



MEMORANDUM

December 6, 2024

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Request approval of market rent structure for a new 5-year lease for retail space at 360 Jefferson Street with Portco, Inc., dba Safe Harbor, under Lease No. L-17220 at initial base rent of \$3.00 psf/month plus 8.75% percentage rent.

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 24-56

EXECUTIVE SUMMARY

On September 17, 2024, the Port Commission adopted Resolution 24-41 finding it impractical to competitively bid the retail space at 360 Jefferson Street. The space is currently leased to Portco, Inc., dba Safe Harbor ("**Portco**"), under Lease No. L-14564. The Port Commission approved Port staff's request to enter sole source negotiations, allowing Port staff to begin negotiations with Portco for a lease renewal or new lease for a term of no more than five (5) years.

Negotiations with Portco have successfully concluded with Port staff determining that a base rent of \$3.00 psf/month escalated annually at 3.00% plus 8.75% percentage rent is the current market rent for this retail store at Fisherman's Wharf.

This staff report provides the rationale for the concluded market rent for the Safe Harbor Store.

THIS PRINT COVERS CALENDAR ITEM NO. 8A

STRATEGIC OBJECTIVE

Advancement of a new lease with Portco supports the following goals of the Port's Strategic Plan:

Economic Recovery:

Targeted Activation: Entering a new lease with Portco at 360 Jefferson Street helps maintain activity at Fisherman's Wharf by continuing to provide a shopping opportunity primarily targeted at visitors. The renewal secures a revenue stream for the next five years and avoids downtime and releasing costs if the renewal is not completed.

BACKGROUND

Portco has been operating the Safe Harbor Store at 360 Jefferson Street, which primarily sells souvenirs to tourists, for almost 16 years, and has consistently paid its rent on time over the term of the lease. In addition to the Safe Harbor Store, Portco also operates Franks's Fisherman, The Wharf Store, Coast Marine Industrial Supply, Cioppino's Restaurant, and the Bay Company, all on Jefferson Street, just past Al Scoma Way (Jones Street) to Hyde Street. The number of businesses held by Portco in the area demonstrates that Portco has a vested interest in the continuing success of Fisherman's Wharf.

Pursuant to Resolution 24-41 (see attached **Exhibit 1**), the Port Commission found that competitively bidding on the 360 Jefferson Street space is impractical at this time and authorized Port staff to negotiate a lease renewal or new lease with Portco. Port staff concluded negotiations for a new five-year lease with a base rent of \$3.00 psf/month increasing by 3.00% per year plus 8.75% percentage rent.

PORT STAFF ANALYSIS OF MARKET RENT STRUCTURE

Port staff, with assistance from Maven Commercial and C.H. Elliott & Associates, gathered and analyzed comparable data on current base market rents and percentage rents. Retail leases in general are subject to negotiation and rent terms vary widely depending on use, size, term, and location.

Base Rent

Port staff reviewed the retail market reports summarized below which ranged from a high of \$3.18 psf/month to a low of \$2.89 psf/month, averaging \$3.00 psf/month:

Market Report	Annual (PSF)	Month (PSF)
Marcus and Millichap - 2024 Retail Forecast	35.96	3.00
CBRE 1Q24 Retail Shopping Centers (West Bay)	35.00	2.92
Avison Young 1Q24 Bay Area Retail Market Report	38.15	3.18
Kidder Mathews 1Q24 San Francisco Retail	34.68	2.89
Average	35.95	3.00

In addition to the market data shown, Port staff considered the active lease negotiations for three different Port properties at Fisherman's Wharf, one retail and two restaurant opportunities. The rent structures are shown below, with an average base rent of \$3.21 psf/month for these transactions:

Port Transactions	Rent (psf/mo)	% Rent
490 Jefferson - Retail	4.57	4.00%
340 Jefferson - Restaurant	2.75	5.50%
300 Jefferson - Restaurant	2.30	6.00%
Average	3.21	5.17%

More weight is given to the 490 Jefferson retail transaction as opposed to the restaurant vacancies and is supported by the \$3.00 psf/month Market Report conclusion.

Since the Market Reports and Port Transactions arrive at a \$3.00 psf/month average base rent, Port staff concluded that a base rent of \$3.00 psf/month is an appropriate market base rent for the Safe Harbor retail store at Fisherman's Wharf.

