Office of Community Investment and Infrastructure
(Successor to the San Francisco Redevelopment Agency)

One South Van Ness Avenue
San Francisco, CA 94103
415.749.2400

March 21, 2014

33433 Report

This report is submitted consistent with the requirements of Section 33433 of the California Health and Safety Code. Specifically, Section 33433 states that before any property that was acquired, in whole or in part, with tax increment funds is sold or leased for development, the sale or lease shall first be approved by the legislative body by resolution after a public hearing. The Board of Supervisors (the "BOS") is the legislative body for purposes of Section 33433. The property that is the subject of this report was not acquired with tax increment funds. However, the Redevelopment Plan for the Transbay Redevelopment Project Area ("Redevelopment Plan") requires that the Board of Supervisors shall approve the sale or lease of any property acquired by the Former San Francisco Redevelopment Agency ("Former Agency") or the Office of Community Investment and Infrastructure ("OCII"), as Successor to the Former Agency, pursuant to the Option Agreement for the Purchase and Sale of Real Property ("Option Agreement"), in a manner consistent with the standards and procedures that govern the disposition of property acquired with tax increment funds and that appear in Section 33433 of the California Health and Safety Code.

On April 16, 2013, the Commission on Community Investment and Infrastructure ("CCII") approved a disposition and development agreement ("DDA") between OCII and the development team or Golub Real Estate Corporation ("Golub" or "Developer") and Mercy Housing California ("Mercy" or "Affordable Developer") for the development of 409 market-rate residential units and 70 affordable family rental residential units (at 50 percent of area median income), along with shared open space and a shared underground parking garage, on the parcel located at 280 Beale Street, commonly known as Block 6 in the Transbay Redevelopment Project Area ("Project Area"). The Golub/Mercy team was selected by the Former Agency after a competitive request for proposals ("RFP") was issued in July 2011 and proposals were received from a total of four development teams. Block 6 is the first phase of a larger development that includes an additional 77 affordable family rental residential units (also at 50 percent of area median income) and a child care facility that will be developed on Block 7, immediately adjacent to Block 6, by Mercy. The DDA, however, does not cover Block 7 because it will be constructed at a future date when additional affordable housing funds are available from OCII.

On August 29, 2013, the BOS approved the 33433 Report related to the 409-unit market rate component of Transbay Block 6. Currently, OCII is preparing to enter into a long term Air Rights Lease with Mercy for the 70-unit affordable component of Transbay Block 6 ("Project") pursuant to the DDA.

The Project will be an eight-story podium building on the east end of the block with 70 units (56 1-bedroom units and 14 2-bedroom units). It will also include the following features:

- 8-13 spaces within a shared underground parking garage with a total of approximately 133 spaces, entirely under Block 6, which will accommodate parking for the Project, the Market-Rate Project, and the Block 7 Affordable Project;
- A shared open space on Block 6, which will be used by both the Market-Rate Project and the Block 6 Affordable Project, and which will be open to the public during daytime hours; and
- Streetscape improvements pursuant to the Transbay Streetscape and Open Space Plan and the approved Schematic Designs for Folsom Street.

The Project will be built in an air rights parcel ("Air Rights Parcel") to be owned by OCII, and subsequently MOHCD, and leased to Mercy via a long term air rights lease ("Air Rights Lease"). Golub currently owns all of Block 6. As required by the DDA, prior to the start of construction of the Project, Golub will transfer the Air Rights Parcel for the Project to OCII and OCII and Mercy will enter into the Air Rights Lease. OCII will own the Air Rights Parcel until completion of construction of the Project, at which time ownership will transfer to MOHCD as the housing successor agency, subject to compliance with the Redevelopment Dissolution Law requirements governing the transfer of non-affordable housing assets to the Housing Successor under Health & Safety Code § 34176 (f) and subject to issuance of a certificate of completion or other terms specified in the Air Rights Lease. Mercy will own the improvements and lease the air rights from OCII/MOHCD, consistent with the typical ground lease terms of MOHCD and the Former Agency. Golub will own the underground garage and the tower and townhomes which are above the garage. The garage spaces allocated to the Block 6 Affordable Project will be provided for in a reciprocal easement agreement which will govern the shared portions of the market rate and affordable projects and will be subject to OCII/MOHCD review and approval.

