



MEMORANDUM

October 7, 2022

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. John Burton
Hon. Gail Gilman
Hon. Steven Lee

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational presentation providing an update on the Lease Disposition and Development Agreement with TZK Broadway, LLC, for the proposed mixed-use development that includes a 192-room hotel, a dinner-theater space for Teatro ZinZanni, and a 14,000-square-foot public open space and ancillary uses at Seawall Lots 323/324 and portions of unimproved Vallejo and Davis Street right-of-ways on the west side of The Embarcadero

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

This staff report provides an update on the Lease Disposition and Development Agreement (“LDDA”) with TZK Broadway, LLC, a California limited liability company (“TZK”) for the development of a 192-room hotel, a dinner-theater, a 14,000-square-foot public open space, and ancillary uses (the “Development” or “Project”) through a lease of Seawall Lots 323/324 and portions of unimproved Vallejo and Davis Street right-of-ways on the west side of The Embarcadero at Vallejo (collectively, the “Site,” shown on **Exhibit “A.” Site Map**). The Site is currently used for surface parking.

Approved Development: On September 10, 2019, by Resolution No. 19-36¹, the Port Commission, among other things, adopted the Final Mitigated Negative Declaration

¹ <https://sfport.com/meetings/san-francisco-port-commission-september-10-2019>

("FMND") and the Mitigation Monitoring and Reporting Program (the "MMRP") and findings pursuant to the California Environmental Quality Act, Public Resources Code Sec. 21000 et seq., for the Development; adopted Findings that the Development provides numerous benefits to the Public Trust; and directed the Executive Director to (i) enter into the LDDA and other transaction documents with TZK and (ii) seek approval of the form of Lease from the Board of Supervisors ("Board"). On January 14, 2020, by Resolution No. 05-20², the Board, among other things, adopted the MMRP and approved the form of Lease with TZK. The key features of the Development include:

- *A 40-foot tall, four-story building to house the hotel and dinner-theater venue*
 - *A boutique hotel with 192 rooms*
 - *A state-of-the art venue to house Teatro ZinZanni dinner-theater operation*
 - *A new privately funded approximately 14,000 square feet public park*
- As of 2019, the Development was estimated to cost \$142 Million*

The Proposed Project Drawings are shown in the **attached Exhibit "B."**

Execution of the LDDA and TZK Performance Schedule: On September 18, 2020, TZK and the Port executed the LDDA. Immediately thereafter, TZK began to diligently pursue the next predevelopment activities, including finding financing and holding bi-weekly project progress meeting with Port staff and its architects and consultants to complete construction drawings and obtain building permit.

The LDDA provides a 12-month period to complete all required predevelopment tasks and to close escrow by September 2021, but if conditions warrant, it provides for four, three-month extension options with fees, for a total of up to two years to close of escrow by September 2022. The LDDA also include a provision for *force majeure*, which allows for a tolling of time for up to 24 months for unforeseen delays that are outside of TZK's controls, such as a pandemic event or a litigation event. ***Combining all of these potential extensions means that close of escrow must occur by September 2024.*** As described below, TZK is targeting close of escrow on the lease in September 2023.

COVID-19 Disruptions and Revised Date to Close Escrow: TZK wanted to close escrow and start construction in 2020, but COVID-19 disruptions forced a change to the plan. The disruptions, include, among other things, the cessation of construction financing for hotels from March 2020 to late 2021 and the continuing scarcity of such financing from late 2021 to the present time. These disruptions resulted in TZK invoking force majeure to freeze its LDDA performance schedule.

Current Project Status: TZK remains compliant with the LDDA and it is in good standing with the Port. TZK continued to be diligent in pursuing required predevelopment activities. It is currently holding bi-weekly project meetings with Port staff and its architects and consultants to finalize plan checks as well as with SFPUC and SFPDW to finalize onsite and offsite utility plans. The development remains

² <https://sfbos.org/sites/default/files/r0005-20.pdf>

proposed to be fully privately funded and documented in the LDDA, except that its project implementation timeline has been impacted by the COVID-19 disruptions as explained above. **Tables 1 and 2** below summarize the changes to the project schedule.

Table 1
DEVELOPMENT SCHEDULE AND BUDGET AS OF SEPTEMBER 2020

<u>Phase</u>	<u>*Budget</u>	<u>Duration</u>	<u>Start</u>	<u>Finish</u>
Predevelopment (Design, Permitting and finance)	\$26 million	84 months	2016	2021
Construction	\$116 million	24 months	2021	2023
Operation	\$39 million	Long term	2024	2071

*Interim budget and schedule may change.

Table 2
DEVELOPMENT SCHEDULE AND BUDGET AS OF SEPTEMBER 2022

Due to COVID-19 impacts, the project schedule as of September 2022 is as follow.

<u>Phase</u>	<u>Budget</u>	<u>Duration</u>	<u>Start</u>	<u>Finish</u>
Predevelopment (Design, Permitting and finance)	\$26 million	108 months	2016	2023
Construction	\$116 million	24 months	2023	2025
Operation	\$39 million	Long term	2025	2073

*Interim budget and schedule may change.

TZK's Tasks Completed from September 2020 to date:

- Deployed all members of its design and construction teams to finalize all required construction drawings and documents to pull building permit
- Coordinated building permit issues with Port and the applicable City agencies
- Coordinated utility plans approval with PG&E and dry-utility providers to be ready to start construction once escrow closed
- Made substantial progress to obtain building permit – it is about 90% through the approval process
- Engaged financial consultants to augment its efforts to find financing

TZK's Tasks remaining to be completed to close escrow and start construction:

- Optimize the uses and sources of Development funds

- Complete building permitting and be ready to pull the permit to close escrow
- Submit evidence of firm equity and debt financing commitments
- Complete construction contract negotiations and source performance bond
- Execute Port Lease and close escrow to start construction

The remainder of this staff report provides a summary of background information about the Site, the Development, LDDA and its status, the Lease, accomplishments to date, the remaining predevelopment tasks to be completed, COVID-19 impact on the Development, and an analysis of the Development status. A summary outline of the discussion section of this staff report includes the following:

- I. Strategic Plan Alignment
- II. Background
- III. Description of the Development
- IV. Accomplishments to date
- V. Remaining Predevelopment Tasks to be Completed
- VI. The LDDA and its Status
- VII. Summary of COVID-19 impact on the Development
- VIII. Analysis of the Development Status
- IX. Next Steps

I. STRATEGIC PLAN ALIGNMENT

The Development is expected to contribute in a substantial way to support three of the Port's Strategic Plan objectives.