Percentage Rent

In Port Transactions, the percentage rent averages 5.17%, however, two of the transactions are for restaurants and the retail negotiation contemplates a different retail use in materially different types of premises. The 5.17% conclusion is not comparable for this retail store or the percentage rent for retail stores at Fisherman's Wharf but sets the bottom of the percentage rent range.

A survey of Fisherman's Wharf Percentage Rent by C.H. Elliott & Associates in June 2024 concluded that percentage rents *for restaurants* typically range from 6.00% to 8.00% "... but landlords are having to be flexible." While this conclusion sets the range of percentage rents *for restaurants* and is not specifically applicable to retail stores, it provides a measurement benchmark.

With a percentage rent low end of 5.17% and a high end of 8.00% *for restaurants*, Port staff turned to the unique characteristics of the Safe Harbor Store to establish the percentage rent. Safe Harbor faces Jefferson Street, the prime thoroughfare for millions of tourists visiting Fisherman's Wharf, and a ready source of customers. Safe Harbor sells merchandise targeted at tourists and is in a great location for its target customers. Since the store is in a favorable location with access to strong foot traffic, Port staff added 75 basis points to the high end of the restaurant range, concluding to 8.75% percentage rent.

Maven Commercial Insights

On July 30, 2024, Maven Commercial provided an analysis of retail rent transactions in locations through San Francisco as shown below which concluded with an average base rent of \$3.12 psf/mo. Retail leases in general are subject to negotiation and rent terms vary widely depending on use, size, term, and neighborhood. Notably, none of these

transactions included percentage rent, but Maven indicated percentage rent is negotiable on a deal-by-deal basis:

Location	Type	NRA	Rent psf/mo
Irving St. - Sunset	NNN	2,361	3.50
Hayes St. @ Laguna St.	MG	1,950	3.08
Market St. @ 16th St	NNN	2,330	4.50
Union St. - Cow Hollow	NNN	2,000	4.00
Grant St. @ Union St	NNN	1,650	1.82
Dolores Heights	MG	2,600	2.92
Green St. @ Columbus St.	MG	6,240	2.57
Broadway @ Kearny St	MG	2,998	3.25
Weighted Average		22,129	3.21

Maven concluded that “Given that the property is situated in Fisherman’s Wharf - an area still recovering from the downturn caused by the pandemic - and considering the Tenant’s declining sales over the past year, we believe that the...[*proposed rent of \$3.00*] per square foot per month is reasonable and in line with what is happening in the surrounding market. However, we recommend that (i) the rent be adjusted annually; (ii) a percentage rent of 6-7% be applied over a natural breakpoint¹ so that the Port is able to share in any upside, and (iii) an extension of 3-5 years be considered appropriate.”

MARKET-RENT STRUCTURE

Based on the Analysis of the Market Rent Structure above which includes: 1) retail market surveys; 2) Port’s existing Fisherman’s Wharf potential leases; 3) the percentage rent study by CH Elliott and Associates; and 4) the information and analysis from Maven Commercial, Port staff conclude that \$3.00 psf/mo increasing annually by 3.00% is a fair representation of market base rent.

The percentage rent range of 6.00% to 8.00% by C.H. Elliott and Associates and Maven’s conclusion that retail percentage rents range from 6.00% to 7.00% are highly negotiable but provide good metrics to establish a market percentage rent for Portco’s Safe Harbor Store. Based on Elliott’s and Maven’s conclusions and the dynamic nature of Fisherman’s Wharf and its draw for millions of tourists, Port staff conclude that the market percentage rent for Portco’s Safe Harbor Store should be more than the top end of the restaurant percentage rent range of 8.00% and added 75 basis points to capture elements for Safe Harbor at Fisherman’s Wharf to conclude to 8.75% percentage rent. Therefore, the concluded market rent structure for the Safe Harbor retail store at Fisherman’s Wharf is \$3.00 psf/month escalated annually by 3% with 8.75% percentage rent.

¹ Natural breakpoint is the base rent divided by the percentage rent. For Safe Harbor Year 1 base rent is \$7,497. Divide that by 8.75% sets a natural breakpoint of \$85,680. Port is entitled to 8.75% of gross revenue (as defined in the lease) that exceeds \$85,860 in any given month. Natural breakpoint increases as base rent increases in Lease Years 2-5.

