

File No. 251246

Committee Item No. 4

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date February 4, 2026

Board of Supervisors Meeting Date _____

Cmte Board

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OTHER ([Click on the hyperlinked items to be redirected to the Legislative Research Center to view the entirety of voluminous files](#))

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>PLN Commission Motion No. 20385 2/14/2019</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>PLN Commission Motion No. 20436 4/25/2019</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>PLN Commission Motion No. 20437 4/25/2019</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Fiscal-Economic Impact Analysis Memorandum 1/26/2026</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>OEWD Presentation 2/4/2026</u> |
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Completed by: Brent Jalipa Date January 29, 2026

Completed by: Brent Jalipa Date _____

1 [Hotel Development Incentive Agreement - Bespoke Hospitality, LLC - Hearst Hotel
2 Development Project - 5 Third Street and 17-29 Third Street - Not to Exceed \$40,000,000 in
3 Net Present Value]

4 **Ordinance approving a Hotel Development Incentive Agreement between the City and**
5 **County of San Francisco and Bespoke Hospitality, LLC for the Hearst Hotel**
6 **Development Project, to provide financial assistance not to exceed \$40,000,000 in net**
7 **present value over 20 years calculated for measurement purposes only as a percentage**
8 **of new Transient Occupancy Taxes the City actually receives from occupancy of guest**
9 **rooms in a proposed new hotel, related to the development and operation of a project**
10 **on certain real property known as 5 Third Street and 17-29 Third Street; waiving**
11 **Chapter 21G of the Administrative Code and certain sections of the Labor and**
12 **Employment Code; ratifying past actions and authorizing future actions in furtherance**
13 **of this Ordinance; making findings under the California Environmental Quality Act; and**
14 **making findings of consistency with the General Plan, and the eight priority policies of**
15 **Planning Code, Section 101.1.**

16 NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
17 **Additions to Codes** are in *single-underline italics Times New Roman font*.
18 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.
19 **Board amendment additions** are in double-underlined Arial font.
20 **Board amendment deletions** are in ~~strikethrough Arial font~~.
21 **Asterisks (* * * *)** indicate the omission of unchanged Code
22 subsections or parts of tables.

23 Be it ordained by the People of the City and County of San Francisco:

24 Section 1. Findings.

25 The Board of Supervisors makes the following findings:

1 (a) Bespoke Hospitality, LLC (“Developer”) has a long-term lease to develop and
2 operate the property commonly known as 5 Third Street and 17-29 Third Street (Assessor’s
3 Parcel Block No. 3707, Lot No. 057) (the “Property”). The Property is currently improved with
4 three buildings: (i) a 13-story mixed-use office building that was constructed in 1911 by
5 William Randolph Hearst as the headquarters for the San Francisco Examiner newspaper, (ii)
6 an adjacent eight-story commercial building, and (iii) an adjacent three-story commercial
7 building. The three buildings, which have an internal connection and are collectively known as
8 the “Hearst Building”, have an approximately 74% vacancy rate.

9 (b) Developer has obtained approvals from the City to rehabilitate and convert the
10 Hearst Building to consist of the following (collectively, the “Project”): (i) a mixed-use hotel
11 (“Hotel”) located on the second through twelfth floors and having up to 170 hotel guest rooms,
12 (ii) modifications to the rooftop to include new event space and a rooftop bar and patio,
13 (iii) 5,920 square feet of office space, (iv) approximately 11,393 square feet of retail space, (iv)
14 approximately 4,005 square feet of restaurant and/or bar uses, (v) the rehabilitation and repair
15 of the Hearst Building’s historic façade cladding, cast-iron storefront surrounds, and window
16 elements, (vi) seismic and structural building system upgrades, and (vii) retention of and
17 minor upgrades to the publicly accessible ground-floor lobby that was designed by Julia
18 Morgan.

19 (c) Following the COVID-19 pandemic and the shift toward remote work, the
20 demand for office space in San Francisco has declined and commercial vacancy rates have
21 increased. These impacts persist even as public health threats have waned, and are
22 particularly acute in San Francisco’s downtown neighborhoods. Between the first quarter of
23 2019 and the first quarter of 2024, the downtown office sector experienced a fivefold increase
24 in the total vacancy rate and high vacancy rates persist.

1 (d) Downtown-based businesses have historically generated nearly half of the City's
2 sales tax revenue and almost all (95%) of the City's business tax revenue. This revenue funds
3 many key services such as public safety, cleaning, open space, and transportation.
4 Downtown's high commercial vacancy rates and the reduction in downtown office workers and
5 foot traffic have adversely impacted the downtown and other sectors of San Francisco's
6 economy, including retail and small business, and more broadly has impacted use and
7 activation of downtown public space, transportation, and public safety.

8 (e) To address the high downtown commercial vacancy rates and the resulting
9 impacts on San Francisco's larger economy, the City has approved a variety of programs to
10 incentivize the conversion of downtown's commercial properties to housing, including waivers
11 from inclusionary housing requirements, impact and development fees, and certain Planning
12 Code requirements and taking actions to create a tax increment financing district, and the
13 City's voters approved a real estate transfer tax exemption that applies to those conversions
14 (collectively, the "Downtown Adaptive Reuse Programs").

15 (f) The conversion of the Hearst Building's commercial space to hotel use would,
16 similar to the Downtown Adaptive Reuse Programs and recent Heart of the City Mayoral
17 Executive Directive, activate underutilized property and diversify downtown land use and
18 activities.

19 (g) In addition to restoring and reactivating the historic Hearst Building, the Project
20 is anticipated to create an annual average of approximately 250 jobs during the construction
21 period and, upon completion, support between approximately 100 and 150 net new
22 permanent on-site jobs. The Project will also stimulate economic development and activity
23 benefiting the downtown community and San Francisco as a whole. The Project's mix of uses
24 will generate both daytime and nighttime activity in the downtown neighborhoods, with a new
25 hotel catering to tourists and businesses, and new restaurant, bar, and retail space.

1 (h) Due to the significant proposed investment required to restore and reactivate the
2 historic Hearst Building, Developer has received a tax credit allocation from the State Historic
3 Rehabilitation Tax Credit program, which allocates tax credits to incentivize the rehabilitation
4 of historic buildings that are eligible for listing on the National Register of Historic Places or
5 California Register of Historic Places. This program requires the commencement and
6 completion of rehabilitation work within a certain time frame, and the financing needed for the
7 rehabilitation work is contingent on Developer achieving Project feasibility.

8 (i) The Office of Economic and Workforce Development (“OEWD”) retained, at
9 Developer’s expense, an independent and experienced development and financial analyst
10 (the “Financial Analyst”) to evaluate the Project and advise the City with regard to the financial
11 feasibility of the Project and the net fiscal impact of the Project on City’s revenues and
12 expenditures. Based on a detailed review of the Project’s pro forma, the Financial Analyst
13 estimated that the Project would not be feasible to develop without financial assistance from
14 the City. OEWD and the Financial Analyst evaluated varying levels and durations of financial
15 assistance to measure their impact on the Project’s feasibility and determined that providing
16 the financial assistance detailed in the Hotel Development Incentive Agreement (the
17 “Agreement”) on file with the Clerk of the Board of Supervisors in File No. 251246 would allow
18 the Project to reach financial feasibility based upon an industry-acceptable rate of return.

19 (j) Pursuant to the Agreement, after completion of the Hotel, the City will make
20 quarterly payments to Developer for a period of 20 years. The measurement of the quarterly
21 payments will be 89.3% of the taxes the City actually receives from occupancy of Hotel guest
22 rooms pursuant to Article 7 of the Business and Tax Regulations Code (the “Transient
23 Occupancy Tax”) up to a financial assistance amount of \$40,000,000 in net present value.
24 The Transient Occupancy Tax revenues will be used solely to measure the quarterly
25 payments and the Agreement will not designate any Transient Occupancy Tax revenues for

1 any purpose, such that the Transient Occupancy Tax revenues will continue to be deposited
2 and used in accordance with Article 7 of the San Francisco Business and Tax Regulations
3 Code.

4 (k) Providing the payments will support the feasibility of developing the Project and
5 allow the Project to leverage the State historic tax credits. The Project will serve many public
6 purposes by (i) promoting economic development and contributing to San Francisco's
7 economy and downtown recovery, (ii) activating a prominent intersection and street frontage
8 in the downtown core, (iii) diversifying downtown land use and activities , (iv) rehabilitating and
9 preserving the historic Hearst Building, including through seismic and building system
10 upgrades, and (v) creating well-paying construction and permanent jobs through the
11 development of the Project on underutilized parcels.

12
13 Section 2. Planning and Environmental Findings.

14 (a) On August 22, 2018, the Planning Department published a Preliminary Mitigated
15 Negative Declaration ("PMND"), which found that the Project could not have a significant
16 impact on the environment. The Planning Department prepared and publicized the PMND in
17 compliance with the provisions of the California Environmental Quality Act ("CEQA")
18 (California Public Resources Code Sections 21000 et seq.), the CEQA Guidelines (14 Cal.
19 Code Reg. Sections 15000 et seq.), and Chapter 31 of the Administrative Code.

20 (b) On February 14, 2019, the Planning Commission, through Motion No. 20385,
21 affirmed the Planning Department's decision to issue a Mitigated Negative Declaration for the
22 Project. A copy of Motion No. 20385 is on file with the Clerk of the Board of Supervisors in File
23 No. 251246 and is incorporated herein by reference.

24 (c) On March 5, 2019, the Planning Department published a Final Mitigated
25 Negative Declaration ("FMND").

1 (d) At its hearing on April 25, 2019, by Motion No. 20437, the Planning Commission
2 adopted findings under CEQA, including a Mitigation Monitoring and Reporting Program
3 (“MMRP”) as required by State and local law (collectively, “CEQA Findings”). The Board of
4 Supervisors hereby adopts the CEQA Findings and MMRP by reference. A copy of Motion
5 No. 20437 is on file with the Clerk of the Board of Supervisors in File No. 251246 and is
6 incorporated herein by reference.

7 (e) The Board further finds that, with the subsequent action on the Project contained
8 in this ordinance, (1) no substantial changes are proposed in the Project and no substantial
9 changes have occurred with respect to the circumstances under which the Project will be
10 undertaken that would cause new significant environmental effects or a substantial increase in
11 the severity of previously identified effects, and (2) there is no new information of substantial
12 importance showing that the Project would have any significant effects not discussed in the
13 FMND, that significant effects would be substantially more severe, or that new or different
14 mitigation measures or alternatives would substantially reduce one or more significant effects
15 of the Project.

16 (g) The Board of Supervisors finds that the Agreement is, on balance, in conformity
17 with the General Plan and the eight priority policies of Planning Code, Section 101.1 for the
18 reasons set forth in Planning Commission Motion No. 20436. The Board hereby adopts the
19 findings set forth in Planning Commission Motion No. 20436 as its own.

20
21 Section 3. Hotel Development Incentive Agreement.

22 (a) The Board of Supervisors approves all of the terms and conditions of the
23 Agreement, in substantially the form on file with the Clerk of the Board of Supervisors in File
24 No. 251246.

1 (b) The Executive Director of OEWD (“Director”) is authorized to execute and
2 deliver the Agreement, and the Treasurer and Tax Collector and other applicable City officials
3 are authorized to take all actions reasonably necessary or prudent to perform the City’s
4 obligations under the Agreement in accordance with the terms of the Agreement. The
5 Director, at their discretion and in consultation with Treasurer and Tax Collector and the City
6 Attorney, is authorized to enter into any additions, amendments, or other modifications to the
7 Agreement that the Director determines are in the best interests of the City and that do not
8 materially increase the obligations or liabilities of the City or materially decrease the benefits
9 to the City under Agreement.

10
11 Section 4. Administrative Code and Labor and Employment Code Waivers.

12 (a) The Board of Supervisors finds that the public financial assistance provided by
13 the Agreement is not a “Grant” within the intent of Administrative Code Section 21G.2, and
14 waives, to the extent applicable to the Agreement, the provisions of Chapter 21G of the
15 Administrative Code.

16 (b) The Board of Supervisors approves the Agreement terms and conditions for
17 Developer’s construction of the Project and waives the requirements of Labor and
18 Employment Code Sections 103.1, 103.3(a)-(d), 103.3(f), 104.1, 104.2, 104.3, 106.1, 106.2,
19 106.4, and 106.6 to the extent otherwise applicable to the Project.

20
21 Section 5. Ratification of Past City Officials’ Actions and Authorization of Future
22 Actions.

23 All actions taken by City officials in preparing and submitting the Agreement to the
24 Board of Supervisors for review and consideration are hereby ratified and confirmed, and the
25

1 Board of Supervisors hereby authorizes all subsequent action to be taken by City officials
2 consistent with this ordinance.

3

4 Section 6. Effective and Operative Dates.

5 This ordinance shall become effective 30 days after enactment. Enactment occurs
6 when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not
7 sign the ordinance within 10 days of receiving it, or the Board of Supervisors overrides the
8 Mayor's veto of the ordinance.

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10 APPROVED AS TO FORM:
11 DAVID CHIU, City Attorney

12 By: /s/ Carol Wong
13 CAROL WONG
14 Deputy City Attorney

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4929-5493-3121, v. 1

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LEGISLATIVE DIGEST

[Hotel Development Incentive Agreement - Bespoke Hospitality, LLC - Hearst Hotel Development Project - 5 Third Street and 17-29 Third Street - Not to Exceed \$40,000,000 in Net Present Value]

Ordinance approving a Hotel Development Incentive Agreement between the City and County of San Francisco and Bespoke Hospitality, LLC for the Hearst Hotel Development Project, to provide financial assistance not to exceed \$40,000,000 in net present value over 20 years calculated for measurement purposes only as a percentage of new Transient Occupancy Taxes the City actually receives from occupancy of guest rooms in a proposed new hotel, related to the development and operation of a project on certain real property known as 5 Third Street and 17-29 Third Street; waiving Chapter 21G of the Administrative Code and certain sections of the Labor and Employment Code; ratifying past actions and authorizing future actions in furtherance of this Ordinance; making findings under the California Environmental Quality Act; and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

Purpose

The proposed ordinance, if adopted, would approve the proposed Hotel Development Incentive Agreement (the "Agreement") between the City and Bespoke Hospitality, LLC, a Delaware limited liability company ("Developer"). The Agreement would provide Developer with City financial assistance in the form of incentive payments to develop and operate a hotel as described in the Agreement. Approval of the proposed ordinance would make certain environmental findings, authorize City staff to enter into the Agreement, and waive Chapter 21G of the Administrative Code and certain sections of the Labor and Employment Code as may otherwise apply to the Agreement.

Existing and Amended Law

There is no existing law requiring that the City enter into the Agreement. There are no proposed amendments to current law.

Background Information

Developer has a long-term lease to develop and operate the property commonly known as 5 Third Street and 17-29 Third Street (Assessor's Parcel Block No. 3707, Lot No. 057) (the "Property"), which is currently improved with a 13-story mixed-use office building that was constructed in 1911 by William Randolph Hearst as the headquarters for the San Francisco Examiner newspaper, an adjacent eight-story commercial building, and an adjacent three-story commercial building (collectively, the "Hearst Building").

Developer obtained prior City approvals to rehabilitate and convert the Hearst Building to consist of the following (collectively, the "Project"): (i) a mixed-use hotel ("Hotel") located on the second through twelfth floors and having up to 170 hotel guest rooms, (ii) modifications to the rooftop to include new event space and a rooftop bar and patio, (iii) 5,920 square feet of office space, (iv) approximately 11,393 square feet of retail space, (iv) approximately 4,005 square feet of restaurant and/or bar uses, (v) the rehabilitation and repair of the Hearst Building's historic façade cladding, cast-iron storefront surrounds, and window elements, (vi) seismic and structural building system upgrades, and (vii) retention of and minor upgrades to the publicly accessible ground-floor lobby that was designed by Julia Morgan.

Given the reduced demand for office space in San Francisco following the COVID-19 pandemic and the shift toward remote work, the Hearst Building currently has an approximately 74% vacancy rate. The Project would activate underutilized property at a prominent intersection and street frontage in the downtown core and diversify downtown land use and activities. It is anticipated the Project will create an annual average of approximately 250 jobs during the construction period and support between approximately 100 and 150 net new permanent on-site jobs after completion, promoting economic development and contributing to San Francisco's economy and downtown recovery.

The City's Office of Economic and Workforce Development ("OEWD") consulted with an independent and experienced development and financial analyst to evaluate the Project's financial feasibility and net fiscal impact on the City's revenues and expenditures. OEWD and the financial analyst determined that it is not feasible to develop the Project without the City financial assistance described in the Agreement, and that the significant public benefits from the Project accruing to the City will exceed the value of the City financial assistance under the Agreement.

Pursuant to the Agreement, after completion of the Hotel, the City will make quarterly payments to Developer for a period of 20 years. The measurement of the quarterly payments will be 89.3% of the taxes the City actually receives from occupancy of Hotel guest rooms pursuant to Article 7 of the Business and Tax Regulations Code up to a financial assistance amount of \$40,000,000 in net present value. The Agreement also requires that Developer pay prevailing wages for the initial construction of the Project.

<p>Item 4 File 25-1246</p>	<p>Department: Office of Economic Workforce Development (OEWD)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would approve a Hotel Development Incentive Agreement between the City and Bespoke Hospitality, LLC for the Hearst Hotel Development Project, providing not to exceed \$40,000,000 in net present value as a percentage of Transient Occupancy Taxes (TOT) the City receives from a new hotel at 5 Third Street and 17-29 Third Street, waive Chapter 21G of the Administrative Code and certain sections of the Labor and Employment Code, ratify past actions and authorize future actions in furtherance of the ordinance, and make findings under the California Environmental Quality Act (CEQA) and of consistency with the General Plan and Planning Code. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • JMA Ventures, through its affiliate Bespoke Hospitality, LLC (Developer), has a long-term lease to develop and operate the property at 5 Third Street and 17-29 Third Street, three mostly vacant, internally connected commercial buildings collectively known as the Hearst Building. The Developer has obtained Planning Department approvals to develop a mixed-use hotel project on the property with up to 170 hotel rooms, restaurant and bar spaces, office, retail, seismic and structural upgrades, and restoration of historical building features. • To help finance construction of the hotel, the City would provide incentive payments equal to the actual General Fund TOT revenues generated by the new hotel, up to \$40 million in net present value, for a period of up to 20 years. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to a fiscal analysis of the project, which has been peer reviewed, the proposed development would provide net General Fund revenues of approximately \$713,000 compared to the existing land use, after accounting for the TOT incentive payments to the developer. The project would also annually generate approximately \$157,000 in net revenue to the Municipal Transportation Agency (MTA) Fund and \$367,493 in TOT for arts and culture purposes (which is unaffected by the incentive agreement). <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The proposed agreement would provide a public subsidy for a hotel project. In October 2025, the Board of Supervisors approved an incentive agreement for a mixed-use development at 530 Sansome Street using TOT revenues generated by a new hotel in the development. However, that subsidy agreement was to help finance the construction of a new fire station as part of a development agreement, while the proposed Hearst Hotel project does not include public facilities. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. 	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

The property at 5 Third Street and 17-29 Third Street consists of three buildings: (1) a 13-story mixed-use office building constructed in 1911 by William Randolph Hearst that had been the headquarters of the San Francisco Examiner; (2) an eight-story commercial building; and (3) a three-story commercial building. The three buildings are connected internally and are collectively known as the Hearst Building. As of December 2025, the buildings were approximately 74 percent vacant.

JMA Ventures, through its affiliate Bespoke Hospitality, LLC (Developer), has a long-term lease from the Hearst Corporation to develop and operate the property. The Developer has obtained Planning Department approvals in 2017 to develop a mixed-use hotel project on the property, as follows: (1) a mixed-use hotel on the 2nd through 12th floors with up to 170 rooms; (2) rooftop modifications to include an event space and rooftop bar and patio; (3) approximately 5,920 square feet of office space; (4) approximately 11,393 square feet of retail space; (5) approximately 4,005 square feet of restaurant and/or bar space; (6) rehabilitation and repair of the historic façade cladding, cast-iron storefront surrounds, and windows; (7) seismic and structural building system upgrades; and (8) retention and minor upgrades to the publicly accessible ground floor lobby.

The Office of Economic and Workforce Development (OEWD) retained BAE Urban Economics (BAE) to review the Developer’s financial pro forma. BAE agreed with the developer that the project was infeasible without an incentive from the City. To support project feasibility, OEWD and the Developer propose to establish a funding incentive payment equal to a percentage of the Transient Occupancy Tax (TOT) generated by the project for a maximum of 20 years.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve a Hotel Development Incentive Agreement between the City and the Developer for the Hearst Hotel Development Project, providing financial assistance up to \$40,000,000 in net present value over 20 years, equal to the TOT generated by the new hotel to the City’s General Fund. The proposed ordinance would also waive Chapter 21G of the City’s Administrative Code and certain sections of the Labor and Employment Code, ratify past actions and authorize future actions in furtherance of the ordinance, and make findings under the California Environmental Quality Act (CEQA) and findings of consistency with the General Plan and Planning Code.

Incentive Payments

To help finance construction of the hotel, the City has agreed to calculate actual General Fund TOT revenues from the hotel and provide quarterly incentive payments to the Developer for a period of up to 20 years, equal to 12.5 percent of hotel room revenues, or approximately 89.3 percent of actual collected TOT revenues (the remaining 10.7 percent of TOT revenues dedicated to arts and culture programming would be unaffected by the agreement).¹ The maximum incentive amount is \$40,000,000 in net present value over 20 years, calculated with a nine percent discount rate, or approximately \$84.5 million in nominal dollars. After paying that amount or if the 20-year term has elapsed, the City would no longer pay the incentive payments. The City would make an annual deposit into an incentive account with projected payments as outlined in Exhibit D of the agreement and would then pay the developer out of that account based on the actual TOT revenues received each quarter.

The \$40 million cap on total payments to the developer is based on a project design with 113 hotel rooms. The agreement allows for a 15 percent variance to this design, so there would be no change to the payment calculation or the incentive cap if the hotel has between 96 and 130 rooms. If the number of rooms is below 96, the annual deposit and total cap would be reduced proportionally based on the actual number of rooms as a percentage of 113. If the number of rooms exceeds 130, the payment cap and annual deposit would not increase, but the quarterly payments would be reduced proportionally to account for this increase.²

Developer Obligations

Under the proposed incentive agreement, the Developer is required to receive a First Certificate of Occupancy within five years of the effective date of the agreement (target completion date). If the First Certificate of Occupancy is obtained late but within one year of the target completion date, the incentive payment cap would be reduced by 20 percent. If the First Certificate of Occupancy is obtained between one and two years after the target completion date, the payment cap would be reduced by 30 percent. If the First Certificate of Occupancy is not obtained within two years of the target completion date, the incentive agreement would terminate. The City may extend these deadlines due to “excusable delays” outside of the Developer’s control, as defined in the agreement.

Code Waivers

The proposed ordinance waives Administrative Code Section 21G to clarify that the financial assistance given to the Developer is not a “grant” as defined by the Administrative Code. The proposed ordinance also waives various provisions of the Labor and Employment Code related to prevailing wages and apprenticeship requirements to avoid confusion because the Developer is required to meet similar State requirements to obtain tax credit funding.

¹ Per Article 7 of the Business Tax & Regulations Code, the City’s TOT rate is 14%, including 12.5% for the General Fund and 1.5% for arts and cultural programming.

² For example, if the hotel were to have 80 rooms, the annual deposit and payment would be multiplied by 80/113, or 70.8 percent. If the hotel were to have 150 rooms, the quarterly incentive payment would be multiplied by 113/150 or 75.3 percent.

FISCAL IMPACT

Under the proposed incentive agreement, the City would provide the Developer incentive payments of up to \$40,000,000 in net present value over a period of up to 20 years.

General Fund Fiscal Impact

According to a fiscal impact report conducted by Economic & Planning Systems, Inc. (EPS) on behalf of the Developer, the proposed development is projected to provide net General Fund revenues of approximately \$713,000 per year compared to the existing land use. This projection excludes TOT revenues, since incentive payments based on those revenues would be paid to the Developer for up to 20 years to support the feasibility of the new hotel. An overview of General Fund revenues and expenditures are shown in Exhibit 1 below.

Exhibit 1: Annual General Fund Fiscal Impact Estimates, EPS Report

Projected General Fund Revenues	Existing Development	Proposed Project	Revenue Increase
Property Tax	\$53,000	\$630,000	\$577,000
Property Tax in Lieu of VLF	10,000	120,000	110,000
Sales Tax	49,000	130,000	81,000
Utility Taxes	90,000	16,000	(73,000)
Parking Tax	-	33,000	33,000
Business Taxes & Fees ³	459,000	66,000	(391,000)
<i>Subtotal</i>	<i>\$660,000</i>	<i>\$995,000</i>	<i>\$337,000</i>
Less General Fund Baseline Requirements	(189,000)	(285,000)	(97,000)
General Fund Revenue After Baseline Requirements	\$470,000	\$710,000	\$240,000
Projected General Fund Expenditures	Existing Development	Proposed Project	Expenditures Increase
Community Health	\$72,000	\$13,000	(\$58,000)
Human Welfare & Neighborhood Development	98,000	18,000	(80,000)
Police	172,000	32,000	(141,000)
Fire	117,000	21,000	(95,000)
Other Public Protection	40,000	7,000	(33,000)
Public Works, Transportation, & Commerce	37,000	7,000	(31,000)
Other Expenditures ⁴	44,000	8,000	(36,000)
Total General Fund Expenditures	\$579,000	\$106,000	(\$473,000)
 Net General Fund Revenues	 (\$109,000)	 \$604,000	 \$713,000

Source: EPS fiscal impact report. Totals may not add due to rounding

³ Business Taxes and Fees include Gross Receipts Tax, Commercial Rents Tax, and Business Registration fees.

⁴ Other Expenditures include Culture and Recreation, General Administration and Finance, and General City Responsibilities.

In addition to the General Fund impact, the EPS draft report estimates that the project would annually generate approximately \$157,000 in net revenue to the Municipal Transportation Agency (MTA) Fund and \$367,493 in TOT for arts and culture purposes.

TOT Revenue and Incentive Payments

The draft report estimates that the hotel would generate approximately \$3.1 million in annual TOT revenue to the City's General Fund, and that incentive payments in an equal amount would be provided to the Developer for up to 20 years after hotel occupancy to support the feasibility of the new hotel. This estimate assumes 113 hotel rooms with an average daily room rate of \$900 and 66 percent average occupancy. Once the incentive payments expire, the development would provide approximately \$2.9 million in annual net General Fund Revenues, including \$2.2 million in annual TOT revenues net of General Fund baseline requirements, plus an additional \$450,000 in net revenue to the MTA fund.

Under the incentive agreement, the City would make incentive payments totaling a net present value of up to \$40 million over 20 years. The incentive payments would expire early if the cap on payments is reached. If the hotel generates less than \$40 million in net present value TOT, the incentive payments would expire 20 years after hotel occupancy, regardless of the amount of TOT revenue. Exhibit D of the incentive agreement shows a schedule of projected incentive payments, starting at \$1,130,922 in Year 1, \$3,135,342 in Year 2, \$3,427,110 in Year 3, and increasing three percent annually thereafter.

Peer Review

The City contracted with Bay Area Economics (BAE) to conduct a peer review of the EPS report. BAE found that the EPS report was generally reasonable, but that EPS likely overstated the decline in General Fund expenditures from the proposed project since the existing building is mostly empty. However, this also likely overestimates the Gross Receipts Tax, Sales Tax, and various utility tax revenues from the existing building, so the increase in revenues is likely underestimated. BAE noted that even if there is no decrease in General Fund expenditures from the proposed project, the project would still have a positive fiscal benefit to the City due to the revenue increases.

BAE noted that the TOT projections were reasonable but at the high end of the five-star hotel market and dependent on continued tourism recovery. BAE also found that the project would not be feasible without the TOT incentive, as it would not generate an acceptable rate of return.

General Economic Impact

EPS estimated that the project, when fully built out, would create approximately 121 jobs (including part-time) on an ongoing basis and generate \$32.6 million annually in economic activity. When including indirect effects, such as increased spending at local businesses, the project would create approximately 151 jobs and \$42.6 million annually in economic output. The report also estimated that development of the project would create approximately 706 job years and \$206.6 million in one-time economic output, including multiplier effects.⁵ In its peer review, BAE noted that EPS's report assumes no reduction in economic activity from the loss of existing

⁵ A "job year" is the labor equivalent of one person working a full-time job for a year.

tenants, as these tenants would relocate to other vacant offices in San Francisco. BAE recommended that this assumption be adjusted as the project progresses as some tenants may choose to leave San Francisco.

POLICY CONSIDERATION

The proposed agreement would provide a public subsidy for a hotel project. In October 2025, the Board of Supervisors approved an incentive agreement for a mixed-use development at 530 Sansome Street using TOT revenues generated by a new hotel in the development (Files 25-0698, 25-0803). However, that subsidy agreement was for a longer duration (25 years) and helped finance the construction of a new fire station as part of a development agreement, while the proposed Hearst Hotel project does not include public facilities. OEWD notes that the benefits of this project include activating a mostly vacant building in the downtown, generating additional tourist activity, creating new jobs and economic activity, a net positive impact to the City's General Fund, and rehabilitation of the historic Hearst Building.