- *Equity:* The Development will provide business opportunities for local businesses and develop a new live theater space for Teatro ZinZanni's operation. Under the City's music and culture sustainability policy, as articulated in Chapter 90A of the Administrative Code, the City "is committed to supporting and encouraging the use of City and County property, including Port property, for indoor and outdoor music and other cultural events" and is committed to preserving and enhancing San Francisco's music and performance venues from displacement due to development.
- *Sustainability:* The Development is expected to incorporate a variety of sustainable practices including environmentally sensitive demolition techniques, recycling of demolition and construction waste, use of recycled construction materials, installation of high efficiency building systems and appliances, storm water management, zero waste operations, and green building standards.
- *Stability:* Adding revenues from a hotel and dinner-theater operations diversifies the Port's asset portfolio and supports the durability of the Port's lease revenue. Changing the Site from its current use as a surface parking lot to its highest and

best use³ will maximize asset value and increase the income stream to the Port from the Site.

II. **BACKGROUND**

Site Description and Permitted Uses: Seawall Lots (“SWLs”) 323 and 324 are two nearly triangular land parcels with a combined surface area of approximately 42,719 square feet with frontages on The Embarcadero, Broadway, Davis, and Vallejo Streets. They are proposed to be developed along with portions of Vallejo and Davis Streets that are also held by the Port and abut the SWLs (“Paper Streets”). SWLs 323 and 324 and the two Paper Streets have a combined land area of approximately 59,750 square feet and form the Site. The Site is currently paved with asphalt, striped for 227 self-parked stalls, and leased on an interim basis to a parking operator, SP Plus-Hyde Park Joint Venture.

Hotel, entertainment, theater, retail, and public open space, among others, are listed as acceptable uses for SWLs 323 and 324 in the Port’s Waterfront Land Use Plan, the City Planning Department’s Northeastern Waterfront Subarea Plan, and the Planning Department’s Northeast Embarcadero Study. The Site is located in the Northeast Waterfront Historic District and within a C-2 (Community Business) zoning district and a 40-X Height and Bulk district.

Teatro ZinZanni and Relocation Plan: Teatro ZinZanni is a popular dinner theater performed in a historic Spiegel tent and was a fixture on the San Francisco waterfront for over a decade. The tent provides a big top setting for live music, comedy, and acrobatic entertainment. It is a unique hybrid of comedy, theater, music, and dining that is part circus and part cabaret. It combines improvisational comedy, vaudeville revue, music, dance, and cirque into an engaging performance. It operates a venue in Seattle, and operated a venue in San Francisco until 2011 and in Chicago until July 2022.

Teatro and the Port entered into a lease in 1999 for Teatro to use a portion of Piers 27 and 29 for its dinner theater and cabaret operations (the “Theater Lease”). The Theater Lease was amended a few times; it expired in 2005 and continued on a holdover month-to-month basis until 2011. To accommodate the 34th America’s Cup and the construction of the new James R. Herman Cruise Terminal at Pier 27, the Port and Teatro mutually agreed to terminate the Theater Lease and identified a portion of SWL 324 as a potential relocation site. If Teatro satisfied certain pre-conditions (such as project design compatible with the Northeast Waterfront Historic District and completion of environmental review, among others), the parties would enter into a new lease for a portion of SWL 324.

Sole Source, ENA and LDDA: Teatro and Kenwood Investments formed TZK to submit a proposal that is the basis for this Development. TZK is comprised of two member companies: Kenwood Investments No. 6, LLC, a California limited liability company

³ Highest and best use is defined as the use allowed under current zoning which returns the highest land value.

("KWI #6") established by Kenwood Investments, and TZZ, LLC, a Washington limited liability company ("TZZ") established by Teatro ZinZanni. On May 5, 2015, the Board of Supervisors adopted Resolution No. 170-15⁴ and found that the TZK's proposal is exempt from competitive bidding requirements of Administrative Code Section 2.6-1. Thereafter, on September 8, 2015, the Port Commission adopted Resolution No. 15-31 authorizing Port staff to enter into an ENA with TZK to pursue the Development. From 2015 through 2019, TZK submitted its updated conceptual design for review for compliance with applicable regulations, and on a parallel track, negotiated business terms with the Port to lease the Site for the proposed development. With Port staff assistance, TZK conducted outreach to community stakeholders. The community, City Planning Department, the Historic Preservation Commission, the Planning Commission, and the Waterfront Design Advisory Committee reviewed and vetted the conceptual design for compatibility with Historic District and finally supported its approval. TZK then negotiated and completed a term sheet, LDDA, and Lease with Port.

On September 10, 2019, by Resolution No. 19-36⁵, the Port Commission, among other things, adopted the Final Mitigated Negative Declaration and the Mitigation Monitoring and Reporting Program (the "MMRP") and findings pursuant to the California Environmental Quality Act, Public Resources Code Sec. 21000 et seq., for the Development; adopted Findings that the Development provides numerous benefits to the Public Trust; and directed the Executive Director to (i) enter into the LDDA and other transaction documents with TZK and (ii) seek approval of the form of Lease from the Board of Supervisors ("Board"). On January 14, 2020, by Resolution No. 05-20⁶, the Board, among other things, adopted the MMRP and approved the form of Lease with TZK.

The Executed LDDA

The LDDA, executed on September 18, 2020, sets (1) the list of conditions TZK must satisfy before the Port will allow escrow to close so Site possession can transfer to TZK to start construction, (2) the rights and obligations of Port and TZK through construction of the Development, and (3) a schedule of performance setting forth the timeline by which TZK is to advance the Development. Attached to the LDDA is the fully negotiated Lease to be executed once all pre-conditions to close escrow are met. One of the key conditions is providing Port with evidence of a firm financing commitment to start construction.

The Lease.

The Lease will be effective when escrow closes and its key terms include: **(a)** a 50-year initial term with a 16-year extension option; **(b)** rent to include **(i)** *Minimum Base Rent* per year for both construction and operation periods; **(ii)** *Percentage Rent* during the operation period; **(iii)** *Participation Rent* during operation phase and refinancing and

⁴ <https://sfbos.org/ftp/uploadedfiles/bdsupvrs/resolutions15/r0170-15.pdf>

⁵ <https://sfport.com/meetings/san-francisco-port-commission-september-10-2019>

⁶ <https://sfbos.org/sites/default/files/r0005-20.pdf>

sale events; **(c)** including insurance, indemnity, sea level rise and flooding provisions; and **(d)** prior consent for transfers and assignments, among others.

