



London N. Breed, Mayor
Naomi M. Kelly, City Administrator




Andrico Q. Penick
Director of Real Estate

MEMORANDUM

DATE: August 14, 2019

TO: Honorable Members of the Board of Supervisors
Heather Green, Director of Capital Planning

FROM: Andrico Q. Penick, Director of Real Estate 

SUBJECT: Resolution Authorizing the Director of Real Estate to sell the Second Tranche of Transferable Development Rights (TDR) from the War Memorial Complex

In approving Resolution No. 16-14 on January 20, 2014, File No. 131193, the Board of Supervisors authorized the Director of Real Estate to sell up to 1,100,000 gross square feet (or units) of TDR divided in two tranches of 550,000 units each from the War Memorial Complex at 301-401 Van Ness Avenue, at fair market value. The first tranche of TDR has been sold. Pursuant to Resolution No. 16-14, I am requesting authorization to sell the second tranche of TDR.

The conditions of approval in Resolution No. 16-14 were as follows:

- 1) Enabling legislation to reauthorize such TDR sales would be required upon reaching sales of 550,000 gross square feet (or units); and
- 2) Net sales proceeds (gross proceeds less escrow costs and commissions) shall be used solely for the rehabilitation and restoration of the War Memorial Complex, which may include payment of debt service in furtherance of said restoration efforts; and finally
- 3) That the Director of Real Estate shall report to the Capital Planning Committee and Board's Budget & Finance Committee at the end of each quarter to provide an update on the results of sale of City owned TDR, however the reporting requirement may be waived if no sales took place in the previous quarter.

When the Board provided the sales authorization in 2014, the TDR market had softened considerably, and sufficient TDR was available through other sources at lower prices than our approved appraised value. The previous Director, John Updike, worked with sources in the development community and patiently waited for the market to strengthen. These efforts bore fruit and resulted in initial sales at the no less than \$25 per TDR price floor set by the Board. I'm pleased to announce that I have picked up where the previous director left off and that the market for TDR still remains strong. Below is a chart detailing the sales transaction for the first tranche of TDR from January 1, 2017 through July 31, 2019:

SELLER	BUYER	PROJECT SITE	UNIT	PRICE	PSF	CLOSING
City	Pacific Eagle	1125 Market Street	25,157	\$ 628,925	\$25.00	30-May-17
City	CIM	246 First Street	8,550	\$ 213,750	\$25.00	23-Jun-17
City	Swig	633 Folsom Street	82,619	\$ 2,065,475	\$25.00	10-Aug-17
City	Macy's	235 Geary Street	3,000	\$ 75,000	\$25.00	23-Feb-18
City	St. Brides	300 Grant Avenue	3,000	\$ 75,000	\$25.00	7-Mar-18
City	Black Creek	655 Montgomery	3,000	\$ 75,000	\$25.00	24-Apr-18
City	Vornado	345 Montgomery	8,500	\$ 212,500	\$25.00	30-May-18
City	Blatteis	120 Stockton Street	3,000	\$ 75,000	\$25.00	4-Jun-18
City	Hines	542 Howard Street	100,000	\$ 2,500,000	\$25.00	10-Dec-18
City	Group I	950 Market Street	103,038	\$ 2,575,950	\$25.00	14-Dec-18
City	Boston Prop	725 Harrison Street	108,834	\$ 2,992,935	\$27.50	14-Dec-18
City	John Hancock	95 Hawthorne Street	50,800	\$ 1,397,000	\$27.50	21-Dec-18
City	Alexandria	88 Bluxome Street	30,144	\$ 904,320	\$30.00	15-Jul-19
Total			529,642	\$13,790,855		

As regards the second tranche of TDR, we already have two potential buyers committed and ready to purchase the remaining TDR, once the Board of Supervisors authorizes its sale. Consistent with our pricing schedule, these TDR would be sold at \$30 per unit, yielding one-time gross revenues of \$16,500,000. I will report on those closings, and any others, upon conclusion of the quarter in which the sale occurs.

In order to maintain a strong and consistent pricing structure and to encourage potential buyers of TDR to commit early, we have developed a pricing schedule as shown below:

PRICE	START DATE	END DATE
\$25.00	1/1/2017	6/30/2018
\$27.50	7/1/2018	12/31/2018
\$30.00	1/1/2019	6/30/2019
\$32.50	7/1/2019	12/31/2019
\$35.00	1/1/2020	6/30/2020
\$37.50	7/1/2020	12/30/2020
\$40.00	1/1/2021	6/30/2021
\$42.50	7/1/2021	12/31/2021
\$45.00	1/1/2022	6/30/2022

Under this pricing schedule, the unit price for a TDR increases \$2.50 every six months. However, once a potential buyer executes a purchase and sale agreement, the price will hold at the agreed upon

rate for up to 18 months. Buyers need to have a guaranteed source of TDR at the design stage even though they won't actually buy the TDR and use them until closer to actual construction. Buyers are required to put down a cash deposit which is nonrefundable if the buyer chooses not to proceed with the sale under circumstances within their control. All or a portion of the deposit is refundable if there is a default by the City or under circumstances beyond the parties' control. This pricing scheme: (1) allows a potential buyer to calculate with certainty the cost of the TDR purchase; (2) incentivizes the buyer to lock in early in order to avoid price increases; and (3) guarantees the availability of TDR. It is also advantageous to the City to get commitments early and to demonstrate to other potential buyers that TDR is selling at the current quoted price.

No CEQA or General Plan Referral were required for the initial legislation back in 2014. I recently checked with the Planning Department and they confirmed that CEQA and General Plan Referral were not required for this reauthorization. Although I do not believe it is required, an appraisal is underway to assist with future negotiations and will be complete prior to this item going to Board Committee.

cc:

Naomi Kelly, City Administrator

Ben Rosenfield, Controller

John Caldon, Managing Director, War Memorial & Performing Arts Center

