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## **These San Francisco hospitality vets are betting millions on downtown**

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Adam Pardee

Going big, from left: Tristen Philippart de Foy of Heartwood, Phil Spiegel of Holbrook House and Brian Sheehy of Future Bars are investing millions into new downtown venues.

When they were looking for a location for a new bar, Tristen Philippart De Foy and the team behind destination drink spots The Treasury and Beehive toured more than 50 spaces around San Francisco. They eventually settled a year ago on the neighborhood dubbed “the most empty downtown in America” by the New York Times.

Undeterred, they plan to open their second bar in the Financial District, called Heartwood, at 531 Commercial St. on March 23.

“I think the death of the Financial District has been greatly exaggerated,” Philippart De Foy told me.

While many downtown metrics show a recovery that’s still stumbling, with offices less than half full and vacant storefronts a common sight, hospitality hasn’t given up on the Financial District and SoMa. Proprietors are finding new ways to structure deals with landlords and targeting mid-week as the new weekend. They’re changing the way hospitality is done.

At least a half dozen new restaurants, bars and event spaces backed by multimillion dollar investments have recently opened or are opening this year, all with an eye toward making the Financial District and SoMa a more attractive place.

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### **Up close: Meet the hospitality vets behind three new venues**

Holbrook House from Phil Spiegel

The Dawn Club from Doug Dalton and Brian Sheehy

Heartwood from Tristen Philippart De Foy

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The investments come as the city’s office vacancy rate sits at 27%, and both small and large employers alike continue to reduce their office footprints. A recent report from the San Francisco budget and legislative analyst estimates there are about 150,000 fewer

office workers downtown on any given workday than there were before the pandemic, and city leaders have unveiled several efforts to bring workers, companies and people back to the city.

CoStar, a real estate data firm, says asking rents for retail properties in FiDi and SoMa are about \$50 per square foot, less than half of the \$108 they were in the first quarter of 2020 before the pandemic. A lack of demand is driving the decline, and San Francisco's new tax on vacant storefronts could also be having an impact, though the tax just took effect last year and the issue hasn't been studied closely yet.

While there is less available retail space now than there was last year, per CoStar, you wouldn't know by walking down Market Street, where scores of vacancies underscore the awkward in-between feeling of today's downtown.

If the latest hospitality projects are any indication, landlords are going to have to get more creative. Real estate brokers say landlords filling their spaces downtown right now are embracing greater percentage rents — in which tenants pay rent as a portion of sales in addition to or in lieu of a fixed minimum base rent — and tying together their fortunes.

### **Eat, drink – and be seen**

At one new project, at the 42-story office building One Sansome, the landlords want to become FiDi's most sought after office, where tenants feel like the uberelite and flex their priority ground-floor conference rooms and food concierge for clients and out-of-town colleagues at the next J.P. Morgan Healthcare Conference.

Longtime local hospitality veteran Philip Spiegel personally raised about \$3.75 million toward the project while building owners Prudential Real Estate Investors and Barker Pacific Group funded the remaining \$24 million to reimagine the building's historic ground-floor atrium and lobby conference space and open a new restaurant, Holbrook House.

"Why is the building making this level of investment? They want the tenant amenities," Spiegel said.

While One Sansome's offices were fully leased in 2018 and 2019, current occupancy is at about 73% following the departure of Citi Group from six floors and about 105,000 square feet in the building at the end of an 11-year lease extension last year.

"We want you to feel like a public club but there's no membership," he added, ticking off the club-grade amenities such as the Holbrook House, the opulent first foray into hospitality from renowned interior designer Jeff Schlarb. "But the membership is, you live here, you work here, and it's expensive enough as it is."

He said the lease structure with the landlord takes some of the pressure off Holbrook House in its first few years.

"It's tiered based off revenue and allows me to survive if traffic is low, but the building to prosper if it's high," he said. "I commend them for putting this together understanding that we secured this lease in '21 when everyone was running out of the Financial District."

## **Find your market (it's not tech)**

By some stats — such as weekly office worker key swipes from Kastle — San Francisco has had some of the country's slowest returns to the office in the mid-40% range, compared with the national average of 50.1%.

But people I spoke with pointed out that the returning office crowd skews more toward the finance and legal spaces, indicating bets catering to those sectors are safer than with the tech crowd.

Just consider FiDi's high-end full-service restaurants like Pabu or Perbacco. On a Tuesday in February, the lunch hour at Perbacco, the Italian favorite on California Street, is packed. Owner Umberto Gibim said he's doing about 80% of pre-Covid business and it feels like the regulars are back, but fewer at Barbacco, his more casual concept next door.

"The people who are coming into the office right now are the VPs, the directors of sales, higher earning people who are expensing these things," said Alex Sagues, a vice president at CBRE who often represents downtown retail tenants and property owners. "The

parking garages at most of these buildings are full — at 100 First Street it's almost every single day."

In these more leanly budgeted times companies are adjusting their hospitality spending in other ways. Firms fresh off of layoffs and in search of a pick-me-up are treating employees to happy hours at bars — less expensive — but Sagues said he believes in time those companies will be back to old habits, splurging \$50,000 at a restaurant for high-flying corporate events.