Please refer to the September 6, 2019 staff report for more details about the terms of the LDDA and the Lease, including staff analysis of the terms.⁷

Project Sponsor: In 2018, TZK admitted PresidioCo Holdings, LLC (“Presidio”) into its membership. TZK admitted Presidio to increase its hotel development capacity and ability to raise additional capital and securing affiliation with one of the major hospitality brands to access reservation systems and set minimum management standards to meet capital requirements.

III. DESCRIPTION OF THE DEVELOPMENT

The Proposed Development: A summary of the key-features of this Development is provided in the early part of this staff report. The three key elements of the development are described below.

1. The Entertainment Venue

Teatro ZinZanni will operate the entertainment venue with approximately 29,570 gross square feet floor area to house the historic Spiegel tent and seating for the venue, kitchen, bar, bathrooms, welcoming areas, ticket booth, merchandise area, shared indoor public space, and back-of-house activities. This venue is expected to accommodate a maximum of 285 patrons and to be in use daily, with live shows performed several times each week from approximately 6:30 pm to midnight. This venue includes a small outdoor raised stage area located at the south end of the public park, attached to the back-of-house portion of the entertainment venue. This raised stage and the park are expected to be programmed and used for small-scale community and neighborhood events; small-scale theater performances by local schools and community groups; and other neighborhood events, such as weekly exercise classes or a children’s dance or singing performance.

2. The Hotel

The hotel component is proposed to include a total of approximately 118,000 gross square feet, of which 14,560 gross square feet would be at ground level for entry and drop-off areas for guests, the front desk, a concierge, gathering space, retail, restaurant or café uses, back-of-house uses, and elevator and stairwell access. The hotel would also include a restaurant and bar. The restaurant and bar are proposed to include an outdoor patio along the eastern side of the building, along The Embarcadero. Above the ground-level floor, the proposed project would include approximately three floors of hotel uses totaling 95,560 gross square feet and 192 hotel guest rooms. The hotel is planned to include an approximately 3,970 gross square foot rooftop deck, serving food and beverages from the hotel’s bar and restaurant or cafe services, for use by hotel guests only. The roof would include screens for screening rooftop mechanical devices from the street and surrounding areas.

⁷ Link to this staff report: <https://sfport.com/meetings/san-francisco-port-commission-september-10-2019>.

3. The Public Park

The proposed Development includes an approximately 14,000-gsf public park in the northern portion of the Site parallel to The Embarcadero, as depicted in **Exhibit “B,”** Proposed Project Drawings. The park, to be fully privately funded, would consist of both landscaping and hardscape, with benches and lighting in and around the park. The public park would be used for informal passive activities on weekdays and weekends during normal business hours, subject to lease provision on compliance with the Port’s Good Neighbor Standards. Development Schematics are attached as **Exhibit “B,” Proposed Project Drawings.**⁸

IV. ACCOMPLISHMENTS TO DATE

1. CEQA Approval

This Development has been reviewed under the applicable land use requirements and the California Environmental Quality Act or CEQA which review culminated in the December 21, 2018 Planning Department approval of the issuance of the Final Mitigated Negative Declaration ("FMND") for the Development.

2. Historic Preservation Approval

On March 6, 2019, the Historic Preservation Commission adopted Motion No. 0370 finding that the proposed Project (or Development) is consistent with Article 10 of the Planning Code and the Secretary of the Interior's Standards for Rehabilitation in conformance with the architectural plans filed with the Planning Department subject to the conditions and findings listed in its Motion No. 0370.

3. Planning Commission Conditional Use Authorization

On May 2, 2019, the Planning Commission conducted a duly noticed public hearing at a regularly scheduled meeting on Conditional Use Authorization Application and General Plan Referral Nos. 2015-016326 CUA and 2016- 011011GPR for the Project. At that hearing, pursuant to Resolution No. 20443, the Planning Commission made Findings of Consistency with the General Plan and with the Priority Policies of Planning Code Section 101 for the street vacations for the Project, pursuant to Section 4.105 of the City Charter and Section 2A.53 of the Administrative Code. In addition, pursuant to Motion No. 20444, the Planning Commission granted a Conditional Use Authorization for the Project pursuant to Planning Code Sections 210.1, 240.3 and 303 to allow a hotel use within the C-2 Zoning District, the Waterfront Special Use District No. 3, and a 40-X Height and Bulk District, subject to the conditions and findings listed in the Motion No. 20444.

In Resolution No. 20443, the Planning Commission, having reviewed the FMND, concurred with the Planning Department's determination that, pursuant to the FMND, including its mitigation measures, the Project could not have a significant impact on the environment. In Motion No. 20444, the Planning Commission made the same findings as in Resolution No. 20443, and more specifically found that, based on review and consideration of the FMND and the record as a whole, there is no substantial evidence that the Project will have a significant effect on the

⁸ A more detailed description of this Development is provided in the September 6, 2019 staff report which can be accessed at: <https://sfport.com/meetings/san-francisco-port-commission-september-10-2019>.

environment with the adoption of the mitigation measures contained in the Mitigation Monitoring and Reporting Program.

4. Planning Commission adoption of the FMND and MMRP

On May 2, 2019, the Planning Commission adopted the FMND and the Mitigation Monitoring and Reporting Program and included all required mitigation measures identified in the FMND and contained in the Mitigation Monitoring and Reporting Program as conditions of approval.

5. Port Commission Approval of Schematic drawings, LDDA and form of Lease

On September 10, 2019, by Resolution No. 19-36, the Port Commission, among other things, adopted the FMND and the Mitigation, Monitoring, and Reporting Program, approved the schematic design, and authorized and directed the Executive Director to (i) enter into the LDDA and other Transaction Documents with TZK and (ii) seek approval of the form of Lease from the Board.

6. Board of Supervisors Approval of Form Lease

On January 14, 2020, by Resolution No. 05-20, the Board, among other things, adopted the Mitigation, Monitoring, and Reporting Program and approved the form of Lease with TZK.

7. Executed the LDDA

On September 18, 2020, TZK and the Port executed the LDDA.

8. Made progress towards obtaining building permit

TZK is continuing to advance this Development. It is currently holding bi-weekly project meetings with its architects and consultants and Port staff to finalize plan checks as well as with SFPUC and SFDPW to finalize onsite and offsite utility plans. It is working with SFMTA, and the City Urban Forestry to obtain their signoffs on the building permit. It is working with its financial consultants to raise the remaining capital needed to close escrow. All members of TZK remain committed to completing the Development.

