenery, and elegantly modern yet entirely functional elements.



FLOOR PLAN




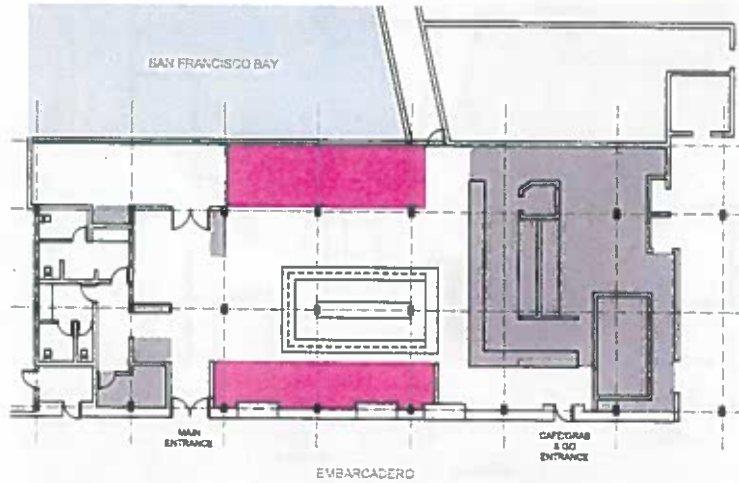
- | | |
|--|---|
| BAR | OUTDOOR SEATING |
| KITCHEN & SERVICE AREAS | PRIVATE DINING |
| DINING DAY & NIGHT | COMMON & HIGH TOP TABLES |
| CAFE GRAB & GO / RETAIL | CIRCULATIONS |
| LOUNGE | BATHROOMS |



