

Kuleto sets new table

Bold venture shocks S.F. restaurant vets

BY RYAN TATE

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Restaurateur Pat Kuleto and his partners have just finalized an unprecedented gamble, putting down \$18 million on a new restaurant project in San Francisco.

Kuleto and his investors, including landlord JMA Ventures LLC, about two weeks ago began excavation for two large restaurants at Rincon Park, on the northeastern waterfront across from Gap Inc.'s downtown headquarters. A formal groundbreaking is scheduled next week.

It's the biggest-ticket new restaurant launch anyone can remember, and industry players regard the project with awe. Amid fast-rising labor costs, higher food prices and shrinking profit margins, Kuleto is doubling down on a game more and more top chef-owners are walking away from entirely: the fancy San Francisco restaurant.

"I don't know of any restaurateur who would have the *cojones* to do that," said Daniel Scherotter, owner and chef at Palio d'Asti in the financial district. "It runs counter to the trend of chefs opening restaurants that are low-labor, downscale. San Francisco has been shrinking in population and the (business customer) hasn't come back to the way it was."

The project has been on the drawing board for four years, following the scuttling of a previous deal on the same Port of San Francisco-owned parcel by restaurateur Reed Hearon. Landlord JMA has a 60-year lease with the Port and has been making minimal ground lease payments over the past two years, payments that will grow after the restaurants are built and begin to make money.



SPENCER BROWN

NEW TARGET: Kuleto and JMA's Chapman are aiming upmarket.

Kuleto has a 25-year lease from JMA. JMA will spend about \$8 million to construct the buildings, while Kuleto and his investors will spend \$10 million on the interiors of the restaurants.

"I think you have to go to Las Vegas to see money spent with that level of aggressiveness," said Ed Levine, CEO of restaurant chain Left Bank and of an accounting company serving 40 Bay Area restaurants. "These are big budgets now, what are they

going to be when they actually get done?"

Long history in the city

Kuleto is a 35-year veteran of San Francisco's restaurant scene, both as a designer and an entrepreneur. He has been involved with everything from the Fog City Diner to Postrio, and his own restaurant ventures include highly regarded eateries like Boulevard, Farallon and Jardinière.

Kuleto is conservatively estimating just

KULETO: Restaurateur puts \$18M venture on menu

over \$20 million in revenue for the first year for both Rincon Park restaurants combined.

But each restaurant has a peak capacity of about 200 diners, with the average dinner table expected to turn two-and-a-half times. Then there's the lunch business, where special menus for the business crowd indoors will be supplemented by sales through outdoor food kiosks Kuleto is planning. Entrees are in the \$20-35 range, at least at dinner, and Levine said the average check could easily be around \$80.

Those factors could push Kuleto's annual sales closer to \$30 million. It's not an unre-

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Pat Kuleto
Restaurateur

alistic number given how well casual restaurants in the nearby Ferry Building have been doing. Charles Phan has built a \$12-million-a-year business there with his 230-seat restaurant Slanted Door. Though most of his street-food entrees cost less than \$20, Phan often sees his tables turning three times, even during lunch, plus brisk drinks business.

Other restaurants in the building do anywhere from \$1,000 to \$3,500 per square foot. For example, Traci Des Jardins' Mijita does more than \$1 million per year out of 300 square feet; MarketBar does close to \$6 million out of around 3,000 square feet.

Two visions

Kuleto's restaurants are each about 9,000 square feet, and serving pricier fare.

The seafood restaurant, Waterbar, will be run by Mark Franz of Farallon and anchored by floor-to-ceiling aquariums. Kuleto bills it as "the Monterey Bay Aquarium meets Tadich Grill," with exotic fish that has been responsibly harvested or farmed.

The meat restaurant, Epic Roasthouse, will be run by Jan Birnbaum, once head chef at Campton Place. Kuleto said dishes would include grass-fed beef steaks, Kobe beef and Argentine steak cuts. The upstairs bar is named Quiver, a nod to the nearby public art installation.

A large plaza will separate the two restaurants and Rincon Park will surround them.

"We see these as timeless, forever restaurants," Kuleto said. "I sort of looked at the crystal ball and tried to pick two things I felt would be an asset to the city."

Kuleto also wanted the restaurants to be completely distinct from one another — and to not compete with his other restaurants like Farallon or, particularly, Boulevard, which is just three blocks away.

Restaurant industry insiders said Kuleto's biggest problem won't be winning diners from competitors but controlling costs and

earning enough on each check to turn a profit. Labor costs have spiked in restaurants thanks to San Francisco's minimum wage increase, which went into effect in 2004 and has been climbing each year since. Unlike New York and other states, California does not allow restaurants to credit tips toward workers' minimum wages, keeping costs for restaurant owners especially high.

Restaurateurs with more than 20 workers also face city-mandated health care spending for health care coverage starting at \$1.06 per worker per hour. A ballot proposal would, if passed, also require restaurants and other businesses to offer each worker nine sick days per year, or six if they have less than 10 workers.

"People from other areas hear so much negativity about San Francisco, they don't want to open heavily capitalized restaurants in the area," said Kevin Westlye, head of the Golden Gate Restaurant Association, which just awarded Kuleto a lifetime achievement award. "So we celebrate when a local restaurateur wants to make an investment."

Kuleto said the scale of the new venture may be more of an asset than a liability.

"The restaurant industry is, unfortunately, being caught in the crossfire," Kuleto said of the city legislation. "The margins, frankly are somewhat smaller than they used to be, and you have to do pretty impressive volume, or you're dead."

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