



MEMORANDUM

May 5, 2023

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

FROM: Elaine Forbes
Executive Director 

SUBJECT: Proposed Strategies to Address Food & Beverage and Retail Vacancies.

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

Vacant and shuttered businesses in Fisherman's Wharf are concerning to the Port, nearby Port-tenants, adjacent businesses, and local and out-of-town visitors. Port staff prepared this informational memorandum to describe activities currently underway and plans to address these concerns.

The Port has taken several actions since the end of the COVID pandemic to assist operating tenants and to work with tenants who have not reopened to reopen or end their tenancy with the Port. While developing a deliberate visitor experience and business attraction action plan, Port staff have also focused on how to successfully and efficiently tenant three vacant properties in the Wharf. The Port's typical solicitation process (Request for Proposals) does not have a strong success rate and has led to delays in restarting the solicitation. In addition, a particularly challenging market for food and beverage (F&B) and retail/attraction uses suggests the need for a responsive and flexible solicitation process.

This memorandum (a) summarizes ongoing Port work on F&B and retail/attractions tenancing (supervising two broker-managed solicitations and working with a consultant team on a Fisherman's Wharf Retail Strategy) and (b) proposes a solicitation strategy

for four existing vacancies in Fisherman’s Wharf and upcoming opportunities that reduces barriers for new businesses, is open-ended and opportunistic, and relies on the assistance of retail and F&B specialists.

STRATEGIC OBJECTIVE

This informational memorandum supports Productivity (attract and retain tenants) and Evolution (evolve waterfront for changing needs) objectives of the Port’s Strategic Plan.

BACKGROUND

The COVID-19 pandemic has had a significant impact on the F&B and retailers in San Francisco. According to a report by the Golden Gate Restaurant Association, nearly half of San Francisco's restaurants permanently closed their doors due to the pandemic. The surviving restaurants and retailers have had to adapt by offering "to go" options, investing in technology to improve their online ordering systems, and implementing creative marketing strategies to attract customers.

Figure 1 illustrates gross sales for restaurants and retailers at the Port between 2019 and 2023. It shows a trending rebound in sales in parts of the waterfront, with sales at Fisherman’s Wharf standing out in terms of experiencing a slow recovery back to pre-pandemic sales.

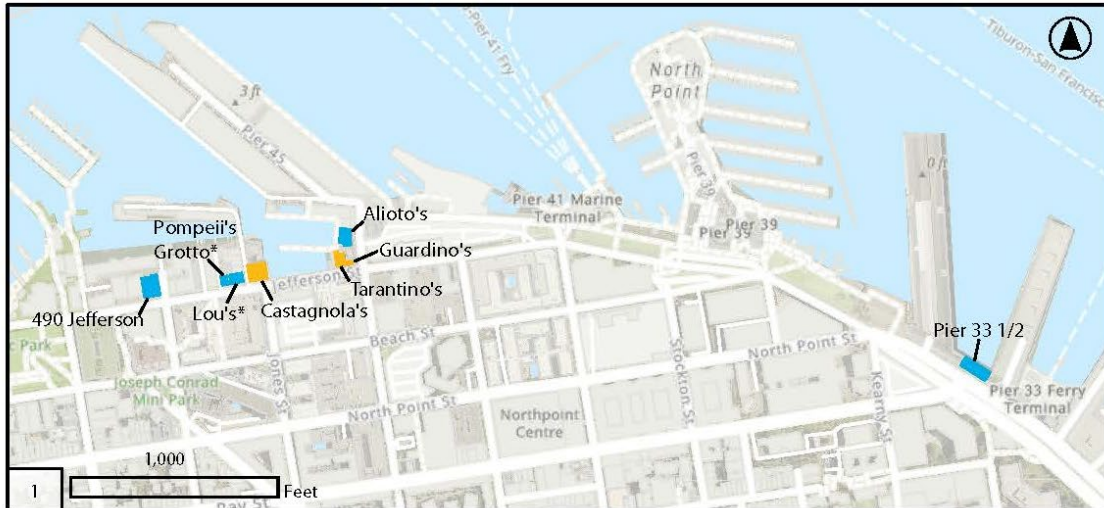
Figure 1. Comparison of Gross Sales FY 2019-2021-2023, Year to Date



*FY2019 and FY2021 total spans the months of July - February for comparison purposes.