PUERTO SF



 KITCHEN & SERVICE AREAS



 DINING DAY & NIGHT

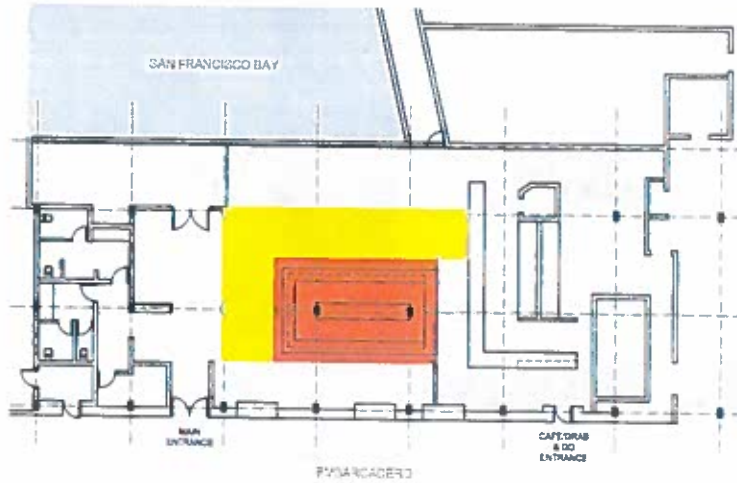


CONCEPTUAL IMAGES

PUERTO SF



BAR

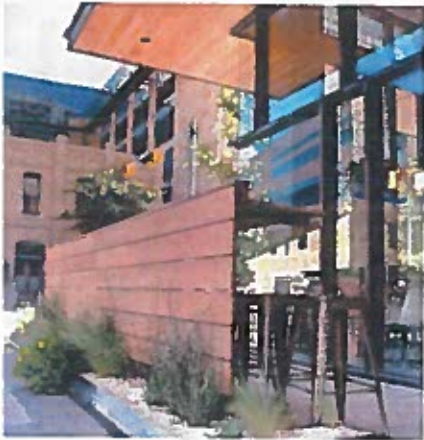



COMMON & HIGH TOP TABLES

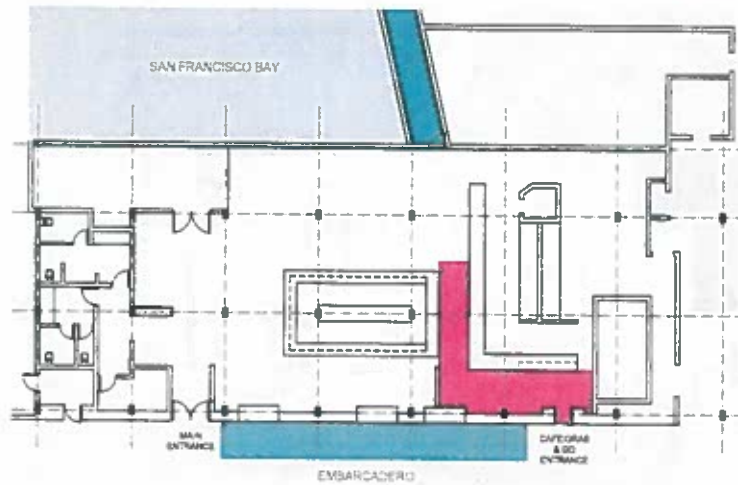


CONCEPTUAL IMAGES

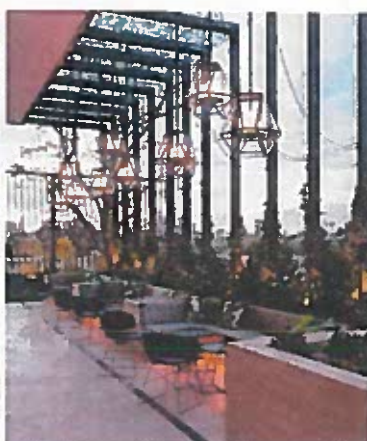
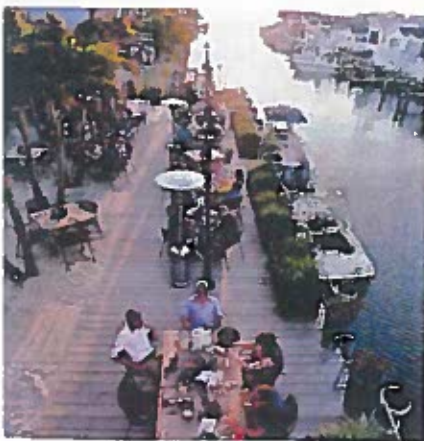
PUERTO SF