Some are already working their way up. Gibim said the 2022 holidays were the first in years when parties of 50 or 60 diners filled Perbacco's group-reserved second floor — a strong finish after the year's opening "disaster" of a canceled JPM conference. On weeknights so far this year groups of 10 to 12 for business diners are giving way to 14- to 20-strong, and early last month a longtime corporate client ran up a \$7,000 tab ("the largest catering order I've ever had") for their offices just down the street.

Not far from Perbacco, chef Tyler Florence is building a new three-level, 8,000-square-foot Wayfare Tavern with what looks to be an expanded Sequoia private dining lounge. Florence didn't return messages for comment when I first wrote about the plans via city documents, but Robbie Silver of the Downtown SF Partnership called it "absolutely transformative" for downtown hospitality.

On the other side of Battery, The House of An is planning a new location of its lauded and longtime Crustacean, with locations on Polk and Beverly Hills. The restaurant from Helen An is expected to open at 191 Pine St. by the end of this year.

### **In search of lost Fridays**

Key swipes show that those fewer office workers tend to be clustered in the middle of the week, not on Mondays and — crucially for bars — Fridays.

"You can't take 50% of that revenue away from a business and expect it to pay the same rent," said Ben Bleiman, owner of Tonic Nightlife Group and founder of the Bar Owner Alliance, representing hundreds of businesses. "I don't think there's any pivot you can possibly do."

City officials and industry experts acknowledge that the long-term solution to downtown's woes will involve more housing — preferably occupied and affordable, instead of empty and not — whose residents would insulate downtown from future recessions and lessen the reliance on office traffic. But of course, office-to-residential conversions are expensive and inefficient in the eyes of property holders, who might just prefer to wait out the market, with the amount of time it takes to build anything proving that impulse right.

Bleiman suggests investment in downtown nightlife, performances and cultural programming is the best short-term bang for the buck. Imagine city-funded activations (“First Fridays”) that convince a healthy portion of workers to go to the office for what’s on tap after: food trucks, live music (no residents to worry with the noise), local art wares and — per a state Sen. Scott Wiener proposal last year — temporary “entertainment zones” where revelers can roam with open containers for a few hours.

A broker and hospitality group I spoke with separately floated the idea of tapping into the bar crawl magic of Austin’s Sixth Street or San Francisco’s lively Polk Gulch with a critical mass of bar leases along one street (perhaps somewhere with the availabilities, like South FiDi?).

At the heart of all the suggestions is the fact that downtown needs more amenities that can draw in the after-work crowd as well as families, weekday tourists, and everyone who has little reason to factor FiDi or SoMa into their weekend plans.

Jacek Ostoya, senior architect at Ralph Gentile Architects, is leading the redesign of the East Cut’s longtime nightclub Harlot into a social happy hour spot called Madarae, a business model that could monetize more hours of the early evening for workers on Sunday through Wednesday.

On Thursday through Saturday, the happy hour rolls late into the night and the venue becomes a seductive, vibey club lounge, equipped with a thumping new sound system and a digital ceiling across two walls that blinks from faux skylight to rave cave at the drop of the bass.

Ostoya sees an audience for the lounge in the East Cut, the “young, upscale clientele” living downtown who want more options for clubs, restaurants and bars.

“It’s not just a DJ and people looking to hook up anymore,” he said. “There needs to be something to feed the soul.”

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## **DOWNTOWN SAN FRANCISCO'S NEW VENUES**

Here's a look at new and upcoming bars and restaurants in FiDi and SoMa.

### **Madarae**

**Owner/proprietor:** Arash Ghanadan

**Address:** 46 Minna St.

**Description:** The former Harlot nightclub is getting a \$2M upgrade into a happy hour spot that still goes hard on the weekends with a new sound system and wall-spanning LEDs that turn the ceiling to a faux skylight.

**Opening:** Fall 2023

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### **Wayfare Tavern**

**Owner/proprietor:** Chef Tyler Florence

**Address:** 201 Pine St.

**Description:** The TV chef's popular FiDi restaurant and private Sequoia lounge and event venue is taking three levels and 8,000-square-feet

**Opening:** TBD

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### **Crustacean**

**Owner/proprietor:** House of An

**Address:** 191 Pine St.

**Description:** The legendary fusion restaurant famous for garlic noodles and Dungeness crab and Chef Helene An's "Secret Kitchen" is moving from its longtime Nob Hill home to the heart of FiDi.

**Opening:** Late 2023

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## **Bar Sprezzatura**

**Owner/proprietor:** TableOne Hospitality

**Address:** One Maritime Plaza at 300 Clay St.

**Description:** The Mina Group spinoff teamed up with Carlo Splendorini for this ultimate bacaro featuring a dynamic cocktail and wines list, small bites and an espresso bar in an immaculate space.

**Opened:** November 2022

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## **Core Club**

**Owner/proprietor:** Core Club

**Address:** 600 Montgomery St.

**Description:** New Transamerica Pyramid owner Shvo signed the exclusive New York social club for the second through fourth floors, turning the lowest rent floors into a building-boosting amenity featuring a restaurant, gym, member suites and a skin care program.

**Opening:** Expected in 2023

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## **The Harlequin**

**Owner/proprietor:** Phil Chen

**Address:** 68 Fourth St.

**Description:** Chen's third concept in SoMa is a cocktail lounge for elevated drinks and accessible New American eats across the street from the Marriott Marquis and a block down from the Moscone Center.

**Opening:** Summer 2023




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