



MEMORANDUM

September 13, 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: Informational presentation to consider and possible action to find that it is impractical to bid retail space at 360 Jefferson Street in Fisherman's Wharf currently leased to Portco, Inc, dba Safe Harbor lease L-14564 and authorize Port staff to enter direct negotiations with Portco, Inc. for a 5-year lease renewal for such space.

DIRECTOR'S RECOMMENDATION: Adopt the Attached Resolution No. 24-41

EXECUTIVE SUMMARY

On October 30, 2008, Port entered a ten (10) year six (6) month lease with Portco, Inc., ("Portco"), Lease L-14564 ("Lease") for a retail store at 360 Jefferson Street ("Safe Harbor") on a portion of Seawall Lot 302 (SWL-302). The lease included one five (5) year extension option that was exercised by Portco.

The Lease expired on April 30, 2024, and is currently on a month-to-month holdover basis. Portco has requested a new lease for the same space for an additional five years. Under the Port Commission's retail leasing policy (Port Commission Resolution No. 11-15), a lease renewal with an existing retail tenant requires the Port Commission to find that it is impractical to bid on such space before Port staff can negotiate terms with Portco.

This staff report provides the rationale for why it is impractical at this time to competitively bid the retail space at 360 Jefferson Street in Fisherman's Wharf and instead allow Port staff to directly negotiate a new lease with the existing tenant for such space, Portco.

STRATEGIC OBJECTIVE

Advancement of a lease renewal supports the following goals of the Port's Strategic Plan:

Economic Recovery:

Targeted Activation: Portco's Safe Harbor store helps maintain activation at Fisherman's Wharf by continuing to provide a shopping opportunity primarily targeted to visitors. Engaging in an RFP is likely to lead to some downtime for landlord and tenant work for a replacement tenant which is not consistent with Economic Recovery.

Economic Growth:

Property Portfolio: The proposed lease renewal will maintain revenue for the Port while avoiding potential downtime, landlord improvement costs, and leasing commissions.

Equity:

Shared Economic Prosperity. The Safe Harbor store provides employment opportunities for diverse groups and advancement opportunities throughout the Portco portfolio of properties.

BACKGROUND

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

The Lease expired on April 30, 2024, and under Port Commission Resolution No. 11-15, existing retail tenants that wish to renew are evaluated on a case-by-case basis considering among other things, proposed improvements, capital costs, Port's future plans for the site and tenant history, including good standing status.

Portco is seeking a new five-year lease and is not proposing capital improvements. Under Port Commission Resolution No. 11-15, Port staff may negotiate with an existing retail tenant for short-term lease extensions not to exceed 3-5 years, during any period when the U.S. economy is in a recession, or the San Francisco Bay Area is experiencing a commercial real estate downturn—the San Francisco commercial real estate market is currently experiencing an unprecedented downturn, including for retail

space, which creates challenges for landlords, including the Port, to lease retail space, as evidenced by the longstanding retail vacancies in privately owned properties outside of Port jurisdiction at Fisherman's Wharf. However, before Port Staff can enter direct negotiations with an existing retail tenant, the Port Commission must make a finding that it is impractical to bid on the subject lease.

Portco requested a five-year extension under the same general terms as the existing Lease, including 8.75% percentage rent, but with an adjustment to the current market base rent. Port staff, with assistance from Maven Commercial, are gathering comparable data on current base market rent and expect a reduction from Portco's base rent of \$5.75 psf/mo. If authorized to negotiate, staff will lay out a justification of a new base rent based on this comparable data and our recent leases of Port property.

PORT STAFF ANALYSIS OF WAIVING THE COMPETITIVE BIDDING PROCESS AND ENTERING INTO DIRECT NEGOTIATIONS.

It is the City's policy to generally competitively bid City-owned property for lease unless impractical or impossible (San Francisco Administrative Code Sections 2.6-1 and 23.33). However, Port staff is recommending that due to unique and complex existing circumstances at Fisherman's Wharf, staff commence direct negotiations with an existing retail tenant without competitively bidding the space.

In the last five years, the Port lost major restaurants in the Fisherman's Wharf area, including Alioto's, Grotto #9, and Tarantino's. Castagnola's has remained closed and has not operated for almost five years as have Lou's and Pompeii's. All of these restaurants drew people to the area.

Staff is currently negotiating leases with potential tenants for the spaces previously occupied by Lou's and Pompeii's restaurants—these spaces have not been occupied since March 2020. Maven Commercial commenced marketing these two properties in November 2023, but these spaces may not open to the public until early 2025, barring unforeseen issues.

Based on recent experience, staff believes that it could take as long as 18 months to complete an RFP process, which period does not include the period to negotiate the lease and obtain necessary approvals from governing bodies. Additionally, Port staff has found the RFP process does not reach as many potential tenants as brokers can.