 CAFE GRAB & GO / RETAIL



 OUTDOOR SEATING

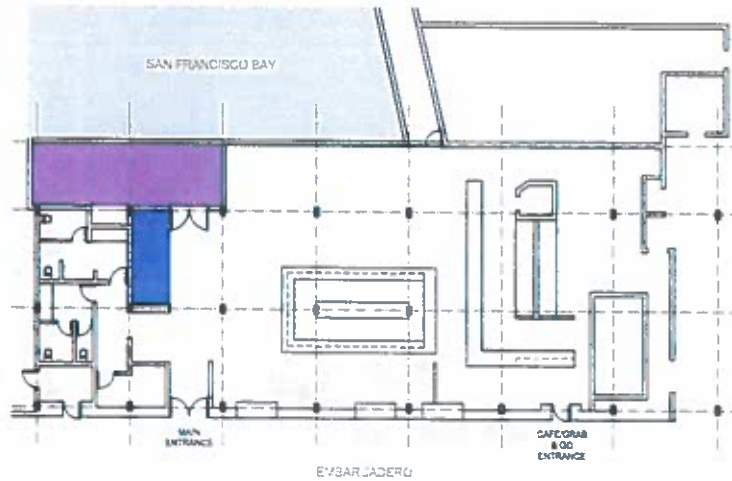


CONCEPTUAL IMAGES

PUERTO SF



LOUNGE



PRIVATE DINING



CONCEPTUAL IMAGES

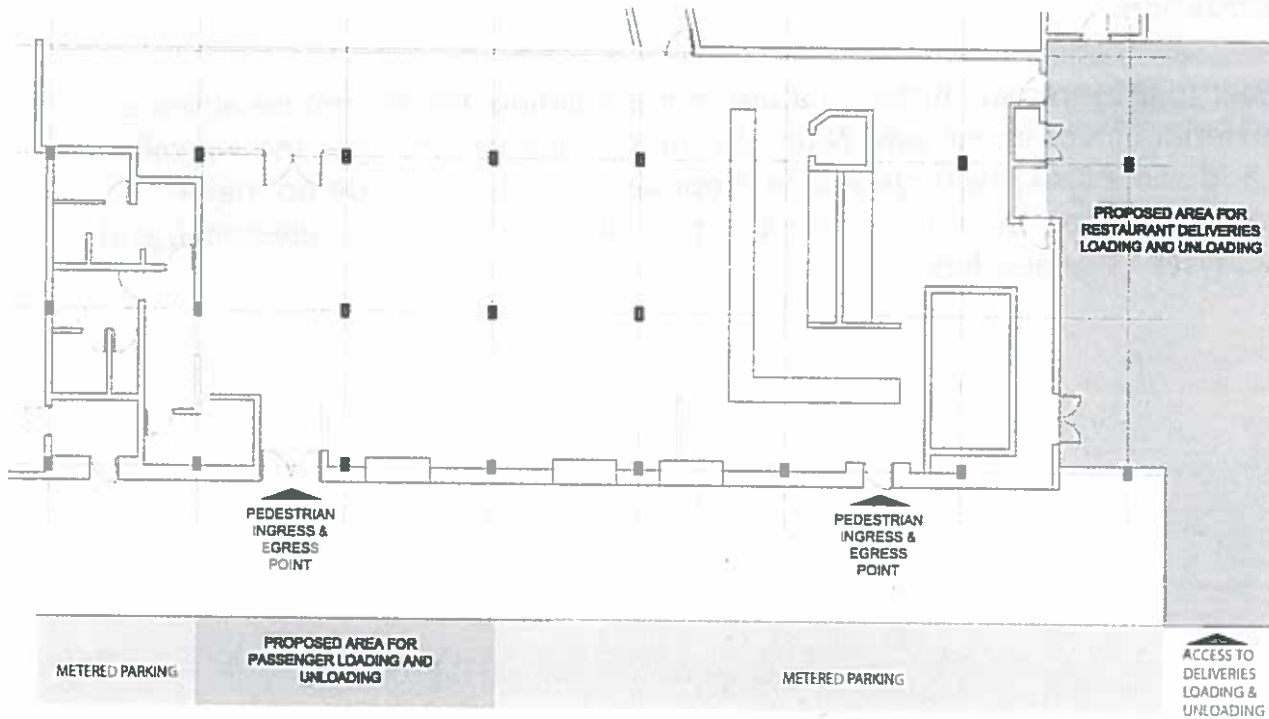


EXTERIOR RENDERING OF EMBARCADERO SIDE



EXTERIOR RENDERING OF BAY SIDE

B.3 Ingress / Egress Map



33 Embarcadero

Ingress-Egress Plan
January 28, 2018
DRAWING SCALE 1/8" = 1'-0"

SK.02

B.4 Describe the materials to be used and application in the Restaurant design.

The polished and vibrant interior will feature some exposed beams, wood tables, and natural greenery. A mix of cool metals, warm woods, and live plants will lend themselves to a lush and colorful interior experience.

B.5 Describe design compliance with applicable standards for historic preservation.

In order to preserve the historic nature of the building, we will not be altering the exterior in a dramatic way. Naturally the signage will change, and we will also add some lush plantings and outdoor seating. There will be no major structural changes, though we plan on upgrading the plumbing, electrical, and HVAC systems as needed.

B.6 Construction Timeline

August 2018
Final Lease Approval

September 2018 to December 2018
Design and permit submittal

January 2019 to April 2019
Construction

May 2019
Pre-Opening Phase and staff training

June 2019
Grand Opening

B.7 Provide the proposed design and construction team members.

DEREK SMITH PROJECT MANAGER & PARTNER

Derek Smith has been a serial entrepreneur since he was a sophomore in college, where he and his brother started their first business together. His business experience spans over 32 years. As a native San Franciscan, Derek has formed and run more than 10 businesses in the Bay Area over the last three decades. These businesses have included construction management, general contracting, real estate development, renewable energy start-up and consulting. Derek's father who was also an entrepreneur starting several businesses as well as owning and operating the only restaurant/nightclub in Marin City when Derek was a kid. He has deep roots in the restaurant business. More recently Derek has consulted on the construction and development of several restaurant businesses in Northern California for Highway 1 Hospitality (H1H). H1H has multiple restaurant properties in San Francisco, Napa, Tomales Bay and Austin, Texas.

