

**STAFF REPORT FOR CALENDAR ITEM NO.: 8.3  
FOR THE MEETING OF: January 30, 2025**

**TRANSBAY JOINT POWERS AUTHORITY**

**BRIEF DESCRIPTION:**

Authorize the Executive Director to execute an extension of the alternate rent period contemplated under the third amendment to the lease agreement with Philz Coffee, Inc. for commercial/retail space on the first floor of the Transit Center (Suite 100).

**EXPLANATION:**

Original Lease

On July 12, 2018, the TJPA Board authorized the Executive Director to complete negotiations and execute a lease agreement with Philz Coffee, Inc. (“Tenant”) for about 2,157 square feet of commercial/retail space on the first level of the new transit center (Suite 100) for a ten-year term with two five-year options to renew at full market value. The lease is dated as of September 25, 2018 (“Lease”). The initial year stated base rent of the Suite 100 Lease is \$161,775, expressed as a gross lease with a percentage rent above the breakpoint of 6% owed beyond base rent. Base rent increases 3% annually. The TJPA’s tenant improvement allowance was \$215,700 (\$100 per square foot). Tenant invested \$1,391,030 into their tenant improvements. The business terms under the Suite 100 Lease were within or more favorable than the proforma for the premises.

Tenant opened for business on March 11, 2020, following completion of tenant improvements. The COVID-19 Shelter In Place Order occurred just five days later. Tenant re-opened Suite 100 on October 1, 2021, at a reduced schedule and then in early November 2021 they went to their permanent schedule of being open 7 days a week.

Tenant Prior Request for Relief

As a result of COVID-19, Tenant requested relief from its obligations under the Lease. Consistent with the Board’s Retail/Commercial Leasing Strategy to Address COVID-19 Impacts, TJPA staff, with the assistance of Lincoln Property Company (LPC), Colliers, and retail legal counsel, engaged due diligence review and negotiations with the Tenant. Due diligence included, among other things, confirmation of Tenant’s assertion that Tenant did not receive assistance through the Small Business Administration or Payroll Protection Program.

On December 10, 2020, the TJPA Board authorized the First Amendment to the Lease. The key terms and conditions of the First Amendment were:

- Suspension of rent for ½ of March and all of April through July 2020;
- Tenant’s rental obligation was a common area base fee of \$2,000/month/location plus percentage rent equal to 6% of gross revenues for the period from August 1, 2020 until June 30, 2021, unless explicitly extended by the Board, and if so, to no later than December 31, 2021;
- Outstanding Tenant Improvement Allowance owed by TJPA to Tenant was planned to be remitted to Tenant in quarterly installments beginning December 31, 2020, rather than lump sum;

- The 4.5 months of suspended rent period was deferred through an extension of the initial term by 4.5 months.

On May 13, 2021, the TJPA Board approved an extension of the above-described relief program through December 31, 2021.

On July 14, 2022, the TJPA Board approved the Second Amendment to the Lease. Under the Second Amendment:

- Alternate Rent was applied from January 1, 2022 to June 30, 2023, with a possibility of extending to December 31, 2023.
- Tenant's base rental obligation for Suite 100 (as a common area base fee) was \$5,250/month and percentage rent was 5% of gross revenues if sales hit \$1,000,000.
- Rent would revert to Base Rent under the original terms of the Lease if Tenant achieved certain economic thresholds.
- Fifty percent of outstanding Tenant Improvement Allowance owed by TJPA to Tenant for Suite 100 shall be remitted by August 15, 2022, twenty-five percent shall be remitted by September 20, 2022 and twenty-five percent shall be remitted by December 15, 2022.
- In order to recover some of the relief, the lease term was extended by four and a half months.

On August 10, 2023 the TJPA Board approved an extension of the above-described relief program through December 31, 2023.

On March 14, 2024, the TJPA Board authorized a Third Amendment to the Lease with the following key terms and conditions:

- The Alternate Rent applied from January 1, 2024 to December 31, 2024, with a possibility of extending to June 30, 2025 with timely request from tenant and subject to TJPA Board of Directors approval in its discretion;
- Tenant's base rental obligation for Suite 100 (as a common area base fee) \$5,250/month and percentage rent 5% of gross revenues if sales hit \$1,000,000.
- Rent will revert to Base Rent under the original terms of the Lease if Tenant achieves certain economic thresholds.
- Minimum Required Hours require Tenant to be continuously open for business at the Premises (5) days per week for a minimum of (5) hours each day.

