

**Office of Community
Investment and Infrastructure**

(Successor to the San Francisco
Redevelopment Agency)

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33433 Report

This report is submitted pursuant to Section 33433 of the California Health and Safety Code. Specifically, the Section states that before any property that was acquired, in whole or in part, with tax increment moneys is sold or leased for development, the sale or lease shall first be approved by the legislative body by a resolution after a public hearing. The Board of Supervisors is the legislative body for purposes of Section 33433.

The Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the "Successor Agency" also commonly known as the Office of Community Investment and Infrastructure ("OCII")) administers a Citywide Affordable Housing Program for the purposes of funding the development of affordable housing, pursuant to the Community Redevelopment Law of the State of California, the California Constitution, and all applicable local codes and ordinances. The Program, in place since 1989, has facilitated the acquisition, construction, and/or rehabilitation of affordable housing throughout the City and County of San Francisco through the use of OCII's tax increment funds and its authority as a tax-exempt mortgage revenue bond issuer.

It is anticipated that approximately 121 units of permanent, affordable housing for very low income seniors and a senior center (the "Project") will be developed. The property is currently an unimproved surface parking lot at the northwest corner of the larger 5800 Third Street site, in San Francisco's Bayview Hunter's Point Redevelopment Project Area, Assessor's Block 5431A, Lot 042 (the "Site"). On September 21, 2010, the former Redevelopment Agency Commission the "Commission") authorized an Assignment and Assumption Agreement of a Purchase and Sale Agreement for Lot 3 at a site locate at 5800 3rd Street and Carroll Avenue, (the "Site") which allowed the former Redevelopment Agency to take ownership of the Site. At that same meeting, the Commission also authorized an Exclusive Negotiations Agreement ("ENA") with Bayview Hunters Point Multipurpose Senior Services, Inc. ("BHPMSS") and McCormack Baron Salazar ("MBS") (together, the "Developer"), for the development of the Site into approximately 120 very low-income rental housing units for very low income seniors (plus one manager's unit) and a senior services center (the "Project"). Since that time, the former Redevelopment Agency purchased the Site with an acquisition cost of \$8,511,709, and the Developer has created a new entity, Carroll Avenue Senior Homes, LP (a partnership which includes the Developer) (the "Partnership") to implement the ENA.

On November 19, 2013, the Commission authorized the Executive Director to enter into a 55-year Ground Lease, with one option for 44 additional years, with the Partnership. Through the ground lease, OCII will maintain ownership of the land and the Partnership will own and operate the improvements.

To facilitate the Project's development, the former Redevelopment Agency Commission authorized a predevelopment loan, and subsequently the OCII Commission gap loan funds totaling \$19,111,224. OCII will continue to own the Property, but will provide site control to the Partnership through a long term ground lease ("Ground Lease"). The Partnership now seeks to execute the Ground Lease associated with the Project.

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

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

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

- (i) "The cost of the agreement to the 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 the former Agency's 2010 acquisition of the land was \$8,380,733, plus interest and closing costs. 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 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 land at 5800 Third Street, Lot 3 that is to be leased to the Developer, determined as of March 22, 2013, at the highest and best use permitted under the plan is \$5,810,000.

- (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 land to be conveyed, determined with the conditions, covenants, and development costs required by the sale, is \$5,810,000. The property is being leased to the developer for a period of 55 years. The annual ground rent is \$581,000, 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 \$184,779, using a blended discount rate of 8% percent.

The present value of the fixed total rental amount, including the residual land 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 Senior Households 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 Ground 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 rents that OCII will actually collect. This risk factor is reflected in the blended discount rate used to calculate 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.”

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