According to the Developer, without the City subsidy, the proposed project would generate an annual rate of return of approximately 3.8 percent, which does not meet industry standards. The proposed subsidy would enable the project to generate an annual rate of return of approximately 17.9 percent, which is feasible. BAE agreed with the Developer's findings that the project is infeasible without the City incentive, although BAE recommended restructuring the incentive period from 25 years to 20 years while increasing the subsidy from 80 percent of TOT revenues to 89.3 percent, which was reflected in the proposed agreement. The project also leverages approximately \$54.2 million in tax credits from the State Historic Rehabilitation Tax Credit program. BAE notes that hotel subsidy agreements are common in other California cities with strong tourist sectors, including Los Angeles, Anaheim, and Palm Springs.

RECOMMENDATION

Approve the proposed ordinance.

HOTEL DEVELOPMENT INCENTIVE AGREEMENT

This Hotel Development Incentive Agreement ("**Agreement**"), dated for reference purposes only as of this _____ day of _____, 202_, is by and between THE CITY AND COUNTY OF SAN FRANCISCO, a political subdivision and municipal corporation of the State of California ("**City**"), and BESPOKE HOSPITALITY, LLC, a Delaware limited liability company, its permitted successors and assigns ("**Developer**"). City and Developer are also sometimes referred to individually as a "**Party**" and together as the "**Parties**".

RECITALS

This Agreement is made with reference to the following facts:

A. Pursuant to that certain Lease Agreement between Developer and The Hearst Corporation, a Delaware corporation ("**Landlord**"), dated March 26, 2024 (the "**Lease**"), Developer has a leasehold interest in the real property known as 5 Third Street and 17-29 Third Street, also known as APN No. 3707-057 and further described on Exhibit A attached hereto (the "**Property**"). The term of the Lease commenced on March 26, 2024, and is currently set to expire on March 26, 2089 (unless extended by Developer pursuant to the terms of the Lease).

B. The Property is currently improved with three buildings that share an internal connection: (i) a 13-story mixed-use office building that was constructed in 1911 by William Randolph Hearst as the headquarters for the San Francisco Examiner newspaper, (ii) an adjacent eight-story commercial building, and (iii) an adjacent three-story commercial building. The three buildings, which are collectively known as the "**Hearst Building**", have an approximately 74% vacancy rate. The Hearst Building is designated as a "Significant Building: Category 1" under Article 11 of the Planning Code, which means that the building is judged to be individually important and have excellent or very good architectural design for historic preservation purposes.

C. On June 27, 2017, Landlord submitted development applications to the Planning Department for a proposal to rehabilitate and convert the Hearst Building to consist of the following (collectively, the "**Project**"): (i) a mixed-use hotel with a ground floor lobby and up to 170 guest rooms located on the 2nd through 12th floors (with the portion of the Hearst Building used for a hotel being the "**Hotel**" and the Hotel portion of the Property being the "**Hotel Site**"), (ii) modifications to the rooftop to include new event space and a rooftop bar and patio, (iii) 5,920 square feet of office space, (iv) approximately 11,393 square feet of retail space, (v) approximately 4,005 square feet of restaurant/bar uses, (vi) the rehabilitation and repair of the Hearst Building's historic façade cladding, cast-iron storefront surrounds, and window elements, (vii) seismic and structural building system upgrades, and (viii) retention of and minor upgrades to the publicly accessible ground-floor lobby that was designed by Julia Morgan.

D. On March 5, 2019, the Planning Department issued a Final Mitigated Negative Declaration ("**FMND**") for the Project pursuant to the California Environmental Quality Act (California Public Resources Code Section 21000 *et seq.*) ("**CEQA**"). The FMND complies with CEQA, the CEQA Guidelines (Title 14, California Code of Regulations, Section 15000 *et seq.*), and Chapter 31 of the San Francisco Administrative Code.

E. On March 20, 2019, the City’s Historic Preservation Commission approved, through Motion No. 0372, a Major Permit to Alter under Article 11 of the Planning Code for the Project’s proposed modifications to the Hearst Building.

F. On April 25, 2019, the City’s Planning Commission approved, through Motion Nos. 20436 and 20437, a Downtown Project Authorization and Conditional Use Authorization for the Project (as amended, the “**Approvals**”). Due to the COVID-19 pandemic, and pursuant to a Letter of Determination issued by the Zoning Administrator on March 16, 2021 (Planning Department Case No. 2021-0013200TH), the term of the Approvals was initially extended by 364 days until April 24, 2023. On March 2, 2023, the Planning Commission approved Motion Nos. 21262 and 21263, further extending the term of the Approvals until April 24, 2026.

G. Following the COVID-19 pandemic and the shift toward remote work, the demand for office space in San Francisco has declined and commercial vacancy rates have increased. These impacts persist even as public health threats have waned, and are particularly acute in the San Francisco’s downtown neighborhoods. Between the first quarter of 2019 and the first quarter of 2024, downtown’s office sector experienced a fivefold increase in the total vacancy rate, and high vacancy rates persist.

H. Downtown-based businesses have historically generated nearly half of the City’s sales tax revenue and ninety-five percent (95%) of the City’s business tax revenue. This revenue funds many key services such as public safety, cleaning, open space, and transportation. Downtown’s high commercial vacancy rates and consequent reduction in office workers and foot traffic have adversely impacted both downtown and other sectors of San Francisco’s economy, including retail and small business, and more broadly has impacted use and activation of downtown public space, transportation, and public safety.

I. To address the high downtown commercial vacancy rates and the resulting impacts on the larger economy, the City approved a variety of programs to incentivize the conversion of downtown’s commercial properties to housing, including waivers from inclusionary housing requirements, impact and development fees, and certain Planning Code requirements and taking actions to create a tax increment financing district, and San Francisco voters approved a real estate transfer tax exemption that applies to those conversions (collectively, the “**Downtown Adaptive Reuse Programs**”).

J. The conversion of the Hearst Building’s commercial space to hotel use would, similar to the Downtown Adaptive Reuse Programs and recent Heart of the City Mayoral Executive Directive, activate underutilized parcels and diversify downtown land use and activities.

K. In addition to restoring and reactivating the historic Hearst Building, the Project is anticipated to create an annual average of approximately 250 jobs during the construction period and, upon completion, support between approximately 100 and 150 net new permanent on-site jobs. The Project will also support further economic development and activity benefiting the downtown community and San Francisco as a whole. The Project’s mix of uses will generate both daytime and nighttime activity in the downtown neighborhoods.

L. Due to the significant proposed investment required to restore and reactivate the historic Hearst Building, Developer has received a tax credit allocation from the State Historic Rehabilitation Tax Credit program, which allocates tax credits to incentivize the rehabilitation of historic buildings that are eligible for listing on the California Register of Historic Places or National Register of Historic Places. This program requires the commencement and completion of rehabilitation work within a certain time frame, and the financing needed for the rehabilitation work is contingent on the Developer achieving Project feasibility.

M. City's Office of Economic and Workforce Development ("OEWD") retained, at Developer's expense, an independent and experienced development and financial analyst (the "**Financial Analyst**") to evaluate the Project and advise City with regard to the financial feasibility of the Project and the net fiscal impact the Project would have on City's revenues and expenditures. Based on a detailed review of the Project's pro forma, the Financial Analyst estimated that the Project would not be feasible to develop without financial assistance from the City. OEWD and the Financial Analyst evaluated varying levels and durations of financial assistance to measure their impact on the Project's feasibility and determined that providing financial assistance in the amount of the Incentive Payment Cap (as defined below) should allow the Project to reach financial feasibility based upon an industry-acceptable rate of return, and would provide the public benefits described in Recitals K and O. In consultation with the Financial Analyst, City has made the reasoned determination that the public benefits to be accrued to City under this Agreement and the Project exceed the value of the Incentive Payment Cap.

N. Pursuant to the terms of this Agreement, after the Hotel Completion Date, City will make quarterly payments to Developer for a period of twenty (20) years. The measurement of the quarterly payments will be eighty-nine and three-tenths percent (89.3%) of the Transient Occupancy Taxes that City actually receives from occupancy of the Hotel guest rooms pursuant to Article 7 of the Business and Tax Regulations Code up to the Incentive Payment Cap.

O. Providing the payments will support the feasibility of developing the Project and allow the Project to leverage State historic tax credits. The Project will serve many public purposes by (i) promoting economic development and significantly contributing to San Francisco's economy and downtown recovery, (ii) activating a prominent intersection and street frontage in the downtown core, (iii) diversifying downtown land use and activities, (iv) rehabilitating and preserving the historic Hearst Building, and (v) creating well-paying construction and permanent jobs through the development of the Project on underutilized parcels.

NOW, THEREFORE, in consideration of the foregoing and the covenants, promises and agreements set forth in this Agreement, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Developer and City incorporate the above Recitals and agree as follows:

ARTICLE 1
PURPOSE OF AGREEMENT AND DEFINITIONS

1.1 Purpose of Agreement

This Agreement is entered into for the public purposes and benefits derived from the construction of the Project (including the preservation and rehabilitation of the historic Hearst Building) and the economic and fiscal benefits the Hotel will provide to City. This Agreement is not intended for land speculation or to provide an undue benefit to Developer. The provision of City Financial Assistance is subject to all applicable laws and Developer's compliance with this Agreement.

Developer would not enter into this Agreement but for City's obligations under this Agreement to disburse the appropriated Incentive Payments to Developer on the Disbursement Dates. City agrees that Developer's reliance is reasonable and that City's disbursement obligation is valuable consideration for this Agreement. City acknowledges and agrees that (i) construction of the Project would not be financially feasible but for the City Financial Assistance and (ii) the construction and successful long-term operation of the Project is expected to significantly contribute to San Francisco's economy and downtown recovery. City will take all steps necessary to seek the timely appropriation of the Incentive Payments and will timely submit sufficient budget requests each year as described in Section 2.1. City's obligations under this Agreement to disburse appropriated Incentive Payments to Developer shall survive the expiration or termination of this Agreement (except if the Agreement is terminated as a result of a Developer Event of Default) until the expiration of the applicable statute of limitation or statute of repose (and all relevant and applicable provisions of this Agreement will remain effective as reasonably necessary in the construction, interpretation, or enforcement of this Agreement as to any such surviving obligations). As described in Article 6 and without limiting City's rights under the City Charter or the State Constitution, the Parties agree that monetary damages are an appropriate remedy for a City Event of Default resulting from City's failure to pay appropriated sums to Developer as and when due under this Agreement.

1.2 Definitions

As used in this Agreement, the following terms have the following meanings:

"Affiliate" means any person directly or indirectly, through one or more intermediaries, controlling, controlled by or under common Control with Developer, which, in the case of a partnership, includes each of the constituent general partners thereof and, in the case of a limited liability company, includes each of the constituent members thereof.

"Agreement" means this Hotel Development Incentive Agreement.

"Approvals" is defined in Recital F.

"Assignment and Assumption Agreement" is defined in Section 4.2(a).

"Board of Supervisors" means the San Francisco Board of Supervisors.

"Business Day" means a calendar day which is not a weekend day or a federal or State holiday in which City is open for business.

"CEQA" is defined in Recital D.

"City" is defined in the preamble.

"City Deposit" is defined in Section 2.1(a).

"City Event of Default" means any Event of Default by City pursuant to Section 6.2.

"City Financial Assistance" means the Incentive Payments to be made by City to Developer to assist the financial feasibility to develop the Project over the City Financial Assistance Term.

"City Financial Assistance Term" means the period commencing on the Hotel Completion Date and ending on the earlier of (a) the twentieth (20th) anniversary of the Hotel Completion Date, and (b) the date on which this Agreement terminates pursuant to the terms of this Agreement.

"City Parties" is defined in Section 8.3.

"Construction Work" means the initial construction of the Project to be carried out by a Developer, but does not include the delivery of materials to or from a construction site.

"Control" and "Controlling" means with respect to a corporation, the right to exercise, directly or indirectly, fifty percent (50%) or more of the voting rights attributable to the shares of the controlled corporation and, with respect to a person that is not a corporation, the possession directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled person, whether through the ability to exercise voting power, by contract or otherwise, which power may be subject to approval of customary major decisions by one or more other parties.

"Cumulative Incentive Payment Amount" is defined in Section 2.2(b).

"Developer" is defined in the preamble.

"Developer Event of Default" means any Event of Default by Developer pursuant to Section 6.2.

"Director of Joint Development" shall mean the Director of Joint Development at OEWD.

"Disbursement Date" is defined in Section 2.2(a).

"Disbursement Payment Period" means a period of three (3) consecutive calendar months commencing on January 1, April 1, July 1, and October 1 of each year of the City Financial Assistance Term, except that (a) the first Disbursement Payment Period will commence on the Hotel Completion Date and may be fewer than three (3) months, and (b) the last Disbursement Payment Period will end on the last day of the last calendar month of the City Financial Assistance Term and may be fewer than three (3) months.

"Downtown Adaptive Reuse Programs" is defined in Recital I.

"Effective Date" is defined in Section 8.20.

"Estoppel Outside Date" is defined in Section 8.5.

“Excusable Delay” is defined in Section 8.4.

“Financial Analyst” is defined in Recital M.

“First Certificate of Occupancy” means, with respect to the Hotel, the first certificate of occupancy (such as a temporary or final certificate of occupancy) issued by the City’s Department of Building Inspection for public use of the guest rooms.

“FMND” is defined in Recital D.

“Foreclosed Property” is defined in Section 5.4.

"Government Code Disclosure Requirements" means the public hearing and disclosure requirements applicable to economic development subsidy payments set forth in Section 53083 of the California Government Code, as may be amended from time to time and which are applicable to the City Financial Assistance.

“Hearst Building” is defined in Recital B.

"Hotel" is defined in Recital C, as may be refined through specifications and plans and any other matter approved by City in its regulatory capacity for the Hotel.

"Hotel Completion Date" means the first day of the calendar month following the calendar month in which the Hotel opens for business to the general public, which shall be no earlier than the issuance of the First Certificate of Occupancy.

"Hotel Operating Covenant" means a hotel operating covenant substantially in the form attached as Exhibit B.

"Hotel Operator" means any “Operator,” as defined in Section 501(a) of the San Francisco Business and Tax Regulations Code, that operates any portion of the Hotel.

"Hotel Site" is defined in Recital C.

“Hotel Standard” is defined in Section 2.1(d).

"Incentive Account" means a designated account established by City into which City will make City Deposits for the exclusive use of Incentive Payments.

“Incentive Account Schedule” is defined in Section 2.1(a).

“Incentive Payment" is defined in Section 2.1(a).

“Incentive Payment Cap” means \$40,000,000 in net present value, as may be adjusted pursuant to Article 2.

“Landlord” is defined in Recital A.

“Law(s)” means, individually or collectively as the context requires, the laws of the United States, the State of California, the City, and any other governmental or regulatory authority with jurisdiction, any codes, statutes, rules, regulations, or executive mandates under any of the foregoing, and any State or Federal court decision (including any order, injunction or writ) with respect to any of the foregoing, in each case to the extent applicable to the matter presented.

“Lease” is defined in Recital A.

“Lender” means any party or parties who are beneficiaries of a Security Instrument, or any designee or affiliate of the foregoing.

“Losses” is defined in Section 8.17.

“Material Change” means any modification to this Agreement that would (i) materially alter the rights, benefits or obligations of City or Developer under this Agreement, or (ii) extend the term of this Agreement.

“Notice of Default” is defined in Section 6.2.

“OEWD” is defined in Recital M.

“OEWD Director” means City’s Executive Director of the Office of Economic and Workforce Development.

"Parties" is defined in the preamble.

“Person” means an individual, corporation, partnership, limited liability company, joint venture, association, firm, joint stock company, trust, unincorporated association, or other entity.

“Project” is defined in Recital C.

“Property” is defined in Recital A.

“Required Certifications” is defined in Section 8.5.

"Schedule of Milestones" means the Schedule of Milestones attached as Exhibit C.

“Security Instrument” means any of the following: (i) a mortgage, deed of trust, trust indenture, letter of credit, or other security instrument, and any assignment of the rents, issues, and profits, that constitutes a lien on all or a part of the Property (or any interest therein) to secure an obligation made by the applicable property owner or ground lessee, and/or (ii) any pledge of a direct or indirect equity interest in Developer (including mezzanine loans and preferred equity investments), to secure repayment of any loan or investment to, and associated obligations of, a direct or indirect equity-interest holder in Developer.

“State” means the State of California.

“Target Completion Date” is defined in Section 2.1(e).

"Tax Confidentiality Waiver" means a limited confidentiality waiver, in substantially the form attached as Exhibit E to be executed by each Hotel Operator and authorizing City to review and report tax data for purposes of compliance with the Government Code Disclosure Requirements, to calculate the Incentive Payments, or as otherwise may be required by City for compliance with the terms of this Agreement.

"Transfer" is defined in Section 4.2.

"Transferee" is defined in Section 4.2.

"Transient Occupancy Tax" or "TOT" means the transient occupancy taxes that are imposed pursuant to Article 7 of the San Francisco Business and Tax Regulations Code or successor provision, excluding any penalties, interest, or fees imposed with respect to such taxes.

"TOT Received" is defined in Section 2.2(b).

ARTICLE 2 CITY FINANCIAL ASSISTANCE

2.1 Establishment and Payments to Incentive Account by City.

(a) Incentive Account and Schedule. City will establish the Incentive Account prior to the Hotel Completion Date from which to disburse appropriated payments to Developer ("**Incentive Payments**") pursuant to this Agreement. Subject to the terms and conditions of this Agreement, at least once per City fiscal year, City will make a deposit from City's General Fund into the Incentive Account (each, a "**City Deposit**") unless the Incentive Account already has sufficient funds to make the Incentive Payments for that fiscal year. The amount of each City Deposit will be a reasonable estimate of the amount of the Incentive Payments payable for that fiscal year as calculated under Section 2.2(b) and based on the Schedule of Projected Incentive Payments attached as Exhibit D (the "**Incentive Account Schedule**"); provided that (1) at least once per year Developer and City shall meet and confer to discuss reasonable adjustments to the Incentive Account Schedule based upon the historical, anticipated and actual occupancy of the Hotel (as such occupancy relates to the amount of Transient Occupancy Tax revenues generated by the Hotel) and the then-current balance of the Incentive Account; and (2) in any given year City will retain the flexibility to adjust the amount of the City Deposit pursuant to the California Constitution, City's Charter requirements, and Chapter 3 of the City's Administrative Code. If the amount of the City Deposit for any fiscal year exceeds the amount of the Incentive Payments paid by City to Developer during such fiscal year, the excess amount will remain in the Incentive Account and will be carried over and used to make the Incentive Payments in City's next fiscal year, and the amount of the City Deposit for the next fiscal year will be commensurately reduced. If the Incentive Account does not have adequate funds for City to make the full amount of the Incentive Payments due in any given fiscal year pursuant to Section 2.2, City will adjust the proposed budgeted amount of the City Deposit in the next fiscal year to include any shortfall for the following fiscal year as necessary to ensure full payment of the Incentive Payments due.

(b) TOT as Measurement Only. Developer acknowledges that this Agreement uses Transient Occupancy Tax revenues that City actually receives from occupancy of guest rooms in the Hotel solely to measure the amount of the Incentive Payments and that no provision of this

Agreement is intended to or will be deemed to be a designation of any Transient Occupancy Tax revenue for any purpose other than the deposit of such tax revenue in accordance with Article 7 of the San Francisco Business and Tax Regulations Code. The Transient Occupancy Tax revenues will continue to be deposited and used in accordance with Article 7 of the San Francisco Business and Tax Regulations Code.

(c) City Obligation. Each fiscal year, City's Mayor will include a request for budget appropriations in its proposed budget sufficient to make the City Deposits shown on the Incentive Account Schedule, as the same may have been adjusted pursuant to Section 2.1(a) or Section 2.1(d). After City has paid all Incentive Payments to be paid for the Disbursement Payment Periods that occur during the City Financial Assistance Term, this Agreement and the Incentive Account will expire and any surplus funds will be deposited in the General Fund.

(d) Change in Hotel Size. The Incentive Account Schedule is based on a Project design with 113 Hotel guest rooms (the "**Hotel Standard**"); however, City and Developer agree that a Project design that stays within 15% of the number of rooms in the Hotel Standard (approximately 96 – 130 rooms) would not be anticipated to materially change the Incentive Account Schedule. If (1) Developer constructs fewer than 96 Hotel guest rooms, or if (2) the number of Hotel guest rooms is later reduced to fewer than 96 after the initial construction of the Project, but prior to the end of the City Financial Assistance Term, then Developer and City will agree on an amended Incentive Account Schedule so that the amount of each future City Deposit is reduced proportionally to account for the reduced number of Hotel guest rooms. For example, if there are only 80 Hotel guest rooms, then each future City Deposit will be calculated by multiplying the figures in the original Incentive Account Schedule by $80/113$ (i.e., $80 \text{ rooms} \div 113 \text{ rooms} = 70.8\%$). The calculation of each Incentive Payment will remain the same as described in Section 2.2. Developer and City will also agree on a reduced Incentive Payment Cap, using the same calculation method as the original Incentive Account Schedule and utilizing the updated City Deposit amounts. If the number of Hotel guest rooms is increased to exceed 130 Hotel guest rooms, neither the Incentive Account Schedule nor the Incentive Payment Cap will be increased and the amount of Incentive Payments will be adjusted in accordance with Section 2.2(c).

(e) Schedule of Milestones; Notice Obligations. For the convenience of the Parties, certain notable dates and milestones for the Project are listed in Exhibit C. On or before the first anniversary of the Effective Date, City will designate the City department or agency that will administer and serve as the primary point of contact for this Agreement. At least eighteen (18) months prior to the Hotel Completion Date, Developer will provide written notice to City of the anticipated Hotel Completion Date. City will establish the Incentive Account prior to the Hotel Completion Date. The Parties anticipate the Hotel will receive a First Certificate of Occupancy on or before the fifth (5th) anniversary of the Effective Date (the "**Target Completion Date**"), as such date may be extended for any Excusable Delay that prevents Developer from obtaining a First Certificate of Occupancy by the Target Completion Date.

If the Hotel receives a First Certificate of Occupancy between the Target Completion Date and the first anniversary of the Target Completion Date (as such date may be extended for any Excusable Delay that prevents Developer from obtaining a First Certificate of Occupancy by the first anniversary of the Target Completion Date), the Incentive Payment Cap shall be reduced by twenty percent (20%). If the Hotel receives a First Certificate of Occupancy between the first

anniversary of the Target Completion Date and the second anniversary of the Target Completion Date (as such date may be extended for any Excusable Delay that prevents Developer from obtaining a First Certificate of Occupancy by the second anniversary of the Target Completion Date), the Incentive Payment Cap shall be reduced by thirty percent (30%). If the Hotel does not receive a First Certificate of Occupancy by the second anniversary of the Target Completion Date (as such date may be extended for any Excusable Delay that prevents Developer from obtaining a First Certificate of Occupancy by the second anniversary of the Target Completion Date), this Agreement shall automatically terminate as of the second anniversary of the Target Completion Date.

2.2 Incentive Payments

(a) Disbursement of Incentive Payments. Subject to the terms and conditions of this Agreement, commencing on the Disbursement Date for the first Disbursement Payment Period and continuing until the Disbursement Date for the final Disbursement Payment Period, City will disburse Incentive Payments to Developer from the Incentive Account on a quarterly basis as follows: (i) once on March 1 for the preceding three-month Disbursement Payment Period of October 1 through December 31, (ii) once on June 1 for the preceding three-month Disbursement Payment Period of January 1 through March 31, (iii) once on September 1 for the preceding three-month Disbursement Payment Period of April 1 through June 30, and (iv) once on December 1 for the preceding three-month Disbursement Payment Period of July 1 through September 30 (March 1, June 1, September 1 and December 1 each being a “**Disbursement Date**”), except that the first and last Disbursement Dates may include Disbursement Payment Periods that include fewer than three months. The payments to Developer will be made in arrears solely from amounts on deposit in the Incentive Account and City’s liability or obligation during any given fiscal year for any Incentive Payment will not exceed the City Deposit for such fiscal year or the amount on deposit in the Incentive Account (whichever is greater). So long as City is only required to make payments to a single entity, Developer may assign its right to receive disbursements of Incentive Payments, or direct the payment of Incentive Payments, to a Hotel Operator in connection with the operation of the Hotel.

(b) Amount of Incentive Payments. The amount of the Incentive Payment for a given Disbursement Payment Period during the City Financial Assistance Term will equal eighty-nine and three-tenths percent (89.3%) of the Transient Occupancy Tax City (or any other party to whom City directs payment) actually receives during the applicable Disbursement Payment Period with respect to the occupancy of guest rooms in the Hotel, regardless of the actual date of such occupancy (“**TOT Received**”). For purposes of determining the Incentive Payment, the TOT Received during any Disbursement Payment Period will not include any amounts City receives as a result of any audit, deficiency determination, or other demand for payment by City outside of the standard return filing process, and will not be offset by any refunds of Transient Occupancy Tax City pays to the operator or occupant of the Hotel. Within thirty (30) days after each Disbursement Date, Developer will provide City a schedule demonstrating the cumulative net present value of all Incentive Payments received by Developer showing the total amount of the Incentive Payments received by Developer for each Disbursement Payment Period during the City Financial Assistance Term, with each Incentive Payment discounted from the date paid at an annual rate of nine percent (9%) to the Hotel Completion Date (the sum of such discounted values being the “**Cumulative Incentive Payment Amount**”).

For the avoidance of doubt, if the City Financial Assistance Term ends prior to the completion of any applicable three (3) month period, City will disburse to Developer an Incentive Payment on the immediately following Disbursement Date in an amount that includes only the calendar months within the City Financial Assistance Term. City reserves the right to retain the services of a trustee (which will be a trust department of a national bank with a branch in San Francisco, California) to make the disbursements from the Incentive Account. If City retains a trustee to make disbursements, all references in this Agreement to City making the payment or disbursements of the Incentive Account will include the trustee making the payment or disbursement. For the avoidance of doubt, if City retains a trustee it will not be released from City's obligations under this Agreement. The provisions of this Section 2.2(b) will survive the expiration or earlier termination of this Agreement.

(c) Increase in Hotel Size. As described in Section 2.1(d), if the number of Hotel guest rooms is increased to exceed 130 guest rooms, neither the Incentive Account Schedule nor the Incentive Payment Cap will be increased. In such event, each future Incentive Payment will be calculated using the method in Section 2.2(b), with the resulting amount then reduced proportionally to account for the increased number of Hotel guest rooms. For example, if there are 150 Hotel guest rooms, then each future Incentive Payment will be calculated using the method in Section 2.2(b), and then multiplying the result by $113/150$ (75.33%).

(d) Cooperation. Developer will cooperate with City in calculating the Incentive Payment amounts by making available to City any information and/or waivers, whether from Developer or a Hotel Operator, which City determines in its reasonable discretion are necessary to calculate the Incentive Payment amounts. Developer will ensure that each Hotel Operator is aware of the need to waive confidentiality with respect to such information to the extent it would otherwise be confidential taxpayer information. Further, Developer will require that each Hotel Operator provide tax or financial information to the extent reasonably necessary to calculate the Incentive Payment amounts. Not more than once per calendar year, Developer has the right, at all reasonable times during normal business hours and upon ten (10) Business Days' prior written notice, to inspect on a confidential basis the books, records and all other documentation of City pertaining to the City Deposit, funds in the Incentive Account, and calculation of the Incentive Payments under this Agreement, except that Developer will not have the right to inspect any records of the Office of the Treasurer and Tax Collector that are confidential under Section 6.22-1 of the San Francisco Business and Tax Regulations Code or otherwise, other than information specifically subject to the confidentiality waivers provided pursuant to this Agreement.

2.3 Incentive Payment Cap. In light of the significant public benefits derived from this Agreement and the construction and operation of the Project by the second anniversary of the Target Completion Date (as such date may be extended for any Excusable Delay that prevents Developer from receiving the First Certificate of Occupancy by the second anniversary of the Target Completion Date), Developer will receive Incentive Payments pursuant to Section 2.2 up to the Incentive Payment Cap. In entering this Agreement, City expressly acknowledges and agrees that it has made the reasoned determination that the public benefits to be accrued to City under this Agreement and by construction of the Project exceed the value of the Incentive Payment Cap.

2.4 Conditions to City Obligation. City's obligation to make Incentive Payments to Developer will be tolled without the accrual of interest for any time period during which (i) a notice of default

of this Agreement has been given to Developer by City and remains uncured, (ii) a Hotel Operator is not in substantial compliance with the Hotel Operating Covenant, or (iii) a Hotel Operator has not executed and delivered to City a valid Tax Confidentiality Waiver.

ARTICLE 3

OBLIGATIONS BEFORE AND AFTER THE COMPLETION OF CONSTRUCTION

3.1 Prevailing Wages and Working Conditions During Construction. Developer agrees that all persons performing Construction Work on the initial construction of the Project will be (i) paid not less than the Prevailing Rate of Wages as defined in Labor and Employment Code Section 101.1 and established under Labor and Employment Code Section 103.2, and (ii) provided the same hours, working conditions, and benefits as in each case are provided for similar work performed in the City under the requirements of Labor and Employment Code Articles 101 through 107, but excluding Labor and Employment Code Sections 103.1, 103.3(a)-(d), 103.3(f), 104.1, 104.2, 104.3, 106.1, 106.2, 106.4, and 106.6 to the extent otherwise applicable to the Project. Developer shall include this requirement in any contract for Construction Work entered into by Developer for the Project. Any contractor or subcontractor performing Construction Work for the Project shall utilize the City's web-based payroll system to submit certified payroll reports on a weekly basis and must make certified payroll records and other records required under Labor and Employment Code Section 103.3(e) available for inspection and examination by the City with respect to all workers performing covered labor. The City's Office of Labor Standards Enforcement enforces applicable labor laws on behalf of the City, and shall be the lead agency responsible for ensuring that prevailing wages are paid and other payroll requirements are met in connection with the Construction Work (including the issuance of any Determination of Violation for violations under Labor and Employment Code Section 106.3, which sets forth the basis of determination and orders payment of back wages due plus penalties in amounts consistent with Section 106.1), all to the extent required hereunder.