Figure 2 illustrates the locations of vacant (i.e., no tenant in place), shuttered locations (i.e., a tenant in place but operations are closed), and upcoming opportunities. As shown, the Port currently controls four sites (two are being marketed, two are being assessed); three more sites are expected to come to the Port this year; and three businesses are tenanted but have been closed since 2020.

Figure 2. Locations of Vacant, Closed, or Upcoming Sites Requiring New Retail or F&B Tenants



Status of Locations Requiring New Tenant Solicitation

- Future F&B/Retail
- Port Controlled
- Tenant in Place - Closed

*Port will control Pompeii's Grotto and Lou's if mutual termination agreements are approved by Board and signed by Mayor.

STRATEGIES AND ACTIONS TO DATE

The Port has used several strategies over the last three years to manage retail and restaurant tenancies and position vacancies for leasing.

1. **Base rent relief.** Offered base rent relief between March 2020 and April 2021 to tenants who opened for business.
2. **Tenant workouts.** Port staff in constant communication with tenants, asking for plans to reopen and negotiating mutual termination agreements (four since 2021).
3. **Legal notifications and action.** As required, Port staff have sent notices of default and 3-day notices when necessary and are pursuing possession of property and rent through court action.
4. **Two broker-managed solicitations** underway, began marketing in January 2023.
 - a. Pier 33 ½: Broker developed and sent marketing materials to a variety of industry organizations¹ and nearly 1,000 restaurant operators and has conducted 9 tours of the site.
 - b. Ferry Plaza East Building: Broker developed and sent marketing materials to 1,030 recipients including San Francisco brokers, restaurants, and restaurant/hospitality groups, has taken 6 groups on tours of the site, and will host an open house onsite.

Port staff members meet with the broker team bi-weekly to monitor interest, identify any concerns that prospective tenants raise that Port staff may be able to address to reduce barriers to a tenancy, and to determine when a site has sufficient interest to call for proposals. After receipt of competitive proposals, Port staff and broker team will score respondents against the adopted criteria and bring successful proposals to the Port Commission for consideration.

5. **Tenant improvement budget.** As part of federal stimulus funds, the Port has approximately \$8 million in funds that must be spent on tenant improvements for an economic return to the Port by 2026. The Port may also seek to draw upon other economic recovery funds currently on budget reserve.
6. **Clarity on exemption on Chapter 6 public contracting rules for tenant-led projects.** This exemption for tenant-led projects approved by the Port Commission in February 2023 was approved by the full Board of Supervisors on May 2, 2023.

¹ San Francisco Chamber of Commerce, Chinese Real Estate Association of America, African American Regional Educational Alliances, San Francisco African American Chamber of Commerce, Hispanic Chambers of Commerce, San Francisco Filipino American Chamber of Commerce, and San Francisco Black Wallstreet.

CHALLENGE AHEAD

The Port has possession of three vacant restaurant properties and one other building with frontage on Jefferson Street (former office space). Two are in marketing (Pier 33 ½ and Ferry Plaza East) and Port staff are analyzing the others (Alioto's and 490 Jefferson Street) for near and mid-term activations and leases. If approved by the Board of Supervisors, the Port will also gain possession of two other restaurants (Pompeii's Grotto and Lou's Blues) in the coming months. In addition, the Port will control an F&B pad upon acceptance of Bayfront Park late in the calendar year 2023. This means the Port will be conducting up to seven competitive solicitations for facilities that have been unused for between three and 10 years, in a very unfavorable economy for F&B and retailers.