V. REMAINING PREDEVELOPMENT TASKS TO BE COMPLETED

1. Submit updated Uses and Sources of Development Funding

2. Complete building permit process

TZK has submitted to Port an application for a building permit and deployed all members of its design and construction teams to finalize all required construction drawings and documents for review and issuance of a building permit for starting construction. It has made substantial progress toward obtaining the building permit – it is about 90% through the approval process.

3. Submit required evidence of financing

TZK is searching for the remaining funding to submit for Port's review and approval its evidence of enforceable financing commitment, including lenders' commitment

letters, and balanced sources and uses of funds, and to simultaneously close construction loan(s) with the recording of the lease.

4. Execute Port Lease

TZK must complete all of the necessary reviews of the Port lease with its investors and lender(s) and execute the Port lease and ancillary documents to close escrow.

5. Receive all other approvals to start construction

TZK must obtain all approvals required to start construction.

VI. THE LDDA AND ITS CURRENT STATUS

LDDA Key Requirements and Performance Schedule:

The LDDA sets the list of conditions TZK must satisfy before the Port will allow escrow to close so Site possession can transfer to TZK to start construction. Those conditions were described in the earlier part of this staff report. Other key terms of the LDDA include: the Schedule of Performance, a 12-month period to close escrow (with four three-month extension options with fees, for a total of up to two years), **and** a force majeure provision which allow for a tolling of time for up to 24 months for unforeseen delays that are outside of TZK's controls, such as a pandemic event or a litigation event. A summary of the approved LDDA and Lease terms and an analysis of the deal terms are provided the approvals staff report and Board file.

Currently, staff is working with TZK to finalize plan checks as well as with SFPUC and SFDPW to finalize onsite and offsite utility plans.

Because of COVID-19 impacts on the Development timeline discussed earlier this report, TZK has invoked the LDDA force majeure provision to toll the time the pandemic has frozen hotel construction financing. This has resulted in TZK pushing escrow closing from September 2020 to September 2021. In September 2021, citing the persisting low hotel occupancy and ADRs, TZK extended the force majeure time tolling to continue to September 2022. With this invocation, TZK now have up to two years to find the required financing and close of escrow as soon as possible by no later than September 2023 subject to extension options. TZK remains compliant with the LDDA.

VII. SUMMARY OF COVID-19 IMPACT ON THE DEVELOPMENT

American Hotel & Lodging Association (AHLA) indicated in its *2022 Midyear State of the Hotel Industry*⁹ report that in 2019, the nation's nearly 56,000 hotels experienced an average annual hotel occupancy of 66%, selling 1.3 billion room-nights. It further indicated that the onset of the COVID-19 pandemic brought hotel occupancy to a historic low of 24.5% in April 2020 and that hotel annual occupancy in the United States fell to roughly 44% in 2020, citing *Oxford Economics June 2022 Economic Impact Study* of the US Hotel Industry. HVS, a Global Hospitality Services firm and conducted a feasibility study of the hotel 2019 for Port, indicated in its March 2021 Market Report –

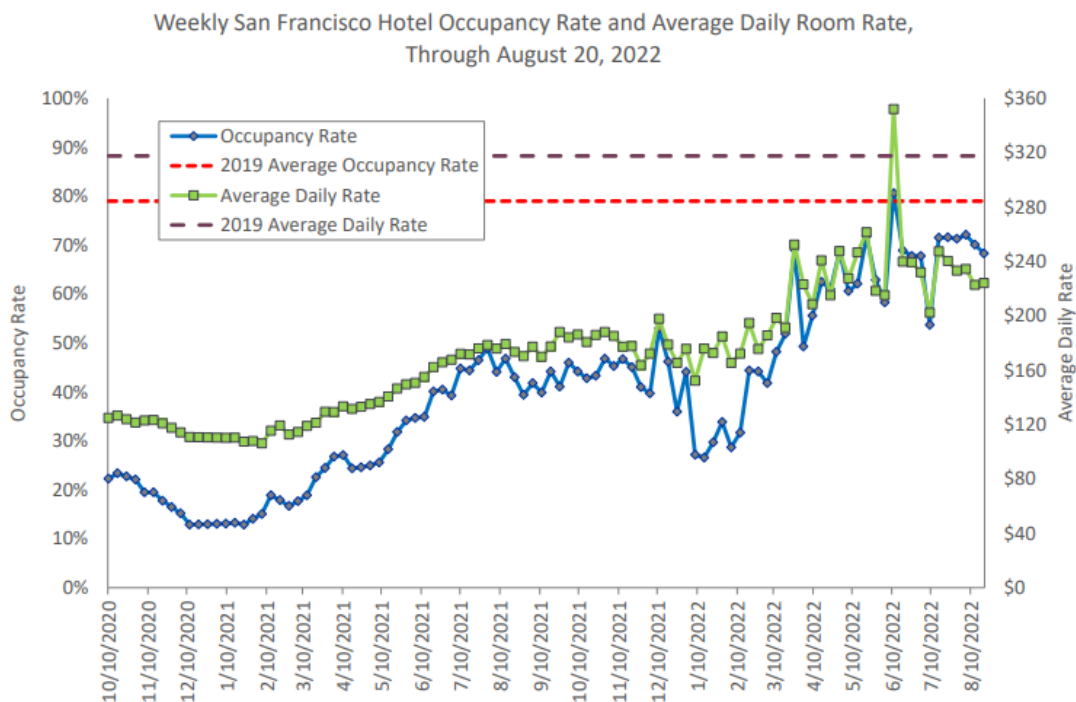
⁹ <https://www.ahla.com/sites/default/files/AHLA%20Midyear%20SOTI%20Report%202022.pdf>

COVID-19's Impact on the San Francisco Lodging Market¹⁰, that Revenue Per Available Room (RevPAR) declined nearly 64% in 2020 for the San Francisco Bay Area lodging market and that San Francisco hotels were prohibited, due the shelter-in-place mandates, from accommodating non-essential business travelers between March to September 2020. COVID-19 impact on San Francisco hotel occupancy and ADRs is illustrated in Graph No. 1 below showing the trend in hotel annual occupancy and ADR from October 2020 to August 2022 – this graph is excerpted from the *August 2022 City Controller's Office Economic Report*¹¹ on the Status of the Reopening of the San Francisco Economy. Per this graph, San Francisco hotel occupancy and ADR were respectfully approximately 22% and \$85 in 2020 and are now hovering around 70% and \$230 in August 2022 as the market recovers.

Graph No. 1

SF Hotel Occupancy Steady at 70% - Rates off June Peak...

