

**Treasure Island Development Authority
City and County of San Francisco**

Resolution Approving a Sublease and Property Management Agreement for Treasure and Yerba Buena Islands Market Rate Rental Housing between the Treasure Island Development Authority and John Stewart Company.

SUMMARY OF PROPOSED ACTION:

This item seeks approval and authorization to execute a Sublease and Property Management Agreement for Treasure and Yerba Buena Islands Market Rate Rental Housing between the Treasure Island Development Authority and the John Stewart Company, a California corporation.

BACKGROUND:

At its January 20, 1999 meeting the Treasure Island Development Authority (the “Authority”) Board of Directors (“Authority Board”) approved a Sublease, Development, Marketing and Property Management Agreement (the “Original Agreement”) with the John Stewart Company (“JSCo”) for the market rate rental housing on Treasure and Yerba Buena Islands. The Original Agreement was approved by the City’s Board of Supervisors on February 22, 1999. The Authority Board and the Board of Supervisors also approved five subsequent amendments to the Original Agreement between August, 2000 and October, 2009.

On April 21, 2011, the Authority Board approved the DDA between the Authority and Treasure Island Community Development LLC (“TICD” or “master developer”). On June 7, 2011, the Board of Supervisors approved the DDA, which became effective on July 14, 2011. Under the Third Amendment to the Original Agreement, the scheduled term of the Original Agreement expired on the effective date of the DDA but has continued thereafter on a month-to-month holdover basis.

In March of 2013 the Authority Board directed Project Office staff to solicit a new sublease and management agreement for market rate rental housing on Treasure and Yerba Buena Islands, and a Request for Proposals (“RFP”) for a new Sublease and Property Management Agreement was issued on March 7, 2014. The deadline for responses the RFP was April 18, 2014 and only one response was received, submitted by JSCo. JSCo’s submittal was deemed complete and responsive to the RFP by Project Office staff.

The United States Navy (the “Navy”) Master Lease with the Authority for the market rate housing units expired in March of 2014 and is currently on a month-to-month holdover. Project Office staff anticipates entering into a new Master Lease with the Navy, that covers both the market rate housing on Treasure and Yerba Buena Islands, and the affordable housing located on Treasure Island, sometime late Fall of 2014, when the existing affordable housing master lease expires and the Navy issues a new Finding of Suitability to Lease (FOSL) for the residential housing areas.

There are currently 472 leasable market rate units in the housing inventory on Treasure Island. There are three separate schedules that may impact the remaining term of the residential leasing program for the existing residential units at Treasure Island:

- The schedule for the Navy's transfer of the land on which the housing resides to TIDA;
- The schedule for the master developer's completion of infrastructure and lots for new vertical housing development, both for housing to be completed by market rate developers and for housing to be completed by the Authority; and
- The schedule for the Authority's completion of replacement housing for qualifying existing residents on lots prepared by the master developer and given to the Authority for this housing.

The schedule for the Navy clean-up and transfer of the residential area on Treasure Island calls for Site 12 (the location of the housing on Treasure Island) to be offered for transfer by the Navy to the Authority on or before December 31, 2021. The Authority has 60 days to accept the transfer, making March 1, 2022 the anticipated date of Authority ownership of Site 12 (assuming there are no delays in the transfer schedule due to the Navy's remediation activities or otherwise).

The Navy transfer, however, will not terminate the Authority leasing program on Site 12. This leasing must continue until the Authority has developed replacement units on Treasure Island to accommodate all existing pre-DDA tenants that wish to be relocated to a new housing unit on Treasure Island. Because the Authority housing will be built in stages over time, as Authority lots and funds become available from the remainder of the development in accordance with the DDA, the Authority will continue to lease some existing market rate residential units for at least ten (10) years and quite likely for several years thereafter. The developer anticipates that the full build out of the development will not be completed until 2030.

The Authority retains the right, however, throughout the term of the proposed new Sublease and Management Agreement, to remove existing residential units or direct that they remain vacant at any time. So, as new housing is developed and existing tenants are relocated, the Authority can (although is not required to) remove existing residential units from the portfolio.

Analysis and planning for ongoing maintenance to continue the residential unit's viable lifecycle is a necessary challenge. JSCo's existing knowledge base of the Treasure Island residential portfolio from both its initial development activities and ongoing maintenance of the units under the Original Agreement provides them a solid foundation to appropriately implement maintenance and repair plans for the continued viability of the existing residential units.

Under the Agreement, JSCo will be responsible for, among other things, maintaining and repairing the housing portfolio; hiring third party contractors, as needed; managing the subtenant application, screening, subleasing and contract compliance processes;

performing tenant relocations and assisting in the relocation process; working with tenant community groups to enhance the overall TI/YBI community experience; regularly appearing before the Authority Board to report on housing matters; managing, tracking, and regular reporting of rental revenue, revenue disbursement, and operating costs incurred.

The salient terms of the proposed Agreement include:

- 1.) **Effective Date:** Effective date of the Agreement shall be July 1, 2014 or, if later, the date of final Board of Supervisors approval of the Agreement.
- 2.) **Term:** The original Agreement Term is 7 years, or through June 30, 2021. An Extension Option allows JSCo to extend the Term, as to the entire Premises only, for an additional three (3) years commencing on the Expiration Date and ending June 30, 2024. JSCo may exercise the Extension Option at any time by written notice to the Authority delivered not later than one hundred eighty (180) days before the Expiration Date.
- 3.) **Premises** The Premises includes 472 units on Treasure Island, 84 units on Yerba Buena Island and associated backyards, common areas and off-street areas in the Treasure and Yerba Buena Islands residential areas, all as more specifically shown on Agreement Exhibit B. As noted above, the Authority has the right to reduce the number of units included at any time, as may be needed for the Navy's remediation or otherwise.
- 4.) **Management Fee:** The Management Fee paid to JSCo will be equivalent to 3% of Gross Revenues, derived from monthly leasing revenue collected by JSCo, not to exceed \$400,000 annually, with an allowable annual increase to the Management Fee to account for CPI.
- 5.) **Base Rent and Percentage Rent:** The Authority will receive an annual Base Rent of \$632,806, adjusted annually by CPI. After payment of the Base Rent and all Operating Expenses, the funding of required reserve accounts, and then payment of the JSCo Management Fee, the remaining monthly Net Revenue will be distributed between the Authority and JSCo as "Percentage Rent", with the Authority receiving 95% and JSCo receiving 5%. This is the same as the Original Agreement.

The Agreement is consistent with current City and County of San Francisco contractual requirements including, but not limited to, those addressing Local Hiring, Pesticide Prohibition, First Source Hiring Ordinance, Campaign Contribution Limitations and Wages and Working Conditions.

The TIDA Board of Directors unanimously approved Authority Board Resolution 14-22-06/14 at its June 11, 2014 meeting, approving the Agreement subject to approval of the Agreement by the Board of Supervisors.

RECOMMENDATION:

Approve the Sublease and Property Management Agreement for Treasure and Yerba Buena Islands Market-Rate Rental Housing between the Treasure Island Development Authority and the John Stewart Company.

Mirian Saez, Director of Island Operations