Mr. Smith holds a Master's of Science degree from Stanford University in Civil Engineering and a B.S. from the University of California at Berkeley in Mechanical Engineering

KARL HASZ GENERAL CONTRACTOR

Karl leads the team with pre-bid investigations, bidding, and client outreach. He began his career in the construction industry in Middle School as a General Contractor for his father, followed by education at California State University Chico, California. As the founder of Hasz Construction, he has been personally involved in every project for the last 15 years. He embraces the process of envisioning what features the customer will see from every angle.

ANA PAULA QUINTANILLA
DESIGNER

Ana Paula Quintanilla de Marti, born and raised in cosmopolitan Mexico City and living in San Francisco for the last fourteen years is an architect, designer and entrepreneur with broad experience bringing cultural essence into locations through balance between form and function.

She was the co-founder and creative mind behind maamam, a San Francisco based company that created innovative, safe and multi-functional products for children. This venture brought her to become part of the first cohort of the Stanford Latino Entrepreneur Leaders Program.

Prior to co-founding maamam, Ana Paula applied her vision and creativity at Kwan Henmi Architecture & Planning. In this role, she was instrumental in realizing the first residential LEED certified building in San Francisco, which attracted international attention and earned numerous industry awards. She also brought a fresh, innovative approach to the design of public buildings and affordable senior housing.

While in Mexico City, Ana Paula founded and ran her own architectural firm focused on Residential and Commercial Interiors. She holds a degree in Architecture from Universidad Iberoamericana and studied Fine Arts (painting and sculpture) at the UC Berkeley Extension in San Francisco.

GABRIELA MARTIN DEL CAMPO
DESIGNER

Gabriela believes in enhancing people's lives through architecture and design. She was born and raised in Mexico City, lived and worked in several countries across Europe and Latin America before moving to San Francisco in 2005.

Gabriela worked for 12 years as a senior designer and project manager in the international team of KMD Architects (San Francisco). During her tenure at KMD she collaborated in the design process for the cruise terminal in Pier 27. She worked in a variety of award winning projects including the W Hotel in Mexico City, 3M Headquarters in Mexico City, Banyan Tree Acapulco, Minhang Retail Center in China, Rosewood Resort and Residences in San Miguel Allende, Monte del Barco resort in Costa Rica between others. Her strong base of managing international projects and her attention to detail, delivered successful architectural projects with distinct cultural identity.

Gabriela holds a bachelor's degree in Architecture and Urban Design from the Universidad Iberoamericana. An avid learner, she has taken numerous Art, Interior Design, and Photography courses.

B.8 Provide the amount of the proposed initial capital investment for improvements.

We are committed to a sum of \$1.5 million to improve or replace existing equipment, structure, and functional or design elements.

SECTION C

EXPERIENCE AND FINANCIAL STRENGTH

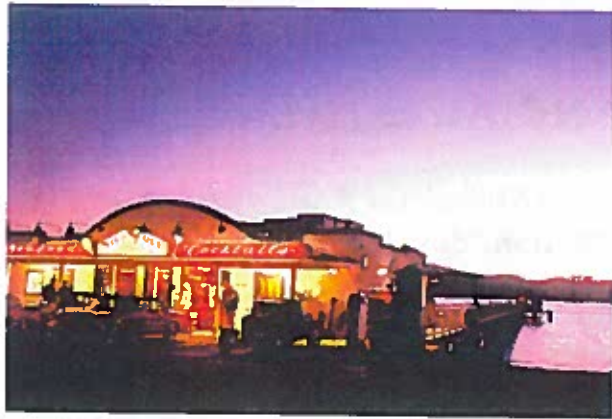
C.1 In addition to the information provided in Submittal A, describe the qualifying business, including hours of operation, days of operation, menu, pricing, and photographs.

Highway One Hospitality, LLC is the management company behind the legendary Nick’s Cove in Tomales Bay, California; Halcyon, a music and event venue in San Francisco; and Union Street’s own Contrada, a Tuscan-inspired restaurant and wine bar, among others. For the purposes of this proposal, we will look at the details of Nick’s Cove, H1H’s signature property.