In light of the challenges facing the Fisherman's Wharf area and the current real estate downturn in San Francisco with a 36.8% office vacancy rate (2Q24)¹ and an increase in overall San Francisco retail vacancy from 5.8% in 2Q23 to 7.6% in 2Q24 and decline in rents from \$3.02 psf/mo. in 2Q23 to \$2.73 psf/mo. in 2Q24². Maven Commercial said retail vacancy rates are generally higher in Fisherman's Wharf than those reported for

¹ Source: CBRE San Francisco Office Figures Q2 2024, Power Point Presentation.

² Source: Kidder Mathews San Francisco Retail 2Q 2024 report.

the overall market. Port staff believe it is impractical at this time to competitively bid retail space where an existing retail tenant that has paid as agreed is requesting to renew its lease for an additional 5 years.

A competitive bidding process to lease the 360 Jefferson space could expose the Port to vacant space for a period of time (assuming Portco vacates) with loss of revenue, another shuttered/vacant space in Fisherman's Wharf that is already facing many challenges, likely Port obligation to pay for tenant and significant landlord improvements for a new tenant, as well as security challenges for the vacant space and perhaps leasing commissions. Additionally, since a lease renewal with Portco must be at market rent adopted by the Port Commission, Port may end up with the same rent structure following a competitive leasing process, while also having another shuttered space in Fisherman's Wharf and paying for leasing costs.

PORT STAFF CONCLUSIONS OF WAIVING THE COMPETITIVE BIDDING PROCESS AND ENTERING INTO DIRECT NEGOTIATIONS.

- Fisherman's Wharf continues to need action to spur economic recovery. This includes resolving the challenges for Fisherman's Wharf post-COVID including business model viability while tackling vacancies and street conditions. Port staff is working to improve the visitor experience through Port projects and activations - including maintaining existing tenancies.
- Fisherman's Wharf is slowly recovering from the effects of COVID. It is clear the recovery will continue to take time due to fundamental changes in the local economy due to COVID-19, including a drop in business and convention travelers, a slow increase in international travelers, and employees working remotely. This has resulted in a decline in foot traffic and may make finding a replacement tenant difficult.
- Demand for space at Fisherman's Wharf is not strong as demonstrated by the recent process to lease the spaces previously occupied by Lou's and Pompeii restaurants. Many prospects considered Fishermen's Wharf incompatible with their brand or were concerned about the negative impressions of Fishermen's Wharf in the news and social media channels.
- Finding a new tenant through a competitive bidding process will take time and money while also resulting in another vacant retail space and is unlikely to result in a better financial outcome than entering direct negotiations with Portco,
- Portco is in good standing and has paid as agreed under the Safe Harbor Lease.

PROPOSED NEXT STEPS & RECOMMENDATION

Port staff recommend that the Port Commission adopt the attached Resolution finding that it is impractical to competitively bid the 360 Jefferson Space and directing Port staff to commence negotiations with Portco for a lease renewal for a term of no more than five (5) years.

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Through: Kimberley Beal, Assistant Deputy Director
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For: Scott Landsittel, Deputy Director
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**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 24-41

- 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, The Retail Leasing Policy adopted by the Port Commission pursuant to Resolution No. 11-15 (the “**Retail Leasing Policy**”) allows Port staff to enter into negotiations to renew existing retail leases for no more than five (5) years under certain circumstances after the Port Commission finds that it is impractical to bid the space subject to such lease; and
- WHEREAS, Portco, Inc, dba Safe Harbor is an existing Port tenant under Lease No. L-14564 (the “Lease”) at 360 Jefferson Street (the “Premises”), is in good standing, and has asked the Port for an additional five (5) years to lease the Premises; and
- WHEREAS, The San Francisco commercial real estate market is currently experiencing an unprecedented downturn, including for retail space, and recovery in San Francisco, including Fisherman’s Wharf, will continue to take time due to fundamental changes in the local economy due to COVID, including a drop in business and convention travelers, slow increase in international travelers, and employees working remotely; and
- WHEREAS, The existing San Francisco real estate market creates challenges to lease property at Fisherman’s Wharf as further described in the memorandum accompanying this Resolution; and
- WHEREAS, Port staff reasonably believe that in light of the existing market conditions, it is unlikely that bidding the space at this time will result in a better financial outcome for the Port, but will likely add to the challenges at Fisherman’s Wharf by adding another retail space that may be shuttered for some time before a new operator, if any, is able to open for business and for other reasons as further described in the staff report accompanying this Resolution; and
- WHEREAS, Port staff recognize the urgency of providing support to the recovery of Fisherman’s Wharf, which has been beset by the pandemic and associated economic downturn, resulting in the closure of many longstanding Port tenants; and
- WHEREAS, The Lease renewal provides an opportunity to continue to build economic momentum from the Port’s current investments in the recovery of the Fisherman’s Wharf portfolio; and now, therefore, be it

RESOLVED, In consideration of the analysis in the staff report accompanying this Resolution, the Port Commission finds that it is impractical to competitively bid the 360 Jefferson Street space at this time and authorize Port staff to enter direct negotiations with Portco for a renewal or new lease for the 360 Jefferson Street space for a term not to exceed (five) 5 years.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of September 17, 2024.

Secretary