3.2 Maintenance. Developer agrees that after completion of construction of the Hotel, the Hotel will be maintained in a neat and orderly condition to the extent practicable and in accordance with applicable industry health and safety standards.

3.3 Limited Tax Confidentiality Waiver.

(a) Waiver Required. Developer will ensure that each Hotel Operator executes and submits a Tax Confidentiality Waiver to City's Office of the Treasurer and Tax Collector, which provides for the release of tax information to the extent reasonably necessary to comply with the Government Code Disclosure Requirements, to calculate the Incentive Payments, and to otherwise comply with the terms of this Agreement.

(b) Review of Waiver. Developer will meet with the appropriate City departments, including City's Office of the Treasurer and Tax Collector and OEWD (or such other office designated as the department to administer the Incentive Payments) not less than three (3) months prior to the Hotel Completion Date to review the Tax Confidentiality Waiver so as to ensure that the appropriate parties responsible for executing the Tax Confidentiality Waiver are identified and notified of their requirement to execute and deliver to City the Tax Confidentiality Waiver and review the administrative steps required to implement the Government Code Disclosure

Requirements and calculate the Incentive Payments. City shall provide Developer with reasonable notice before disclosing any information provided in a Tax Confidentiality Waiver to the public.

(c) Authority. All Tax Confidentiality Waivers will be executed by an individual with authority to execute such waiver on behalf of the Hotel Operator.

3.4 Government Code Disclosures. Developer acknowledges that Section 53083 of the California Government Code requires City to hold periodic public hearings and to provide certain information in written form to the public and through its internet website for each recipient of an economic development subsidy. Developer agrees that it will cause any Hotel Operator with respect to the Hotel to provide information or written reports to City which will include all information within Hotel Operator's reasonable control that City determines is reasonably necessary to comply with the Government Code Disclosure Requirements, as such may be amended from time to time. Developer will cooperate with City in complying with the Government Code Disclosure Requirements by providing information and/or written reports to City which includes all information within Developer's reasonable control that City determines is reasonably necessary to comply with the Government Code Disclosure Requirements, as such may be amended from time to time.

3.5 Other Agreements. Each Party represents that it has not entered into any agreements that would restrict or compromise its ability to comply with the terms of this Agreement. During the term of this Agreement, neither Party will enter into any agreement that is inconsistent with the terms of this Agreement without an express written waiver by the other Party.

ARTICLE 4 ASSIGNMENTS AND TRANSFERS

4.1 Purpose of Restrictions on Transfer. This Agreement is entered into for the purpose of the development of the Project and operation of the Hotel, in accordance with the terms of this Agreement and the Approvals. It is because of the qualifications and identity of Developer that City is entering into this Agreement with Developer and that Transfers of all or any portion of Developer's interest in the Hotel Site are permitted only as provided in this Agreement, in view of (i) the importance of the development of the Project and operation of the Hotel to the general welfare of the community, (ii) the financial resources, reputation, and experience of Developer in development of similar development projects, and (iii) the fact that a Transfer is for practical purposes a transfer or disposition of the Hotel.

4.2 Permitted Transfer of this Agreement. Subject to the requirements of Section 4.2(a), at any time and from time to time, Developer may convey, assign or transfer (each, a "**Transfer**") all of its right, title and interest in this Agreement to any Person (a "**Transferee**") without the City's prior consent or approval so long as Developer contemporaneously transfers all of its interest with respect to the Hotel Site to such Transferee. Subject to the requirements of Section 4.2(a), Developer may also, at any time and from time to time, Transfer a portion of its right, title and interest in either this Agreement or the Hotel Site to a Transferee with the prior written approval of the Director of Joint Development, which approval will not be unreasonably withheld, conditioned, or delayed. Prior to a proposed Transfer requiring approval of the Director of Joint Development, Developer will submit to City such documentation as the Director of Joint

Development reasonably determines is sufficient to evaluate the relevant experience, financial capacity, and reputation of the proposed transferee necessary to fulfill the Developer's obligations under this Agreement. Any Transfer made in contravention of this Section 4.2 will be void and will be deemed to be a material default under this Agreement, subject to Developer's right to cure such default in accordance with this Agreement.

(a) Assignment and Assumption Agreement. No Transfer may be permitted unless at the time of the Transfer the Transferee expressly agrees to assume, perform and observe, from and after the date of such Transfer, all or the applicable portion of the obligations, terms, and conditions of this Agreement Transferred by an agreement reasonably satisfactory to City (an "**Assignment and Assumption Agreement**"). A Transferee will be deemed "Developer" under this Agreement to the extent of the rights, interests and obligations assigned to and assumed by such Transferee under the applicable Assignment and Assumption Agreement. Upon execution and delivery of any Assignment and Assumption Agreement, the assignor thereunder will be automatically released from any prospective obligation or liability under this Agreement to the extent the Transferee assumes such obligations. The Transferee under an Assignment and Assumption Agreement will not have any liability or obligation under this Agreement prior to the time of the Transfer, and the assignor will remain liable for such obligations until such Transfer. City may terminate this Agreement, upon thirty (30) days prior written notice, if any Transferee (other than City) fails to assume the Developer's obligations under this Agreement. Developer must deliver to City notice of any Transfer, together with the final Assignment and Assumption Agreement, within thirty (30) days of each Transfer. If there is more than one Developer at any time during the City Financial Assistance Period, then City's obligation to pay the appropriated Incentive Payments shall be conditioned on the Developers unanimously selecting the Developer entitled to receive the Incentive Payments on behalf of all the Developers and delivering written notice to City of such selection, which notice shall be duly signed by all the Developers. Following City's receipt of such notice, City shall deliver the appropriated Incentive Payments to the designated Developer.

(b) Exclusions from Transfers. Provided that Developer's indemnity obligations hereunder are not transferred, a "Transfer" under this Article 4 does not include any of the following types of transactions: (i) granting easements or permits affecting the Hotel Site to facilitate the development of the Project; (ii) entering into occupancy agreements, subleases, licenses or permits for portions of the Hotel Site; (iii) encumbering the Developer's interest in this Agreement or in the Hotel Site or any portion of the improvements thereon with any Security Instrument; (iv) entering into agreements with third parties to fulfill Developer's obligations under this Agreement (so long as Developer is not released from such obligations); (v) transferring all or any portion of the Developer's interest in the Hotel Site or the improvements thereon to a Lender pursuant to a conveyance in lieu of foreclosure or other remedial action in connection with a Security Instrument; (vi) transferring all or any portion of Developer's interest in the Hotel Site or the improvements thereon to an Affiliate; (vii) selling or transferring any membership or ownership interest (direct or indirect) in the entity that is Developer; or (viii) the transfer of all or a portion of the Developer's interest in the Hotel Site or the improvements thereon pursuant to a foreclosure (judicial or pursuant to the power of sale). Developer must give written notice to City of any conveyance of all or any portion of Developer's interest in the Hotel Site or the improvements thereon to a Lender pursuant to a conveyance in lieu of foreclosure or other remedial action in connection with a Security Instrument within thirty (30) days of such conveyance.

ARTICLE 5
LENDER AND LANDLORD PROTECTIONS

5.1 Lender Protections.

(a) Developer Right to Finance. Nothing in this Agreement limits the right of Developer (or any direct or indirect interest holder of Developer) to mortgage, pledge, or otherwise encumber all or any portion of its interest in the Property or this Agreement for the benefit of any Lender as security for one or more loans.

(b) Copy of Notice of Default and Notice of Failure to Cure to Lender. Whenever City delivers any notice or demand to Developer with respect to any Developer Event of Default, City will at the same time forward a copy of such notice or demand to each Lender having a Security Instrument on (directly or indirectly) the Hotel Site that previously made a written request to City therefor, to the last address of such Lender specified by that Lender in such notice. In addition, if such breach or default remains uncured for the period permitted under this Agreement, City will deliver a notice of such failure to cure such breach or default to each such Lender at such applicable address. If City delays or fails to provide such notice required by this Section, the time allowed for a Lender to cure shall be extended by the number of days until such notice is given. In accordance with Section 2924b of the California Civil Code, City requests that a copy of any notice of default and a copy of any notice of sale under any Security Instrument be mailed to City at the address for notices under this Agreement. Any Lender relying on the protections set forth in this Article 5 must send to City a copy of any notice of default and notice of sale.

(c) Lender's Option to Cure Defaults. After receiving any notice of failure to cure referred to in Section 5.1(b), each Lender will have the right, at its option, to commence within the same period as Developer to remedy or cause to be remedied any Developer Event of Default, plus an additional period of: (a) sixty (60) days to cure a monetary Event of Default; and (b) one hundred twenty (120) days to cure a non-monetary Event of Default which is susceptible of cure by the Lender without obtaining possession to the applicable property. If a Developer Event of Default is not cured within the applicable cure period, City nonetheless will refrain from exercising any of its remedies with respect to the event of default if, within the Lender's applicable cure period: (i) the Lender notifies City that it intends to proceed with due diligence to foreclose the Security Instrument or otherwise obtain possession of the subject property; and (ii) the Lender commences foreclosure proceedings within sixty (60) days after giving such notice, and thereafter diligently pursues such foreclosure to completion; and (iii) after obtaining possession, the Lender diligently proceeds to cure those events of default: (A) which are required to be cured by the Lender and are susceptible of cure by the Lender, and (B) of which the Lender has been given notice by City.

(d) Lender Benefits and Obligations with Respect to the Hotel Site. Notwithstanding anything to the contrary in this Agreement, no Lender will have any obligations or other liabilities under this Agreement unless and until it acquires a leasehold interest by any method to all (and not just a portion) of the real property comprising the Hotel Site (referred to hereafter as "**Foreclosed Property**"). A Lender that, by foreclosure under a Security Instrument, acquires a leasehold interest to the Foreclosed Property will take such interest subject to all of the

terms and conditions of this Agreement, to the extent applicable to the Foreclosed Property, including any claims for payment or performance of obligations which are due as a condition to enjoying the benefits of this Agreement and will have all of the rights and obligations of Developer under this Agreement as to the Foreclosed Property. In no event will City have an obligation to make Incentive Payments to more than one Lender. Upon the occurrence and continuation of an uncured Developer Event of Default by a Lender or Transferee in the performance of any of the obligations to be performed by such Lender or Transferee pursuant to this Agreement, City will be afforded all its remedies for such uncured Developer Event of Default as provided in this Agreement.

(e) No Impairment of Security Instrument. No Developer Event of Default will invalidate or defeat the lien of any Security Instrument. No foreclosure of any Security Instrument or other lien will defeat, diminish, render invalid or unenforceable or otherwise impair Developer's rights or obligations under this Agreement or constitute a default under this Agreement.

(f) Cured Defaults by Lender. Upon the curing of any Developer Event of Default by any Lender within the time provided in this Article 5, City's right to pursue any remedies with respect to the cured Developer Event of Default will terminate.

(g) Collateral Assignment of Agreement. Developer will have the right to collaterally assign to any Lender all of its rights under this Agreement, and within twenty (20) days following Developer's written request, City will execute such documents (to the extent such documents are reasonably acceptable to City) as may be reasonably required by such Lender to perfect such collateral assignment and to allow such Lender to enforce the terms and conditions of this Agreement applicable to the Hotel Site, subject to such Lender acquiring a leasehold interest in the Property, and delivering to City an executed Assignment and Assumption Agreement reasonably acceptable to City that assumes Developer's obligations under this Agreement as they relate to the Property.

5.2 Landlord Protections.

(a) Termination of Lease. If the Lease terminates and Landlord takes possession of the Hotel Site during the term of this Agreement, Landlord may elect (but shall not be obligated) to assume all of Developer's right, title and interest in this Agreement, including any claims for payment or performance of obligations which are due after such assumption as a condition to enjoying the benefits of this Agreement and all of the rights and obligations of Developer under this Agreement, without City's consent as long as within the sixty (60) day period immediately following such termination of the Lease, Landlord (i) delivers a duly executed Assignment and Assumption Agreement to City, and (ii) records a new Hotel Operating Covenant against the Property pursuant to Section 8.15. Such Assignment and Assumption Agreement shall include Landlord's express agreement to assume, perform and observe, from and after the date of such assumption, all of the obligations, terms, and conditions of this Agreement, and shall be effective as of the date that the delivery and recording conditions in the foregoing sentence are both satisfied.

(b) Copy of Notice of Default and Notice of Failure to Cure to Landlord. Whenever City delivers any notice or demand to Developer with respect to any Developer Event

of Default, City will at the same time forward a copy of such notice or demand to Landlord if Landlord has previously made a written request to City for a copy of such notice or demand, at the last address of Landlord specified by Landlord in such notice. In addition, if such breach or default remains uncured for the period permitted under this Agreement, City will deliver a notice of such failure to cure such breach or default to Landlord at such applicable address if Landlord has previously made a written request to City for a copy of such notice. If City delays or fails to provide such notice required by this Section, the time allowed for Landlord to cure shall be extended by the number of days until such notice is given.

(c) Landlord's Option to Cure Defaults. After receiving any notice of failure to cure referred to in Section 5.2(b), Landlord will have the right, at its option, to commence to remedy or cause to be remedied any Developer Event of Default within the same period as Developer, plus an additional period of: (a) sixty (60) days to cure a monetary Event of Default; and (b) one hundred twenty (120) days to cure a non-monetary Event of Default which is susceptible of cure by Landlord without obtaining possession to the Hotel Site. If a Developer Event of Default is not cured within the applicable cure period, City nonetheless will refrain from exercising any of its remedies with respect to the event of default if, within the Landlord's applicable cure period: (i) Landlord notifies City that it intends terminate the Lease or otherwise obtain possession of the Property; and (ii) the Lease terminates within sixty (60) days after Landlord giving such notice; and (iii) after obtaining possession, Landlord diligently proceeds to cure those events of default: (A) which are required to be cured by Landlord and are susceptible of cure by Landlord, and (B) of which the Landlord has been given notice by City.

(d) Cured Defaults by Landlord. Upon the curing of any Developer Event of Default by Landlord within the time provided in this Article 5, City's right to pursue any remedies with respect to the cured Developer Event of Default will terminate.

ARTICLE 6 DEFAULT AND REMEDIES

6.1 Impossibility of Performance. The lack of performance by either Party shall not be deemed a default where performance is prevented due to a court order or final judgment is rendered in a lawsuit and all applicable appeal periods have expired.

6.2 Event of Default. For purposes of this Agreement, the following will constitute an event of default (an "**Event of Default**") under this Agreement: (i) the failure to make any payment within ninety (90) calendar days of when due, and (ii) the failure to perform or fulfill any other material term, provision, obligation, or covenant hereunder, and the continuation of such failure for a period of thirty (30) or more calendar days following a written notice of default that specifies the nature of the alleged failure and, where appropriate, the manner in which said failure satisfactorily may be cured (if at all), and a demand for compliance (a "**Notice of Default**"); provided that if a cure of a non-monetary default cannot reasonably be completed within thirty (30) calendar days, then it will not be considered an Event of Default if a cure is commenced within that thirty (30) calendar day period and diligently prosecuted to completion thereafter. If before the end of the applicable cure period the failure that was the subject of a Notice of Default is cured to the reasonable satisfaction of the Party that delivered such notice, such Party will issue a written acknowledgement to the other Party of the cure of such failure.

6.3 Remedies Upon Default; Specific Performance. Subject to, and as limited by, the provisions of Sections 6.3(a), upon the occurrence of an Event of Default, the non-defaulting party may seek any remedy available at law or in equity, including specific performance of this Agreement.

(a) Limited Damages. Developer agrees that City will not be liable to Developer for damages under this Agreement, and City agrees that Developer will not be liable to City for damages under this Agreement, and each covenants not to sue the other for or claim any damages under this Agreement and expressly waives its right to recover damages under this Agreement, except as follows: (1) either Party will have the right to recover actual damages only (and not consequential, punitive or special damages, each of which is hereby expressly waived) for a Party's failure to pay sums to the other Party when due under this Agreement, and (2) City will have the right to recover actual damages for Developer's failure to make any payment due under any indemnity in this Agreement. In no event shall any remedy include recovery of attorneys' fees. Both Parties maintain an obligation to mitigate damages to the extent reasonably possible.

(b) No Waiver; Rights and Remedies Cumulative. Failure by a Party to insist upon the strict or timely performance of any of the provisions of this Agreement by the other Party, irrespective of the length of time for which such failure continues, will not constitute a waiver of such Party's right to demand strict compliance by such other Party in the future. No waiver by a Party of any condition or failure of performance, including an Event of Default, will be effective or binding upon such Party unless made in writing by such Party, and no such waiver will be implied from any omission by a Party to take any action with respect to such failure. Except as otherwise provided, the rights and remedies of the Parties are cumulative, and the exercise or failure to exercise any right or remedy shall not preclude the exercise, at the same time or different times, of any right or remedy for the same default or any other default. If either Party fails to pay any amount due hereunder or commences (or becomes the subject of) any insolvency, liquidation, receivership, or any similar action, case or proceeding, the other Party shall have the right to exercise any remedies available to it at law or in equity (including, without limitation, the right of Developer to apply amounts in the Incentive Account to any such payments or any damages incurred by Developer as a result of such default or failure).

(c) Joint and Several Liability. If there is more than one Person that comprises any Person that is Developer (i.e., if more than one Person executes an Assignment and Assumption Agreement as Developer), the obligations and liabilities under this Agreement imposed on each such Person will be joint and several.

ARTICLE 7 REPRESENTATIONS, WARRANTIES AND COVENANTS

7.1 Interest of Developer; Due Organization and Standing. Developer represents and warrants that (i) the Lease was duly and validly executed and delivered by Developer and remains in full force and effect, (ii) the Lease has not been modified or amended in any way, and (iii) to Developer's actual knowledge, Developer is not in default under the Lease nor has any event occurred that, with the giving of notice and passage of time, would become an event of default by Developer under the Lease, (iv) Developer is a Delaware limited liability company, (v) Developer

has all requisite power and authority to conduct its business as presently conducted, (vi) Developer has made all required state filings required to conduct business in the State of California and is in good standing in the State of California, (vii) Developer has extensive experience in developing commercial real estate projects, and (viii) there are no liens encumbering the Developer's leasehold interest in the Property. For purposes hereof, the phrase "to Developer's actual knowledge" shall mean the actual knowledge of Todd Chapman and includes information obtained by Todd Chapman. Developer represents that this is the person within Developer's organization that has the most knowledge of the Lease and therefore is in the best position to give these representations.

7.2. No Conflict with Other Agreements; No Further Approvals; No Suits. Developer warrants and represents that it is not a party to any other agreement that would conflict with Developer's obligations under this Agreement. Neither Developer's articles of organization, bylaws, or operating agreement, as applicable, nor any other agreement or Law in any way prohibits, limits, or otherwise affects the right or power of Developer to enter into and perform all of the terms and covenants of this Agreement. No consent, authorization, or approval of, or other action by, and no notice to or filing with, any governmental authority, regulatory body or any other person is required for the due execution, delivery, and performance by Developer of this Agreement or any of the terms and covenants contained in this Agreement. To Developer's knowledge, there are no pending or threatened suits or proceedings or undischarged judgments affecting Developer or any of its members before any court, governmental agency, or arbitrator which might materially adversely affect Developer's business, operations, or assets or Developer's ability to perform under this Agreement.

7.3. No Inability to Perform; Valid Execution. Developer warrants and represents that it has no knowledge of any inability to perform its obligations under this Agreement. The execution and delivery of this Agreement and the agreements contemplated hereby by Developer have been duly and validly authorized by all necessary action. This Agreement will be a legal, valid, and binding obligation of Developer, enforceable against Developer in accordance with its terms.

7.4. Conflict of Interest. Through its execution of this Agreement, Developer acknowledges that it is familiar with the provisions of Section 15.103 of the City's Charter, Article III, Chapter 2 of the City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the California Government Code, and certifies that it does not know of any facts which constitute a violation of said provisions and agrees that it will immediately notify City if it becomes aware of any such fact during the Term.

7.5. Notification of Limitations on Contributions. Through its execution of this Agreement, Developer acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with City, whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contribution to (1) the City elective officer, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual or candidate, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for that contract or twelve (12) months after the date that contract is approved. San Francisco Ethics Commission Regulation 1.126-1 provides that negotiations are commenced when a prospective contractor first communicates with a City officer or employee about the possibility of obtaining a specific contract. This communication may occur

in person, by telephone or in writing, and may be initiated by the prospective contractor or a City officer or employee. Negotiations are completed when a contract is finalized and signed by City and the contractor. Negotiations are terminated when City and/or the prospective contractor end the negotiation process before a final decision is made to award the contract. Developer acknowledges that (i) the prohibition on contributions applies to Developer, each member of Developer's board of directors, Developer's chief executive officer, chief financial officer and chief operating officer, any person with an ownership interest of more than ten percent (10%) in Developer, any subcontractor listed in the contract, and any committee that is sponsored or controlled by Developer, and (ii) within thirty (30) days of the submission of a proposal for the contract, the City department seeking to enter into the contract must notify the Ethics Commission of the parties and any subcontractor to the contract. Additionally, Developer certifies it has informed each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126 by the time it submitted a proposal for the contract to City, and has provided the names of the persons required to be informed to the City department seeking to enter into that contract within thirty (30) days of submitting its contract proposal to the City department receiving that submittal, and acknowledges the City department receiving that submittal was required to notify the Ethics Commission of those persons.

7.6. Other Documents. No document furnished or to be furnished by Developer to City in connection with this Agreement contains or will contain to Developer's actual knowledge any untrue statement of material fact or omits or will omit a material fact necessary to make the statements contained therein not misleading under the circumstances under which any such statement will have been made.

7.7. No Suspension or Debarment. Neither Developer, nor any of its officers, have been suspended, disciplined, or debarred by, or prohibited from contracting with, the U.S. General Services Administration or any federal, state, or local governmental agency.

7.8. No Bankruptcy. Developer represents and warrants to City that Developer has neither filed nor is the subject of any filing of a petition under the federal bankruptcy law or any federal or state insolvency laws or laws for composition of indebtedness or for the reorganization of debtors, and, to the best of Developer's knowledge, no such filing is threatened.

ARTICLE 8 GENERAL PROVISIONS

8.1 Notices Demands and Communications. Any notice or communication required or authorized by this Agreement will be in writing and may be delivered personally or by registered mail, with return receipt requested. Notice, whether given by personal delivery or registered mail, will be deemed to have been given and received upon the actual receipt by any of the addressees designated below as the person to whom notices are to be sent. Either Party to this Agreement may at any time, upon written notice to the other Party, designate any other person or address in substitution of the person or address which such notice or communication will be given. Such notices or communications will be given to the Parties at their addresses or email addresses set forth below:

To City:

Anne Taupier
Executive Director
Office of Economic and Workforce Development
1 Dr. Carlton B. Goodlett Place, Room 448
San Francisco, California 94102
Re: Hearst Hotel Incentive Agreement

with a copy to:

David Chiu, Esq.
City Attorney
City Hall, Room 234
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102
Attn: RE/Finance Team
Re: Hearst Hotel Incentive Agreement

To Developer:

Bespoke Hospitality, LLC
c/o JMA ventures
5 Third Street, Suite 900
San Francisco, CA 94103

with a copy to:

Jim Abrams, Esq.
J. Abrams Law, P.C.
538 Hayes Street
San Francisco, California, 94102

8.2 Nondiscrimination. In the performance of this Agreement, Developer agrees not to discriminate against any employee, City employee working with Developer's contractor or subcontractor, applicant for employment with such contractor or subcontractor, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability, Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

8.3 Non-Liability of Officials, Employees and Agents. Notwithstanding anything to the contrary in this Agreement, no individual board member, director, commissioner, officer, employee, official or agent of City (collectively, the "**City Parties**") will be personally liable to Developer, its successors and assigns, in the event of any City Event of Default, or for any amount which may become due to Developer, its successors and assigns, under this Agreement.

8.4 Excusable Delay. In the event of changes in State or Federal Laws or regulations, City's failure to issue building permits or other approvals necessary to construct the Project in its regulatory capacity within the City's standard or customary time period for such issuance following Developer's submittal of a complete permit or approval application together with any required materials, delays in Developer's receipt of allocated tax credits under the State Historic Rehabilitation Tax Credit program that are not caused by Developer's failure to comply with all requirements for such allocation, inclement weather, delays due to strikes, inability to obtain materials, civil commotion, war, acts of terrorism, fire, acts of God, litigation, government shutdowns, tariffs, trade embargos, epidemics, pandemics, or quarantine restrictions, or other circumstances that are beyond the reasonable control of a Party, not proximately caused by the acts or omissions of that Party, and substantially interfere with that Party's performance of any of its obligations under this Agreement (each, an "**Excusable Delay**"), then the delayed Party shall notify the other Party in writing of such occurrence as soon as possible after becoming aware that it may result in an Excusable Delay, describing the manner in which it substantially interferes with the delayed Party's ability to perform under this Agreement. Commencing upon such notice, the time or times for performance of the delayed obligation described in that notice will be extended for the remaining period of the Excusable Delay.

8.5 Estoppel Certificates. Either Party to this Agreement will, promptly upon the written request of the other Party, execute, acknowledge, and deliver to or for the benefit of the other party a certificate certifying: (i) that this Agreement is in full force and effect, (ii) that this Agreement has not been amended or modified either orally or in writing, or if so amended or modified, identifying the amendments or modifications and stating their date and, if applicable, recording information, (iii) whether there is any existing City Event of Default or Developer Event of Default in the performance of its obligations under this Agreement on the part of the Party requesting the certificate, or if there is such an event of default, a description of the nature and amount of that event of default, and (iv) such other matters as may be reasonably requested. The OEWD Director shall issue any estoppel on behalf of City. If Developer requests that City certify as to any additional reasonably-requested matters, City will confer and work expeditiously and in good faith with Developer to provide such certification that is reasonably satisfactory to Developer and any Lender, provided that the OEWD Director shall certify only as to their actual knowledge, and City shall not have any obligation to certify as to any such matters that are unreasonable, overly broad, inconsistent with this Agreement, involve legal conclusions, or are subjective in nature. The OEWD Director, acting on behalf of City, shall execute and return a certificate addressing items (i)-(iii) (the "**Required Certifications**") within thirty (30) days following receipt of the request (the "**Estoppel Outside Date**"). If the OEWD Director fails to execute and return such certificate on or before the Estoppel Outside Date, the OEWD Director, acting on behalf of City, shall be deemed to have certified to Developer and any Lender that the Required Certifications as stated in the submitted certificate are true and correct as of the Estoppel Outside Date. Each Party acknowledges that any Lender, acting in good faith, may rely upon such a certificate. A certificate provided by City under this Section shall, at the Lender's request, be in recordable form and may be recorded with respect to the affected portion of the Property subject to that Lender's security interest by the requesting Lender at its expense.

8.6 Applicable Law and Venue. This Agreement has been executed and delivered in and will be interpreted, construed, and enforced in accordance with the laws of the State of California. All rights and obligations of the Parties under this Agreement are to be performed in

the City and County of San Francisco. The Superior Court for the City and County of San Francisco will be the venue for any legal action or proceeding that may be brought, arise out of, in connection with, or by reason of, this Agreement, provided neither party waives its right to remove a case to the appropriate federal court.

8.7 Severability. If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions of this Agreement will continue in full force and effect unless enforcement of the remaining portions of the Agreement would be unreasonable or grossly inequitable under all the circumstances or would frustrate a fundamental purpose of this Agreement.

8.8 Binding Upon Successors; Covenants to Run With Leasehold Interest. All of the provisions, agreements, rights, powers, standards, terms, covenants and obligations contained in this Agreement shall be binding upon the Parties and, subject to Article 4 above, their respective heirs, successors (by merger, consolidation, or otherwise) and assigns, and all persons or entities acquiring Developer's interest in the Hotel Site, whether by sale, operation of law, or in any manner whatsoever, and shall inure to the benefit of the Parties and their respective heirs, successors (by merger, consolidation or otherwise) and assigns. All provisions of this Agreement shall be enforceable during the term of this Agreement as equitable servitudes and constitute covenants and benefits running with Developer's leasehold interest in the Property pursuant to applicable Law, including but not limited to California Civil Code Section 1468.

8.9 Relationship of Parties. City has no interest in, responsibility for, or duty to third persons concerning the Project. Developer will exercise full dominion and control over the Hotel Site, subject only to the limitations and obligations of Developer contained in this Agreement and the Lease. Nothing contained in this Agreement, or in any document executed in connection with this Agreement, will be construed as creating a joint venture or partnership between City and Developer. Neither Party is acting as the agent of the other Party in any respect hereunder. Developer is not a state or governmental actor with respect to any activity conducted by Developer hereunder. There are no third -party beneficiaries to this Agreement.

8.10 Entire Understanding of the Parties. This Agreement, including the ancillary agreements attached to this Agreement, constitutes the entire understanding and agreement of the Parties with respect to the subject matter hereof. There are no oral or written representations, understandings or ancillary covenants, undertakings or agreements which are not contained or expressly referred to herein.

8.11 Discretion Retained By City. City's approval in its proprietary capacity under this Agreement in no way limits the regulatory discretion of City in the permit and approval process in connection with the Hotel.