APPROACH

The competitive landscape for food and beverage and retail leasing is challenging. The City has about 3.1 million square feet of F&B and retail space available² and private landlords are offering substantial leasing incentives (turnkey spaces, free rental periods, generous tenant allowance budgets, and percentage rent only periods, among others). Port staff is taking strategic steps to position our sites and be nimble to market dynamics. Specifically, staff is supervising the two broker-managed solicitations and developing a Fisherman's Wharf Retail Strategy with a consultant team. Port staff desires the Port Commissioner's input and later approval of a solicitation strategy, described below, that reduces barriers to new businesses for these vacancies, is open-ended and opportunistic, and relies on the assistance of retail and F&B specialists.

Port Staff Ongoing Work

Learn from Ongoing Broker-Managed Solicitation Process

In January 2023, Port staff entered a contract with an as-needed brokerage firm, after a competitive process among three brokerage firms for the work. After developing marketing materials and facility assessments and conducting tours, Port staff has learned that F&B and retail operators:

- *Are risk averse.* Unrenovated facilities that require capital upgrades, as well as tenant improvement costs, are too expensive for many potential tenants and present time-to-open risks that most operators cannot or are not willing to manage.
- *Prefer longer-term leases* - 10 years or more, depending on the capital investment needed.
- *Have many options for property and can be selective.*
- *Recognize* that the Port has premier waterside locations along the waterfront.

Port staff anticipates receiving broker-managed proposals for at least one site in the coming months and bringing ranked and qualified responses to the Port Commission for consideration.

² See Cushman & Wakefield Q1 2023 San Francisco retail report. This is a 6% vacancy rate, the highest vacancy since 2016. <https://www.cushmanwakefield.com/en/united-states/insights/us-marketbeats/san-francisco-marketbeats>

Enhance Understanding of the Context & Market at Fisherman's Wharf

Specific to Fisherman's Wharf, Port staff are taking the time to make strategic moves, with an appropriate level of urgency as several spaces have been shuttered for years. Port staff began work in May with a consultant team on an intensive, two-month scope to enhance our understanding of the visitor experience (attractions, activities, public realm) and business attraction opportunities for the Wharf. The strategies will consider the current offering for visitors and recommend complementary offerings and new experiences. The work will include interviews, case studies, and property analysis and will result in near-, mid-, and long-term strategies for the Wharf. Port staff will connect this work to the proposed near-term investment in activation and clean and safe work described in the Fisherman's Wharf Community Benefit District grant staff memorandum.

Solicitation Strategy for Multiple Vacant Locations

Based upon the work to date, the state of the market for F&B and retail leasing, and the Port's previous experiences with traditional Requests for Proposals, Port staff recommend the following solicitation strategy for multiple vacant locations:

1. ***Seek short-term activations.*** Port staff will market vacant sites for short-term licenses to attempt to reactivate shuttered sites while marketing the sites for new tenants.
2. ***Reduce barriers for businesses to open at the Port.*** Provide clear and informative marketing materials so businesses are aware of the benefits of Port's property (e.g., foot traffic & vibrancy, views, and access to low-cost and streamlined ABC permits); market broadly and deliberately reach out to associations representing local and small businesses; revamp RFP process with specialized consultants or brokers that businesses are accustomed to relying upon; and offer tenant improvement allowances from stimulus source, so long as there is an acceptable return on the investment.
3. ***Use specialized, professional support including brokers.*** Expand broker usage beyond the two current locations (Piers 33 ½ and Ferry Plaza East). Port staff may also use hourly consultant assistance to prepare marketing materials, track and respond to prospects, tour the facilities, analyze potential tenant entities and concepts for financial feasibility and financial capacity, and complete facility assessments, among other tasks. Using this professional expertise is critical both from a competitive lens (as the method by which nearly all landlords find tenants and tenants identify leasing opportunities) and from a staff capacity viewpoint (existing staff resources cannot manage multiple competitive processes).
4. ***Provide clear guidance on desired outcomes via criteria. Attachment 1*** contains the criteria approved by the Port Commission for Piers 33 ½ and Ferry Plaza East. These approved criteria effectively represent the Port's mission and values in tenant selection and Port staff recommend replicating them, with tailored language for each site's physical conditions, for other vacant sites.