About Nick’s Cove

Nick’s Cove Restaurant, Oyster Bar and Cottages is a nostalgic and welcoming gathering place with luxurious waterfront accommodations on the pristine Tomales Bay in Marshall, Calif. The twelve modern and private cottages offer the ultimate in luxury with a rustic design aesthetic and elegant amenities. Located just a half-hour west of Petaluma and 50 miles north of San Francisco, Nick’s Cove is a delicious, relaxing and beautiful destination year-round. A local institution for more than 80 years on the West Marin County coastline, it is surrounded by tranquil waters, sandy ecological beaches, abundant wildlife and views of the rolling hills across Tomales Bay. Led by Executive Chef Joshua Seibert, Nick’s Cove Restaurant serves the finest seasonal, sustainable California cuisine sourced from its own on-site garden called The Croft, as well as other Marin and Sonoma County farms and fishermen.

Nick’s Cove Restaurant & Oyster Bar
 Hours of Operation
 Sunday -Thursday 11 a.m. -- 8 p.m.
 Friday - Saturday 11 a.m. -- 9 p.m.





RESTAURANT | OYSTER BAR | COTTAGES

Small Plates

TOMALES BAY CLAM CHOWDER

applewood smoked bacon

MAC & CHEESE

ricotta, cheddar, parmesan, gruyere, grana padano
add black pepper oil
add creamy sauce
add crab

SELECTION OF ARTISANAL CHEESE

assorted, artisanal, seasonal fruit, honey, crackers

TRUFFLE GARLIC FRIES

garlic, parmesan, grana padano, hand cut sweet potato

ROASTED CAULIFLOWER

silicone, arugula, whole grain mustard vinaigrette

CROFT GREEN BEANS

honey, almonds, grana padano

WARM CROFT KALE

apple, onion, almonds, dried cranberries, lemon vinaigrette

BURRATA BRUSCHETTA

grilled sourdough, basil, tomato, garlic, balsamic reduction

TRUFFLED MUSHROOM RISOTTO

truffle oil, onion, chives, grana padano

Oysters

KUMAMOTOS, HUMBOLDT BAY

4.25

MARIN MIYAGI, TOMALES BAY

3.25

DRAKE'S BAY, BAJA CALIFORNIA

3.25

STEAMBOATS, TAYLOR WA

3.75

PREMIUM OYSTER PLATTER

12 oysters of the day, 12 raw oysters of the day

37

Cooked

THE ORIGINAL

TOMALES BAY BBQ OYSTER

half dozen oysters, house made bbq sauce

garlic, parsley, butter

8

BAKED OYSTER MORNAY

half dozen oysters, 21 hermetoma, parmesan

bread crumb

18

BACON BRAISED OYSTER

half dozen oysters, braised, onion,

garlic, parsley, butter

18

Salads

NICK'S COVE PRAWN LOUIS

craft greens, cucumber, radish, egg, tomato, avocado, dressing

21

OVEN ROASTED BEETS

craft spicy herbules, whipped goat cheese, onion

or soy dressing

18

ASIAN PEAR SALAD

mixed lettuces, prosciutto, chardons, hazelnut vinaigrette,

leaf salad or sun dressing

15



Large Plates

PAN ROASTED BARRAMUNDI

handful beans, guacamole, grilled fresh oysters, edamame, salsa verde

34

WOOD GRILLED SALMON

roasted fennel, chrysanthemum greens, lemon, chive, dill

38

INDIAN SPICED CHICKEN

1/2 chicken, butted cauliflower, chive, onion

wild arugula, pasta

30

RABBIT GUMBO

andouille sausage, white rice, cornbread

23

WHOLE CRAB

Old Bay butter, balsamic vinaigrette

40

BUTTER BASTED SCALLOPS

peas, green beans, cherry tomatoes, grana padano, cream

36

WOOD FIRED WAGYU COULOTTE

sweet potato puree, charred brussels sprouts, wild mushrooms,

red wine jus

36



Price per 1/2 lb oyster (6 per)

Items labeled (craft or in bold) signify they are grown in our on site garden

NICK'S COVE RESTAURANT | OYSTER BAR | COTTAGES | 2224 HIGHWAY ONE, MARSHALL, CA 91541 | 916.223.1023

WE SERVE: (containing rice or shellfish) most poultry, seafood, shellfish and eggs may contain raw fish or food borne illness, availability of some items is limited to location

C.2 Financial Stements for all partners

Highway One Hospitality
Derek Smith
Mick Suverkrubbe

Please see attached submittals at the end of document

C.3 Describe the source of funding for initial Restaurant improvements, including design and construction.