8.12 Counterparts. This Agreement may be executed in counterparts and multiple originals.

8.13 Survival. Following expiration of the term of this Agreement, this Agreement will be deemed terminated and of no further force and effect, except for any provision that, by its express terms, survives the expiration or termination of this Agreement.

8.14 Amendments. This Agreement may only be amended in writing and signed by both Parties. Any amendment to this Agreement that does not constitute a Material Change may be agreed to by the OEWD Director, after consultation with City's Controller and the City Attorney. Any amendment that is a Material Change will require the approval of the OEWD Director, City's Controller, and the Board of Supervisors. The determination of whether a proposed change constitutes a Material Change shall be made, on City's behalf, by the OEWD Director following consultation with the City Attorney's Office. Any amendments, modifications, or supplements to this Agreement required as a matter of tax law compliance for City or Developer will be made as a matter of the Parties performing a ministerial duty, and is subject to any approval that may be required from the City's Board of Supervisors.

8.15 Recordation of Hotel Operating Covenant. Developer shall obtain Landlord's consent to record the Hotel Operating Covenant against Developer's leasehold interest in the Property in the Official Records of City and County of San Francisco, in the form of Exhibit B attached hereto and incorporated herein by this reference. Developer shall cause the Hotel Operating Covenant to be recorded in the Official Records of San Francisco County prior to the Hotel Completion Date. If the Lease terminates and Landlord assumes this Agreement pursuant to Section 5.2, then on or before the effective date of such assumption, Landlord shall record a new Hotel Operating Covenant in the Official Records of San Francisco County, modified to (i) reflect Landlord's fee ownership of the Property and (ii) be between City and Landlord.

8.16 Construction of Agreement. The Parties have mutually negotiated the terms and conditions of this Agreement, and its terms and provisions have been reviewed and revised by legal counsel for both City and Developer. Accordingly, no presumption or rule that ambiguities will be construed against the drafting Party will apply to the interpretation or enforcement of this Agreement and the Parties waive the effect of Section 1654 of the California Civil Code. Language in this Agreement will be construed as a whole and in accordance with its true meaning. Wherever in this Agreement the context requires, references to the masculine will be deemed to include the feminine and the neuter and vice-versa, and references to the singular will be deemed to include the plural and vice versa. Unless otherwise specified, whenever in this Agreement, including its Exhibits, reference is made to any Recital, Article, Section, Exhibit, Schedule or defined term, the reference will be deemed to refer to the Recital, Article, Section, Exhibit, Schedule or defined term of this Agreement. Any reference in this Agreement to a Recital, an Article or a Section includes all subsections and subparagraphs of that Recital, Article or Section. Article, Section and other headings and the names of defined terms in this Agreement are for the purpose of convenience of reference only and are not intended to, nor will they, modify or be used to interpret the provisions of this Agreement. Each Exhibit to this Agreement is incorporated in this Agreement and made a part hereof as if set forth in full. Each reference to an Exhibit in this Agreement will mean that Exhibit as it may be updated or amended from time to time in accordance with the terms of this Agreement. Except as otherwise explicitly provided herein, the use in this Agreement of the words "including", "such as" or words of similar import when accompanying any general term, statement or matter will not be construed to limit such term, statement or matter to such specific terms, statements or matters. In the event of a conflict between the Recitals and the remaining provisions of this Agreement, the remaining provisions will prevail. Statements and calculations in this Agreement beginning with the words "for example" or words of similar import are included for the convenience of the Parties only, and in the event of a conflict between such statements or calculations and the remaining provisions of this Agreement, the remaining provisions will prevail.

Words such as “herein”, “hereinafter”, “hereof,” “hereby” and “hereunder” and the words of like import refer to this Agreement, unless the context requires otherwise.

8.17 Indemnity.

(a) Developer will, to the maximum extent permitted by law, indemnify, defend, reimburse, and hold harmless City and the City Parties from and, if requested, will defend them against any and all actual losses, out-of-pocket costs (including but not limited to City staff time), damages (excluding punitive damages), injury, liability, and claims (collectively, “Losses”) arising or resulting directly or indirectly from (i) any challenge to any portion of this Agreement, including but not limited to any challenge to City's action regarding the approval of this Agreement or the funding under this Agreement, including the Tax Confidentiality Waivers and Government Code Disclosure Requirements; (ii) any third-party claim arising from a Developer Event of Default under this Agreement; (iii) injury to or death of a person, including members of the public, at the Hotel; and (iv) any dispute between Developer and any Lender, Transferee, Hotel Operator, or any subsequent lessee of the Property relating to any assignment of this Agreement, the obligations that run with the Developer’s leasehold interest in the Property, or any dispute between Developer and any Transferee or other person relating to which party is responsible for performing certain obligations under this Agreement, each regardless of the negligence of and regardless of whether liability without fault is imposed or sought to be imposed on City or any of City Parties, except to the extent that (1) any of the foregoing indemnification obligations is void or otherwise unenforceable under applicable Law, (2) such Loss is the result of the sole negligence, willful misconduct, or fraud of any City Party, or (3) such Loss is the result of a City Event of Default to the extent Developer is the prevailing party in any legal action brought by Developer against City for that City Event of Default.

(b) All indemnifications set forth in this Agreement will survive for a period lasting the later of two (2) years after the expiration or termination of this Agreement or the expiration of the statute of limitations or statute of repose applicable to a particular third-party claim, to the extent such indemnification obligation arose from an event occurring before the expiration or termination of this Agreement. To the extent the indemnifications relate to Developer’s obligations that survive the expiration or termination of this Agreement, the indemnifications will survive for the term of the applicable obligation plus two (2) years.

(c) In the event of any action or proceeding subject to indemnification, reimbursement, hold harmless or defense under this Agreement, the Parties shall cooperate in defending against such action or proceeding. The City shall promptly notify Developer of any such action or proceeding instituted against City.

(d) The indemnity in Section 8.18(a) shall include reasonable attorneys’ fees and costs and the City’s reasonable cost of investigating any claims against the City or the City Parties.

8.18 MacBride Principles. City urges companies doing business in Northern Ireland to move toward resolving employment inequities and encourages them to abide by the MacBride Principles as expressed in San Francisco Administrative Code Section 12F.1 et seq. City also urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

Developer acknowledges that it has read and understands the above statement of City concerning doing business in Northern Ireland.

8.19 Tropical Hardwood and Virgin Redwood. City urges companies not to import, purchase, obtain or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood, or virgin redwood wood product, except as expressly permitted by the application of Sections 802(b) and 803(b) of the San Francisco Environment Code.

8.20 Effectiveness of this Agreement. This Agreement is dated for convenience only and will only become effective on the date on which this Agreement is executed and delivered (the “**Effective Date**”).

8.21 Controller’s Certification of Funds. The terms of this Agreement are governed by and subject to Article XVI, section 18 of the California Constitution and the budgetary and fiscal provisions of City’s Charter. City’s obligations for the payment or expenditure of money by City under this Agreement are subject to the requirement under Section 3.105 of the City’s Charter that the Controller of the City and County of San Francisco first certifies that there is a valid appropriation from which the expenditure may be made and that unencumbered funds are available from the appropriation to pay the expenditure.

8.22 Further Assurances. Each Party will execute and deliver such further documents, papers and instruments and take such further action as is necessary, appropriate or helpful as the other Party may reasonably request in order to carry out the purposes, effect and intent of this Agreement.

8.23 Time of the Essence. Time is of the essence for each provision of this Agreement of which time is an element.

8.24 Effect on Other Party’s Obligation. If Developer’s or City’s performance is excused or the time for its performance is extended under any extension of time permitted in this Agreement, the performance of the other Party that is conditioned on such excused or extended performance is excused or extended to the same extent.

[Signatures appear on the following page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first above written.

CITY

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: _____
Anne Taupier
Executive Director,
Office of Economic and Workforce Development

Approved on _____
Board of Supervisors Ordinance No. _____

Approved as to form:
David Chiu, City Attorney

By: _____
Carol Wong
Deputy City Attorney

DEVELOPER

BESPOKE HOSPITALITY, LLC, a Delaware limited liability company

By: _____
Name: _____
Title: _____

Exhibits

<u>Exhibit A</u>	Legal Description of Property
<u>Exhibit B</u>	Form of Hotel Operating Covenant
<u>Exhibit C</u>	Schedule of Milestones
<u>Exhibit D</u>	Schedule of Projected Incentive Payments
<u>Exhibit E</u>	Form of Tax Confidentiality Waiver

EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY

THE LAND SITUATED IN THE CITY OF SAN FRANCISCO, COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA AND IS DESCRIBED AS FOLLOWS:

Parcel One:

Beginning at a point on the Northeasterly line of Third Street, distant thereon 40 feet Northwesterly from the Northwesterly line of Stevenson Street; running thence Northwesterly along the Northeasterly line of Third Street 63 feet and 3-1/4 inches to an angle point therein; thence Northerly along the Easterly line of third Street 69 feet and 11 inches to the Southeasterly line of Market Street; thence Northeasterly along the Southeasterly line of Market Street 56 feet and 7-3/4 inches to a point distant thereon 142 feet and 6 inches Southwesterly from the Southwesterly line of Annie Street; thence at a right angle Southeasterly 160 feet to the Northwesterly line of Stevenson Street; thence Southwesterly along said line of Stevenson Street 40 feet to a point distant thereon 57 feet and 6 inches Northeasterly from the Northeasterly line of Third Street; thence at a right angle Northwesterly 40 feet; thence at a right angle Southwesterly 57 feet and 6 inches to the point of beginning.

Parcel Two:

Commencing at the Northeast corner of Stevenson and Third Streets, running thence Northwest along Third Street forty (40) feet; thence Northeast at right angles fifty-seven feet and six inches (57 feet and 6 inches);thence Southeast at right angles forty (40) feet to Stevenson Street; thence Southwest along Stevenson Street fifty-seven feet and six inches (57 feet and 6 inches) to the place of beginning.

Being a portion of One Hundred Vara Lot Number Twenty-Four.

EXHIBIT B

FORM OF HOTEL OPERATING COVENANT

RECORDING REQUESTED BY
CLERK OF THE BOARD OF SUPERVISORS OF
THE CITY AND COUNTY OF SAN FRANCISCO

(Exempt from Recording Fees Pursuant to
Government Code Section 27383)

AND WHEN RECORDED MAIL TO:

Angela Calvillo, Clerk of the Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Assessor's Parcel Numbers:

HOTEL OPERATING COVENANT

This HOTEL OPERATING COVENANT (this "**Covenant**") is made as of this ___ day of _____, 202_, by and between THE CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation ("**City**") and _____, a _____ ("**Developer**"), pursuant to that certain Hotel Development Incentive Agreement dated as of _____, 202_ (the "**Agreement**") by and between the City and Developer. The Agreement is a component of a mixed-use hotel development project in San Francisco. Unless otherwise specified in this Covenant, definitions and rules of interpretation are as provided in the Agreement.

Developer is the ground lessee of the real property described in the attached Exhibit A (the "**Hotel Site**"). The Agreement provides monetary incentives to Developer from City in connection with development of the Project, including the Hotel, and requires that this Covenant be recorded against the Hotel Site prior to the Hotel Completion Date. In consideration of the rights and obligations pursuant to the Agreement, the monetary incentives provided pursuant to the Agreement, and for other good and valuable consideration, Developer hereby enters this Covenant to restrict the use and operation of the Hotel Site and to provide notice to interested parties of the following restrictions:

- Any Hotel Operator, as defined in Section 501(a) of the San Francisco Business and Tax Regulations Code (each, a "**Hotel Operator**"), that operates any portion of the Hotel shall maintain the Hotel in good and clean condition, repair and working order, including any walkways, driveways, parking areas, and landscaping that are within the Hotel Site or within the reasonable control of the Hotel Operator,

and from time to time make all necessary and proper repairs, renewals, and replacements commensurate with a high-quality hotel.

- Any Hotel Operator shall comply in all material respects with the obligations of Developer and Hotel Operator relating to Tax Confidentiality Waivers and Government Code Disclosures pursuant to Section 3.4 of the Agreement.
- Any Hotel Operator shall not discriminate against any employee, City employee working with Hotel Operator's contractor or subcontractor, applicant for employment with such contractor or subcontractor, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability, Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

Notwithstanding the foregoing, the obligations of this Covenant shall not apply to Hotel Operator if the Hotel is damaged or destroyed or there occurs an event of Excusable Delay as described in the Agreement (including, without limitation, a condemnation event) that precludes the operation of the Hotel and Developer takes commercially reasonable steps to repair and restore the Hotel (to the extent that insurance proceeds are available for such restoration) or to address the force majeure event within a reasonable period of time.

All provisions of this Covenant shall be enforceable against the applicable Hotel Operator during the City Financial Assistance Term as equitable servitudes and constitute covenants and benefits running with Developer's leasehold interest in the Property pursuant to applicable law, including but not limited to California Civil Code Section 1468. This Covenant shall be binding upon and inure to any successor or assigns of Developer that is a Hotel Operator. This Covenant may not be modified by Developer (including any Hotel Operator) without the express written consent of City pursuant to Section 8.15 of the Agreement. Upon Hotel Operator's assignment of its right, title, or interest in the Hotel Site, such Hotel Operator shall be automatically released from any prospective obligation or liability under this Covenant to the extent the transferee assumes such obligations. Upon the termination of the City Financial Assistance Term, this Covenant shall terminate and be of no further force or effect. Upon Developer's written request and following the expiration of the City Financial Assistance Term, City shall execute and deliver a notice of termination of this Covenant, in recordable form and substance reasonably acceptable to Developer and City.

This Covenant may be executed in multiple originals, each of which is deemed to be an original, and may be signed in counterparts.

Draft (12-11-25)

IN WITNESS WHEREOF, City and Developer have caused this Covenant to be executed by their duly authorized representatives.

CITY:

CITY AND COUNTY OF SAN FRANCISCO,
a municipal corporation

By: _____
Anne Taupier
Executive Director, Office of
Economic and Workforce Development

Approved as to form:
David Chiu, City Attorney

Approved on _____
Board of Supervisors Ordinance No. _____

By: _____
Carol Wong
Deputy City Attorney

DEVELOPER:

[_____] a [_____] limited
liability company

By: _____
Name: _____
Title: _____

EXHIBIT A TO HOTEL OPERATING COVENANT

LEGAL DESCRIPTION OF HOTEL SITE

THE LAND SITUATED IN THE CITY OF SAN FRANCISCO, COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA AND IS DESCRIBED AS FOLLOWS:

Parcel One:

Beginning at a point on the Northeasterly line of Third Street, distant thereon 40 feet Northwesterly from the Northwesterly line of Stevenson Street; running thence Northwesterly along the Northeasterly line of Third Street 63 feet and 3-1/4 inches to an angle point therein; thence Northerly along the Easterly line of third Street 69 feet and 11 inches to the Southeasterly line of Market Street; thence Northeasterly along the Southeasterly line of Market Street 56 feet and 7-3/4 inches to a point distant thereon 142 feet and 6 inches Southwesterly from the Southwesterly line of Annie Street; thence at a right angle Southeasterly 160 feet to the Northwesterly line of Stevenson Street; thence Southwesterly along said line of Stevenson Street 40 feet to a point distant thereon 57 feet and 6 inches Northeasterly from the Northeasterly line of Third Street; thence at a right angle Northwesterly 40 feet; thence at a right angle Southwesterly 57 feet and 6 inches to the point of beginning.

Parcel Two:

Commencing at the Northeast corner of Stevenson and Third Streets, running thence Northwest along Third Street forty (40) feet; thence Northeast at right angles fifty-seven feet and six inches (57 feet and 6 inches);thence Southeast at right angles forty (40) feet to Stevenson Street; thence Southwest along Stevenson Street fifty-seven feet and six inches (57 feet and 6 inches) to the place of beginning.

Being a portion of One Hundred Vara Lot Number Twenty-Four.

EXHIBIT C

SCHEDULE OF MILESTONES

Milestone	Timing
Effective Date of Incentive Agreement	_____, 20__
City designates administrating department for Incentive Agreement	One (1) year anniversary of Incentive Agreement Effective Date
Developer provides notice to City of anticipated Hotel opening	At least eighteen (18) months prior to the Hotel opening to the general public, which shall be no earlier than the issuance of the First Certificate of Occupancy
Hotel opens to the general public	
Hotel Completion Date	The first day of the calendar month following the calendar month in which the Hotel opens for business to the general public
Target Completion Date	_____ [5 years after agreement execution]
City Financial Assistance Term	Begins on the Hotel Completion Date and continues for a period of twenty (20) years
First Disbursement Payment Period	Begins on the Hotel Completion Date, and ends on the next occurring December 31 st , March 31 st , June 30 th , or September 30 th

EXHIBIT D
SCHEDULE OF PROJECTED INCENTIVE PAYMENTS

Year After Hotel Completion Date	Projected Incentive Payments *
1	\$1,130,922
2	\$3,135,342
3	\$3,427,110
4-20 **	Escalate 3% each year from Year 3 projected payment
Incentive Payment Cap (NPV @ 9%)	\$40,000,000

* City Deposit and Incentive Payment Amounts to be adjusted as described in Article 2.

** City Financial Assistance Term will expire prior to twenty (20) years if Incentive Payment Cap is reached as described in Section 2.3.

EXHIBIT E
FORM OF TAX CONFIDENTIALITY WAIVER

WAIVER OF CONFIDENTIALITY

Taxpayer Name: [Hotel Operator]

Business Account Number: [Business Account Number]

Location Identification Number: [Identification Number]

Hotel Address: [Address]

The taxpayer identified above hereby waives confidentiality under San Francisco Business and Tax Regulations Code Section 6.22-1 and any other law of the amount of Transient Occupancy Taxes remitted to the Office of the Treasurer and Tax Collector between [DATE] and [DATE], for the purposes described in the Hotel Development Incentive Agreement ("Agreement"), attached as Exhibit A, including without limitation, for the purpose of calculating the Incentive Payments under the Agreement and the purpose of satisfying the requirements applicable to economic development subsidy payments set forth in Section 53083 of the California Government Code. The Office of the Treasurer and Tax Collector may disclose such information to any individual or entity that City and County of San Francisco determines requires the information to satisfy the purposes in the Agreement.

I certify under penalty of perjury that I have the authority to execute this form on behalf of the taxpayer.

Date

Name of Taxpayer

Signature

Printed Name

Title



Memorandum

To: Andrea Granados, JMA Ventures LLC

From: Benjamin C. Sigman and Bryan Isaac, Economic & Planning Systems

Subject: Hearst Hotel Fiscal and Economic Impact Analysis
EPS #251079

Date: January 26, 2026

This memorandum describes the methodology and results of a Fiscal Impact Analysis (FIA) and Economic Impact Analysis (EIA) of the proposed Hearst Hotel Project (“Project”) in the City and County of San Francisco (CCSF). The Project would redevelop an existing office building as a new 113-room hotel with a roof deck and ground level restaurant and retail. To incentivize the Project, CCSF is contemplating the use of a 20-year Transient Occupancy Tax (TOT) rebate. The FIA considers the fiscal impact of the Project during the TOT incentive rebate period and after the incentive rebate has ended. The EIA evaluates one-time and ongoing economic benefits from the Project.

Economic & Planning Systems, Inc. (EPS) prepared the analysis under contract with JMA Ventures LLC, the Project Sponsor. The FIA evaluates the Project at stabilization (i.e., built out and fully operational) and quantifies annual ongoing net redevelopment effects on the City’s General Fund and Municipal Transportation Agency (MTA) Fund budgets. The Project is compared to a baseline scenario which assumes a fully occupied office building in the absence of the proposed Project. Sources for the FIA include the CCSF Fiscal Year 2025/26 adopted Operating Budget and Project assumptions provided by the Project Sponsor. The fiscal analysis also estimates one-time CCSF revenues from Project construction. Economic impacts are generated based on the Project development budget and operational parameters, with economic impact multipliers (i.e., “ripple effects”) generated using the current IMPLAN model for San Francisco.

The following **Key Findings** highlight the Project’s estimated fiscal and economic impacts. Actual impacts will depend on a variety of factors that cannot be predicted with certainty, including market conditions, future changes in City or State budgeting, the efficiency of various CCSF departments in providing services, and other factors. The analysis presents all impact estimates in constant 2025 dollars.

Key Findings

1. The Project generates an ongoing net positive fiscal impact of roughly \$713,000 per year for the CCSF General Fund during the TOT incentive rebate period, increasing to \$2.9 million per year after the TOT incentive rebate expires.

Annual General Fund surpluses represent the net impact associated with increased CCSF revenues after deducting municipal service costs. Net fiscal benefits will be available to fund additional and improved services throughout the city. The most significant revenue source generated by the Project will be property tax, which accounts for approximately 65 percent of new General Fund revenue (before mandated General Fund requirements). After the TOT incentive rebate expires, TOT becomes the largest General Fund revenue source. Once the TOT rebate terminates, the net fiscal impact of the Project on the General Fund increases by approximately \$2.2 million annually. **Summary Table 1** and **Summary Table 2** compare the fiscal impacts of the Project with and without the TOT rebate, respectively.

Summary Table 1: Annual Fiscal Impact on CCSF General Fund (TOT Incentive Period) (2025\$)

Revenue / Expense Category	Baseline Existing Uses	Proposed Project	Net New
General Fund			
Annual General Fund Revenues	\$660,000	\$995,000	\$337,000
(Less) General Fund Baseline Requirements	<u>-\$189,000</u>	<u>-\$285,000</u>	<u>-\$97,000</u>
Annual General Fund Revenues After Baseline Funding	\$470,000	\$710,000	\$240,000
(Less) Annual General Fund Expenditures	<u>-\$579,000</u>	<u>-\$106,000</u>	<u>\$473,000</u>
Net Annual Impact on General Fund	-\$109,000	\$604,000	\$713,000

**Summary Table 2: Annual Fiscal Impact on CCSF General Fund
(Post TOT Incentive Period) (2025\$)**

Revenue / Expense Category	Baseline Existing Uses	Proposed Project	Net New
<u>General Fund</u>			
Annual General Fund Revenues	\$660,000	\$4,058,000	\$3,398,000
(Less) General Fund Baseline Requirements	<u>-\$189,000</u>	<u>-\$1,163,000</u>	<u>-\$974,000</u>
Annual General Fund Revenues After Baseline Funding	\$470,000	\$2,894,000	\$2,424,000
(Less) Annual General Fund Expenditures	<u>-\$579,000</u>	<u>-\$106,000</u>	<u>\$473,000</u>
Net Annual Impact on General Fund	-\$109,000	\$2,788,000	\$2,897,000

Note: Totals may not sum due to rounding.

2. The FIA finds that the Project is likely to generate additional net fiscal benefits for CCSF, including for San Francisco Municipal Transportation Agency, Special Revenue Funds, and for other CCSF “baseline” funding recipients, both during and after the TOT incentive period.

During the incentive period, the Project is estimated to generate approximately \$157,000 in net fiscal benefit to the MTA fund, increasing to about \$450,000 following the incentive period. The MTA fiscal benefit derives from the General Fund’s baseline funding requirement, which currently directs approximately 9.6 percent of CCSF Aggregate Discretionary Revenue (ADR) from the General Fund to the MTA. Additionally, the Project will net \$93,000 annually for the CCSF Special Revenue Funds, including the Park Recreation, and Open Space Fund, the Children’s Fund, and the Library Preservation Fund. Additional CCSF voter-approved “baseline” funding will also increase with the Project. In sum, General Fund, MTA Fund, Special Revenue Funds, and baseline funding allocations create net benefits attributable to the Project that total more than \$1.0 million per year during the incentive period and almost \$4.1 million per year after the TOT rebate has expired.

Summary Table 3: Combined Annual Fiscal Impact (2025\$)

Revenue / Expense Category	TOT Incentive Period (Years 1 - 20)	Post TOT Incentive Period (Years 21 Onward)
Net Annual Impact on General Fund	\$713,000	\$2,897,000
Net Impact on MTA	\$157,000	\$450,000
Revenue to Special Funds (1)	\$93,000	\$93,000
Other Voter-Approved Baseline Funding (2)	\$64,000	\$649,000
Total Fiscal Impact	\$1,028,000	\$4,090,000

Note: Totals may not sum due to rounding.

(1) Special Revenue Fund includes the Park, Recreation, and Open Space Fund, the Children's Fund, and the Library Preservation Fund.

(2) Other Voter-Approved Baselines include CCSF funding earmarks for Children's Services, Library Preservation, Street Tree, Early Care and Education, Housing Trust Fund, Recreation and Parks, Dignity Fund, and Student Success Fund.

- In addition to the ongoing fiscal benefits that accrue after Project stabilization, the Project will generate one-time sales fiscal benefits from construction, including sales tax and gross receipts tax revenue for CCSF that the FIA estimates at approximately \$784,000.**

Taxable sales of Project construction materials in San Francisco will CCSF General Fund revenue totaling an estimated \$292,000. Additionally, construction operations will be subject to the local gross receipts tax on business activity in San Francisco, resulting in an estimated \$492,000 in General Fund revenue. These one-time revenues will accrue to CCSF during the Project's development period.

- Once fully built out, the Project will support approximately 150 jobs and have a recurring economic impact of approximately \$42.6 million per year in the San Francisco economy.**

After completion of the development and full lease up, the Project Sponsor anticipates the Project will directly support about 100 jobs through the hotel, restaurant, and ground floor retail. Direct annual economic impacts attributable to the Project total about 121 jobs and \$32.6 million in economic activity, including on-site economic activities and hotel guest spending in the city. With multiplier effects, the Project's impact grows to an estimated 151 jobs with a recurring economic impact of roughly \$42.6 million per year in San

Francisco, as spending ripples through the local economy. **Summary Table 4** presents economic impact estimates attributable to the Project.

5. Development of the Project will support about 706 “job years” in San Francisco, including directly supporting roughly 586 job years and creating general additional multiplier effects in the city’s economy.

The EIA estimates that construction of the Project will directly support San Francisco-based jobs in construction, legal services, and architectural and engineering services. As shown in **Summary Table 4**, project construction over approximately two years would directly support an average of approximately 259 jobs. Construction-related employment would total an average of about 309 jobs citywide including multiplier effects. Estimated employee compensation (including benefits) for the direct full-time and part-time positions attributable to Project development is more than \$126,000 per job per year. With multiplier effects, the EIA finds that Project development would have a one-time economic impact of roughly \$206.6 million within the San Francisco economy.

Summary Table 4: Economic Impact Estimates (2025\$)

**Economic Impact of Stabilized Project Operations -
 Annual Recurring Economic Impact**

Fully Occupied Baseline

Economic Output

Direct Effect	\$32,567,000
Total Effect (w/ Multiplier)	\$42,610,000

Employment (Full-Time and Part-Time Jobs)

Direct Effect	121
Total Effect (w/ Multiplier)	151

**Economic Impact from Project Development -
 One-Time Economic Impact**

Aggregate Estimates (Total Development Impact)

Economic Output

Direct Effect	\$166,607,000
Total Effect (w/ Multiplier)	\$206,620,000

Employment (Job Years)

Direct Effect	586
Total Effect (w/ Multiplier)	706

Annual Estimates During Development Period (1)

Economic Output

Direct Effect	\$69,323,000
Total Effect (w/ Multiplier)	\$86,027,000

Employment (Average Jobs)

Direct Effect	259
Total Effect (w/ Multiplier)	309

(1) Assumes construction occurs over 2 years (annual estimate excludes pre-development impacts).

Fiscal Impact Analysis Assumptions and Methodology

This section describes the methodology and calculations underlying FIA and EIA estimates shown in the summary tables above. The memorandum describes the methodology and calculations below. The **Appendix** provides data tables detailing the analysis.

- **Table 1** provides an overview of the Project program and assumptions related to new building square footages by use.
- **Table 2** presents the detailed fiscal impact analysis results *without* the TOT revenues (i.e., stabilized fiscal impact during the incentive rebate period).
- **Table 3** presents the detailed fiscal impact analysis results *with* the TOT revenues (i.e., stabilized fiscal impact after the incentive rebate period has ended).
- **Table 4** provides building occupancy assumptions and calculation of the estimated municipal service population attributable to the Project.¹

Additional tables that follow detail supporting calculations for the Project during the TOT incentive rebate period, including both General Fund revenue calculations and General Fund cost calculations.