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Source: STR

The significant reduction in hotel occupancy and ADRs in 2020 through 2021 are attributed to the drastic reduction of various visitors to San Francisco. Commercial/business visitors, international, national, and local visitors, leisure travelers,

¹⁰ <https://www.hvs.com/article/9039-covid-19s-impact-on-the-san-francisco-lodging-market>

¹¹ Status of the Reopening of the San Francisco Economy, August 2022: https://sfcontroller.org/sites/default/files/Documents/Economic%20Analysis/August%20Re-Opening%20Report_final.pdf

convention attendees, and excursion groups could not travel to the city. Hotels in the city were prohibited from accommodating non-essential business travelers. As a result, some hotels closed temporarily or reduced operations to accommodate medical personnel, first responders and those recovering from the virus, some postponed construction starts; and others under construction postponed their opening for operations until mid 2022, when hotel occupancy and ADRs were expected to recover to proforma levels or 2019 levels. Examples of these delays/postponements include *Hotel San Francisco* (formerly Hotel Vitale) at The Embarcadero and Mission, which delayed its \$25 million renovation and recently reopened in June 2022; *Hotel Luma*, adjacent to Oracle Park, delayed construction and recently opened in June 2022; *Stanford Court Hotel*, atop Nob Hill, closed for over two years and recently reopened opening.

Other significant COVID-19 impact is the scarcity of financing for hotels as reported by Hotel Business in its May 15, 2020 article named *Lending landscape will need Time to Recover Post-COVID-19*.¹² The article indicated that the hotel lending has come to a temporary standstill and turned upside down. Hotel loan underwriting has become more restrictive, expecting higher occupancy level and ADRs. Reasonable loan underwriting requirements are expected to be available from late 2023 or 2024 onwards if macroeconomic factors, such as rising interest rates, general uncertainty from geopolitical conflicts, construction costs, and labor shortages, are brought under control.

In September 2020, TZK informed Port staff that the reported low occupancy and low ADRs have resulted in cessation of financing for new hotel construction; that lenders indicate that construction financing is not expected to return for another 18 to 24 months; and that CBRE and other hospitality advisory firms anticipate that San Francisco hotel occupancy, ADR, and RevPar rates are not expected to recover until late 2024 or early 2025. TZK informed Port staff that these pandemic disruptions are beyond its control, that it expects the disruption to impact and delay its project funding timeline by approximately two years, and that it has invoked the LDDA force majeure provision to toll the time the pandemic is projected to freeze hotel construction financing. As a result, TZK pushed escrow closing from September 2020 to September 2021. In September 2021, citing the persisting low hotel occupancy and ADR and the continuing scarcity of construction financing for hotels in San Francisco, TZK extended the force majeure time tolling to continue to September 2022.

VIII. ANALYSIS OF DEVELOPMENT STATUS

TZK's Compliance with Governing Documents

TZK is in compliance with the terms of the LDDA. They have made the required quarterly payments to the Port (\$25,000 per quarter) since LDDA execution. This is consistent with the payments TZK made during the Exclusive Negotiations Agreement period.

¹² <https://togo.hotelbusiness.com/article/lending-landscape-will-need-time-to-recover-post-covid-19/>

Port's Financial Participation

The site where the development will take place is currently under lease for parking operations. The Port anticipates this use continuing until TZK executes the lease. The rent to the Port in the approved lease form has base rent and percentage rent on gross proceeds components. Once the lease is executed, these rental provisions (among others) will govern the Port's financial terms relative to the project.

Development's Financing and Construction

TZK's expectations to find financing and close escrow within the one- to two-year window the LDDA provides are reasonable based upon market indicators.

- CoStar, a commercial real estate information and data provider, reported in its November 3, 2021 article, *Hotel Construction Lending Starts Comeback After Pandemic Freeze*,¹³ that lenders are expressing interest in financing new construction of hotels.
- *San Francisco Hospitality Market Report, Midyear 2022*, by Marcus and Millichap, a leading firm specializing in commercial real estate sales, financing, research, and advisory services, indicates that San Francisco hotels' occupancy, ADRs, and RevPar are increasing and trending in the positive direction – please refer to the **attached Exhibit C**.

The continuing recovery of the San Francisco economy as reported by the City Controller's Office for August 2022, and the many recent positive market updates by the commercial real estate market analysts, are lending support to TZK's expectations to close escrow sooner than later. With concerns over rising interest rates, hotels are favored over other asset classes because it is considered inflation resistant – room rates can be easily adjusted on a daily basis. Recently published room rates for Hotel 1 San Francisco (formerly Hotel Vitale), the most comparable to this Development in terms of operational expectations, are suggestive of room rates expected for this Development to inform its proforma.¹⁴

This Development remains a creative proposal that leverages the Site's attributes. The underlying fundamentals of San Francisco's hotel marketplace - e.g., strong demand driven by the city's status as one of the world's most favored travel destinations, high-hotel occupancy projected to recover to pre-pandemic levels, the constrained supply of hotel rooms combined with improving tourism and business convention activities, the Chase Center Arena drawing NBA fans and event attendees to the City, and the Site's waterfront central location, all provide support for this Development.

Conclusions and Next Steps

¹³ <https://www.costar.com/article/530317625/hotel-construction-lending-starts-comeback-after-pandemic-induced-freeze>

¹⁴ Please refer to the September 6, 2019 staff report to the Port Commission for the proforma for this Development. <https://sfport.com/meetings/san-francisco-port-commission-september-10-2019>.

COVID-19 disruptions and the resultant TZK invocation of force majeure have shifted the implementation timeline for the Development by moving the target date to close escrow from September 18, 2021 to September 18, 2023. It is important to note that the LDDA provisions allow Developer to use additional extensions which could move this closing date to September 2024. The hotel and the Teatro ZinZanni dinner-theater elements of this Development remain economically competitive given their attributes to achieve high occupancy and patronage. With hotel occupancy and ADRs expected to return to pre-pandemic levels and barring negative macroeconomic events, the Development sponsors should be able complete the few remaining tasks to close escrow. Port staff will continue to work with TZK representatives to make this critical development a reality and apprise the Port Commission of the Development status from time to time as the Commission wishes.