### Tenant Current Request for Relief

Tenant recently approached TJPA staff seeking economic relief by extending the alternate rent under the Third Amendment through June 30, 2025. As explained above, such an extension is contemplated under the Third Amendment.

Staff have been monitoring Tenant's revenues, transit ridership, the downtown San Francisco leasing market, and business activity in the neighborhood and throughout the City. While key indicators are generally improving, office space vacancies remain high (31%), and office attendance remains low (40%), compared to pre-COVID numbers. Additionally, gross revenue reports provided to TJPA by Tenant reflect gross revenues of less than half of originally projected revenue, making full contract rent at this time economically infeasible. As a result of

that due diligence review, staff believe that the requested extension of the alternate rent period is consistent with the commercial leasing market.

The fiscal impact of approving the terms and conditions of the alternate rent period extension is estimated at \$61,829.80, when comparing the projected Third Amendment revenue versus the original lease revenue over the six-month timeframe.

The FY24-25 Budget assumes the continuation of rent relief, but current projections indicate that total retail lease income will decrease by roughly \$15,393.18 as a result of this extension. TJPA staff will continue to evaluate alternatives to minimize the impact of implementing these measures to increase revenues and decrease expenses.

The form of relief proposed under this extension is similar to the relief the TJPA has granted other tenants materially affected by current economic conditions in downtown San Francisco.

Tenant also leased Suite 143 on the first level of the transit center. Due to economic conditions, Tenant has terminated that lease.

**RECOMMENDATION:**

Authorize the extension of the alternate rent period contemplated under the Third Amendment to the Lease with Philz Coffee, Inc. for Suite 100, through June 30, 2025.

**ENCLOSURES:**

1. Resolution
2. Third Amendment to Lease

**TRANSBAY JOINT POWERS AUTHORITY  
BOARD OF DIRECTORS**

**Resolution No. \_\_\_\_\_**

WHEREAS, On July 12, 2018, the Transbay Joint Powers Authority (TJPA) Board of Directors authorized the TJPA’s Executive Director to finalize negotiations and execute a lease agreement with Philz Coffee, Inc. (“Tenant”) for about 2,157 square feet of commercial/retail space on the first level of the new transit center (Suite 100) for a 10-year term with two five-year options to renew at full market value (“Lease”); and

WHEREAS, Tenant occupied the Suite 100 premises and opened for business on March 11, 2020; and

WHEREAS, On March 4, 2020, Governor Newsom proclaimed a state of emergency in California in connection with the Coronavirus Disease 2019 (“COVID-19”) pandemic. On February 25, 2020, the Mayor of the City and County of San Francisco declared a local emergency, and on March 6, 2020, the City’s Health Officer declared a local health emergency. On March 16, 2020, the City and County of San Francisco issued a Shelter-in-Place Order to facilitate the reduction of the impact of the virus that causes COVID-19, and that order generally required everyone to stay safe at home except for certain essential activities and work to provide essential businesses and government service or perform essential public infrastructure construction. Since these original proclamations, orders, and declarations were issued, there have been subsequent updates, supplements, and refinements, guiding the City to recovery (collectively, “Health Orders”); and

WHEREAS, As a result of COVID-19 and the Health Orders, Tenant requested relief from certain of its obligations under the Lease; and

WHEREAS, On December 10, 2020, the TJPA Board authorized the First Amendment to the Lease, providing certain economic relief to Tenant; and

WHEREAS, On May 13, 2021, the TJPA Board approved an extension of the First Amendment to December 31, 2021; and

WHEREAS, On July 14, 2022, the TJPA Board approved the Second Amendment to the Lease; and

WHEREAS, On August 10, 2023, the TJPA Board approved an extension of the Second Amendment to December 31, 2023; and

WHEREAS, On March 14, 2024, the TJPA Board approved the Third Amendment to the Lease; and

WHEREAS, While the COVID-19 emergency and associated Health Orders have been lifted, as a result of COVID-19, including associated delayed re-occupancy of downtown office buildings and temporary but substantive reduction in transit passenger use of the transit center,

Tenant requested additional relief from its obligations under the Lease, after which negotiations with Tenant ensued; and

WHEREAS, Every effort has been made to mitigate the fiscal impact of any rent relief afforded to affected tenancies through operating expense reductions and securing of unanticipated revenues; and

WHEREAS, The fiscal impact of accepting this extension of the alternate rent period under the Third Amendment to the lease in the overall adopted budget for Fiscal Year 2024-2025 is minimal; now, therefore, be it

RESOLVED, That the TJPA Board of Directors finds the extension of the alternate rent period to be in the best interest of the public; and, be it

FURTHER RESOLVED, That the TJPA Board of Directors authorizes the extension of the alternate rent period under the Third Amendment to the Lease with Philz Coffee, Inc. for Suite 100 through June 30, 2025.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of January 30, 2025.