- **Table 5** summarizes CCSF General Fund revenues by line item and identifies estimating factors used in this FIA to quantify new revenues from Project development.
- **Table 6** provides assumptions related to the Project's anticipated assessed value, based on market assumptions provided to EPS by the Project Sponsor.
- **Table 7 and Table 8** show property tax and property tax in-lieu of vehicle license fee (VLF) revenue estimates, respectively. The calculations reflect that the CCSF's General Fund will collect about 56 percent of the base one percent property tax revenue growth, while the balance goes to CCSF special funds and other affected taxing entities (e.g., school and community college districts). Property tax in-lieu of VLF revenue growth is from the Project's pro rata contribution to total CCSF citywide assessed value, which increases property tax in-lieu of VLF by a proportionate amount.
- **Table 9** documents the assumptions and calculations for office worker, hotel guest, and on-site taxable spending. CCSF's General Fund receives one percent of net-

¹ This analysis is focused on the CCSF General Fund and relies on cost estimates for the CCSF "service population." Service population is calculated as the number of residents plus 50% of employees, an industry-accepted approach to evaluating per-capita demand for municipal services. The 50% weight applied to employees reflects their relatively lower demand for CCSF public services relative to residents.

new sales (i.e., the local Bradley-Burns Sales and Use Tax). Key sales tax revenue assumptions include:

- The hotel will operate at 66 percent occupancy on average and hotel guests will spend an average of \$150 per person per day on taxable retail goods. Assuming 1.5 guests per room, the analysis calculates spending of \$225 per day per occupied room. These assumptions were sourced from the Project Sponsor and San Francisco Travel Association data.
- The FIA estimates that on-site restaurant and ground floor retail produce a combined estimated \$9.1 million in taxable sales per year. The analysis further assumes that 20 percent of these revenues are redistributed from existing restaurants (i.e., 80 percent net new). To further avoid double counting of taxable sales the analysis assumes that 25 percent of guest spending in San Francisco occurs on site.
- **Table 10** documents the TOT revenue estimate for the Project (i.e., after the incentive period). In San Francisco, 1.5 percentage points of the TOT rate is allocated to the Arts & Culture fund, while the remaining amount is allocated to the General Fund. The portion allocated to the General Fund (i.e., 89.3 percent of the 14 percent TOT rate) will be allocated back to the Project during the first 20 years of Project operations.
- **Table 11** estimates the Parking Tax revenue generated by the 90 stalls available for valet in the neighboring Hearst Garage at 45 3rd Street. This analysis assumes parking spaces are occupied throughout the year, each at a rate of \$100 per night with a 20 percent average occupancy rate. The parking revenue assumption is based on estimates provided to EPS by the Project Sponsor.
- **Table 12 and Table 13** estimate gross receipts tax (GRT) revenue. The FIA relies on annual gross revenue generated for unique business categories and average employment per firm. Gross receipts taxes are only collected from businesses earning over a minimum of \$5 million of sales in a year in San Francisco. The FIA calculates gross receipts tax for the Project assuming one primary hospitality operation and an additional tenant are subject to the tax. In the analytical baseline, the majority of office spaces in the existing building are small (i.e., typically about 300 to 1,500 square feet) and unlikely to support businesses operations that generate \$5 million in San Francisco sales. Five existing office spaces on the rent roll provided to EPS by the Project Sponsor were large enough (i.e., over 2,500 square feet) and more likely to support business activity exceeding \$5 million in San Francisco. The baseline calculation includes gross receipts tax estimates for these five office spaces. San Francisco-specific data from IMPLAN and the Census Bureau's Economic Census inform calculations of effective tax rates based on CCSF's updated GRT tax schedules. Revenue and estimates of effective tax rate are applied to anticipated employment at the Project to estimate GRT.

- **Table 14** estimates CCSF's business registration revenue for the baseline (office and retail spaces) and for the Project. CCSF publishes a schedule of business registration fees based on a firm's gross receipts, which the analysis applies based on the revenue and average firm size estimate for each business category.
- **Table 15** estimates commercial rents tax revenues from office and retail rents. CCSF commercial rents tax rate is 3.5 percent of annual rental revenue, and 15 percent of commercial rents tax revenue is allocated to the General Fund.
- **Table 16** documents estimated CCSF utility users' tax revenues attributable to the Project. Revenue calculations are derived on a per-service population or per-employee basis, depending on the revenue stream. For example, the analysis relies on a per-service population approach to estimate Access Line Tax revenue since both households and businesses generally pay the tax.
- **Table 17** estimates mandated baseline funding requirements applied to CCSF General Fund revenues attributable to the Project. The total mandated funding requirements include defined shares of San Francisco's aggregate discretionary revenue (ADR)- General Fund revenue net of transfers, fees, and state and federal subventions – that are earmarked for MTA and other designated City functions and programs.
- **Table 18** summarizes the CCSF General Fund expenditures by department and documents the assumptions and calculations that inform new General Fund expenses attributable to the Project. The FIA relies on categorization of the likely budgetary response to employment growth, expressed in terms of "fixed expenses" and "variable expenses" within the department budget. The variable portion of each department budget is used to estimate per-capita (service population) costs. Per-service population cost factors are multiplied by the projected increase in service population generated by the Project. The proposed Project is not expected to generate new capital and technology, overhead, debt service, and other non-departmental expenditure requirements for the General Fund.
- **Table 19** presents an overview of the MTA fiscal impact analysis. MTA revenues considered by this analysis include the required baseline transfers to MTA from the General Fund. MTA cost impacts reflect only the portion of MTA Fund expenses supported by CCSF's General Fund contributions. The analysis assumes that other MTA funding sources beyond Project contributions to the CCSF General Fund, such as State and Federal support, MTA farebox recovery, and marketing revenues, increase proportionally with the expansion of the General Fund's contribution to the MTA Fund.
- **Table 20** documents the population, employment, and service population assumptions underlying the FIA. The metrics are sourced directly from the California Department of Finance and the US Census Bureau's American

Community Survey. EPS calculated San Francisco's service population by adjusting total employment by a factor of 0.5 to reflect the relatively lower municipal service burden attributable to local workers relative to residents.

- **Table 21** estimates the one-time sales tax revenues generated by the sales of construction materials for the Project in San Francisco. The analysis assumes that 35 percent of the construction project is taxable goods, and that 50 percent of those purchases are subject to sales tax in San Francisco.
- **Table 22** estimates the one-time Gross Receipts Tax revenue from the construction operations associated with the project. The analysis follows the same methodological approach used to estimate stabilized, recurring GRT (described for **Table 12** and **Table 13**). The annual GRT estimate is aggregated to reflect total GRT generated during the 2-year construction period.

Economic Impact Analysis

This section describes the methodology, data, and assumptions used to estimate economic impacts attributable to:

- (1) One-time Project development spending in San Francisco and
- (2) Ongoing annual Project-related economic activities in San Francisco.

This analysis evaluates the proposed Project's economic impact in the San Francisco economy using project data and the IMPLAN "Input/Output" (I/O) model of the local economy.² To inform economic impact modeling, EPS analyzed local development expenditures and Project tenanting assumptions to estimate economic impact metrics including direct employment, labor income, value added (a metric comparable to GDP), and economic output. Based on direct economic impact estimates, the IMPLAN model supports estimation of indirect and induced economic impacts, commonly referred to as "multiplier" or "ripple" effects in the local economy.

Developer spending in the local economy and on-site jobs attributable to the Project are referred to as the "direct effects." Based on these Project factors, the I/O model quantifies the additional multiplier effects that result as spending recirculates in the local economy. Multiplier effects are categorized as "indirect" and "induced." Indirect effects represent business spending while induced effects reflect the economic impact of employees' consumer spending. In this report, direct, indirect, and induced effects are defined as follows for Project impacts:

² IMPLAN is an Input-Output modeling system (software and data) that is widely used in the U.S. for estimating economic impacts across a wide array of industries and economic settings. IMPLAN draws upon data collected from state and federal sources, including the Bureau of Economic Analysis, Bureau of Labor Statistics, and the Census Bureau. For the purposes of this economic impact analysis, the "local" economy is defined as the City and County of San Francisco.

- **Direct Effect** is a measure of the economic value of the initial injection of spending into the economy, including one-time spending on development of the Project and recurring annual expenditures directly attributable to economic activities within the Project.
- **Indirect Effect** is a measure of the economic value of “upstream” industry-to-industry transactions that supply inputs to the production of goods and services consumed by the Project, including during Project development and from ongoing economic activity after the project is fully occupied.
- **Induced Effect** is a measure of the economic value of labor income that recirculates in the economy because of consumer spending by employees attributable to the Project, both during the development period and after project completion.
- **Total Effect** is the sum of the direct, indirect, and induced effects. The total economic effect measures the full impact of economy activity in San Francisco.

This analysis measures economic significance using well accepted economic metrics, including employment, labor income, output, and value added, as defined below.

- **Employment** is equivalent to total jobs count, including both part-time and full-time workers. For one-time impacts, employment is reported in “job years.” A job year is simply one job for one year, with total job years distributed over the time horizon of development.
- **Labor Income** represents payments to labor in the form of income and fringe benefits paid by the employer (e.g., health, retirement), as well as proprietor income.
- **Value Added** represents a contribution to gross regional product and equals the market value of the final goods and services produced within the local economy. Value added is equal to economic output, less the value of intermediate goods and services.
- **Economic Output** represents a measure of gross economic activity. Output includes spending on labor income as well as the value of intermediate inputs, such as equipment, supplies, insurance, rents, utilities, communication (i.e., the goods and services used in the production of final products).

One-Time Economic Impacts from Project Development

Development of the Project, including design, entitlement, and construction, supports local jobs and requires purchasing of materials and services which results in a one-time economic impact (i.e., this economic benefit concludes once the Project is delivered). Based on an estimate of local design and legal services spending along with the total construction

cost estimate reported by the Project Sponsor, the EIA relies on an IMPLAN model data for San Francisco to derive the one-time economic impact from development. These local spending estimates inform the number of jobs and economic activity attributable to development of the Project.

- **Table 23** presents assumptions regarding development spending in San Francisco. These inputs to the EIA include a \$138 million construction budget for the Project and approximately \$5.7 million in local spending on architecture, engineering, legal, and other professional services. The analysis derives local spending on Project “soft costs” from the Project Sponsor’s development budget. Local soft costs include design, architecture, engineering, and marketing costs.
- **Table 24** presents estimated one-time economic impact attributable to development of the proposed Project. The findings reflect over \$166 million in anticipated local spending. The estimated total one-time economic impact, including direct effects and multiplier effects, is about \$206 million in San Francisco. The EIA estimates that development of the proposed Project will directly support roughly 586 job years of employment with average total estimated labor income (including benefits) of more than \$126,000 per job per year. The average number of jobs supported by Project at any given time during development will depend on the development timeline, as discussed below.
- **Table 25** presents the economic impact from construction on an annual basis by accounting for the anticipated development timeline. Given current development assumptions, the Project will take roughly two years to construct. The analysis assumes that construction is spread over two years, during which time one-time construction spending will directly support about 259 jobs.³ The total impact in San Francisco includes an additional 50 jobs that result from multiplier effects in the local economy.

Recurring Economic Impacts from Project Operations

After development, the Project will support ongoing direct employment in entertainment, hospitality, and restaurant industries. In addition, the Project’s hotel guests will spend at San Francisco retailers, restaurants, and other local establishments.

- **Table 26** presents a summary of analytical inputs informing estimation of ongoing operational economic impacts. On-site economic activity is defined by anticipated employment across the business activities contained in the Project program. Associated economic output is determined using IMPLAN data for corresponding industry sectors. In addition to on-site employment, the EIA also considers hotel

³ Project construction is assumed to occur over 2 years. A “job year” equals one job for one year. Total job years supported by construction spending divided by the anticipated time horizon for project development yields the average number of jobs supported by the project at any point during construction (518 job years ÷ 2 years of construction = 259 jobs).

guest spending in the city, which is estimated at \$150 per day per person, based on data from the San Francisco Travel Association and the Project Sponsor.

- **Table 27** presents estimated recurring annual economic impacts attributable to the proposed Project. These estimates are based on IMPLAN model data for the City of San Francisco. On-site and off-site direct employment in San Francisco is anticipated to include approximately 121 jobs in the entertainment, retail, restaurant, and hotel sectors. Including multipliers, the Project results in a total recurring economic impact of approximately 151 jobs and about \$42.6 million per year in San Francisco.⁴

⁴ This analysis considers only gross outputs from the Project. It assumes that displaced office-dependent economic activity will not leave San Francisco because of the Project, particularly given the high current office vacancy in San Francisco. If the Project were to cause all tenants of the fully-occupied building to leave San Francisco, the net economic loss is estimated at roughly \$110 million per year. Given current economic and market conditions, EPS believes that the gross economic impact of the proposed project is an appropriate measure of its economic benefit in San Francisco.

Summary Table 1
Annual Fiscal Impact at Buildout During TOT Incentive Period (2025\$)
Hearst Hotel FIA & EIA; EPS #251079

Revenue / Expense Category	Baseline Existing Uses	Proposed Project	Net New
<u>General Fund</u>			
Annual General Fund Revenues	\$660,000	\$995,000	\$337,000
(Less) General Fund Baseline Requirements	<u>-\$189,000</u>	<u>-\$285,000</u>	<u>-\$97,000</u>
Annual General Fund Revenues After Baseline Funding	\$470,000	\$710,000	\$240,000
(Less) Annual General Fund Expenditures	<u>-\$579,000</u>	<u>-\$106,000</u>	<u>\$473,000</u>
Net Annual Impact on General Fund	-\$109,000	\$604,000	\$713,000
<u>MTA Fund</u>			
MTA General Fund Baseline Funding	\$63,000	\$95,000	\$32,000
(Less) MTA General Fund Expenses	<u>-\$153,000</u>	<u>-\$28,000</u>	<u>\$125,000</u>
Net Impact on MTA Fund	-\$89,000	\$67,000	\$157,000
Special Revenue Funds (1)	\$9,000	\$102,000	\$93,000
Other Voter-Approved Baseline Funding (2)	\$126,000	\$190,000	\$64,000
Total Fiscal Benefit Estimate	-\$64,000	\$963,000	\$1,028,000

Note: Totals may not sum due to rounding.

(1) Special Revenue Fund includes the Park, Recreation, and Open Space Fund, the Children's Fund, and the Library Preservation Fund.

(2) Other Voter-Approved Baselines include CCSF funding earmarks for Children's Services, Library Preservation, Street Tree, Early Care and Education, Housing Trust Fund, Recreation and Parks, Dignity Fund, and Student Success Fund.

Summary Table 2
Annual Fiscal Impact at Buildout After TOT Incentive Period (2025\$)
Hearst Hotel FIA & EIA; EPS #251079

Revenue / Expense Category	Baseline Existing Uses	Proposed Project	Net New
<u>General Fund</u>			
Annual General Fund Revenues	\$660,000	\$4,058,000	\$3,398,000
(Less) General Fund Baseline Requirements	<u>-\$189,000</u>	<u>-\$1,163,000</u>	<u>-\$974,000</u>
Annual General Fund Revenues After Baseline Funding	\$470,000	\$2,894,000	\$2,424,000
(Less) Annual General Fund Expenditures	<u>-\$579,000</u>	<u>-\$106,000</u>	<u>\$473,000</u>
Net Annual Impact on General Fund	-\$109,000	\$2,788,000	\$2,897,000
<u>MTA Fund</u>			
MTA General Fund Baseline Funding	\$63,000	\$389,000	\$325,000
(Less) MTA General Fund Expenses	<u>-\$153,000</u>	<u>-\$28,000</u>	<u>\$125,000</u>
Net Impact on MTA Fund	-\$89,000	\$361,000	\$450,000
Special Revenue Funds (1)	\$9,000	\$102,000	\$93,000
Other Voter-Approved Baseline Funding (2)	\$126,000	\$775,000	\$649,000
Total Fiscal Benefit Estimate	-\$64,000	\$4,026,000	\$4,090,000

Note: Totals may not sum due to rounding.

(1) Special Revenue Fund includes the Park, Recreation, and Open Space Fund, the Children's Fund, and the Library Preservation Fund.

(2) Other Voter-Approved Baselines include CCSF funding earmarks for Children's Services, Library Preservation, Street Tree, Early Care and Education, Housing Trust Fund, Recreation and Parks, Dignity Fund, and Student Success Fund.

Summary Table 3
Annual Total Fiscal Impact (2025\$)
Hearst Hotel FIA & EIA; EPS #251079

Revenue / Expense Category	TOT Incentive Period (Years 1 - 20)	Post TOT Incentive Period (Years 21 Onward)
Net Annual Impact on General Fund	\$713,000	\$2,897,000
Net Impact on MTA	\$157,000	\$450,000
Revenue to Special Funds (1)	\$93,000	\$93,000
Other Voter-Approved Baseline Funding (2)	\$64,000	\$649,000
Total Fiscal Impact	\$1,028,000	\$4,090,000

Note: Totals may not sum due to rounding.

(1) Special Revenue Fund includes the Park, Recreation, and Open Space Fund, the Children's Fund, and the Library Preservation Fund.

(2) Other Voter-Approved Baselines include CCSF funding earmarks for Children's Services, Library Preservation, Street Tree, Early Care and Education, Housing Trust Fund, Recreation and Parks, Dignity Fund, and Student Success Fund.

Summary Table 4
Summary of Economic Impacts in San Francisco (2025\$)
Hearst Hotel FIA & EIA; EPS #251079

**Economic Impact of Stabilized Project Operations -
Annual Recurring Economic Impact**

Fully Occupied Baseline

Economic Output

Direct Effect	\$32,567,000
Total Effect (w/ Multiplier)	\$42,610,000

Employment (Full-Time and Part-Time Jobs)

Direct Effect	121
Total Effect (w/ Multiplier)	151

**Economic Impact from Project Development -
One-Time Economic Impact**

Aggregate Estimates (Total Development Impact)

Economic Output

Direct Effect	\$166,607,000
Total Effect (w/ Multiplier)	\$206,620,000

Employment (Job Years)

Direct Effect	586
Total Effect (w/ Multiplier)	706

Annual Estimates During Development Period (1)

Economic Output

Direct Effect	\$69,323,000
Total Effect (w/ Multiplier)	\$86,027,000

Employment (Average Jobs)

Direct Effect	259
Total Effect (w/ Multiplier)	309

(1) Assumes construction occurs over 2 years (annual estimate excludes pre-development impacts).

Table 1
Program Summary
Hearst Hotel FIA & EIA; EPS #251079

	Baseline Existing Uses (1)	Proposed Project (2)	Net New
<u>Office</u>			
Office Net Square Footage	78,700	0	-78,700
Office Gross Square Footage	119,237	0	-119,237
Office Efficiency	66%		
<u>Hotel</u>			
Hotel Rooms	0	113	113
Hotel Net Square Footage	0	91,313	91,313
Hotel Gross Square Footage	0	142,070	142,070
Hotel Efficiency		64%	
<u>Ground Floor Retail</u>			
Retail Net Square Footage	13,658	11,871	-1,787
Retail Gross Square Footage	14,943	12,993	-1,950
Retail Efficiency	91%	91%	

(1) Baseline square footages from rent roll provided by project sponsor.

(2) Proposed Project hotel square footages include meeting & conference space, roof top bar, and office.

Source: JMA Ventures LLC

Table 2
Annual Fiscal Impact at Buildout Detail During Rebate Period
Hearst Hotel FIA & EIA; EPS #251079

	Baseline Existing Uses	Proposed Project	Net New
<u>General Fund Revenues</u>			
Property Tax	\$53,000	\$630,000	\$577,000
Property Tax in Lieu of VLF	\$10,000	\$120,000	\$110,000
Property Transfer Tax	\$0	\$0	\$0
Sales Tax	\$49,000	\$130,000	\$81,000
Transient Occupancy Tax (TOT) (1)	\$0	\$0	\$0
Gas Electric Steam Users Tax	\$57,000	\$10,000	-\$47,000
Telephone Users Tax Land & Mobile	\$16,000	\$3,000	-\$13,000
Water Users Tax	\$4,000	\$1,000	-\$3,000
Access Line Tax	\$13,000	\$2,000	-\$10,000
Parking Tax	\$0	\$33,000	\$33,000
Gross Receipts Tax	\$351,000	\$58,000	-\$292,000
Business Registration	\$93,000	\$7,000	-\$85,000
Commercial Rents Tax	<u>\$15,000</u>	<u>\$1,000</u>	<u>-\$14,000</u>
Subtotal General Revenue	\$660,000	\$995,000	\$337,000
(less) General Fund Baseline Requirements	<u>-\$189,000</u>	<u>-\$285,000</u>	<u>-\$97,000</u>
General Fund Revenue After Requirements	\$470,000	\$710,000	\$240,000
<u>General Fund Expenditures</u>			
Community Health	\$72,000	\$13,000	-\$58,000
Culture & Recreation	\$12,000	\$2,000	-\$10,000
General Administration & Finance	\$20,000	\$4,000	-\$16,000
General City Responsibilities	\$12,000	\$2,000	-\$10,000
Human Welfare & Neighborhood Development	\$98,000	\$18,000	-\$80,000
Police	\$172,000	\$32,000	-\$141,000
Fire	\$117,000	\$21,000	-\$95,000
Other Public Protection	\$40,000	\$7,000	-\$33,000
Public Works, Transportation & Commerce	<u>\$37,000</u>	<u>\$7,000</u>	<u>-\$31,000</u>
Total General Fund Expenditures	\$579,000	\$106,000	-\$473,000
NET Annual General Revenues	-\$109,000	\$604,000	\$713,000
<u>MTA Fund</u>			
MTA General Fund Baseline Funding	\$63,000	\$95,000	\$32,000
MTA General Fund Expenses	<u>-\$153,000</u>	<u>-\$28,000</u>	<u>\$125,000</u>
Net Impact on the MTA Fund	-\$89,000	\$67,000	\$157,000
Special Revenue Funds	\$9,000	\$102,000	\$93,000
Other Voter-Approved Baseline Funding	\$126,000	\$190,000	\$64,000
Total Fiscal Benefit Estimate	-\$64,000	\$963,000	\$1,028,000

Note: Totals may not sum due to rounding.

(1) As an incentive to deliver the Proposed Project, this analysis assumes that 89.3% of TOT (the amount allocated to the General Fund), up to a predetermined amount, will be reimbursed to the Project Sponsor ("Incentive Payment") for 20 years. Following that period, the City is estimated to received approximately \$3.0 million in 2025 dollars annually in TOT revenue.

Table 3
Annual Fiscal Impact at Buildout Detail After TOT Rebate Period
Hearst Hotel FIA & EIA; EPS #251079

	Existing Development	Proposed Project	Net New
<u>General Fund Revenues</u>			
Property Tax	\$53,000	\$630,000	\$577,000
Property Tax in Lieu of VLF	\$10,000	\$120,000	\$110,000
Property Transfer Tax	\$0	\$0	\$0
Sales Tax	\$49,000	\$130,000	\$81,000
Transient Occupancy Tax (TOT)	\$0	\$3,062,000	\$3,062,000
Gas Electric Steam Users Tax	\$57,000	\$10,000	-\$47,000
Telephone Users Tax Land & Mobile	\$16,000	\$3,000	-\$13,000
Water Users Tax	\$4,000	\$1,000	-\$3,000
Access Line Tax	\$13,000	\$2,000	-\$10,000
Parking Tax	\$0	\$33,000	\$33,000
Gross Receipts Tax	\$351,000	\$58,000	-\$292,000
Business Registration	\$93,000	\$7,000	-\$86,000
Commercial Rents Tax	\$15,000	\$1,000	-\$14,000
Subtotal General Revenue	\$660,000	\$4,058,000	\$3,398,000
(less) General Fund Baseline Requirements	-\$189,000	-\$1,163,000	-\$974,000
General Fund Revenue After Requirements	\$470,000	\$2,894,000	\$2,424,000
<u>General Fund Expenditures</u>			
Community Health	\$72,000	\$13,000	-\$58,000
Culture & Recreation	\$12,000	\$2,000	-\$10,000
General Administration & Finance	\$20,000	\$4,000	-\$16,000
General City Responsibilities	\$12,000	\$2,000	-\$10,000
Human Welfare & Neighborhood Development	\$98,000	\$18,000	-\$80,000
Police	\$172,000	\$32,000	-\$141,000
Fire	\$117,000	\$21,000	-\$95,000
Other Public Protection	\$40,000	\$7,000	-\$33,000
Public Works, Transportation & Commerce	\$37,000	\$7,000	-\$31,000
Total General Fund Expenditures	\$579,000	\$106,000	-\$473,000
NET Annual General Revenues	-\$109,000	\$2,788,000	\$2,897,000
<u>MTA Fund</u>			
MTA General Fund Baseline Funding	\$63,000	\$389,000	\$325,000
MTA General Fund Expenses	-\$153,000	-\$28,000	\$125,000
Net Impact on the MTA Fund	-\$89,000	\$361,000	\$450,000
Special Revenue Funds	\$9,000	\$102,000	\$93,000
Other Voter-Approved Baseline Funding	\$126,000	\$775,000	\$649,000
Total Fiscal Benefit Estimate	-\$64,000	\$4,026,000	\$4,090,000

Note: Totals may not sum due to rounding.

Table 4
Project Service Population
Hearst Hotel FIA & EIA; EPS #251079

	Worker Density Assumptions (1)		Existing Development	Proposed Project	Net New
Office (1)	238	SF / Employee	501.0	0	-501.0
Hotel (Incl. F&B) (2)	1,776	SF / Employee	0.0	80.0	80.0
Ground Floor Retail (2)	330	SF / Employee	45.3	20.0	-25.3
Total			546.3	100.0	-446.3
Project Service Population (3)	0.5	Employee Service Burden Weight	273.1	50.0	-223.1

(1) Project sponsor reports that most office tenants are single-person. The baseline service population is therefore likely less than the amount estimated in this analysis.

(2) Office density assumptions from 2019 Jobs Housing Nexus Report for the City of San Francisco. Hotel and retail employment estimates provided by project sponsor.

(3) Employee municipal service burden weighted at 50 percent of resident burden.

Source: JMA Ventures LLC; Jobs Housing Nexus Report for the City of San Francisco; Economic & Planning Systems, Inc.

Table 5
FY2024-25 Revenue Budget Summary and Fiscal Impact Estimating Factors
Hearst Hotel FIA & EIA; EPS #251079

	FY2025-26 Adopted General Fund	Estimating Factors Applied to Calculate City Revenue from the Project
<u>Property Taxes</u>	\$2,437,000,000	
Property Tax in Lieu of VLF	\$381,000,000	% of Citywide Assessed Value
Other Property Taxes (1)	\$2,056,000,000	55.588206% of base property tax rate (1%)
<u>Other Local Taxes</u>	\$988,170,000	
Sales Tax	\$189,550,000	1.00% of estimated taxable sales
Hotel Room Tax	\$265,190,000	13% tax rate (GF portion of 14% rate)
Parking Tax	\$88,800,000	5% tax rate (GF portion of 25% rate)
Property Transfer Tax	\$267,550,000	tax rate schedule
Gas Electric Steam Users Tax	\$68,260,000	\$104.54 per employee
Telephone Users Tax	\$43,120,000	\$28.84 per resident/employee
Water Users Tax	\$4,990,000	\$7.64 per employee
Access Line Tax	\$54,480,000	\$46.62 per service population
Other Local Taxes	\$6,230,000	<i>not estimated</i>
<u>Business Taxes</u>	\$1,153,600,000	
Gross Receipts Tax	\$1,100,600,000	tax rate schedule
Business Registration Fees	\$53,000,000	tax rate schedule
<u>Other Revenues</u>	\$2,918,318,454	
Rents & Concessions	\$18,501,901	<i>not estimated</i>
Fines, Forfeiture, & Penalties	\$6,037,823	<i>not estimated</i>
Interest & Investment Income	\$151,881,895	<i>not estimated</i>
Licenses, Permits, & Franchises	\$23,126,250	<i>not estimated</i>
Intergovernmental	\$1,372,884,661	<i>not estimated</i>
Charges for Services	\$405,243,352	<i>not estimated</i>
Other Revenues	\$18,908,890	<i>not estimated</i>
Transfers In	\$734,577,719	<i>not estimated</i>
Prior Year	\$187,155,963	<i>not estimated</i>
Total Revenues	\$7,497,088,454	

(1) Other Property Taxes includes Excess ERAF, which is determined by a separate formula.

Sources: City and County San Francisco Budget and Appropriation Ordinance 2025/2026; Economic & Planning Systems, Inc.

Table 6
Project Assessed Value
Hearst Hotel FIA & EIA; EPS #251079

Program Assumptions		Assessed Value Factor	Total AV at Buildout (1)(2)
Hotel	113 Rooms	\$802,218 per Room	\$90,650,578
Retail	12,993 Square Feet	\$1,744 per Sq.Ft.	<u>\$22,662,644</u>
			\$113,313,222
Total Project Assessed Valuation			\$113,313,222
(Less) Existing Assessed Value			<u>\$9,521,115</u>
Total Net New Assessed Value			\$103,792,107

(1) Existing and proposed assessed values provided to EPS by JMA Ventures LLC. Proposed project assessed value is estimate from first stabilized year (2031) de-inflated to 2025\$ at a rate of 2.5% inflation and includes \$30M base building improvement deduction.

(2) Assumes 80% of assessed value is allocated to hotel and 20% is allocated to retail.

Sources: JMA Ventures LLC; Economic & Planning Systems, Inc.

Table 7
Property Tax Estimate
Hearst Hotel FIA & EIA; EPS #251079

Assumption / Factor			Baseline Existing Uses	Proposed Project	Net New
Total Assessed Value			\$9,521,115	\$113,313,222	\$103,792,107
Property Tax	1.0%	Base Property Tax Rate	\$95,211	\$1,133,132	\$1,037,921
General Fund Revenue	55.588206%	Allocation to General Fund	\$52,926	\$629,888	\$576,962
Special Revenue Fund (1)	9.000000%	Allocation to Special Revenue Fund	\$8,569	\$101,982	\$93,413

(1) Special Revenue Fund includes allocations of 0.025 to the Park, Recreation, and Open Space Fund, 0.04 to the Children's Fund, and 0.025 to the Library Preservation Fund as required under Sections 16.107, 16.108, and 16.109 respectively of the San Francisco Charter.

Sources: City and County San Francisco Budget and Appropriation Ordinance 2025/2026; Economic & Planning Systems, Inc.