Comparison to Current Monthly Rent The concluded percentage rent of 8.75% is unchanged from Safe Harbor's current percentage rent of 8.75%.

The concluded market base rent of \$3.00 psf/mo is less than the current average of \$4.81 psf/mo and results in a \$4,534 reduction in the base rent obligation. See the calculations in the chart below:

Area	Sq. Ft	Current Monthly Rent		Market Base Rent	
		\$ PSF	\$	\$ PSF	\$
Store	2,039	5.58	11,377.62	3.00	6,117.00
Storage	460	1.42	653.20	3.00	1,380.00
Total	2,499		12,030.82		7,497.00
Average			4.81		
Rent Reduction					(4,533.82)

Assuming Fisherman's Wharf visitation continues to improve, the reduction in base rent will eventually be offset by an increase in sales and a higher percentage rent paid to Port.

Portco has agreed to this rental structure. This structure is only applicable to the 360 Jefferson Street space as market base rent and percentage rent for retail stores are highly negotiable and subject to type, use, and location considerations.

PROPOSED NEXT STEPS & RECOMMENDATION

Port staff recommend that the Port Commission adopt the attached Resolution finding that the market rent for the 360 Jefferson Street space is a base rent of \$3.00 psf/month increased annually at 3.00% plus 8.75% percentage rent and authorize Port staff to enter into a new 5-year lease with Portco for such space at the rents discussed in this staff report.

Prepared by: Don Kavanagh, Senior Property Manager
Real Estate and Development

Through: Kimberley Beal, Assistant Deputy Director
Real Estate and Development

For: Scott Landsittel, Deputy Director
Real Estate and Development

Attachment: Exhibit 1 – Port Commission Resolution No. 24-41

EXHIBIT 1
Port Commission Resolution No. 24-41

[To be attached]

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

RESOLUTION NO. 24-56

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate, and control the Port area of the City and County of San Francisco; and
- WHEREAS, Port Commission Resolution 11-15, *Port of San Francisco Retail Leasing Policy* allows for Port staff to enter into negotiations to extend existing retail leases for no more than 5 years under certain circumstances after the Port Commission finds that it is impractical to bid the space subject to such lease and such new lease is adjusted to then-current market-rents as adopted by the Port Commission; and
- WHEREAS, On September 17, 2024, pursuant to Resolution 24-41, the Port Commission found that it is impractical to competitively bid the retail space at 360 Jefferson Street ("**360 Jefferson Space**") at this time and authorized Port staff to enter direct negotiations with Portco, Inc, dba Safe Harbor ("**Portco**"), the existing tenant for such space, for a renewal or new lease for the 360 Jefferson Street space for a term not to exceed (five) 5 years; and
- WHEREAS, The Port Commission does not currently have adopted market rents for retail stores in Fisherman's Wharf so Port staff undertook a review and analysis of retail market rents at Fisherman's Wharf, as detailed in the staff report accompanying this Resolution, and concluded market rent for the 360 Jefferson Space is a monthly base rent of \$3.00 per square foot, increased by 3% annually plus 8.75% rent; now, therefore, be it
- RESOLVED, That in consideration of the analysis in the staff report accompanying this Resolution, the Port Commission finds that a monthly base rent of \$3.00 per square foot, increased by 3% annually plus 8.75% percentage rent, represents the current market-rent structure for the 360 Jefferson Space; and be it further
- RESOLVED, That the Port Commission authorizes the Executive Director or her designee to enter a new 5-year lease with Portco for the 360 Jefferson Street Space at rents set forth in this Resolution in a form approved by the City Attorney; and be it further
- RESOLVED, That the Port Commission authorizes the Executive Director or her designee to enter and to enter into any additions, amendments, or other modifications to the new lease that the Executive Director, in consultation with the City Attorney, determines are in the best interest of the Port, do not materially increase the obligations or liabilities of the City or Port or

materially decrease the benefits to the City or Port, and are necessary or advisable to complete the actions which the new lease contemplates and effectuate the purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director or her designee of any such additions, amendments or modifications.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of December 10, 2024.

Secretary