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Secretary, Transbay Joint Powers Authority

### THIRD AMENDMENT TO LEASE

This THIRD AMENDMENT TO LEASE (this “**Amendment**”) is made and entered into as of the 1st day of January, 2024, by and among TRANSBAY JOINT POWERS AUTHORITY, a joint exercise of powers agency duly created and existing under the Joint Exercise of Powers Act of the State of California, California Government Code Sections 6500 et seq. (“**Landlord**”), and PHILZ COFFEE, INC., a Delaware corporation, dba Philz Coffee (“**Tenant**”), with reference to the following facts and understandings:

#### RECITALS

A. Landlord and Tenant entered into that certain “Salesforce Transit Center Lease” dated as of September 10, 2018, as amended by that certain First Amendment to Lease (the “**First Amendment**”) dated December 10, 2020 and that certain Second Amendment to Lease (the “**Second Amendment**”) dated July 14, 2022 (as so amended and together with all exhibits and addenda attached thereto, the “**Existing Lease**”), whereby Tenant leased from Landlord approximately 2,157 usable square feet of retail space (the “**Premises**”) known as Space Number 100, located in the retail usage area on the ground level of the Salesforce Transit Center in San Francisco, California (the “**Center**”). Capitalized terms used but not specifically defined herein shall be deemed to have the meanings ascribed to such terms in the Existing Lease.

B. Pursuant to the First Amendment, Landlord agreed to make certain adjustments to the Rent payable by Tenant under the Lease during the “Alternative Rent Period” specified therein (as applicable, the “**First Amendment Alternative Rent Period**”) on account of Tenant having had to limit operations in its retail food and beverage establishment at the Premises due to the COVID-19 pandemic. The First Amendment Alternative Rent Period ended on December 31, 2021.

C. Pursuant to the Second Amendment, Landlord agreed to make certain additional adjustments to the Rent payable by Tenant under the Lease during the “Alternative Rent Period” specified therein (as applicable, the “**Second Amendment Alternative Rent Period**”) on account of Tenant having had to limit operations in its retail food and beverage establishment at the Premises due to the COVID-19 pandemic. The Second Amendment Alternative Rent Period initially ended on June 30, 2023 but was extended by Landlord, following the written request of Tenant, in accordance with the provisions of Section 2(a) of the Second Amendment so that the Second Amendment Alternative Rent Period (as so extended) ended on December 31, 2023.

D. Due to the continuation of the COVID-19 pandemic, Tenant has requested additional rent abatement from Landlord.

E. Landlord has agreed to make certain additional adjustments to the Rent payable by Tenant under the Lease and to otherwise amend the Lease, all on and subject to the terms and conditions set forth in this Amendment.

F. The parties acknowledge that this Amendment has been entered into at the request of Tenant as a result of the unprecedented circumstances surrounding the COVID-19 pandemic and that, in entering into this Amendment, Landlord is suffering an acknowledged financial loss

on account of the adjustment to the Base Rent otherwise payable to Landlord under the Lease provided for hereunder.

NOW THEREFORE, in consideration of the mutual promises and covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

#### AGREEMENT

1. References. All references to the “Lease” or “lease” appearing in this Amendment or in the Existing Lease shall mean, collectively, this Amendment and the Existing Lease, as amended by this Amendment.

2. Alternative Rent Period.

(a) Payment of Alternative Rent in lieu of Base Rent.

