

**DATE:** June 7, 2016

**TO:** Honorable Mayor and City Council

**FROM:** Dennis P. Drennan, Real Property Program  
Administrator  
Linda Forsberg, Transportation and Business  
Manager  
Michael A. Fuller, Public Works Director

**VIA:** Daniel H. Rich, City Manager

**TITLE:** **Center for the Performing Arts Retail Space  
(Bean Scene Café)**

---



### **PURPOSE**

The purpose of this Study Session is to seek Council direction on the future leasing of the Center for the Performing Arts (CPA) retail space currently occupied by the Bean Scene Café.

### **BACKGROUND**

The Bean Scene Café operates in approximately 1,200 square feet of indoor space within the CPA and also provides outdoor seating within a portion of the Civic Center Plaza area. The Bean Scene Café provides food and beverage service to CPA patrons prior to performances and at intermissions, and to the general public during nonperformance times. The café space was designed and constructed for light food and beverage preparation and sale only – the required gas service and other requirements for a full-kitchen operation (i.e., grease trap, etc.) were not plumbed into the facility when it was constructed.

On July 9, 2002, the City Council authorized the City Manager to execute a five-year lease, with one five-year renewal option, to Stanley Nget and Vanny Ouk. The lease commenced on October 1, 2002. On February 1, 2005, the lease was assigned to Dory Ouk, and she subsequently exercised the one five-year option. On June 24, 2008, the City Council approved an assignment of the lease from Ms. Ouk to the current tenant, Wayne Liu, and granted one additional five-year option to Mr. Liu, extending the full term of the lease to September 30, 2017. There are no additional options to further extend the lease.

Current lease revenues, adjusted annually according to the Bay Area Consumer Price Index (CPI) (and increased no less than 3 percent and no more than 5 percent per year), are approximately \$44,920. The lease is a “triple net” lease with the tenant paying for all maintenance (except building exterior and systems) and possessory interest taxes.

Mr. Liu, the current tenant, has expressed interest in remaining as the tenant in the CPA retail space. Obtaining Council direction on the future leasing of the facility at this time—a little more than one year before the expiration of the lease—will allow both the City and Mr. Liu to plan for the future.

## **DISCUSSION**

With the pending expiration of the CPA retail space lease on September 30, 2017, staff seeks Council direction on two matters:

1. **Should the City renew the lease with the current tenant, or should the City market the property through a competitive Request for Proposals (RFP) process?**

During his eight-year tenancy, Mr. Liu has been a responsible and responsive tenant, paying his rent to the City in a timely manner and satisfying all required lease obligations. Mr. Liu’s current annual rent payment of \$44,920 equates to \$3.12 per square foot per month. This per-square-foot monthly rent is comparable to, but slightly lower than, other retail rents within the retail core of Castro Street which range from \$3.50 to \$4.00 per square foot per month. Savvy Cellar Wines, another City tenant also on the periphery of the Castro Street retail core, currently pays the equivalent of \$2.38 per square foot per month for limited-service retail space.

Marketing the retail space through a competitive RFP process would provide other potential tenants, as well as Mr. Liu, an opportunity to offer lease terms for the CPA retail space that may potentially be more advantageous to the City (e.g., increased lease revenues, enhanced services to CPA patrons and other café users, etc.). Preparing an RFP and evaluating proposals would require a moderate amount of staff time over a period of four to six weeks and the retention of a retail brokerage to reach out to a potential tenant base.

- 2. Is the City Council willing to consider a capital investment to upgrade the facility in conjunction with signing a new lease? Or, would Council consider requiring the tenant to pay for any upgrades, but agree to a longer-term lease to allow the tenant to amortize those costs?**

The café interior improvements were made by the City in 1998 and all of the major equipment (e.g., freezers and refrigerators) were purchased by the City and remain the property of the City. Except for minor maintenance and cosmetic improvements (e.g., painting and new carpet), and the replacement of one freezer, there have been no major changes or upgrades to the interior of the facility since the inception of the initial lease in 2002. The major pieces of equipment, including the refrigerators and climate-controlled food display cases, are approaching the end of their useful life.

Updating and upgrading the café facility and equipment will improve its ability to attract and serve patrons during CPA performances and to the general public during the morning and midday business hours. The estimated cost for a full upgrade of the facility, including replacing outdated equipment, is estimated to cost approximately \$100,000. This does not include the cost of upgrading the power system, extending gas, installing a hood and fan, and installing a grease trap necessary for a complete kitchen. The costs for these upgrades would be substantial and staff does not recommend converting this relatively small space into a restaurant-grade facility.

If the City were to invest the capital to upgrade the facility, such costs would be put in the Fiscal Year 2017-18 budget and could be recaptured over time through rents. As an alternative, the City could enter into a longer-term lease (e.g., 10 years) and require the tenant to pay for the improvements. The longer-term lease would allow the tenant to then amortize the costs of the improvements over the term of the lease. Under either alternative, the tenant should be required to maintain the space and the equipment.

### **RECOMMENDATION**

Staff seeks input and direction from the City Council regarding future leasing of the CPA retail space currently occupied by Bean Scene Café. Specific questions include:

1. Should the City negotiate a new lease with the current tenant, or should the City market the property through a competitive RFP process?

2. Is the City Council willing to consider a capital investment to upgrade the facility in conjunction with signing a new lease, or would Council consider requiring the tenant to pay for upgrades, but agree to a longer-term lease to allow the tenant to amortize those costs?
3. Does the Council have other ideas or directions related to the leasing of the space?

### **NEXT STEPS**

Based on Council's comments and direction, staff will return to Council in Closed Session in the fall for direction on price and terms for a new lease.

**PUBLIC NOTICING** – Agenda posting.

DPD-LF-MAF/7/CAM  
930-06-07-16SS-E

cc: Mr. Wayne Liu

PAM, TBM, FFM, EDM