5. **Integrate flexibility into process.** Consulting with outside professionals, flexibly assess and respond to how the market receives each site. For example, if a site is oversubscribed with interest, call for tenant offers and move to scoring against criteria. Alternatively, if a site receives little interest, delay any planned call for proposals but be prepared to start again with a revised outreach plan and marketing materials.
6. **Feedback loop with Port Commission.** Provide updates to Port Commission as Port staff sign short-term activation licenses and, as part of any recommended new lease, include in staff report summary of marketing, a summary of call for proposals, proposals received, scores for proposals, and proposed lease terms.

CONCLUSION

Losing multiple tenants in a short period of time due to terminations or other reasons presents both a staff capacity and business attraction challenge for the Port. This memorandum summarizes staff's ongoing and proposed actions to meet these challenges with near- and mid-term solutions for attracting and retaining new tenants. **Attachment 2** illustrates how these steps may occur over time.

Port staff seek Port Commission feedback on future proposed Commission actions to facilitate solicitations that reduces barriers for new tenants, are open-ended and opportunistic, and rely on the assistance of retail and F&B specialists, as other landlords do. Specific and potential Port Commission action may include:

1. Approve criteria for new tenants for vacant retail and F&B spaces (see, **Attachment 1**).
2. Include a new "parameter rent" for short-term (less than two years) activations of vacant storefronts while marketing for new tenants is proceeding.
3. Allow the payment of broker commissions for now vacant F&B and retail spaces or those that become vacant in the future (note, Port staff already have authority to use hourly consulting assistance as another tool).

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Attachments: Attachment 1 - Criteria
Attachment 2 - Potential Process for Short-Term Activation and
New Lease Solicitations
Attachment 3 - Prior RFP Processes & Result

Attachment 1 – Criteria

Port staff recommends the following criteria for evaluating the proposals:

Proposed Concept – 20 points

- Overall appeal of proposer’s concept to meet Port objectives
- Proposer’s plan for marketing to increase patronage and drive sales/revenues
- Proposed operations plan, including hours of operation, menu, pricing, staffing, sourcing of product and services and how to maintain customer satisfaction

Proposed Design – 15 points

- Overall appeal, interior design, exterior design if applicable, signage, floor plan, front elevation, and images depicting interior and exterior

Experience and Financial Strength – 25 points

- Documented experience operating the type of operation proposed
- Annual gross revenue for calendar years 2018 through 2022 of operation, as applicable
- Balance Sheet and Credit Rating
- Capital investment plan, including sources of capital funding