Table 8
Property Tax In Lieu of VLF Estimate
Hearst Hotel FIA & EIA; EPS #251079

	Baseline Existing Uses	Proposed Project	Net New
Existing Citywide Property Tax in Lieu of Vehicle License Fee (VLF) (1)	\$381,000,000	\$381,000,000	\$381,000,000
Citywide Assessed Value (2)	\$358,424,092,463	\$358,424,092,463	\$358,424,092,463
Assessed Value	\$9,521,115	\$113,313,222	\$103,792,107
Assessed Value Change (3)	0.003%	0.032%	0.029%
Property Tax In Lieu of VLF Revenue (4)	\$10,121	\$120,450	\$110,330
<i>VLF Per \$1B AV</i>	<i>\$1,062,987</i>	<i>\$1,062,987</i>	<i>\$1,062,987</i>

(1) FY 2025-26 Citywide VLF recovered per Controller's Office Property Tax Manager.

(2) FY2025-26 net total assessed value for VLF per Controller's Office Property Tax Manager.

(3) Calculated by dividing assessed value by citywide assessed value.

(4) Calculated by multiplying existing property tax in lieu of VLF by percentage increase in net assessed value.

Sources: City and County San Francisco Budget and Appropriation Ordinance 2025/2026; Project Sponsor; Economic & Planning Systems, Inc.

Table 9
Annual Sales Tax Revenue Estimate
Hearst Hotel FIA & EIA; EPS #251079

	Assumptions / Factor	Existing Uses	Proposed Project	Net New
<u>Office Worker Spending</u>				
Average Daily Employee Taxable Spending (1)	\$39.86 per Work Day			
Annual Employee Taxable Spending (2)	\$192 Work Days per Year	\$8,000	\$0	-\$8,000
Total Employee Annual Spending	501 Employees	\$4,010,000	\$0	-\$4,010,000
Taxable Office Worker Sales in San Francisco (3)	75% City Capture	\$3,007,500	\$0	-\$3,007,500
<u>Hotel Guest Spending</u>				
Number of Rooms	113 Rooms			
Total Room Nights	66% Occupancy	0	27,222	27,222
Total Taxable Spending (4)	\$225 per day	\$0	\$6,120,000	\$6,120,000
Taxable Retail Sales in San Francisco (3)	75% City Capture	\$0	\$4,590,000	\$4,590,000
<u>On-Site Taxable Sales</u>				
Food and Beverage Sales (5)	100% Taxable	\$2,322,000	\$11,930,000	\$9,608,000
Sales Net of Redistributed Sales (6)	80% of Gross Sales	\$1,857,600	\$9,544,000	\$7,686,400
(Less) On-Site Sales by Hotel Guests (7)	25% of Guest Spending	\$0	-\$1,147,500	-\$1,147,500
Net New On-Site Taxable Retail Sales in SF		\$1,857,600	\$8,396,500	\$6,538,900
Net New Taxable Retail Sales		\$4,865,100	\$12,986,500	\$8,121,400
Total Sales Tax Revenue	1.0% of taxable sales	\$48,651	\$129,865	\$81,214

(1) Per-day spending from ICSC survey data

(2) Assumes four days per work week for 48 work weeks each year.

(3) Assumes 75% of employee and visitor retail spending is captured in San Francisco.

(4) Hotel guest spending derives from SF Travel Data. Assumes \$150 per guest and 1.5 persons per room.

(5) Projected hotel restaurant food and beverage sales provided by Project Sponsor plus estimated leased retail sales. Food and beverage sales estimate is from first stabilized year (2031) and de-inflated to 2025\$ at a rate of 2.5% per year.

(6) Assumes 20% of retail sales are redistributed from existing retailers.

(7) Assumes that 25% of hotel guest spending occurs at on-site retailers/restaurants, which is deducted from on-site sales to avoid double counting.

Sources: State Board of Equalization; IMPLAN; US Bureau of Labor Statistics; JMA Ventures LLC; Economic & Planning Systems, Inc.

Table 10
Transient Occupancy Tax Revenue Estimate with TOT Rebate
Hearst Hotel FIA & EIA; EPS #251079

	Assumptions / Factor	Proposed Project
Hotel Rooms		113
Average Daily Room Charge (1)	\$900	
Average Occupancy (1)	66%	
Average Annual Revenue		\$24,499,530
Total TOT Revenue	14.0%	\$3,429,934
TOT to Arts & Culture (2)	1.50%	\$367,493
TOT Allocated to General Fund	12.5%	\$3,062,441
TOT Rebate Payments (3)	100.00%	\$3,062,441
TOT Revenue to General Fund		\$0

(1) ADR and stabilized occupancy assumptions provided by Project Sponsor.

(2) 1.5% of the 14% TOT rate is dedicated to the arts.

(3) As an incentive to deliver the Proposed Project, this analysis assumes that 89.3% of TOT (the amount allocated to the General Fund), up to a predetermined amount, will be reimbursed to the Project Sponsor ("Incentive Payment") for 20 years. Following that period, the City is estimated to received approximately \$3.0 million in 2025 dollars annually in TOT revenue.

Table 11
Parking Tax Revenue Estimate
Hearst Hotel FIA & EIA; EPS #251079

	Assumptions / Factor (1)	Baseline Existing Uses	Proposed Project	Net New
Valet Parking	90 total spaces	0	90	90
Occupied Valet Parking	20% average occupancy	0	18	18
Monthly Parking Revenue	\$100 per space per night	\$0	\$1,800	\$1,800
Gross Annual Parking Revenue	365 nights per year	\$0	\$657,000	\$657,000
Parking Tax Revenue	25.0% of parking revenue	\$0	\$164,250	\$164,250
Total Parking Tax Revenue to MTA	80.0% of tax proceeds	\$0	\$131,400	\$131,400
Total Parking Tax Revenue to General Fund	20.0% of tax proceeds	\$0	\$32,850	\$32,850

Source: JMA Ventures LLC

Table 12
Gross Receipts Tax Revenue Estimate
Hearst Hotel FIA & EIA; EPS #251079

Industry	Number of Businesses Reaching \$5M GRT	San Francisco Sales	Effective Tax Rate (1)	Gross Receipts Tax Revenue
<u>Proposed Project</u>				
Hotel (2)	1	\$24,515,000	0.200%	\$49,115
Retail	1	\$5,931,000	0.154%	\$9,126
Total GRT Revenue				\$58,241
<u>Existing</u>				
Office	5	\$5,386,500	1.268%	\$341,488
Retail	1	\$5,931,000	0.154%	\$9,126
Total GRT Revenue				\$350,613
Net New GRT Revenue				-\$292,372

(1) See **Table 13** for detailed tax rate breakdown.

(2) Analysis assumes a single hotel entity will operate at site.

Table 13
Gross Receipts Tax Revenue Detail for Proposed Project
Hearst Hotel FIA & EIA; EPS #251079

	Baseline			Proposed Project		
	Office (1)(2)	Hotel	Retail	Office	Hotel (3)	Retail (4)
Number of Businesses Reaching \$5M GRT	5	n/a	1	n/a	1	1
Average Business GSF	4,940		6,600		148,463	6,600
Average Employees/Business	20.8		20		80.0	20
Sales/Employee	\$346,000		\$297,000		\$306,000	\$297,000
Sales/Business (5)	\$7,182,000		\$5,931,000		\$24,515,000	\$5,931,000
Sales in San Francisco	75%		100%		100%	100%
San Francisco Sales	\$5,386,500	n/a	\$5,931,000	n/a	\$24,515,000	\$5,931,000

Gross Receipts Tax Rates and Tax Revenue Per Firm

Tax Rate Tiers By Business Activity	Category 5	Category 2	Category 1	Category 5	Category 2	Category 1
\$0M - \$1.0M						
Tax Rate	1.00%	0.19%	0.100%	0.19%	0.19%	0.100%
Tax Revenue	\$10,000	n/a	\$1,000	n/a	\$1,850	\$1,000
\$1.0M - \$2.5M						
Tax Rate	1.00%	0.20%	0.130%	0.20%	0.20%	0.130%
Tax Revenue	\$15,000	n/a	\$1,950	n/a	\$3,015	\$1,950
\$2.5M - \$25M						
Tax Rate	1.50%	0.20%	0.180%	0.20%	0.20%	0.180%
Tax Revenue	\$43,298	n/a	\$6,176	n/a	\$44,250	\$6,176
\$25M - \$50M						
Tax Rate	1.18%	0.33%	0.336%	0.33%	0.33%	0.336%
Tax Revenue	n/a	n/a	n/a	n/a	n/a	n/a
\$50M - \$75M						
Tax Rate	1.34%	0.58%	0.336%	0.58%	0.58%	0.336%
Tax Revenue	n/a	n/a	n/a	n/a	n/a	n/a
Effective Tax Rate Per Firm	1.268%	n/a	0.154%	n/a	0.200%	0.154%
Gross Receipts Tax Revenue Per Firm	\$68,298	\$0	\$9,126	\$0	\$49,115	\$9,126

(1) According to the building's rent roll, office spaces on average are not large enough to imply \$5M gross receipts. Only five office spaces have square footage large enough to assume it reaches \$5M gross receipts, one of which is currently tenanted.

(2) Office output per employee estimate from IMPLAN and assumes "Professional Services" industry.

(3) Analysis assumes a single hotel entity will operate hotel and restaurant.

(4) Proposed project retail includes Local Edition only. Restaurant and lounge/bar operated by hotel.

Sources: City of San Francisco Gross Receipts Tax 2025 & 2026 Rates; IMPLAN; Economic & Planning Systems, Inc.

Table 14
Business Registration Revenue Estimate
Hearst Hotel FIA & EIA; EPS #251079

	Baseline		Proposed Project		Net New
	Office	Retail	Hotel (1)	Retail (2)	
Number of Businesses	76	6	1	1	
Average Business GSF	1,569	2,491	148,463	6,600	
Average Employees/Business	6.6	7.5	80	20	
Sales/Employee	\$346,000	\$308,000	\$306,000	\$297,000	
Sales/Business (3)	\$2,281,000	\$2,322,000	\$24,515,000	\$5,931,000	
Business Registration Fee per Business	\$1,131	\$1,131	\$6,500	\$800	
Total Business Registration Revenue	\$85,931	\$6,784	\$6,500	\$800	-\$85,415

(1) Analysis assumes a single hotel entity will operate hotel and restaurant.

(2) Proposed project retail includes Local Edition only. Restaurant and lounge/bar operated by hotel.

(3) Retail sales assume \$1,020 per Rentable Square Foot per Year for both ground floor and Local Edition.

Sources: City of San Francisco Business Registration Fees (July 1, 2025 and ending June 30, 2026)

Table 15
Commercial Rents Tax Revenue Estimate
Hearst Hotel FIA & EIA; EPS #251079

	Baseline Existing Uses	Proposed Project	Net New
<u>Rentable Square Feet</u>			
Office	78,700	0	-78,700
Retail	13,658	5,618	-8,040
<u>Lease Rates (per Rentable Sq. Ft.)</u>			
Office (1)	\$26.40	<i>n/a</i>	
Retail (2)	\$54.50	\$40.00	
Total Annual Rental Revenue	\$2,822,041	\$224,720	-\$2,597,321
Commercial Rents Tax Revenue (3.5%) (3)	\$98,771	\$7,865	-\$90,906
General Fund Portion of CRT (4)	\$14,816	\$1,180	-\$13,636

(1) Average rent of current tenants on rent roll provided by project sponsor.

(2) Proposed project retail rent provided by project sponsor and includes only Local Edition. Baseline retail rent estimate from CoStar.

(3) Includes General Fund and restricted revenues.

(4) General Fund allocation of CRT is 15% (15% of 3.5% = 0.53%); the remaining 85% (85% of 3.5% = 2.98%) is restricted revenue.

Sources: CoStar; JMA Ventures LLC

Table 16
Other General Fund Revenue Estimates
Hearst Hotel FIA & EIA; EPS #251079

	Allocation Factor	Baseline Existing Uses	Proposed Project	Net New
Gas Electric Steam Users Tax	\$105 per employee	\$57,108	\$10,454	-\$46,654
Telephone Users Tax Land & Mobile	\$29 per capita (residents+employees)	\$15,756	\$2,884	-\$12,872
Water Users Tax	\$8 per employee	\$4,175	\$764	-\$3,411
Access Line Tax	\$47 per service population	<u>\$12,735</u>	<u>\$2,331</u>	<u>-\$10,404</u>
Total		\$89,774	\$16,434	-\$73,340

Sources: City and County San Francisco Budget and Appropriation Ordinance 2025/2026; Economic & Planning Systems, Inc.

Table 17
Aggregate Discretionary Revenue (ADR) and Mandated Transfers with TOT Rebate
Hearst Hotel FIA & EIA; EPS #251079

		Baseline Existing Uses	Proposed Project	Net New
<u>Aggregate Discretionary Revenue (ADR)</u>				
Property Tax		\$52,926	\$629,888	\$576,962
Property Tax In-Lieu of Vehicle License Fee		\$10,121	\$120,450	\$110,330
Property Transfer Tax		\$0	\$0	\$0
Transient Occupancy Tax Allocation to General Fund		\$0	\$0	\$0
Sales Tax		\$48,651	\$129,865	\$81,214
Parking Tax		\$0	\$32,850	\$32,850
Gross Receipts Tax		\$350,613	\$58,241	-\$292,372
Business Registration Tax		\$92,715	\$6,500	-\$85,415
Gas Electric Steam Users Tax		\$57,108	\$10,454	-\$46,654
Telephone Users Tax Land & Mobile		\$15,756	\$2,884	-\$12,872
Water Users Tax		\$4,175	\$764	-\$3,411
Access Line Tax		\$12,735	\$2,331	-\$10,404
Commercial Rents Tax		<u>\$14,816</u>	<u>\$1,180</u>	<u>-\$13,636</u>
Total		<u>\$659,616</u>	<u>\$995,408</u>	<u>\$336,592</u>
<u>General Fund Baseline Requirements</u>				
MTA Fund	9.5745%	\$63,155	\$95,305	\$32,227
Children's Services	8.7564%	\$57,759	\$87,162	\$29,473
Library Preservation	2.2858%	\$15,077	\$22,753	\$7,694
Street Tree	0.5097%	\$3,362	\$5,074	\$1,716
Early Care and Education Baseline	2.0800%	\$13,720	\$20,704	\$7,001
Housing Trust Fund	1.0933%	\$7,212	\$10,883	\$3,680
Recreation and Parks	1.8258%	\$12,043	\$18,174	\$6,145
Dignity Fund	1.3244%	\$8,736	\$13,183	\$4,458
Student Success Fund	<u>1.2210%</u>	<u>\$8,054</u>	<u>\$12,154</u>	<u>\$4,110</u>
Total Baseline Allocations	<u>28.6709%</u>	<u>\$189,118</u>	<u>\$285,392</u>	<u>\$96,504</u>

Sources: CCSF Controller's Office; Economic & Planning Systems, Inc.

Table 18
FY2025-26 Expenditure Budget Summary and Service Cost Estimating Factors
Hearst Hotel FIA & EIA; EPS #251079

	Allocated General Fund Expenses (FY2025-26)	Percent Variable (1)	Per Capita General Fund Expense (2)	Baseline Existing Uses	Proposed Project	Net New
<i>Service Population</i>				273.14	50	-223
Community Health	\$1,223,759,000	25%	\$262	\$71,513	\$13,091	(\$58,422)
Culture & Recreation	\$204,503,000	25%	\$44	\$11,951	\$2,188	(\$9,763)
General Administration & Finance	\$342,691,000	25%	\$73	\$20,026	\$3,666	(\$16,360)
General City Responsibilities	\$201,002,000	25%	\$43	\$11,746	\$2,150	(\$9,596)
Human Welfare & Neighborhood Development	\$1,670,511,000	25%	\$357	\$97,621	\$17,870	(\$79,750)
Public Protection						
Police	\$736,334,755	100%	\$630	\$172,118	\$31,508	(\$140,611)
Fire	\$499,510,852	100%	\$427	\$116,761	\$21,374	(\$95,387)
Other Public Protection	\$687,736,036	25%	\$147	\$40,190	\$7,357	(\$32,833)
Public Works, Transportation & Commerce	<u>\$177,859,000</u>	90%	\$137	<u>\$37,417</u>	<u>\$6,850</u>	<u>(\$30,568)</u>
Total Expenditures	\$5,743,906,643		\$2,121	\$579,343	\$106,053	(\$473,289)

(1) Percentage of costs that are service population-dependent, as opposed to fixed costs or costs recovered through fees or charges.

(2) Per Capita Expenses calculated for San Francisco Service Population of 1.2 million (see **Table 20**)

Sources: City and County of San Francisco Budget and Appropriations Ordinance Fiscal Year Ending June 30, 2025 and Fiscal Year Ending June 30, 2026; Economic & Planning Systems, Inc.

Table 19
MTA Fund Fiscal Impact Analysis with TOT Rebate
Hearst Hotel FIA & EIA; EPS #251079

	Baseline Existing Uses	Proposed Project	Net New
<u>Annual MTA Fund Revenues (1)</u>			
ADR Accruing to the General Fund	\$659,616	\$995,408	\$336,592
Baseline Allocation to MTA	9.57%	9.57%	9.57%
Fund Revenue Attributable to Project	\$63,155	\$95,305	\$32,227
<u>Annual MTA Fund Expenses (2)</u>			
MTA General Fund Support (3)	\$556,500,000	\$556,500,000	\$556,500,000
Variable GF Support (75%)	\$417,375,000	\$417,375,000	\$417,375,000
Service Population Citywide (4)	1,494,975	1,494,975	1,494,975
Per-Capita Variable General Fund Support	\$279	\$279	\$279
Service Population (5)	546	100	-446
Annual MTA Fund Expenses	\$152,512	\$27,919	-\$124,593
Net Impact on the MTA Fund	-\$89,357	\$67,387	\$156,820

(1) MTA revenues are estimated based on the baseline transfer of General Fund monies to MTA attributable to the Project.

(2) MTA expenses estimate the variable General Fund support to the MTA budget that is required to provide services to the Project service population.

(3) MTA 2024-25 budget presentation.

(4) MTA service population calculated as unweighted resident and worker populations combined.

(5) Net new resident and worker population.

Sources: FY 24-25 and 25-26 Operating Budget Update March 5, 2024; Economic & Planning Systems, Inc.

Table 20
San Francisco Population, Employment, and Service Population
Hearst Hotel FIA & EIA; EPS #251079

	Amount	Sources
Housing Units	422,007	DOF Jan 1, 2025 Estimate
Occupied Households	385,822	DOF Jan 1, 2025 Estimate
Population	842,027	DOF Jan 1, 2025 Estimate
Persons/Household	2.10	DOF Jan 1, 2025 Estimate
Employment	652,948	2023 ACS 5-Year Estimate
Service Population (1)	1,168,501	DOF 2024, ACS

(1) Daytime population is calculated by adding total residential population and half of total employment.

Sources: US Census Bureau American Community Survey (ACS); State of California Department of Finance.

Table 21
One-Time Construction Sales Tax Estimate
Hearst Hotel FIA & EIA; EPS #251079

Item	Assumptions	Total
Total Construction Hard Costs (1)		\$138,646,319
Labor	65% of Hard Costs	\$90,120,107
Materials	35% of Hard Costs	\$48,526,212
Point-of-Sale Assumption	50% of Materials	\$24,263,106
Total Construction Sales Tax Revenue	1.0% Sales Tax	\$242,631

(1) Includes JMA Ventures construction hard cost with contingency, construction management, and engineering inspection services.

Table 22
One Time Gross Receipts Tax Revenue from Construction
Hearst Hotel FIA & EIA; EPS #251079

	Construction
Annual Sales/Employee (1)	\$267,379
Employment	259
Total Annual Sales	\$69,323,000
Taxable Annual Sales (2)	\$34,661,500
<hr/>	
<u>Gross Receipts Tax Rates and Tax Revenue</u>	<i>Category 7</i>
Gross Receipts	
\$0M - \$1.0M	
Tax Rate	0.500%
Tax Revenue	\$5,000
\$1.0M - \$2.5M	
Tax Rate	0.500%
Tax Revenue	\$7,500
\$2.5M - \$25M	
Tax Rate	0.750%
Tax Revenue	\$168,750
\$25M - \$50M	
Tax Rate	0.672%
Tax Revenue	\$64,925
\$50M - \$75M	
Tax Rate	1.008%
Tax Revenue	<i>n/a</i>
Effective Tax Rate	0.710%
Annual Gross Receipts Tax Revenue Estimate	\$246,175
Total Construction Gross Receipts Tax (3)	\$492,351

Sources: City of San Francisco Gross Receipts Tax 2025 Rates

(1) Sales data derived from IMPLAN sales output for San Francisco.

(2) Analysis assumes a one half of total gross receipts generated by construction will be by smaller contractors, whose sales fall below \$5 million and are therefore exempt from GRT.

(3) Assumes 2-year construction period, provided by JMA Ventures.

Table 23
Project Development Budget EIA Inputs
Hearst Hotel FIA & EIA; EPS #251079

Spending	Buildout
<hr/>	
<u>Construction Spending in San Francisco</u>	
Commercial Construction Spending	\$138,646,319
<u>Soft Cost Spending in San Francisco</u>	
Soft Cost Spending	\$5,718,397
Transaction Costs	\$22,241,970
Total Development Spending in San Francisco	\$166,606,686

Source: JMA Ventures LLC, IMPLAN

Table 24
One-Time Economic Impact from Project Development - Total Impact
Hearst Hotel FIA & EIA; EPS #251079

Impact	Job Years (1)	Labor Income	Value Added	Output
Direct (2)	586	\$74,321,000	\$114,511,000	\$166,607,000
Indirect	55	\$8,964,000	\$14,519,000	\$21,395,000
Induced	<u>65</u>	<u>\$7,700,000</u>	<u>\$14,125,000</u>	<u>\$18,618,000</u>
Total	706	\$90,985,000	\$143,154,000	\$206,620,000

(1) A "job year" is one job for one year. For example, 10 job years over 5 years indicates average employment of 2 for the 5-year period.

(2) Direct output based on construction costs and soft costs shown in **Table 21**.

Source: JMA Ventures LLC; IMPLAN; and Economic & Planning Systems, Inc.

Table 25
One-Time Economic Impact from Project Construction - Annual Impact
Hearst Hotel FIA & EIA; EPS #251079

Impact (1)	Jobs (2)	Labor Income	Value Added	Output
Direct (3)	259	\$29,994,000	\$44,979,000	\$69,323,000
Indirect	23	\$3,740,000	\$6,022,000	\$9,010,000
Induced	<u>27</u>	<u>\$3,182,000</u>	<u>\$5,837,000</u>	<u>\$7,693,000</u>
Total	309	\$36,917,000	\$56,838,000	\$86,027,000

(1) Assumes a 2-year construction period.

(2) Jobs represents average employment during construction and is calculated by dividing job years by the anticipated time horizon for project construction.

(3) Direct output based on construction costs shown in **Table 23** (Annual construction impact estimate shown excludes soft costs).

Source: JMA Ventures LLC; IMPLAN; and Economic & Planning Systems, Inc.

Table 26
Project Operations Direct Economic Impacts
Hearst Hotel FIA & EIA; EPS #251079

Economic Activity in San Francisco	At Project Buildout
<u>On-Site Economic Activity</u>	<u>Employment</u>
Hotel Including Food & Beverage	80
Ground Floor Retail (Leased)	<u>20</u>
Subtotal	100
	<u>Annual Economic Output (Millions 2025\$)</u>
Hotel Including Food & Beverage	\$24.5
Ground Floor Retail (Leased)	<u>\$4.3</u>
Subtotal	\$28.8
<u>Economic Activity from Additional Visitor Spending</u>	
Entertainment Output	\$1.6
Retail Output (1)	\$1.0
Restaurant Output	<u>\$1.1</u>
Subtotal (2)	\$3.8
Ongoing Direct Economic Output	\$32.6

(1) Retail economic output reflects marginal value created by retail operations (vs. full retail sale value).

(2) Reflects adjustments accounting for sales redistribution and to avoid double counting of visitor spending included in on-site sales estimates.

Source: JMA Ventures LLC; IMPLAN; and Economic & Planning Systems, Inc.

Table 27
Recurring Annual Economic Impact from Stabilized Operations - Proposed Project
Hearst Hotel FIA & EIA; EPS #251079

Impact	Jobs	Labor Income	Value Added	Output
Direct (1)	121	\$14,667,000	\$25,897,000	\$32,567,000
Indirect	16	\$2,592,000	\$4,421,000	\$6,096,000
Induced	<u>14</u>	<u>\$1,679,000</u>	<u>\$2,937,000</u>	<u>\$3,947,000</u>
Total	151	\$18,937,000	\$33,255,000	\$42,610,000

(1) Direct jobs based on employment, spending, and direct output presented in **Table 26**, includes offsite jobs generated from visitor spending.

(2) Only gross outputs from proposed development showed. This analysis assumes that displaced office-dependent economic activity will not leave San Francisco because of the project, particularly given the high current office vacancy in San Francisco. If the proposed project were to cause all tenants of the fully-occupied building to leave San Francisco, the net economic loss is estimated at roughly \$110 million per year. Given Current economic and market conditions, EPS believes that the gross economic impact of the proposed project is an appropriate measure of its economic benefit in San Francisco.

Source: JMA Ventures LLC; IMPLAN; and Economic & Planning Systems, Inc.

HEARST HOTEL INCENTIVE AGREEMENT

Budget and Finance Committee

February 4, 2026

Proposed Legislation

Budget and Finance Committee, 2/4/2026

- 251246: Hotel Development Incentive Agreement

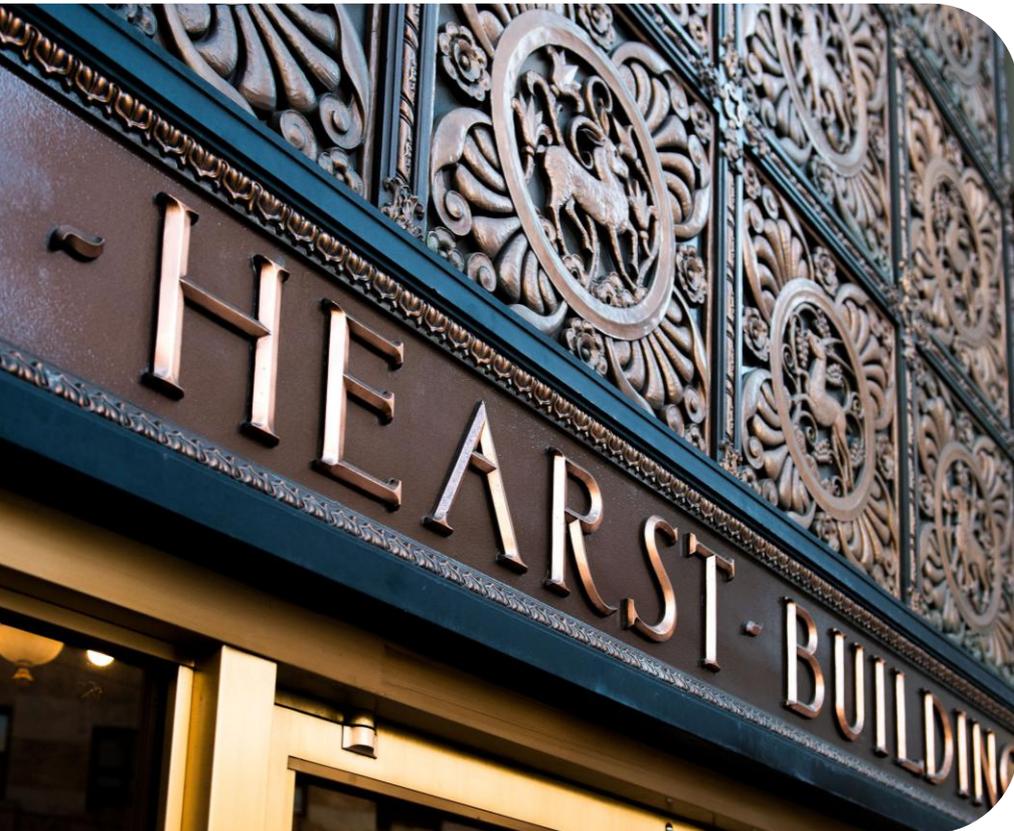
POLICY GOALS

- Promote downtown revitalization efforts
- Accelerate economic recovery in the hotel sector

Parameters for hotel incentive agreements:

- New hotels
- Projects with demonstrated and vetted finance gap
- 5-year deadline from agreement date to Certificate of Occupancy
- Subsidies are not to exceed 89.3% of annual TOT revenue, 20 years

PROJECT OVERVIEW



- Adaptive reuse and significant rehabilitation of the Historic Hearst Building
- Located at Third Street and Market in the heart of downtown
- Currently underutilized as an office building (70% vacant)
- Project completion will result in a 113-key hotel
- Entitled in 2019 and is shovel-ready

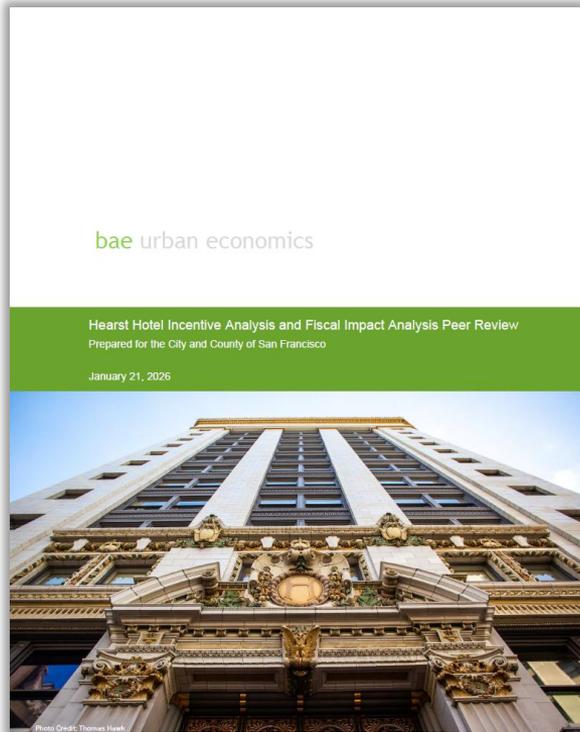
HOTEL INCENTIVE AGREEMENT



Hotel Incentive Agreement

- Incentive payments calculated based on a percentage of actual new hotel tax (TOT) generated by project, for up to 20-year period after hotel occupancy
- Enables feasibility of a new hotel
- City retains full 10.7% of TOT revenue that is dedicated to arts and culture (Prop E, 2018)
- Developer bears risk of hotel underperformance

