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ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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To: Christine Maher, Manager, Real Estate and Development Services
Office of Community Investment and Infrastructure as Successor Agency to
the Redevelopment Agency of the City and County of San Francisco

From: Tim Kelly

Date: June 16, 2015

Subject: Transbay Block 8: Estimated 2014 Hypothetical Land Value

Keyser Marston Associates, Inc. (KMA) has prepared this memorandum for the Office of Community Investment and Infrastructure as Successor Agency to the Redevelopment Agency of the City and County of San Francisco ("OCII," or "Successor Agency"). The purpose is to provide an estimate of the hypothetical land value of Transbay Block 8 in 2014 supported by the highest and best consistent with the redevelopment plan, which in this case is a high-density residential project.

Block 8 is a 49,673 square foot parcel in the Transbay Redevelopment Project Area ("Project Area"), located on the north side of Folsom between First and Fremont Streets. The Project includes a market-rate condominium residential product (the "Condo Project") and 80/20 mixed income residential component ("80/20 Project") in an approximately 550-foot tower. The tower enjoys the most favorable height limit of the Transbay residential parcels and will offer premium views. There are 474 tower units, of which 404 are market-rate units and 70 units are affordable to households earning up to 40% and 50% of AMI and will be located in the first 8 stories of the tower. The unit mix of BMR will be proportional to that of the market-rate units. The Project also includes, among other things, ground-floor retail space along Folsom Street of approximately 10,000 square feet and a grocery store on the basement level of approximately 12,500 square feet. An affordable project with 80 units affordable to households earning up to 40% and 50% of AMI is a separate component from the tower and will be subsidized by OCII funding (the "Affordable Project").

The agreed upon purchase price under the conditions and requirements of the Block 8 Disposition and Development Agreement between OCII, Transbay 8 Urban Housing,

LLC, and Tenderloin Neighborhood Development Corporation (the "DDA") is \$71,000,000. The offer is approximately \$150,000 per unit in the tower, including the BMR units, and \$1,429 per square foot of land area.

This valuation analysis is a retrospective assessment of land values in 2014. At that time, the economy was accelerating with several purchases of sites for high density residential projects in close proximity to Block 8. Today several major high density projects are under construction.

Of these, several of the land transactions are summarized below. Typically sales prices are stated as a price "per door." Multiple variables impact the range of pricing, including such factors as: intrinsic value of location, expensive construction costs with high density development relative to value, and BMR requirements.

Reported land sales for high density residential sites in the timeframe of this analysis include:

- *Rincon Hill - 401 Harrison:* Known as One Rincon Hill Phase II, this approximately 18,300 sq.ft. site is located at 401 Harrison Street and is entitled for a 52-story, 450 foot residential project that will contain 299 units. This project will be offered as rental apartments, but will have a condo map in place allowing for making units available for sale at a future date. This site reportedly sold in February 2012 for \$29,750,000, or \$99,498/unit. The affordable housing requirement is met by the negotiated payment of fees, estimated to be \$45,000 per tower unit. The project is now under construction. Total for land and BMR fee is \$144,498 per tower unit. This project is not subject to the .55% Mello-Roos add-on in the Transbay Area.
- *Lumina – 201 Folsom:* The market rate project is now under construction consisting of two towers, 37 and 42 stories (approximately 400 feet), plus two 8 story podium buildings over a 4 level parking garage. The total unit count is 656 units, all of which are market rate. The BMR units are being constructed off-site and contain 164 units. The estimated developer subsidy per BMR unit is \$200,000. The 2012 purchase price is reported to be \$58,529,616, \$89,222 per tower unit. Adding in developer's financial share of the BMR subsidy, the total cost is \$91,329,616, or \$139,222 per tower unit. This project is not subject to the .55% Mello-Roos add-on in the Transbay Area.
- *Transbay: Block 6 – 280 Beale:* In 2011, Golub Real Estate Corp. entered an ERN for \$30 million for a 405 unit apartment tower (approximately 300 feet) on an approximately 42,690 sq.ft. site located on Folsom between Fremont and

Beale. The purchase offer is \$74,074 per tower unit. The terms of the purchase offer were restructured after the dissolution of redevelopment in February 2012. The amended offer was that the project would be an all market rate tower, instead of mix of market rate and inclusionary units within the tower, and there would be an affordable housing fee payment of \$24.3 million, or \$60,000 per tower unit. Escrow closed in 2013. The project includes a fitness center, community room, outdoor amenity space, and retail space fronting Folsom Street. The project is now under construction. The total for land and BMR subsidy is \$54.3 million, or \$134,074 per tower unit.

- *Transbay – Block 9 – Folsom Street between First and Essex:* In 2012, OCII and Avant/Essex agreed upon the final negotiated price of \$43,630,000 for a 31,564 square-foot parcel on Folsom Street between First and Essex Streets. The Project will be a 42-story residential building (approximately 400 feet) with approximately 545 residential units. The top 21 floors of the Project will consist of solely of market rate units. Affordable units in the tower will be not less than 20%. The bottom 21 floors will include all the BMR Units along with market rate units. No OCII financial subsidy will be provided for this Project and the affordable units are anticipated to be financed separately from the upper floors of the project using tax-exempt mortgage revenue bonds and Low Income Housing Tax Credits as some of the funding sources. The agreed upon purchase price of \$43,630,000 is \$80,055 per tower unit, including BMRs.

In summary:

<u>Land Payment, including BMR Obligation</u>	<u>Per Tower Unit</u>
401 Harrison	\$144,498
201 Folsom	\$139,222
Block 6 - 280 Beale	\$134,074
Block 9	\$80,055

In the data listed above, the value range in the Transbay and Rincon areas for land, including the BMR obligation, was from approximately \$80,000 to \$144,000 per tower unit.

The purchase price in the DDA for Block 8 is \$71 million. The purchase price was the highest of the three offers. The price is approximately \$150,000 per tower unit, including BMR units, and \$1,429 per square foot of land area. The offer reflects, in part, not only the strength of the apartment market at this location, but also the strength of the for sale condominium units that will be on the upper floors of the tower.

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Hypothetical Value in 2014 Under Sec 33433

	<u>Value</u>	<u>Per Tower Unit</u>	<u>PSF Land</u>
Block 8	\$71,000,000	\$150,000	\$1,429

The highest and best use value of Block 8 at the time of the responses to the RFP were received in February 2014 has been estimated by KMA to be \$71 million. The estimated value of the interest to be conveyed is the same as the offer by the developer. The sale price is not less than the fair market value of the interest to be conveyed at the highest and best use consistent with the redevelopment plan, which in this case is residential.