Pursuant to Section 33433, a copy of the Air Rights Lease is included with this report as Attachment 1 and both the Air Rights Lease and this report have been submitted to the Clerk of the Board and made available for public inspection and copying on March 25, 2014, in advance of the April 6, 2014, date of the first publication of the notice of the public hearing on April 22, 2014. Below is a summary of the agreement, as required by Section 33433, Subsections (2)(B)(i-v):

The following summarizes the project in accordance with Section 33433 requirements:

A. "A copy of the proposed sale or lease." Please refer to the Air Rights Lease Agreement (Attachment 1).

B. "A summary which describes and specifies all of the following:"

(i) "The cost of the agreement to OCII, including land acquisition costs, clearance costs, and relocation costs, the costs of any improvements to be provided by OCII, plus the expected interest on any loans or bonds to finance the agreements."

The total cost of OCII's acquisition of Air Rights Parcel was $0. OCII will not incur clearance, relocation, or improvement costs. Furthermore, no interest will be generated on loans or bonds used to finance the land acquisition or the subsequent lease to the Affordable Developer.

(ii) "The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the plan."

The value of the Air Rights Parcel that is to be leased to the Developer, determined on April 16, 2013, at the highest and best use permitted under the plan is $4,338,958.

(iii) "The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments that the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then OCII shall provide as part of the summary an explanation of the reasons for the difference."

The estimated value of the property to be conveyed, determined with the conditions, covenants, and development costs required by the sale, is $4,338,958, if the units within the Project were not subject to affordability restrictions. With the affordability restrictions, the value of the property to be conveyed is $0. The property is being leased to the developer for a period of 75 years. The annual air rights rent is $433,896, but with only $15,000 guaranteed. The balance of the annual rent is to be paid from residual receipts to the extent any surplus cash is available. The present value of the guaranteed lease payments is $246,838, using a discount rate of 6% percent.

The present value of the fixed total rental amount, including the residual property interest at the end of the 55-year term, is substantially less than the fair market value of the interest to be leased, determined at the highest and best use. Only $15,000 of the annual rent is guaranteed and the remainder is to be paid from "surplus cash" generated by the Project annually, i.e., operating income that is in excess of operating expenses. The less than fair market value rent is necessary to achieve affordability for very low income families and the consideration to be received by OCII is not less than the fair reuse value at the use and with the covenants and conditions and development costs authorized by the Air Rights Lease. This lease structure is necessary to ensure the continued and successful operation of the Project, but creates a high level of uncertainty regarding the value of the residual rents (i.e., rent in addition to the $15,000 guaranteed rent) that OCII will actually collect. Therefore, the residual rents are not considered in the calculation of the present value of the projected lease payments.

(iv) "An explanation of why the sales or lease of the property will assist in the elimination of blight, with reference to all supporting facts and materials relied upon in making this explanation."

Block 6 was formerly occupied by a portion of the Embarcadero Freeway, which was demolished after the 1989 Loma Prieta Earthquake. After the freeway was demolished, Block 6 was a surface parking lot operated by the State of California, until it was acquired by the TJPA to be used for construction staging. Surface parking was identified as an economic indicator of blight in the 2005 Report on the Redevelopment Plan for the Transbay Redevelopment Project, which was prepared as part of the plan adoption materials for the Board of Supervisors. The section of the Report on the Redevelopment Plan titled "Underutilized Areas and Vacant Lots" on Page V-8 states, "Given the Project Area's density and location in the Financial District, surface parking lots do not maximize the economic and development potential of the lot or area." Block 6 is identified as an "Underutilized Area" on Figure V-3 in the Report on the Redevelopment Plan. The Golub/Mercy project on Block 6 will assist in the elimination of blight by converting a surface parking lot/construction staging area into a dense, mixed-use residential development.

Additionally, the lease of the property will assist in the elimination of blight by providing housing opportunities for a population – very low income families – that is underserved by the market and therefore at serious risk of homelessness. Finally, the lease and development of this property will transform a vacant, underutilized parcel, bringing quality architecture, new homes, and neighborhood-serving commercial space to the community.

(v) This report has been made available to the public at the offices of OCII, 1 South Van Ness Avenue, 5th Floor, San Francisco, California, no later than the time of publication of the first notice of hearing as mandated by California Health and Safety Code Section 33433.