Prepared by: Ricky Tijani
Waterfront Development Project Manager

Joshua Keene
Assistant Deputy Director, Real Estate and
Development

For: Rebecca Benassini
Deputy Director, Real Estate and Development

Exhibits: "A" Site Map
"B" Proposed Project Schematic Drawings
"C" *San Francisco Hospitality Market report, Midyear 2022*, by Marcus
and Millichap

Exhibit "A"
Site Map

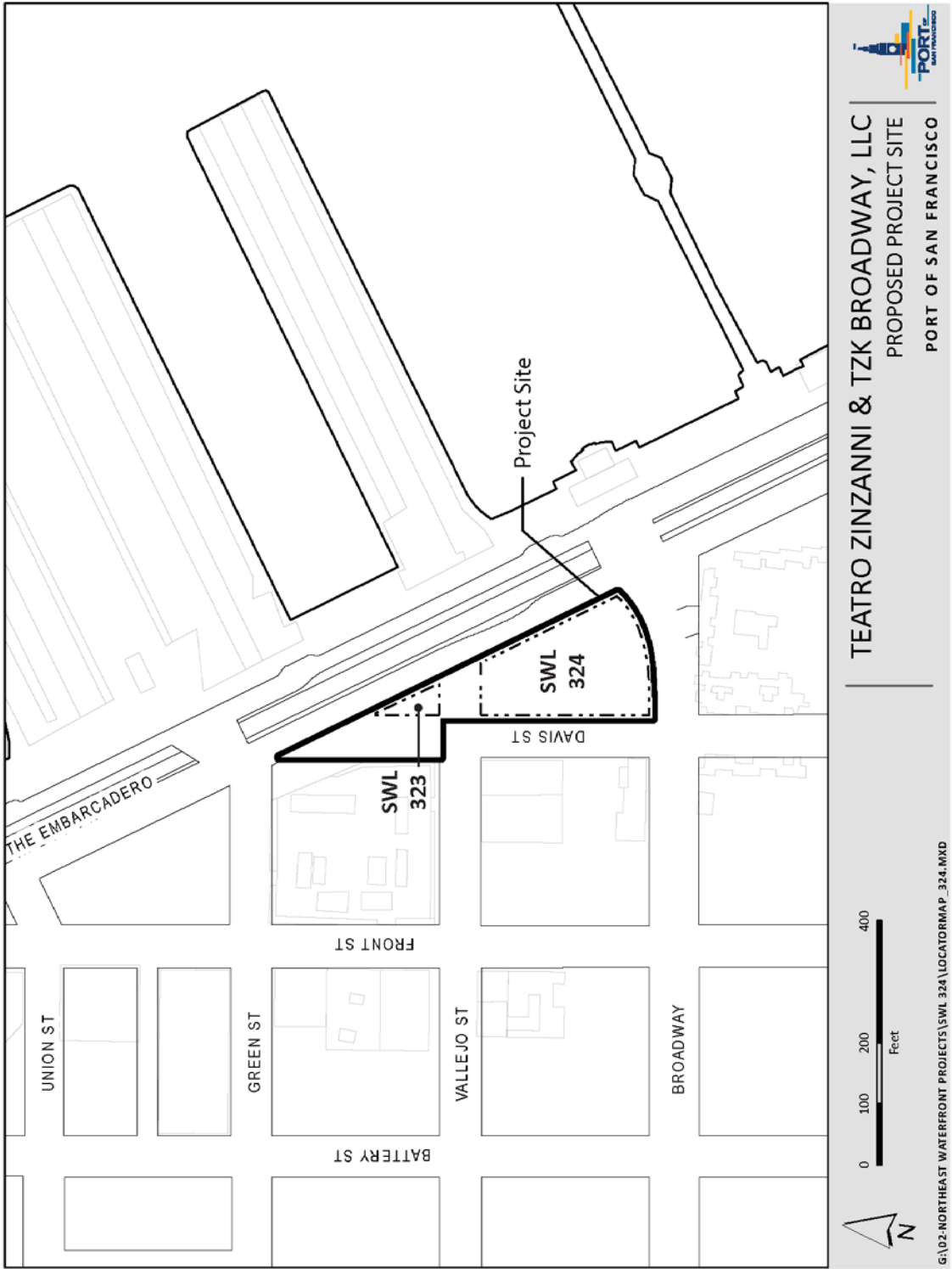
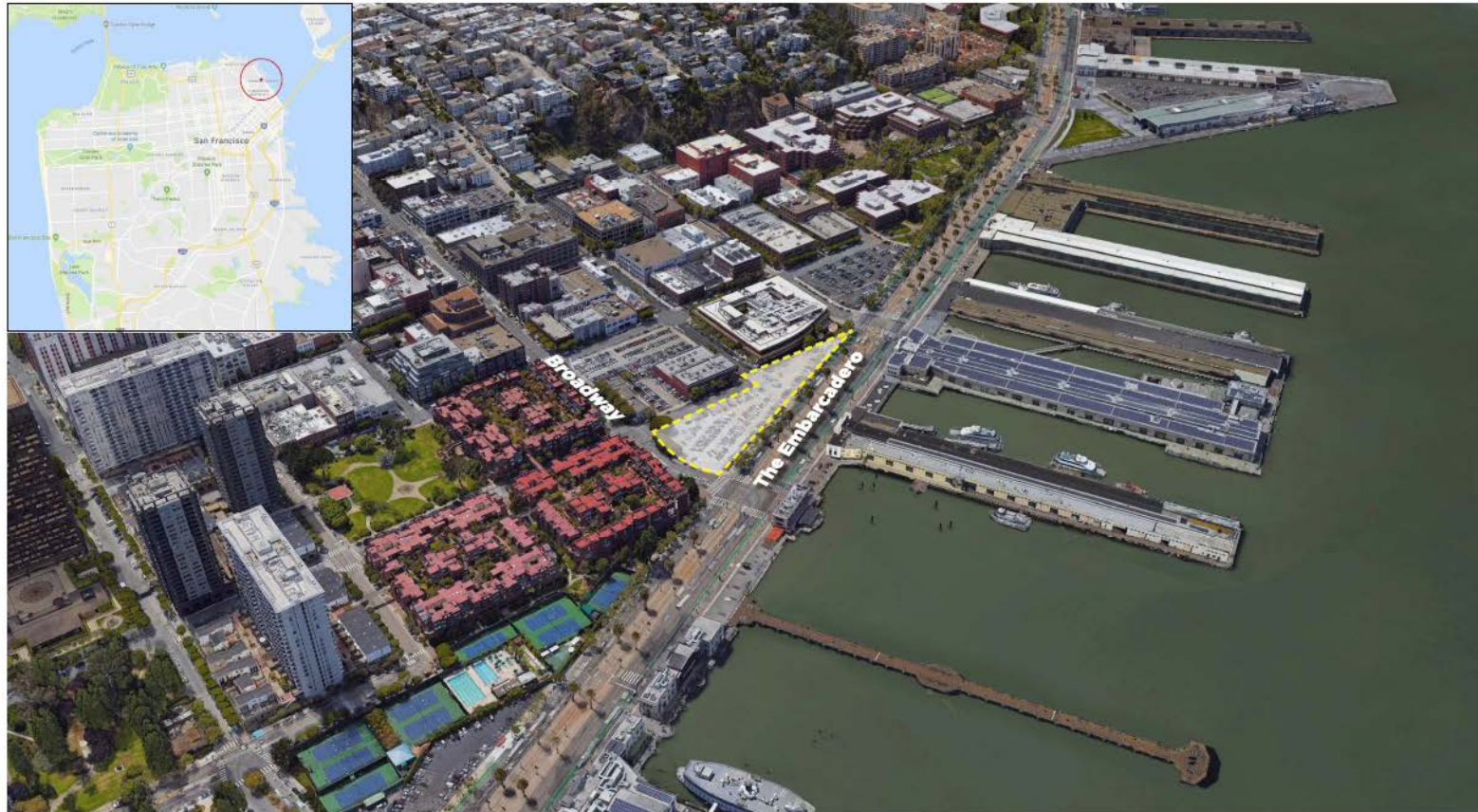