Highway One Hospitality, LLC will self-fund the cost of the initial restaurant improvements, design and construction. We do not expect to require funding outside of our group of investors.

C.4 Describe sources of working capital to cover operating costs and to adequately maintain operations at a high level from the start up period through seasonal variations in activity.

Highway One Hospitality, LLC has access to an additional line of credit if needed for future unforeseen operating costs or seasonal variations in sales.

SECTION D
PROPOSED RENT AND BUSINESS PLAN

D.1 Complete the Financial Pro Forma provided in Submittal D.

See attached submittal at the end of document

D.2 Complete the Minimum Rent Offer provided in Submittal F.

See attached submittal at the end of document

PUERTO SF

PUERTO SF FIVE-YEAR PROFORMA INCOME STATEMENT

SUBMITTAL D

	FIRST YEAR	SECOND YEAR	THIRD YEAR	FOURTH YEAR	FIFTH YEAR	5-YEAR TOTALS
Revenues						
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
Total Revenues	\$ 4,500,000	\$ 5,400,000	\$ 6,480,000	\$ 7,128,000	\$ 7,840,800	\$ 31,348,800
Cost of Sales						
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
Total Cost of Sales	\$ 984,000	\$ 1,180,800	\$ 1,416,960	\$ 1,558,656	\$ 1,714,522	\$ 6,854,938
Gross Profit	\$ 3,516,000	\$ 4,219,200	\$ 5,063,040	\$ 5,569,344	\$ 6,126,278	\$ 24,493,862
Expenses						
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
Management Fee	\$ 135,000	\$ 162,000	\$ 194,400	\$ 285,120	\$ 313,632	\$ 1,090,152
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
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
Rent (7% of sales)	\$ 315,000	\$ 378,000	\$ 453,600	\$ 498,960	\$ 548,856	\$ 2,194,416
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
Total Expenses	\$ 2,888,000	\$ 3,371,000	\$ 3,985,880	\$ 4,430,048	\$ 4,847,353	\$ 19,522,281
Net Income	\$ 628,000	\$ 848,200	\$ 1,077,160	\$ 1,139,296	\$ 1,278,926	\$ 4,971,582

SECTION E

LOCAL BUSINESS PARTICIPATION

E.1 Community Engagement Plan

The PuertoSF Team will actively engage in efforts to maximize local resident employment with the local neighborhood and interest groups. This effort will be led by PuertoSF partner, Derek Smith who has over 25 years of experience and history in working with and hiring local residents on City construction projects primarily in the Bayview Hunter's Point neighborhood which has been historically underrepresented when it comes to employment as compared to other areas of San Francisco.

Through the leadership of Mr. Smith, PuertoSF will engage early on with the local CBO's and the City's Office of Workforce Development (MOWD) to identify what our workforce numbers will be once the restaurant is up and running. After signing a lease with the Port, PuertoSF will move quickly into outreach and the implementation of our local business and hiring plans. Our plan executions will coincide with the start of design and construction for local businesses and the restaurant opening for job training and screening of restaurant workers. We will co-sponsor a local job fair and work with the MOWD to host a job training program specifically for local residents that want to get into the restaurant industry. We plan to employ up to dozens full-time and an even larger number of part-time employees once the restaurant is up and running. Our goal will be to have at least 50% from the local San Francisco resident pool.

E.2 Local Business Utilization Plan

Vendor	Scope	CMD LBE Status
Marinship Development Interest, LLC	CM Services, Permits	YES
Hasz Construction	General Contractor	PENDING
Ana Paula Quintanilla	Design	PENDING
Poppyseed PR	Public Relations	NO
	Janitorial	YES

SUBMITTAL F MINIMUM RENT OFFER

Term:

10-year lease with one 5-year option to extend

Free Rent Period:

12 month or opening day whichever is sooner

Rent:

Monthly rent of \$3.50 psf for 4615 sq/ft of restaurant space (\$16,152.50 per mo.)

Plus \$1.65 psf for 500 sq/ft of Ancillary Shed Space (\$825 per mo) for a total of \$16,977.50 per month.