Hotel Incentive Agreement Fiscal Impact Analysis



Summary Table 3: Combined Annual Fiscal Impact (2025\$)

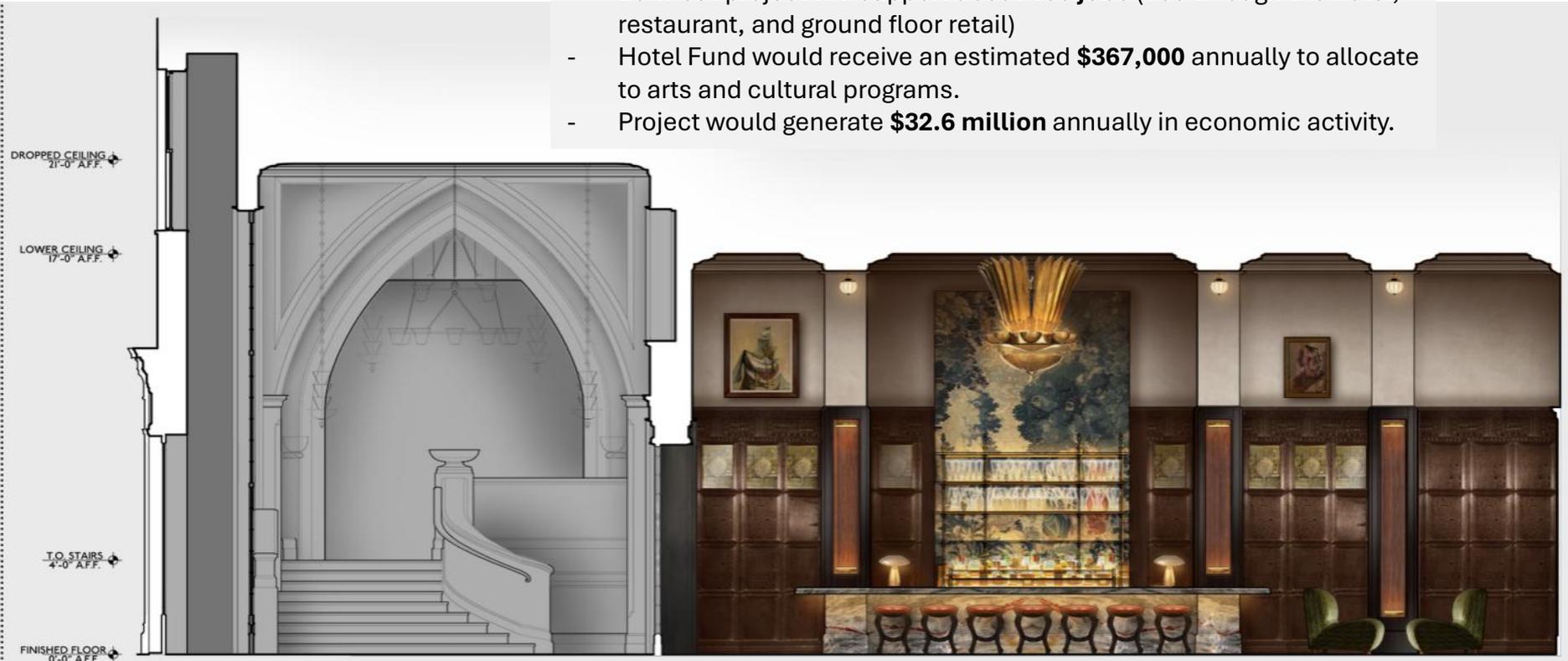
Revenue / Expense Category	TOT Incentive Period (Years 1 - 20)	Post TOT Incentive Period (Years 21 Onward)
Net Annual Impact on General Fund	\$713,000	\$2,897,000
Net Impact on MTA	\$157,000	\$450,000
Revenue to Special Funds (1)	\$93,000	\$93,000
Other Voter-Approved Baseline Funding (2)	\$64,000	\$649,000
Total Fiscal Impact	\$1,028,000	\$4,090,000

Note: Totals may not sum due to rounding.

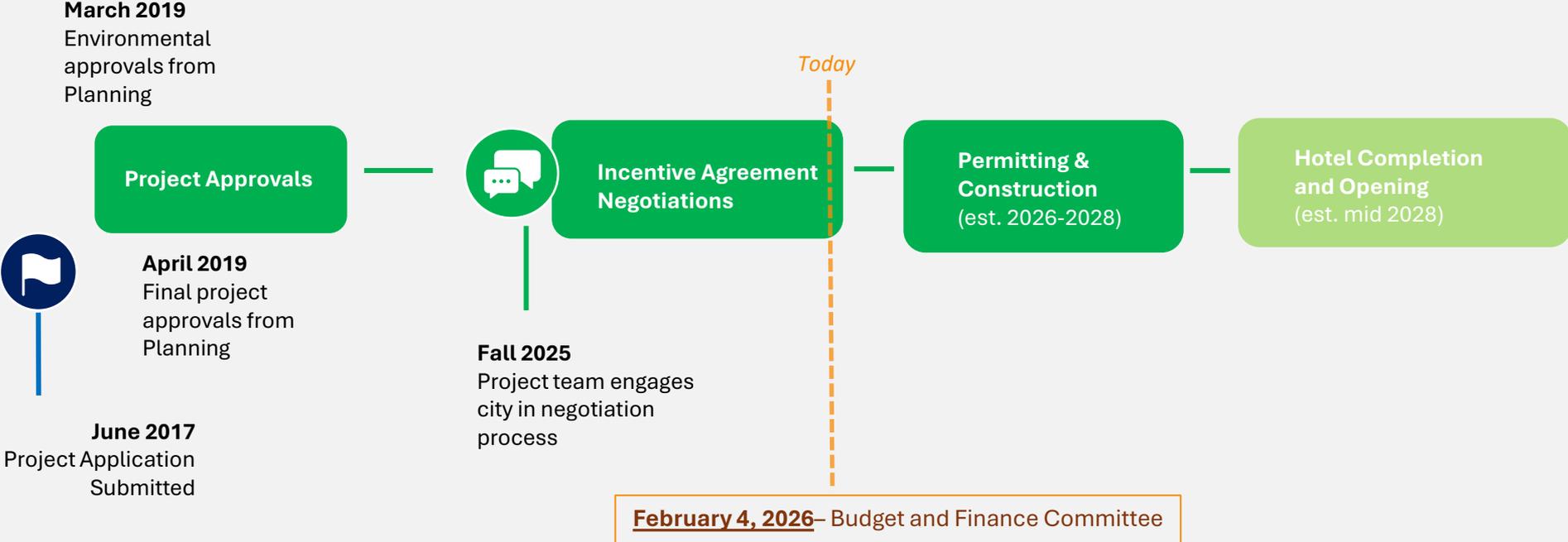
- Peer review of pro forma, project feasibility gap, and fiscal impact by City's financial consultant
- Confirms net fiscal benefit

Fiscal Impact Analysis Findings

- New net property tax revenue of **\$577,000** annually (more than ten times existing revenue)
- After rebate period ends, general fund revenue from TOT will be **\$3.1 million** annually.
- Built-out project will support about **150 jobs** (100 through the hotel, restaurant, and ground floor retail)
- Hotel Fund would receive an estimated **\$367,000** annually to allocate to arts and cultural programs.
- Project would generate **\$32.6 million** annually in economic activity.



Approval and Construction Timeline



A photograph of a grand, ornate hallway with high ceilings, arched doorways, and multiple chandeliers. The lighting is warm and golden. A semi-transparent white box is overlaid in the center of the image, containing text.

Thank you!

OEWD Project Manager: Maggie Mattson
margaret.mattson@sfgov.org



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Motion No. 20385

HEARING DATE: February 14, 2019

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

Case No.: 2016-007303ENV
Project Address: 5 Third Street
Zoning: C-3-O (Downtown Office) Use District
120-X Height and Bulk District
Block/Lot: 3707/057
Project Sponsor: Caroline Guibert Chase
Coblentz, Patch, Duffy & Bass
415-772-5793
Staff Contact: Josh Pollak
(415) 575-8766
josh.pollak@sfgov.org

ADOPTING FINDINGS RELATED TO THE APPEAL OF THE PRELIMINARY MITIGATED NEGATIVE DECLARATION, FILE NUMBER 2016-007303ENV FOR THE PROPOSED DEVELOPMENT ("PROJECT") AT 5 THIRD STREET.

MOVED, that the San Francisco Planning Commission (hereinafter "Commission") hereby AFFIRMS the decision to issue a Mitigated Negative Declaration, based on the following findings:

1. On May 18, 2016, pursuant to the provisions of the California Environmental Quality Act ("CEQA"), the State CEQA Guidelines, and Chapter 31 of the San Francisco Administrative Code, the Planning Department ("Department") received an Environmental Evaluation Application for the Project, in order that it might conduct an initial evaluation to determine whether the Project might have a significant impact on the environment.
2. On August 22, 2018, the Department determined that the Project, as proposed, could not have a significant effect on the environment.
3. On August 22, 2018, a notice of determination that a Mitigated Negative Declaration would be issued for the Project was duly published in a newspaper of general circulation in the City, and the Preliminary Mitigated Negative Declaration posted in the Department offices, and distributed all in accordance with law.
4. On September 11, 2018, two separate appellants, Rachel Mansfield-Howlett of Provencher & Flatt, LLP, on behalf of Friends of Hearst Building, and Yasin Salma, timely filed appeals of the decision to issue a Mitigated Negative Declaration.
5. On September 17, 2019, a notice of appeal hearing was published in a newspaper of general circulation in the City, sent to the two appellants, and those who requested notification related to the project.
6. On November 15, 2018, Susan Brandt-Hawley of Brandt-Hawley Law Group, on behalf of appellant Friends of Hearst Building, submitted a supplemental appeal letter.

7. On November 15, 2018, the Planning Commission considered a request by the Planning Department for continuance of the appeal hearing to December 13, 2018 and granted such request. By agreement of all parties, the matter was subsequently continued to February 14, 2019.
8. A staff memorandum, dated February 7, 2019, addresses and responds to all points raised by appellants in the appeal letters. That memorandum is attached as Exhibit A and staff's findings as to those points are incorporated by reference herein as the Commission's own findings. Copies of that memorandum have been delivered to the City Planning Commission, and a copy of that memorandum is on file and available for public review at the San Francisco Planning Department, 1650 Mission Street, Suite 400, San Francisco, California 94103.
9. On February 7, 2019, amendments were made to the Preliminary Mitigated Negative Declaration, adding text for information and clarification. Such amendments do not include new, undisclosed environmental impacts and do not change the conclusions reached in the Preliminary Mitigated Negative Declaration. The changes do not require "substantial revision" of the Preliminary Mitigated Negative Declaration, and therefore recirculation of the Preliminary Mitigated Negative Declaration would not be required.
10. On February 12, 2019, Yasin Salma submitted a supplemental appeal letter.
11. On February 13, 2019, Susan Brandt-Hawley of Brandt-Hawley Law Group, on behalf of appellant Friends of Hearst Building, submitted a supplemental appeal letter.
12. On February 14, 2019, the Commission held a duly noticed and advertised public hearing on the appeals of the Preliminary Mitigated Negative Declaration, at which testimony on the merits of the appeals, both in favor of and in opposition to, was received.
13. All points raised in the appeal of the Preliminary Mitigated Negative Declaration at the February 14, 2019 City Planning Commission hearing have been responded to either in the Memorandum or orally at the public hearing.
14. After consideration of the points raised by appellants, both in writing and at the February 14, 2019 hearing, the San Francisco Planning Department reaffirms its conclusion that the proposed project could not have a significant effect upon the environment.
15. In reviewing the Preliminary Mitigated Negative Declaration issued for the Project, the Planning Commission has had available for its review and consideration all information pertaining to the Project in the Planning Department's case file.
16. The Planning Commission finds that Planning Department's determination on the Mitigated Negative Declaration reflects the Department's independent judgment and analysis.

The City Planning Commission HEREBY DOES FIND that the proposed Project, could not have a significant effect on the environment, as shown in the analysis of the Mitigated Negative Declaration, and HEREBY DOES AFFIRM the decision to issue a Mitigated Negative Declaration, as prepared by the San Francisco Planning Department.

I hereby certify that the foregoing Motion was ADOPTED by the City Planning Commission on February 14, 2019.



Jonas P. Iorin
Commission Secretary

AYES: Fong, Hillis, Johnson, Koppel, Melgar, Moore, Richards

NOES: None

ABSENT: None

ADOPTED: February 14, 2019

Exhibit A

Planning Department Response to Appeal Letters



SAN FRANCISCO PLANNING DEPARTMENT

MEMO

Exhibit A to Draft Motion Planning Department Revised Response to Appeal of Preliminary Mitigated Negative Declaration

CASE NO. 2016-007303ENV – 5 THIRD STREET
PUBLISHED AUGUST 22, 2018, AMENDED FEBRUARY 7, 2019

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San Francisco,
CA 94103-2479

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BACKGROUND

An environmental evaluation application (2016-007303ENV) for the proposed project at 5 Third Street (assessor's block 3707, lot 057) was filed by Harry O'Brien on behalf of Bespoke Hospitality, LLC on May 18, 2016 for a proposal to convert the existing Hearst Building from office and retail use to a mixed-use hotel, including modifications to the rooftop to construct a bar and patio.

The project site is located on the southeast corner of Market and Third streets at the Hearst Building, an approximately 131,650-gross-square-foot, 13-story, 189-foot-tall building, which currently houses a bar/nightclub within the basement level, ground floor retail uses, and commercial office space on floors 2 through 13. The project site is occupied by two buildings: (1) a 13-story building (5 Third Street), which includes an eight-story annex, located on the corner of Third and Market streets; and (2) a three-story building (17-29 Third Street), located at the corner of Third and Stevenson streets, which shares an internal connection with the adjacent 5 Third Street (collectively, the two structures comprise the Hearst Building). The Hearst Building, built in c. 1909, is designated as Category I under Article 11 of the Planning Code, which means the building is judged to be individually important and to have excellent or very good architectural design for historic preservation purposes. In addition, the existing building has status of Category A (historic resource present) for the purpose of environmental review pursuant to CEQA.

The new mixed-use hotel would include ground level retail, restaurant/bar, and hotel lobby space. In the basement, new structural walls would be added as part of a seismic retrofit that would reconfigure and reduce the size of the existing tenant space. Levels 2 and 3 would include a mix of commercial office space, hotel rooms, and event space. Levels 4 through 12 would be occupied by hotel rooms. Level 4 would have an outdoor terrace event space overlooking Stevenson Street, and level 13 will be used as an indoor/outdoor event space with a kitchen, and a rooftop bar and patio overlooking the adjacent Monadnock building (685 Market Street) to the east. The proposed project would result in an approximately 131,550 gross-square-foot, 184-foot-tall building, with up to 170 hotel rooms, 5,920 square feet of office space, and 11,393 square feet of retail space, including 422 square feet of general retail, and 4,005 square feet of restaurant/bar uses. The project would include seismic and structural building system upgrades and would also meet LEED Gold building efficiency standards. No off-street parking would be provided. The sponsor would request reconfiguration of the curb on Stevenson Street to include a 60-foot long passenger loading zone. Valet service would be provided on the Stevenson Street frontage.

The project site is located in a Downtown-Office (C-3-O) zoning district and a 120-X height and bulk district. The proposed project would require a Major Permit to Alter from the Historic Preservation Commission, a Conditional Use Authorization from the Planning Commission for the proposed

hotel uses, a Downtown Project Authorization from the Planning Commission for substantial alterations to the building, a legislative amendment to Planning Code Section 188 to allow for alterations and enlargements to the existing noncomplying rooftop structures, a building permit from the Department of Building Inspection, a street space occupancy permit for construction staging from San Francisco Public Works, and approval of a passenger loading zone from the San Francisco Municipal Transit Agency.

A Preliminary Mitigated Negative Declaration (as revised, “PMND”) was published by the Planning Department on August 22, 2018. On September 11, 2018, two separate appellants, (1) Rachel Mansfield-Howlett of Provencher & Flatt, LLP, on behalf of Friends of the Hearst Building, an unincorporated association, and (2) Yasin Salma, filed letters appealing the environmental determination in the PMND.

The Planning Department received a supplemental letter from Susan Brandt-Hawley of Brandt-Hawley Law Group, on behalf of the Friends of the Hearst Building, on November 15, 2018, which contained additional comments and, as an attachment, a letter from the State Historic Preservation Officer (“SHPO”) dated November 9, 2018, regarding the project’s Historic Preservation Certification Application. Since the supplemental letter and material were received just before the scheduled appeal hearing, the Planning Department requested a continuance in order to consider and respond to the new information. The Planning Commission continued the appeal hearing to December 13, 2018 to allow the project sponsor to address comments from the SHPO related to the project’s consistency with the *Secretary of the Interior’s Standards for the Treatment of Historic Properties – Rehabilitation* (the Standards).¹ Subsequently, all parties agreed to a further continuance to February 14, 2019.

In response to the SHPO’s November 9, 2018 letter, the project sponsor submitted an amended Historic Preservation Certification Application seeking the SHPO’s review of project plans modified as described below. Specifically, instead of removing and relocating the glazed gold leaf panels in the lobby accessed from Market Street in order to create lobby doors for the hotel use, the proposed location of the doors was moved further into the lobby from the street entrance to create two doorway openings in the existing niches adjacent to the elevator banks. The position of the corridor doors from the 4th floor upward was adjusted to retain over 90 percent of the existing marble wall cladding and to further retain decommissioned doors. In addition, the height of the proposed elevator machine room was lowered by approximately two feet, so the final proposed building height would be 184 feet, about five feet lower than the existing building height of 189 feet. Access to the rooftop terrace proposed for 17-29 Third Street would be through proposed 4th floor window to door conversions that would retain existing window openings and would be visually consistent with the existing window design. The interconnecting stairs between the 2nd and 3rd floors would be relocated so that they do not intersect windows and new interior partitions have been relocated to avoid intersecting with existing windows.

¹ National Park Service. The Secretary of the Interior’s Standards for Treatment of Historic Properties. <https://www.nps.gov/tps/standards/four-treatments/treatment-rehabilitation.htm>. Accessed: September 27, 2018.

On December 18, 2018, the SHPO issued an amended response to the project's amended Historic Preservation Certification Application, which stated that the elements of the modified project discussed above meet the Standards.²

The Planning Department requested the historic resource evaluation previously prepared for the environmental review of the project be updated to reflect the modified project.³ In addition, Department preservation staff reviewed and concurred with the amended evaluation.⁴ The PMND has been revised to include analysis of the project revisions made in response to the SHPO's comments. The conclusions in the PMND, before and after its revision, remain the same. There would be no significant historic resource impacts as a result of the project.

The concerns listed below are summarized from the initial appeal letters and supplemental letters, copies of which are included within the appeal packet. The concerns are listed by appellant in the order presented in the appeal letters.

APPELLANT ISSUES AND PLANNING DEPARTMENT RESPONSES

Appeal 1 - Appellant Friends of the Hearst Building

The concerns raised in the September 11, 2018 Friends of the Hearst Building appeal letter, supplemental letter dated November 15, 2018, and verbal comments at the November 15, 2018 Planning Commission hearing are cited below and are followed by the Planning Department's responses. Changes made to the project to address the SHPO concerns since the letters were received have been highlighted when relevant.

RESPONSE TO CONCERN:

CONCERN 1: Impacts to Historical Resources: The appellant asserts that the project would alter or destroy character-defining features of the Hearst Building, including the gable/flat-roofed penthouse suites added by Julia Morgan in 1938 and a portion of the marble-clad walls and gold leaf panels in the lobby, as well as the removal of marble in the upstairs corridors, and that these changes may constitute a significant impact under CEQA.

² SHPO has remained conditioned the following work which is listed under Undeveloped and Future Work in the Conditions Sheet Historic Preservation Certification Application Part 2 dated November 9, 2018: interior improvements, systems and services, signage, and lighting, The Department's CEQA review of interior work has included identified character-defining interior spaces which include the lobby, that has determined, with SHPO agreement, that proposed work meets the Standards. The portions of the historic exposed interior brick in the commercial units of 17-29 3rd Street is also identified as a character-defining feature and will remain. All future signage will be reviewed by department's preservation staff to ensure that it meets Article 1111.2 of the Planning Code, which requires that signs meets the Standards and Department's sign guidelines. All lighting proposals will be reviewed and approved through the Major Permit to Alter, which also requires that all proposed lighting meeting the Standards.

³ Page & Turnbull, Inc. January 24, 2019. The Hearst Building and 17-29 3rd Street Historic Resource Evaluation, Part 2. This document, and all other documents cited in this response, unless otherwise noted, are available for review at the San Francisco Planning Department, 1650 Mission Street, Suite 400, as part of Case File No. 2016-0073030ENV.

⁴ San Francisco Planning Department. January 24, 2019. Preservation Team Review Form, Hearst Building.

RESPONSE TO CONCERN 1: The PMND appropriately treats the Hearst Building as an historic resource under CEQA. Pursuant to CEQA Guidelines Sections 15064.5(a)(1) and 15064.5(a)(2), historical resources are buildings or structures that are listed, or are eligible for listing, in the California Register of Historical Resources (CRHR)⁵ or are identified in a local register of historical resources, such as Articles 10 and 11 of the San Francisco Planning Code. The PMND describes that the Hearst Building, consisting of the buildings at 5 Third Street and 17-29 Third Street, is a historic resource for the purpose of environmental review. The PMND states on p. 1 that the project site is occupied with a “Category A” property (historic resource present) for purposes of CEQA review. The PMND also notes on p. 20 that each of the buildings on the project site (the Hearst Building and 17-29 Third Street) is designated as a historic resource under Article 11 of the San Francisco Planning Code and are historic resources for the purposes of CEQA review.

As both buildings are historic resources according to CEQA, the PMND evaluated whether the proposed project would cause a substantial adverse change in the significance of a historical resource. A “substantial adverse change” means “physical demolition, destruction, relocation, or alterations of [a] resource or its immediate surroundings such that the significance of an historical resource would be materially impaired.” CEQA Guidelines Section 15064.5(b)(1). The significance of an historical resource is “materially impaired” when a project “[d]emolishes or materially alters in an adverse manner those physical characteristics of an historical resource that convey its historical significance and that justify its inclusion in, or eligibility for, inclusion in the California Register of Historical Resources[.]” CEQA Guidelines Section 15064.5(b)(2)(A). The PMND found that the project would have a less-than-significant impact with respect to historic resources and would not cause a substantial adverse effect in the significance of a historic resource as described in more detail below.

The historic resource analysis in the original PMND was based on the Historic Resource Evaluation (HRE) Part 2 report prepared by Page & Turnbull, Inc.⁶ The report analyzed the proposed project for compliance with the Standards, in the case of this rehabilitation project, the *Standards for Rehabilitation*, a series of 10 standards addressed in pp. 23 through 29 of the PMND. Projects that comply with the Standards would have a less-than-significant adverse impact on a historic resource, pursuant to CEQA Guidelines Section 15064.5(b)(3). The Planning Department concurred with the HRE Part 2 report, and found that the project complies with the Standards and would therefore have a less than significant impact on the historic resources for the purposes of CEQA.

⁵ With respect to eligibility for the CRHR, a property may be considered a historical resource if it meets any of the CRHR criteria related to (1) events, (2) persons, (3) architecture, or (4) information potential, that make it eligible for listing in the California register, or if it is considered a contributor to a potential historic district. Neither building is listed on the CRHR, but both were found to be eligible for CRHR listing in the historic resource evaluation. The Hearst Building would be eligible for the CRHR under Criteria 1, 2, and 3, and that 17-29 Third Street building would be eligible for listing in the CRHR under Criterion 3.

⁶ Page & Turnbull, Inc. July 31, 2018. The Hearst Building and 17-29 3rd Street Historic Resource Evaluation, Part 2.

As described above, the project sponsor modified the project to address comments from the SHPO.⁷ As a result, the HRE Part 2 report has been updated to analyze the modified project.⁸ The Planning Department concurs with the updated report and analysis, and has completed a Preservation Team Review Form,⁹ which finds that the modified project continues to comply with the Standards and would therefore have a less than significant impact on the historic resources for the purposes of CEQA.

With respect to the character-defining features cited in the appellant's letter, the Standards analysis in the PMND (strikethrough/additions shown below comparing original and revised PMND) addresses retaining and preserving the historic character of the project site:

As proposed, the project would not remove distinctive materials and character-defining features of the Hearst Building's exterior facades. Exterior alterations would occur at portions of storefront systems that are not character-defining. At the rooftop of 5 Third Street, the proposed project would demolish the ~~gable/flat-roofed~~ gable and flat-roofed conference penthouse suite ~~added~~ designed by Julia Morgan ca.1938. The Julia Morgan-designed penthouse ~~which~~ is considered a character-defining feature as it dates to the building's period of significance and possesses high artistic value. However, the penthouse is not visible from the public right-of-way and is not publicly accessible (nor was it historically). The spatial relationships between 5 Third Street and neighboring buildings would not change. At the interior of 5 Third Street, the ~~The~~ proposed project would remove a portion of the distinctive non-gilded marble-clad walls ~~and eight gold leaf panels~~ within the historic lobby to accommodate two new door openings, each with a single sidelight. The ~~gold leaf panels~~ new door openings would be located perpendicular to two existing doors at the north and south niches of the lobby's semi-circular area salvaged and re-used in the building's upstairs public areas. The lobby and the exterior of the Hearst Building would retain all other character-defining features and would continue to be able to convey its historic significance.¹⁰

The project calls for alteration, relocation, and selective demolition of the several rooftop structures include the gable/flat roofed penthouse suite, a character-defining feature as described above. However, the penthouse suite is not visible from the public right-of-way. Even with the proposed removal of the penthouse suite, the building would retain its character so that it would continue to convey its historical significance. In addition, the modified project was determined to be in compliance with the Standards, which allow for limited changes to historic buildings in order to accommodate new contemporary uses.

The PMND describes the project revisions that would preserve the gold leaf panels within the historic lobby, and instead a portion of the non-gilded marble-clad walls within recessed alcoves in

⁷ Forge and Bespoke Hospitality. November 20, 2018. Heart Hotel San Francisco, Project Plans.

⁸ Page & Turnbull, Inc. January 24, 2019. The Hearst Building and 17-29 3rd Street Historic Resource Evaluation, Part 2.

⁹ San Francisco Planning Department. January 24, 2019. Preservation Team Review Form, Hearst Building.

¹⁰ Page & Turnbull, Inc. January 24, 2019. The Hearst Building and 17-29 3rd Street Historic Resource Evaluation, Part 2, pg. 19.

the historic lobby would be used to accommodate two new door openings, which would be less impactful, as it would leave the gold leaf panels intact. The project would not affect the buildings' eligibility for listing in the California Register. According to CEQA Guidelines Section 15126.4(b)(1), if a project complies with the Standards, the project's impact "shall generally be considered mitigated below a level of significance and thus is not significant."¹¹ Because the modified project at the Hearst Building complies with the Standards, it would not cause a significant impact to historic resources under CEQA.

While the project is deemed to have a less-than-significant impact as defined by CEQA, two improvement measures would be implemented to reduce the project's less-than-significant historic resources impact. Improvement Measure I-CR-1a: HABS Documentation, would record through measured drawings, photographs, and a written report the pre-project condition of the building and its character-defining architectural features, which would be reviewed and approved by the Planning Department's Preservation Coordinator prior to submission to History Room of the San Francisco Public Library, San Francisco Architectural Heritage, and the Northwest Information Center of the California Historical Information Resource System. Additionally, Improvement Measure I-CR-1b: Construction Best Practices for Historic Resources, would put in place procedures to ensure the masonry and terra cotta cladding are protected throughout the selective demolition, construction activity, and rehabilitation work.¹²

Regarding marble in the upstairs corridors, the HRE Part 2 report does not include the marble in upstairs corridors as part of the list of character-defining features of the Hearst Building. While some marble in the upstairs corridors is proposed for removal as part of the modified project to accommodate the relocation of interior doors, over 90 percent of the existing marble wall cladding would be retained. Where doors are relocated, the existing marble would be reinstalled to infill existing door openings. The appellant has not provided evidence that the marble in the upstairs corridors should be considered a character-defining feature. In addition, the *Guidelines for Rehabilitating Historic Buildings* (Guidelines)¹³ note that in building interiors, which include hallways, "extensive changes can often be made in these less important areas without having a detrimental effect on the overall historic character." The Guidelines also recommend that historic material be reused within the rehabilitation project, which the proposed project would do for the marble in the upstairs corridors.

The proposed hotel use is compatible with the existing building in that it retains the historic character of the building while making changes in focused areas of previous alterations and secondary areas, and relocating specific elements so that the new use retains the functionality of original historic spaces.