Exhibit "B"
Proposed Project Schematic Drawings



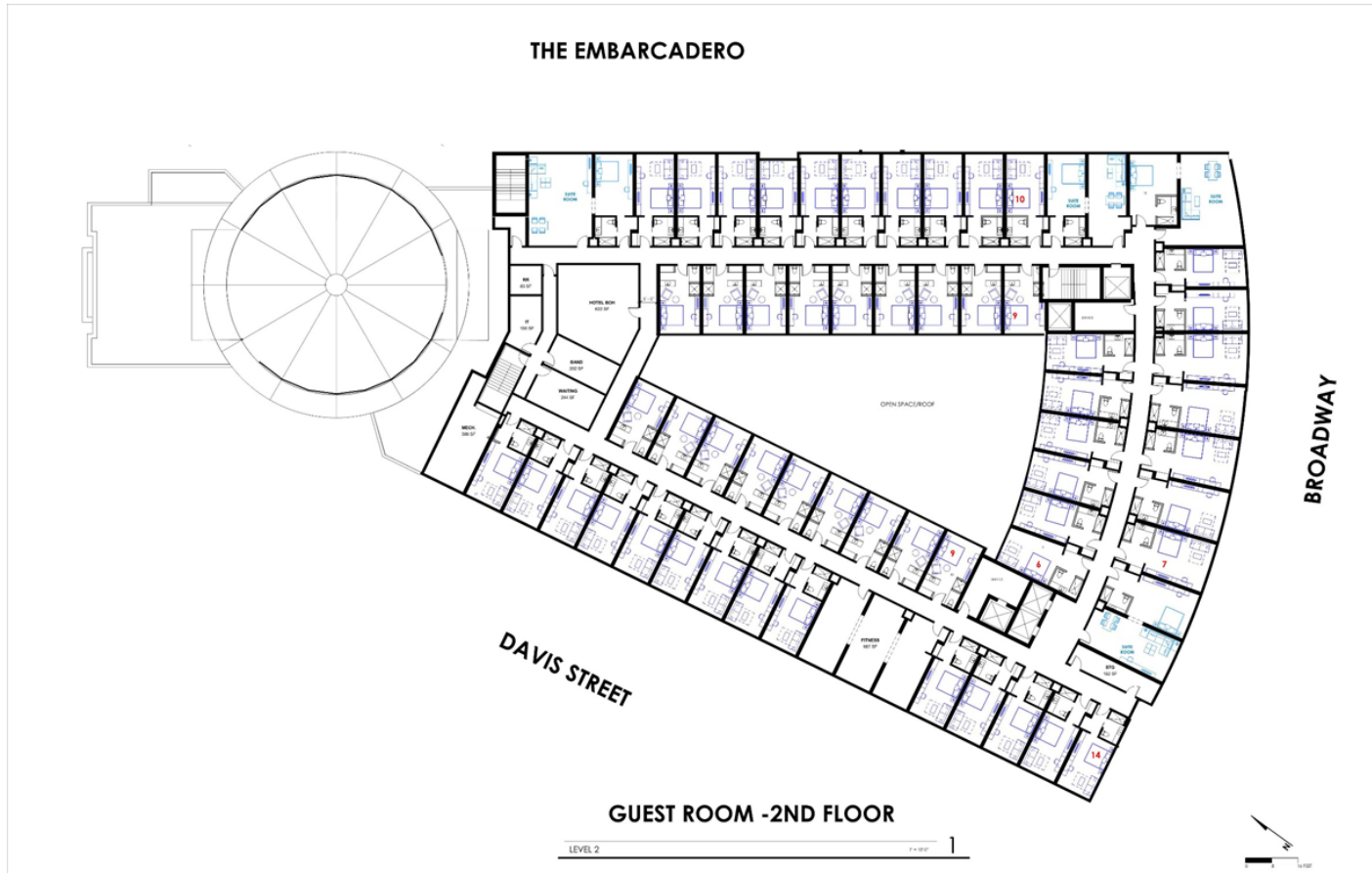
Project Location at Embarcadero & Broadway

Teatro ZinZanni | presidio companies | KENWOOD INVESTMENTS

The Theater & Hotel @ Broadway | Seawall Lots 323/324, San Francisco, CA
A Teatro ZinZanni & Kenwood Investments Project

Hornerberger + Worstell Architects
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Worstell



ZinZanni / Kenwood - The Theater & Hotel @ Broadway | San Francisco, California
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Broadway



The Embarcadero

Building Elevations



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Park



Davis Street

Building Elevations



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Public Park As Neighborhood Amenity










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Public Park and ZinZanni Pavilion



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Visual Analysis | Park View from Davis Street



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View South Along The Embarcadero