(i) Alternative Rent Period. Notwithstanding anything to the contrary contained in the Existing Lease, during the period (the “**Alternative Rent Period**”) commencing on January 1, 2024 and ending on the earlier of (A) the last day of the month immediately preceding the Rent Reversion Month (as defined in Section 2(b) below) and (B) December 31, 2024 (the “**Alternative Rent Period Outside Expiration Date**”), Tenant shall pay Alternative Rent (as defined in Section 2(a)(ii)(C) below) in lieu of paying the Base Rent specified in the Basic Lease Information for such Alternative Rent Period. If the Rent Reversion Month has not then occurred, Tenant may request an extension of the Alternative Rent Period Outside Expiration Date set forth in clause (B) above to June 30, 2025 by providing written notice of such request to Landlord on or before December 1, 2024; provided, however, that Tenant acknowledges and agrees that Landlord shall have no obligation to grant such request. If Landlord elects, in its sole and absolute discretion, to extend the Alternative Rent Period Outside Expiration Date following receipt of a request from Tenant to do so pursuant to the foregoing, then, notwithstanding anything to the contrary contained herein, the Alternative Rent Period Outside Expiration Date set forth in clause (B) above shall be June 30, 2025 as opposed to December 31, 2024. Tenant acknowledges and agrees that from and after the expiration of the Alternative Rent Period, Tenant shall be obligated to pay the Base Rent specified in the Basic Lease Information.

(ii) Alternative Rent.

(A) Expense Contribution. Notwithstanding anything to the contrary contained in the Existing Lease, during the Alternative Rent Period, Tenant shall pay to Landlord an amount equal Five Thousand Two Hundred Fifty and No/100 Dollars (\$5,250.00) per month (“**Tenant’s Monthly Expense Contribution**”) as Tenant’s contribution towards costs relating to the operation, maintenance, repair and replacement of the Center. Tenant’s Monthly Expense Contribution for each month during the Alternative Rent Period shall be paid to Landlord, without notice, demand, setoff, deduction, or counterclaim, on or before the first (1<sup>st</sup>) day of the applicable month and otherwise in accordance with Section 2(a) of the Existing Lease.

(B) Percentage Rent. Notwithstanding anything to the contrary contained in the Existing Lease, including, but not limited to, Section 2(c) of the Existing Lease, in addition to the payment of Tenant's Monthly Expense Contribution and in lieu of the Percentage Rent payments otherwise provided for in Section 2(c) of the Existing Lease, Tenant shall pay to Landlord "**Alternative Percentage Rent**" during the Alternative Rent Period at the times and in the manner provided under this Section 2(a)(ii)(B). Alternative Percentage Rent for each month during the Alternative Rent Period shall be calculated by multiplying the amount by which Tenant's Gross Sales for such month exceeds the Alternative Rent Breakpoint (as defined below) by five percent (5%) and shall be due and paid to Landlord, without notice, demand, setoff, deduction, or counterclaim, within twenty (20) days after the end of each month for which the same is due. As used herein, the "**Alternative Rent Breakpoint**" shall mean an amount equal to One Million and No/100 Dollars (\$1,000,000.00) per year (*i.e.*, \$83,333.33 per month). All references to "Percentage Rent" in Sections 2(a), 2(c)(vi), 2(d), 19(a)(i), 24(a) and 26(k) shall be deemed to include, without limitation, Alternative Percentage Rent. Tenant acknowledges and agrees that it will provide the Quarterly Statements and Annual Statements required under Section 2(c)(v) of the Existing Lease during the Alternative Rent Period.

(C) Alternative Rent. As used herein, "**Alternative Rent**" shall mean Tenant's Monthly Expense Contribution and Alternative Percentage Rent.

(b) Reversion to Base Rent. Notwithstanding anything to the contrary contained in Section 2(a) above, if an amount equal to five percent (5%) of Tenant's Gross Sales above the Alternative Rent Breakpoint for any four (4) consecutive months commencing with January of 2023 through and including the month in which the Alternative Rent Period Outside Expiration Date occurs equals or exceeds the amount of Base Rent specified in the Basic Lease Information that would otherwise be payable by Tenant for such month, then commencing with such month (such month being herein referred to as the "**Rent Reversion Month**"), Tenant shall resume paying the Base Rent specified in the Basic Lease Information (and, to the extent applicable, Percentage Rent as provided in Section 2(c) of the Existing Lease) and Tenant shall not be obligated to pay Tenant's Monthly Expense Contribution or Alternative Percentage Rent for the Rent Reversion Month or for any month thereafter. If Tenant has already paid Tenant's Monthly Expense Contribution for the Rent Reversion Month, Tenant shall pay the difference between the Base Rent specified in the Basic Lease Information for the Rent Reversion Month and Tenant's Monthly Expense Contribution within twenty (20) days following the last day of the Rent Reversion Month. For avoidance of doubt, Tenant acknowledges and agrees that commencing on the first day immediately following the Alternative Rent Period Outside Expiration Date, Tenant shall be obligated to return to paying the Base Rent specified in the Basic Lease Information (and, to the extent applicable, Percentage Rent as provided in Section 2(c) of the Existing Lease) regardless of whether five percent (5%) of Tenant's Gross Sales above the Alternative Rent Breakpoint for a particular month equals or exceeds the Base Rent due for such month and that Tenant shall no longer be obligated to pay Tenant's Monthly Expense Contribution or Alternative Percentage Rent from and after such date, unless extended per Section 2(A)(i) above.