Rent will increase 3% annually.

Percentage Rent:

7% of sales

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



235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.358.1218 | www.centuryurban.com

CENTURY|URBAN



DRAFT PIER 33 1/2 - LEASE FINANCIAL REVIEW

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

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
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.

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
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%

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**

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Cost of Sales	\$984,000	\$1,180,800	\$1,416,960	\$1,558,656	\$1,714,521
% of Revenue	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
REVENUE							
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)
Total Revenue	\$ 4,500,000	\$ 5,400,000	\$ 5,940,000	\$ 6,534,000	\$ 6,730,020	\$ 29,104,020	\$ (2,244,780)
Annual Growth %		20%	10%	10%	3%		
COST OF SALES							
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
Total Cost of Sales	\$ 1,080,000	\$ 1,296,000	\$ 1,425,600	\$ 1,568,160	\$ 1,615,205	\$ 6,984,965	\$ 130,028
% of Revenue	24%	24%	24%	24%	24%	24%	
SALARIES AND WAGES							
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)
Total Salaries and Wages	\$ 1,740,375	\$ 2,081,250	\$ 2,282,775	\$ 2,507,753	\$ 2,579,895	\$ 11,192,048	\$ (861,310)
% of Revenue	39%	39%	38%	38%	38%	38%	
MANAGEMENT FEE	\$ 135,000	\$ 162,000	\$ 178,200	\$ 261,360	\$ 269,201	\$ 1,005,761	\$ (84,391)
% of Total Revenue	3.00%	3.00%	3.00%	4.00%	4.00%	3.46%	
ADMINISTRATIVE & MARKETING COSTS							
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
	\$ 697,625	\$ 787,280	\$ 892,866	\$ 963,512	\$ 1,040,666	\$ 4,381,949	\$ 197,593
% of Total Revenue	16%	15%	15%	15%	15%	15%	
RENT							
Rent (Greater of base or % rent)	\$ 315,000	\$ 378,000	\$ 415,800	\$ 457,380	\$ 471,101	\$ 2,037,281	\$ (157,135)
TOTAL OPERATING EXPENSES	\$ 2,888,000	\$ 3,408,530	\$ 3,769,641	\$ 4,190,005	\$ 4,360,863	\$ 18,617,039	\$ (905,243)
NET INCOME	\$ 532,000	\$ 695,470	\$ 744,759	\$ 775,835	\$ 753,952	\$ 3,502,016	\$ (1,469,565)



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
REVENUE						
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
Total Revenue	\$ 4,500,000	\$ 5,400,000	\$ 6,480,000	\$ 7,128,000	\$ 7,840,800	\$ 31,348,800
Annual Growth %		20%	20%	10%	10%	
COST OF SALES						
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
Total Cost of Sales	\$ 984,000	\$ 1,180,800	\$ 1,416,960	\$ 1,558,656	\$ 1,714,521	\$ 6,854,937
% of Revenue	22%	22%	22%	22%	22%	22%
SALARIES AND WAGES						
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
Total Salaries and Wages	\$ 1,740,375	\$ 2,081,250	\$ 2,490,300	\$ 2,735,730	\$ 3,005,703	\$ 12,053,358
% of Revenue	39%	39%	38%	38%	38%	38%
MANAGEMENT FEE						
	135,000	162,000	194,400	285,120	313,632	\$ 1,090,152
% of Total Revenue	3.00%	3.00%	3.00%	4.00%	4.00%	3.48%
ADMINISTRATIVE & MARKETING COST						
	1%	1%	1%	1%	1%	
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
	\$ 697,625	\$ 749,750	\$ 847,580	\$ 910,238	\$ 979,163	\$ 4,184,356
% of Total Revenue	16%	14%	13%	13%	12%	13%
RENT						
Percentage Rent	\$ 315,000	\$ 378,000	\$ 453,600	\$ 498,960	\$ 548,856	\$ 2,194,416
TOTAL OPERATING EXPENSES	\$ 2,888,000	\$ 3,371,000	\$ 3,985,880	\$ 4,430,048	\$ 4,847,354	\$ 19,522,282
NET INCOME	\$ 628,000	\$ 848,200	\$ 1,077,160	\$ 1,139,296	\$ 1,278,925	\$ 4,971,581



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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