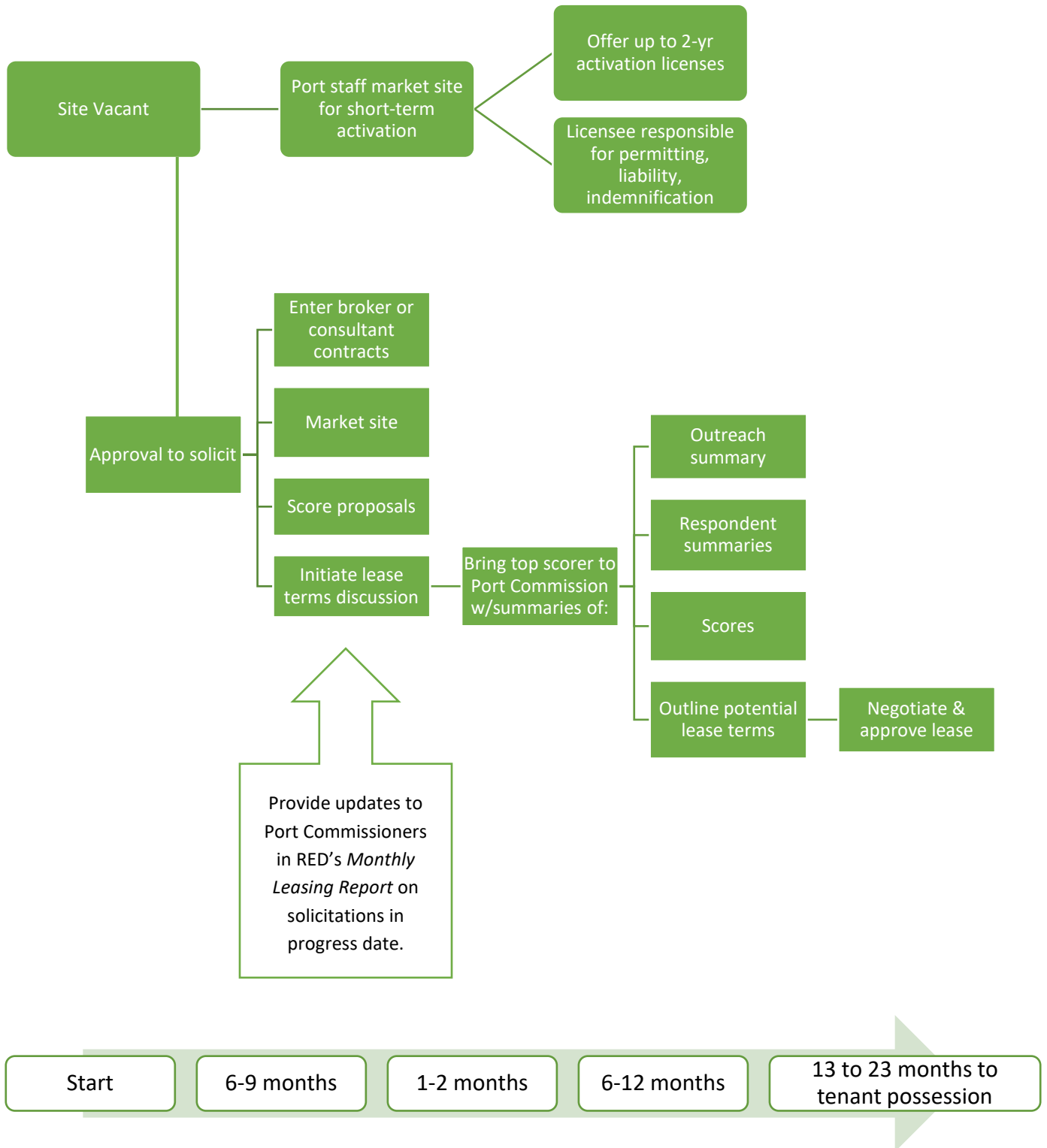
Proposed Rent and Business Plan – 25 points

- Proposed base rent
- Proposed percentage rent
- Five-year financial pro forma with projected sales, revenue to the Port, expenses, and net income, with a demonstrated ability to fund continuing operations from the cash flow generated by the operation

Local Business Participation & Diversity Equity Inclusion Program – 15 points

- Proposed plan to meet Port’s LBE and Diversity Equity Inclusion goals

Attachment 2 – Potential Process for Short-Term Activation and New Lease Solicitations



Attachment 3 – Prior F&B and Retail RFP Processes & Result

Year Issued	Site	Result
2021	Building 49	Lease approved by Port Commission
2021	Kneass Building	No respondent selected
2017	Pier 33 ½ (former Butterfly space)	Respondent selected, no lease
2017	Pier 40 restaurant (former Carmen's space)	No respondent selected
2016	Pier 29 Bulkhead	Respondent selected, no lease
2012	295 Terry Francois Blvd	Respondent selected, failed to come to terms; Negotiations successful with second bidder, lease approved and in operation as Atwater Tavern