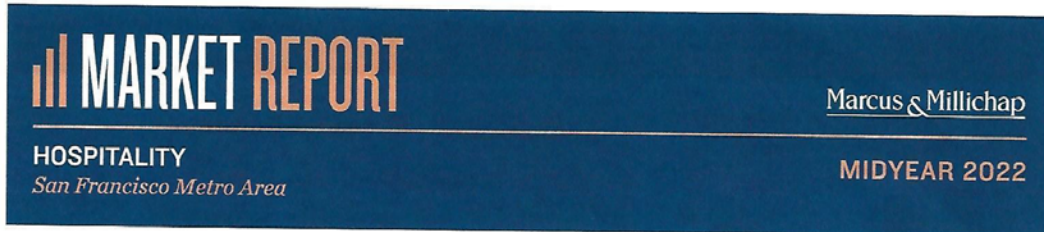


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Exhibit C

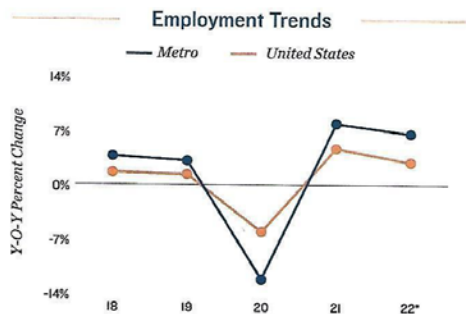
San Francisco Hospitality Market report, Midyear 2022, by Marcus and Millichap



Bay Area Tourism Observing Steady Increases; Convention Activity Stimulates Business Transit

High-profile events return as pandemic restrictions fade. One of the hardest-hit metros during the health crisis, San Francisco dropped nearly all COVID-19 restrictions earlier this year. As capacity regulations are lifted, large-scale events should stimulate hospitality recovery. The city of San Francisco proper welcomed its first NBA Finals in June, with the 19,000-seat Chase Center hosting half of the series and additional games during the playoffs. Other events and the 21.9 million individuals expected to visit the metro in 2022 will help elevate occupancy, pushing ADR above \$200 by the end of the year. An expected influx of foreign travelers will play a significant role in boosting hotel demand, as before the pandemic, one-third of the metro's tourism stemmed from international sources.

Full recovery dependent on business and foreign travel. Hospitality services catering to business clients still face headwinds, due to a high proportion of firms operating on hybrid or remote schedules. At the end of June, San Francisco office usage hovered at roughly 35 percent of the 2019 level. With business-related travel historically constituting around 30 percent of all visitor volume to the metro, a return to pre-pandemic hotel occupancy may depend on office activity moving toward pre-pandemic norms. On a more positive note, a number of large-scale business conventions are scheduled for this year as health restrictions abate, helping push annual occupancy rates above the 60 percent threshold for the first time since the onset of the pandemic.



* Forecast
Sources: BLS, CoStar Group, Inc.

Hospitality 2022 Outlook



1,300
ROOMS

under construction

CONSTRUCTION:

Builders have slowed activity, though the current construction schedule is set to expand metro inventory by more than 2.3 percent. The pipeline as of May comprises several larger properties that average nearly 190 rooms each.



1,710
BASIS POINT

change in occupancy

OCCUPANCY:

The lifting of local and international pandemic restrictions will facilitate an accelerated recovery in 2022. The metro will post a robust occupancy gain, with the average full-year rate ending 2022 at 64.4 percent.



38.5%

INCREASE
in ADR

ADR:

As large-scale conventions and events return without capacity restrictions, increased demand for hotel rooms will drive year-end ADR to \$213.10. The gain noted in 2022 will represent the most rapid annual rise recorded in metro history.



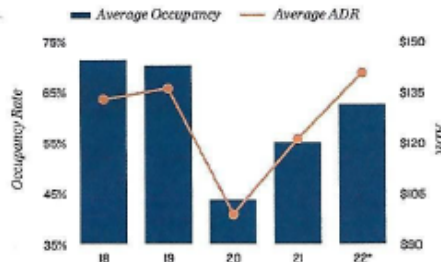
88.5%

INCREASE
in RevPAR

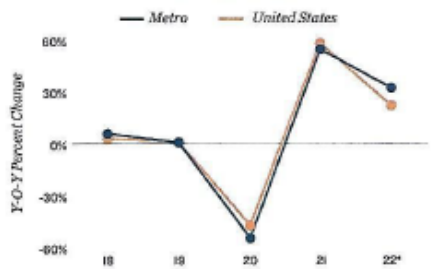
REVPAR:

Earlier in 2022, occupancy gains drove RevPAR over the \$100 mark for the first time since 2020. Average annual RevPAR will continue its upward climb, reaching \$137.13 by year-end, a figure roughly two-thirds of the 2019 metric.

Occupancy & ADR Trends



RevPAR Trends



Sales Trends



* Forecast ** Through May
Sources: CoStar Group, Inc., Real Capital Analytics

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Price: \$250
The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Occupancy, ADR and RevPAR values are trailing-12 month averages unless otherwise stated. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.
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May 2022 - 12-Month Period

OCCUPANCY
1,610 basis point increase in occupancy Y-O-Y

- Occupancy has consistently increased after hitting a nadir in early 2021, entering June at an average of 55.0 percent during the past 12 months.
- As tourism began to climb back to pre-pandemic levels, occupancy in the core led metrowide gains. Market Street and the Nob Hill/Wharf submarkets both reported advances of at least 1,750 basis points.

ADR
47.6% increase in the average daily rate Y-O-Y

- Returning hotel demand has translated to the most dramatic 12-month ADR advance in metro history, putting this figure at \$177.66 as of May.
- Despite significant occupancy gains in the core, daily rates in Marin County and western San Mateo County maintained their lead over the rest of the market, entering June at an average of \$220.23.

REVPAR
117.9% increase in revenue per available room Y-O-Y

- While nightly rates have risen rapidly, slower occupancy gains left RevPAR at \$97.67 in May, 48 percent of the equivalent pre-pandemic figure.
- Luxury flags boast the smallest gap between current and pre-pandemic RevPAR. While segment occupancy lagged the market, ADR gains drove RevPAR to \$184.68, about 60 percent of the February 2020 rate.

Investment Highlights

- A slower return of business travel than expected weighed on deal flow during the 12-month period ended in May, with transaction velocity occurring at half the rate of pre-pandemic years. Buyers active during this span focused on upscale and upper upscale properties in San Francisco proper, with yields ranging from the high-5 to low-7 percent range. Rapid improvement in the average daily rate made these properties attractive, as easing health restrictions allowed them to extend to their full range of operations.
- Pricing during the 12-month span ended in May fell 16 percent to \$265,700 per key. A 60-basis-point yield decompression was observed, with the average cap rate for trades occurring this period rising to 7.5 percent — a level last recorded in 2013 — tying the metro with Los Angeles for the highest average yield among major California hotel markets.
- Institutions and equity firms have resumed buying activity in anticipation of an improvement in tourism. At the same time, smaller private buyers are accounting for a larger share of the buyer pool, as falling prices are allowing these investors to acquire properties at pricing well below the pre-pandemic norm.