3. Minimum Required Hours. Notwithstanding anything to the contrary contained in the Existing Lease (including, but not limited to, the Basic Lease Summary), the "**Minimum Required Hours**" during which Tenant is required to be continuously open for business at the



Premises in accordance with Article 21 of the Existing Lease shall be from 6:00 a.m. to 4:00 p.m. five (5) days per week, excluding Federal Holidays.

4. Preservation of Claims and Defenses. Landlord and Tenant acknowledge and agree that if the payments set forth in Section 2, above, are not made by Tenant, this Amendment shall become null and void and Landlord and Tenant may assert any and all claims and/or defenses, as if this Amendment had never been executed.

5. Miscellaneous.

(a) Severability. If any provision of this Amendment or the application of any provision of this Amendment to any person or circumstance is, to any extent, held to be invalid or unenforceable, the remainder of this Amendment or the application of that provision to persons or circumstances other than those as to which it is held invalid or unenforceable, will not be affected, and each provision of this Amendment will be valid and be enforced to the fullest extent permitted by law.

(b) Entire Agreement/Modification. This Amendment contains all of the agreements of the parties hereto with respect to the matters contained herein, and no prior agreement, arrangement or understanding pertaining to any such matters shall be effective for any purpose. Except for any subsequent amendments or modifications to the Lease made in accordance with the terms thereof, any agreement made after the date of this Amendment is ineffective to modify or amend the terms of this Amendment, in whole or in part, unless that agreement is in writing, is signed by the parties to this Amendment, and specifically states that that agreement modifies this Amendment.

(c) Counterparts. This Amendment may be executed in any number of counterparts and each counterpart shall be deemed to be an original document. All executed counterparts together shall constitute one and the same document, and any counterpart signature pages may be detached and assembled to form a single original document.

(d) Heirs and Successors. This Amendment shall be binding upon the heirs, legal representatives, successors and permitted assigns of the parties hereto.

(e) Authority. Each individual executing this Amendment on behalf of his or her respective party represents and warrants that he or she is duly authorized to execute and deliver this Amendment on behalf of said entity in accordance with the governing documents of such entity, and that upon full execution and delivery this Amendment is binding upon said entity in accordance with its terms.

(f) Drafting. In the event of a dispute between any of the parties hereto over the meaning of this Amendment, both parties shall be deemed to have been the drafter hereof, and any applicable law that states that contracts are construed against the drafter shall not apply.

(g) Headings. Captions used herein are for convenience and reference only, and shall in no way be deemed to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Amendment.


(h) Ratification. Except as modified by this Amendment, the Existing Lease shall continue in full force and effect and Landlord and Tenant do hereby ratify and confirm all of the terms and provisions of the Existing Lease, subject to the modifications contained herein.

*(Signature Page to Follow)*

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed as of the dates below their respective signatures.

LANDLORD:

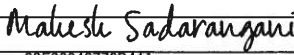
TRANSBAY JOINT POWERS AUTHORITY

By:   
Name: Adam Van de Water  
Its: Executive Director

Date: \_\_\_\_\_, 2024

TENANT:

PHILZ COFFEE, INC.,  
a Delaware corporation

By:   
Name: Mahesh Sadarangani  
Its: 93F98949779B44A...

Date: \_\_\_\_\_, 2024

APPROVED AS TO FORM.

By:   
Name: Katharine Allen  
Its: 9D9CD616C4C6440  
Legal counsel, TJPA

Transbay Joint Powers Authority Board of  
Directors

Resolution No.: 24-004

Adopted: March 14, 2024

Attest:   
Secretary, TJPA Board