¹¹ See also CEQA Guidelines § 15064.5(b)(3).

¹² Full text of the improvement measures is contained on pp. 30 to 32 of the PMND.

¹³ National Park Service. The Secretary of the Interior's Guidelines for Rehabilitating Historic Buildings. <https://www.nps.gov/tps/standards/rehabilitation/rehabilitation-guidelines.pdf>. Accessed: February 6, 2019

In summary, the HRE Part 2 report and the SHPO's assessment found that the modified project complies with the Standards and the department concurs with that finding.¹⁴ The department determined that the project would therefore have a less-than-significant impact on the historic resources for the purposes of CEQA.

The appellant has not provided any evidence that the project as modified would have significant impacts to historic resources. Therefore, no further response is possible. As described in CEQA Guidelines Section 15384, argument, speculation, unsubstantiated opinion or narrative, evidence which is clearly erroneous or inaccurate, or evidence of social or economic impacts which do not contribute to or are not caused by physical impacts on the environment does not constitute substantial evidence. The appellant has not provided any evidence that potentially significant environmental impacts not identified in the PMND would occur.

CONCERN 2: Land Use Entitlements: The appellant lists the required approvals for the proposed project and asserts that potentially significant impacts may occur in relation to each discretionary project approval during construction and operation of the proposed project.

RESPONSE TO CONCERN 2: The PMND identifies the physical environmental effects of the whole of the proposed project for each resource topic in the initial study as required by CEQA. For environmental impacts determined to be significant (cultural resources, noise, and air quality), the PMND has identified mitigation measures that would reduce significant impacts to less than significant as summarized on p. 12. The required approvals identified would enable the proposed project to proceed and would not result in any additional physical environmental effects beyond those of the proposed project as described in the PMND. The appellant has not identified any specific environmental impacts that are not addressed in the PMND, nor has the appellant provided any evidence that potentially significant environmental impacts not identified in the PMND would occur in relation to the project approvals listed.

CONCERN 3: Hazardous Materials: The appellant states that the project site is identified by the State Water Resources Control Board as a leaking underground storage tank site and that toxic underground contamination would be exacerbated by excavation due to the project, thereby resulting in a significant environmental impact.

RESPONSE TO CONCERN 3: As described in the on p. 113 of the PMND, the project site is on a list of hazardous materials sites compiled by the California Department of Toxic Substance Control pursuant to Government Code Section 65962.5. According to the State Water Resource Control Board, the site was listed as containing a leaking underground storage tank with heating/fuel oil in May 1996, but the site investigation and remedial action for the underground storage tank were completed and the case was closed in October 1999.¹⁵ The San Francisco Department of Public Health, which is the

¹⁴ As noted above, SHPO has remained conditioned some interior changes, systems and services, signage, and lighting,

¹⁵ State Water Resource Control Board, Leaking Underground Tank Sites, Geotracker, The Hearst Corporation (T0607501172), 38-1287 (Regional Board), 11164 (Local Agency). Added to list: May 23, 1996. Case Closed: October 8, 1999. Available online at: <https://geotracker.waterboards.ca.gov>, accessed July 31, 2018.

Local Oversight Program for the State Water Resources Control Board, stated that no further action related to the underground tank is required.¹⁶

The cleanup that occurred on the project site is the reason that the project site is included in the Maher Area, which is a list of areas that are known or suspected to contain contaminated soil and/or groundwater.¹⁷ If the proposed project were to disturb at least 50 cubic yards of soil, and the site history indicated that hazardous substances may be present, the proposed project would be required to enroll in the Maher program, which is administered and overseen by the San Francisco Department of Public Health.

Less than 50 cubic yards of soil would be disturbed or excavated as part of the proposed project. The foundation reinforcement for the proposed project would require approximately 50 micropiles, which would be about 8 inches in diameter. The micropile installation would require excavation to a depth of approximately 50 feet in depth, which would require excavation and removal of up to 40 cubic yards of soil. As the proposed project would remove less than 50 cubic yards of soil and the project does not propose sensitive land uses, it would not be subject to the Maher Ordinance. Based on guidance from the San Francisco Department of Public Health, excavation of less than 50 cubic yards of soil would not be expected to result in significant impacts to the environment or human health.¹⁸

In addition, Health Code Article 21 provides for the safe handling of hazardous materials in the City by requiring any business that handles specified quantities of hazardous materials (which includes contaminated soil) to keep a current certificate of registration and to implement a hazardous material plan.

In conclusion, the site contained a leaking underground storage tank, which was remediated in October 1999, and is the reason the project site is within the Maher Area. The volume of soil excavated for the project would be below the 50 cubic yards of soil threshold set by the Department of Public Health to prevent significant impacts to the environment or human health. Any hazardous materials which may be encountered during construction would be required to be handled according to Health Code Article 21. The appellant has not submitted any evidence that hazardous material would be encountered during project construction and that this would result in a potentially significant impact.

CONCERN 4: Displacement of Non-Profit Businesses: The appellant asserts that the displacement of non-profit businesses from the office uses currently in the building may be a potentially significant impact.

RESPONSE TO CONCERN 4: The potential displacement of non-profit businesses under the existing office uses is considered an economic or social effect, and not a physical effect on the

¹⁶ Remediation Action Completion Certification, Underground Storage Tank (UST) Case, The Hearst Corporation, 5 Third Street, San Francisco, LOP Case No. 11164, October 8, 1999, available online at: <https://geotracker.waterboards.ca.gov>, accessed October 23, 2018.

¹⁷ See San Francisco Health Code Article 22A (the "Maher Ordinance").

¹⁸ San Francisco Department of Public Health. February 21, 2014. Interagency Memo—Sites Excavating Less than 50 Cubic Yards of Soil and Maher Ordinance Compliance.

environment. CEQA Guidelines Section 15064(e) states that economic and social changes resulting from a project shall not be treated as significant effects on the environment, but such economic and social changes may be used to determine that a physical change shall be regarded as a significant effect on the environment. The appellant has not provided any evidence that displacement of non-profit businesses would result in a potentially significant environmental effect.

CONCERN 5: BART Tunnel Impacts: The appellant asserts that construction adjacent to the BART tunnel under Market Street may be a potentially significant impact.

RESPONSE TO CONCERN 5: As noted in the PMND, the project site is located adjacent to the below grade BART right-of-way along Market Street. BART requires that structures over or adjacent to BART's subway structures shall be designed and constructed so as not to impose any temporary or permanent adverse effects on subway. To achieve this, BART has issued *General Guidelines for Design and Construction Over or Adjacent to BART's Subway Structures*,¹⁹ and *General Guidelines for Design and Construction Over or Adjacent to BART's At-grade and Aerial Structures*.²⁰ In addition, BART implements a construction permit review process. Portions of the project construction work may be within the BART Zone of Influence.²¹ Due to the proximity of the project site to the BART tunnel, project plans must be reviewed by BART and cannot impose any temporary or permanent adverse effects on the BART tunnel structure. Therefore, the project sponsor must submit an application for a construction permit to BART, and if BART determines that inspection or monitoring would be needed for the project, a permit issued by BART would be required prior to the commencement of construction. The potential need for a permit from BART does not indicate the potential for a significant impact to BART infrastructure, nor would the application for a permit require the preparation of an EIR.

In addition, the Department of Building Inspection will not issue site permits for the proposed project without BART's review of, and input regarding, the construction permit application. Overall, review of proposed construction for the project by BART and the building department permit review process would ensure that construction of the project would not result in a significant environmental impact.

In addition, the project sponsor has met with BART's engineering department three times, submitted studies analyzing potential impacts to BART infrastructure to demonstrate that the project would not impact their infrastructure, and submitted detailed engineering calculations. In response, BART issued a letter indicating that BART has no objection to the project proceeding to

¹⁹ Bay Area Rapid Transit District (BART). July 2003. *General Guidelines for Design and Construction Over or Adjacent to BART's Subway Structures*. Online at https://www.bart.gov/sites/default/files/docs/Gen_Guide_Subway_062012.pdf. Accessed October 19, 2018.

²⁰ Bay Area Rapid Transit District. October 2001. *General Guidelines for Design and Construction Over or Adjacent to BART's Subway Structures*. Online at https://www.bart.gov/sites/default/files/docs/Gen_Guide_At_Grade_062012.pdf. Accessed October 19, 2018.

²¹ The BART Zone of Influence is defined as the area above a line of influence, which is a line from the critical point of BART structures at a slope of 1 ½ horizontal to 1 vertical (as a line sloping towards ground level). See: https://www.bart.gov/sites/default/files/docs/Gen_Guide_Subway_062012.pdf, Accessed: October 16, 2018.

at Planning Commission hearing and BART is currently reviewing the project to determine whether the project would require a permit from BART.²²

CONCERN 6: Site-Specific and Cumulative Impacts: The appellant states that a full range of site-specific and cumulative environmental resource impacts may occur as a result of the project.

RESPONSE TO CONCERN 6: The PMND for the proposed project analyzed all potentially significant environmental impacts associated with the proposed project, both at a project-specific and a cumulative level. Each of the 17 resource topics covered in the PMND contains project-specific analysis and an analysis of potential cumulative impacts. All potentially significant impacts were mitigated to a less-than-significant level, with mitigation measures implemented for cultural resources (archeology and tribal cultural resources only), noise, and air quality.

CONCERN 7: Preparation of an EIR: The appellant seeks preparation of an Environmental Impact Report (EIR) to study potential project impacts and feasible alternatives and mitigation.

RESPONSE TO CONCERN 7: Following preparation of an Initial Study, the Planning Department issued a PMND, which found that the proposed project could not have a significant effect on the environment. The finding is based on the criteria of CEQA Guidelines Sections 15064 (Determining Significant Effect), 15065 (Mandatory Findings of Significance), and 15070 (Decision to prepare a Negative Declaration), and the reasons documented in the PMND. The PMND does not contain, nor has appellant provided, any substantial evidence that the proposed project would result in potential significant environmental impacts that have not already been addressed and determined to be “Less Than Significant with Mitigation Incorporated” in the PMND.

According to CEQA Guidelines Section 15063(b)(1), an EIR is required to be prepared if the agency determines there is substantial evidence that any aspect of the project, either individually or cumulatively, may cause a significant effect on the environment that cannot be mitigated to a less-than-significant level. As described above, for each concern raised by the appellant, the appellant has not provided substantial evidence that would support a fair argument that any significant environmental effect may occur as a result of the proposed project. Speculation and argument does not constitute evidence that a significant effect on the environment could occur.

In addition, according to CEQA Guidelines Section 15063(b)(2), a Negative Declaration shall be prepared if there is no substantial evidence that the project or any of its aspects may cause a significant effect on the environment. As required by CEQA, the PMND provides an accurate characterization of the proposed project and the proposed project’s potential environmental impacts. The PMND and its supporting technical studies provide substantial evidence that the proposed project could not result in significant impacts to the environment. Therefore, preparation of an EIR is not required.

CONCERN 8: Concerns Raised in the SHPO’s November 9, 2018 Letter: The appellant requested that the appeal be continued pending submission and review of a project that meets the Standards.

²² Gary Anderson, Senior Real Estate Engineer, BART. October 29, 2018, File: M-07.0-002-SF. “Re Hearst Hotel—Tunnel Force Analysis.”

RESPONSE TO CONCERN 8: The Planning Department requested a continuance of the hearing to review and adequately respond to the concerns raised in the letter. In response to the concerns raised in the SHPO's November 9, 2018 letter, the project sponsor modified the project as described above and as analyzed in the revised PMND. On December 18, 2018, the SHPO issued an amended response to the project's Historic Preservation Certification Application, which stated that the revised elements of the project, as revised, meet the Standards. Per SHPO's response this work included revisions and clarifications concerning the historic lobby, corridors, main elevator penthouse height, rooftop and related landscape work, and the interconnected stairway between the second and third floors.

CONCERN 9: HPC Process-Related Concerns: The appellant states that the Historic Preservation Commission should review the project to provide its expertise on historic resource impacts and appropriate mitigation prior to review by the Planning Commission.

RESPONSE TO CONCERN 9: Pursuant to Section 31.04 of Chapter 31 of the San Francisco Administrative Code, the Historic Preservation Commission (HPC) has the authority to review and comment on environmental documents and determinations, including the PMND. The HPC and Planning Commission as decision-makers for the project were provided with the PMND when it was released on August 22, 2018 through a Notice of Availability of and Intent to Adopt a Mitigated Negative Declaration, which specified a hyperlink to the full PMND document online. No comments were received during the PMND review period from the HPC. Therefore, the HPC had an opportunity to review and comment on the proposed project, and the HPC did not comment on the proposed project. The HPC did not request a hearing or additional information on the PMND from staff.

CEQA must be completed before any discretionary action related to the project may be taken. For this project, the MND would be finalized before the HPC could consider approval of the Major Permit to Alter, required for this project under Article 11 of the Planning Code. According to Section 4.135 of Article 4 of the San Francisco Charter, for projects that require multiple planning approvals (such as this project), the HPC must review and act on any permit to alter before any other planning approval action. The HPC has the authority to approve, disprove, or modify applications for permits to alter as part of their review of projects requiring such actions. Following an approval of the Major Permit to Alter by the HPC (which would include adopting the FMND), the proposed project would then return to the Planning Commission, and subsequently to the Board of Supervisors, for project approvals as outlined in the PMND. In summary, HPC was provided the PMND for review and comment, including the historic resource analysis and determination of the level of significance of project cultural resource impacts. The HPC will review the project during its consideration of the Major Permit to Alter, but CEQA review must be completed before the HPC can act on approval of the project.

CONCERN 10: Input from San Francisco Heritage: The appellant requests review of the proposed project by San Francisco Heritage, a non-profit historic preservation organization.

RESPONSE TO CONCERN 10: The proposed entitlements do not require review by San Francisco Heritage, nor is there a requirement under CEQA for the project to be reviewed by San Francisco Heritage. However, the project sponsor provided San Francisco Heritage the opportunity to review

and comment on the project, as revised. Following its review, San Francisco Heritage provided a comment letter dated January 23, 2019, which has been added to the appeal packet. In summary, the letter states that San Francisco Heritage “feels that the proposed adaptive reuse as a hotel is appropriate and sympathetic to the long-term preservation of the historic building,” “applauds the sponsor for its efforts so far to incorporate multiple design changes recommended by the [California Office of Historic Preservation],” and “Heritage is reassured by the project sponsor’s demonstrated commitment to fully comply with the Secretary’s Standards.”²³ Overall, while San Francisco Heritage’s review is not required by department process or under CEQA, the letter received from the organization indicates the organization has reviewed the project and feels that the project’s proposed adaptive reuse is appropriate and sympathetic to the long-term preservation of the building.

Appeal 2 – Appellant Yasin Salma

The concerns raised by Yasin Salma, in an appeal letter filed September 11, 2018 and supplemental e-mails dated September 19 and 20, are cited below and are followed by the Planning Department’s responses. The second appellant’s concerns are numbered sequentially, continuing the numbering of the concerns addressed above.

CONCERN 11: Change of Use for Parking: The appellant asserts that the proposed project would illegally change a portion of the use of the first floor from retail to valet parking use.

RESPONSE TO CONCERN 11: The appellant has indicated the basis for his appeal regards the parking for the proposed hotel. No parking, including by valet, would be provided onsite for the proposed hotel. As described in the Transportation topic of the PMND on p. 3, the project sponsor would provide valet service that would be available for all building guests through a contracted third-party valet service. The third-party valet company would be responsible for securing parking contracts with existing local parking garages to accommodate the daily valet parking demand. The valet service would operate in the right-of-way on Stevenson Street. The valet stand would be located at the eastern end of a proposed 60-foot on-street passenger loading zone, approximately 70 feet east of the Third and Stevenson Street intersection. The project sponsor would request that the SFMTA install a 60-foot-long passenger loading zone (3 spaces) for hotel valet service along the project frontage on the north side of Stevenson Street.

The proposed project’s valet operations would not displace existing retail uses at the project site, as there are no existing retail uses along Stevenson Street at the project site. In addition, the appellant states that the first floor would be illegally changed from all retail use to retail use on Third Street and “changing 50 percent of first floor from retail to valet parking for the Hearst Hotel.” This is incorrect. The proposed project would not alter any existing retail uses at the Hearst Garage (block 3707, lot 057, the block bound by Stevenson Street, Annie Street, Jessie Street and Third Street), which is across Stevenson Street from the site, but not part of the project site. As such, there would be no effect from the proposed project to the existing retail uses at the Hearst Garage. The proposed

²³ San Francisco Heritage, January 23, 2019. Letter Regarding Hearst Building Rehabilitation Project.

project would, however, alter the first floor of the project site by eliminating existing retail east of the building entrance along the building frontage on Third Street in order to accommodate a lobby and lounge, as shown in Figure 3 of the PMND.

The valet service would be located curbside on the north side of Stevenson Street, and would primarily park vehicles at the Hearst Garage across from the project site on Stevenson Street, using the vehicle entrance from the south side of Stevenson Street, approximately 70 feet east of the project site. The proposed project would not result in any physical changes to the Hearst Garage. Currently, there are two retail tenants in the Hearst Garage along Third Street. The proposed project would not affect these retail spaces. The Hearst Garage has been operating based on code-conforming uses. The facility is currently permitted as a continuation of an existing parking facility in the C-3-O zoning district, per sections 178 and 210.2 of the Planning Code. There are currently no open complaints regarding the Hearst Garage, and no applications on file at the Planning Department for the Hearst Garage.

In summary, there is no evidence that the proposed project would result in a change of use or loss of existing retail uses along Third Street in the Hearst Garage, nor has the appellant provided any evidence of a proposed change in use. The proposed changes to retail uses in the Hearst Building on the project site have been described in the PMND. To the extent that this Concern 8 alleges a potential land use change that is not part of proposed project, Concern 8 does not relate to the analysis of the project under CEQA.

CONCERN 12: Inclusion of Public Art/Green Wall: The appellant states that the sponsor should install a green wall or other artwork to beautify the Hearst Garage.

RESPONSE TO CONCERN 12: As stated above, the Hearst Garage is not located on the project site and is not part of the proposed project. Vehicles utilizing the proposed valet service may be parked in the Hearst Garage or elsewhere in the project's vicinity. The appellant's suggestion to include a green wall or other artwork on the outside of the Hearst Garage is noted and has been provided to the project sponsor, which does not own or otherwise control the Hearst Garage. There is no requirement for the proposed project to provide a green wall or other artwork on an adjacent building outside of the project site. This comment does not relate to the analysis of the project under CEQA, nor has the appellant provided any evidence that a green wall or artwork relates to the analysis of the proposed project under CEQA.

CONCERN 13: Analysis of Parking, Noise and Pollution: The appellant asserts that parking, noise, and pollution should be included in the report for the proposed project.

RESPONSE TO CONCERN 13: Parking, noise, and pollution from the proposed project are analyzed as required by CEQA in the PMND. The analysis summarized in the PMND is documented in the supporting technical reports cited. As noted on p. 13 of the PMND, parking impacts are not considered significant environmental impacts for infill projects located within a transit priority area in accordance with California Public Resources Code Section 21099. The transportation impact study (summarized under topic 4, Transportation and Circulation, beginning on p. 40 of the PMND) prepared for the proposed project did, however, analyze vehicular site circulation as well as commercial and passenger loading, among other topics, and no significant impacts were identified. Noise was analyzed under topic 5, beginning on p. 57 of the PMND. All

noise impacts were found to be less than significant with mitigation or less than significant. Three mitigation measures related to noise were identified to reduce outdoor fixed noise, 4th floor terrace noise, and rooftop deck noise. Air quality was analyzed in topic 6, beginning on p. 66 of the PMND. All air quality impacts were found to be less than significant with mitigation or less than significant, and two mitigation measures were identified to reduce construction emissions and diesel generator emissions below significant levels.

The PMND analyzed the topics stated by the appellant, and the appellant has not provided any specific information or any evidence about any of these topics that requires further analysis.

CONCLUSION

According to CEQA Guidelines section 15063(b)(1), an EIR is required to be prepared if there is substantial evidence that any aspect of a project, either individually or cumulatively may, cause a significant effect on the environment that cannot be mitigated to a less-than-significant level. Neither appellant has provided substantial evidence that would indicate that the proposed project would have a significant impact on the environment that cannot be mitigated to a less-than-significant level, necessitating the preparation of an EIR. The PMND provides an accurate characterization of the proposed project (as modified) as required by CEQA and provides substantial evidence that the proposed project would not result in significant impacts to the environment. Therefore, preparation of an EIR is not required.

Staff recommends that the Planning Commission adopt the motion to uphold the MND. The appellants have not presented any substantial evidence supporting a fair argument that a significant environmental effect may occur as a result of the project, and that would warrant preparation of an EIR.



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Motion No. 20436

HEARING DATE: APRIL 25, 2019

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

Record No.: 2016-007303PCA/DNX/CUA
Project Address: 5 Third Street
Zoning: C-3-O (Downtown-Office) Zoning District
120-X Height and Bulk District
Block/Lot: 3707/057
Project Sponsor: Todd Chapman, Bespoke Hospitality, LLC
c/o JMA Ventures, LLC
460 Bush Street
San Francisco, CA 94108
Property Owner: The Hearst Corporation
5 Third Street, 2nd Floor
San Francisco, CA 94103
Staff Contact: Seema Adina – (415) 575-8722
seema.adina@sfgov.org

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entirety of this voluminous file

ADOPTING FINDINGS RELATED TO THE APPROVAL OF A SECTION 309 DETERMINATION OF COMPLIANCE AND A REQUEST FOR EXCEPTION FOR LOADING PER PLANNING CODE SECTION 161(E) AS PART OF A PROJECT THAT WOULD REHABILITATE THE EXISTING 13-STORY BUILDING THROUGH THE CONVERSION OF APPROXIMATELY 119,327 SQUARE FEET OF OFFICE USE TO A 170-ROOM HOTEL, WITH 11,393 SQUARE-FEET OF RETAIL, THE ADDITION OF A ROOF DECK AND EVENT SPACE AND INTERIOR ALTERATIONS LOCATED AT 5 THIRD STREET, LOT 057 IN ASSESSOR'S BLOCK 3707, WITHIN THE C-3-O (DOWNTOWN-OFFICE) ZONING DISTRICT AND A 120-X HEIGHT AND BULK DISTRICT.

PREAMBLE

On May 18, 2016, Harry O'Brien on behalf of The Hearst Corporation ("Project Sponsor") filed an application with the Planning Department ("Department") for Environmental Review to convert the existing Hearst Building from office and retail use to a mixed-use hotel, containing 118,327 square-feet and 170-room hotel, 5,920 square feet of office space, and 11,393 square feet of retail space.

On June 27, 2017, the Project Sponsor filed an application with the Department for a Determination of Compliance with Planning Code Section 309 as modified and supplemented on September 6, 2018, with exceptions to the requirements of Off-Street Loading (Section 161(e)) within the C-3-O (Downtown-Office) District.

On June 27, 2017, the Project Sponsor also filed an application with the Department for a Conditional Use Authorization as modified and supplemented on September 6, 2018, under Planning Code Sections 210.2 and 303 to establish tourist hotel use within the C-3-O (Downtown-Office) District and a 120-X Height and Bulk District.



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Motion No. 20437

HEARING DATE: APRIL 25, 2019

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
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Fax:
415.558.6409

Planning
Information:
415.558.6377

Record No.: 2016-007303PCA/DNX/CUA
Project Address: 5 Third Street
Zoning: C-3-O (Downtown-Office) Zoning District
120-X Height and Bulk District
Block/Lot: 3707/057
Project Sponsor: Caroline Chase Guibert
Coblentz, Patch, Duffy & Bass
1 Montgomery Street
San Francisco, CA 94104
Property Owner: The Hearst Corporation
5 Third Street, 2nd Floor
San Francisco, CA 94103
Staff Contact: Seema Adina – (415) 575-8722
seema.adina@sfgov.org

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ADOPTING FINDINGS RELATED TO THE APPROVAL OF A CONDITIONAL USE AUTHORIZATION PURSUANT TO PLANNING CODE SECTIONS 210.2 AND 303, TO ESTABLISH HOTEL USE AS PART OF A PROJECT THAT WOULD REHABILITATE THE EXISTING 13-STORY BUILDING THROUGH THE CONVERSION OF APPROXIMATELY 119,327 SQUARE FEET OF OFFICE USE TO A 170-ROOM HOTEL, WITH 11,393 SQUARE-FEET OF RETAIL, THE ADDITION OF A ROOF DECK AND EVENT SPACE AND INTERIOR ALTERATIONS LOCATED AT 5 THIRD STREET, LOT 057 IN ASSESSOR'S BLOCK 3707, WITHIN THE C-3-O (DOWNTOWN-OFFICE) ZONING DISTRICT AND A 120-X HEIGHT AND BULK DISTRICT.

PREAMBLE

On May 18, 2016, Harry O'Brien on behalf of The Hearst Corporation ("Project Sponsor") filed an application with the Planning Department ("Department") for Environmental Review to convert the existing Hearst Building from office and retail use to a mixed-use hotel, containing 118,327 square-feet and 170-room hotel, 5,920 square feet of office space, and 11,393 square feet of retail space.

On June 27, 2017, the Project Sponsor filed an application with the Department for a Determination of Compliance with Planning Code Section 309 as modified and supplemented on September 6, 2018, with exceptions to the requirements of Off-Street Loading (Section 161) within the C-3-O (Downtown-Office) District.

On June 27, 2017, the Project Sponsor also filed an application with the Department for a Conditional Use Authorization as modified and supplemented on September 6, 2018, under Planning Code Sections 210.2 and 303 to establish tourist hotel use within the C-3-O (Downtown-Office) District and a 120-X Height and Bulk District.



San Francisco Ethics Commission

25 Van Ness Avenue, Suite 220, San Francisco, CA 94102
 Phone: 415.252.3100 . Fax: 415.252.3112
ethics.commission@sfgov.org . www.sfethics.org

Received On:

File #: 251246

Bid/RFP #:

Notification of Contract Approval

SFEC Form 126(f)4
 (S.F. Campaign and Governmental Conduct Code § 1.126(f)4)
 A Public Document

Each City elective officer who approves a contract that has a total anticipated or actual value of \$100,000 or more must file this form with the Ethics Commission within five business days of approval by: (a) the City elective officer, (b) any board on which the City elective officer serves, or (c) the board of any state agency on which an appointee of the City elective officer serves. For more information, see: <https://sfethics.org/compliance/city-officers/contract-approval-city-officers>

1. FILING INFORMATION	
TYPE OF FILING	DATE OF ORIGINAL FILING (for amendment only)
Original	
AMENDMENT DESCRIPTION – Explain reason for amendment	

2. CITY ELECTIVE OFFICE OR BOARD	
OFFICE OR BOARD	NAME OF CITY ELECTIVE OFFICER
Board of Supervisors	Members

3. FILER'S CONTACT	
NAME OF FILER'S CONTACT	TELEPHONE NUMBER
Angela Calvillo	415-554-5184
FULL DEPARTMENT NAME	EMAIL
Office of the Clerk of the Board	Board.of.Supervisors@sfgov.org

4. CONTRACTING DEPARTMENT CONTACT	
NAME OF DEPARTMENTAL CONTACT	DEPARTMENT CONTACT TELEPHONE NUMBER
Maggie Mattson	4152541940
FULL DEPARTMENT NAME	DEPARTMENT CONTACT EMAIL
ECN Economic and Workforce Development	margaret.mattson@sfgov.org

5. CONTRACTOR	
NAME OF CONTRACTOR Bespoke Hospitality, LLC	TELEPHONE NUMBER (415) 728-0781
STREET ADDRESS (including City, State and Zip Code) c/o JMA Ventures, 5 3rd St, San Francisco CA 94103	EMAIL investors@jmaventuresllc.com

6. CONTRACT		
DATE CONTRACT WAS APPROVED BY THE CITY ELECTIVE OFFICER(S)	ORIGINAL BID/RFP NUMBER	FILE NUMBER (If applicable) 251246
DESCRIPTION OF AMOUNT OF CONTRACT NTE \$40,000,000		
NATURE OF THE CONTRACT (Please describe) A subsidy agreement between Bespoke Hospitality/ JMA Ventures and the City of San Francisco. The City of San Francisco agrees make incentive payments based on the transient occupancy taxes generated by the Hearst Hotel. The City will offer 89.3% of the TOT value for a period of 20 years, or until the subsidy cap of \$40 million is reached.		

7. COMMENTS

8. CONTRACT APPROVAL	
This contract was approved by:	
<input type="checkbox"/>	THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM
<input checked="" type="checkbox"/>	A BOARD ON WHICH THE CITY ELECTIVE OFFICER(S) SERVES Board of Supervisors
<input type="checkbox"/>	THE BOARD OF A STATE AGENCY ON WHICH AN APPOINTEE OF THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM SITS

9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
1	5 Third Street Mezz, LLC		Board of Directors
2	Third and Market DevCo, LL		Board of Directors
3	JMA HH Investors, LLC		Board of Directors
4	BHSF Manager, LLC		Board of Directors
5	JMA Ventures KEP, LLC		Board of Directors
6	Smidek	Jan	Other Principal Officer
7	Chapman	Todd	Other Principal Officer
8	Mohari HH, LLC		Shareholder
9			
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19			

9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
20			
21			
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#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
39			
40			
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<input type="checkbox"/>	Check this box if you need to include additional names. Please submit a separate form with complete information. Select "Supplemental" for filing type.		

10. VERIFICATION

I have used all reasonable diligence in preparing this statement. I have reviewed this statement and to the best of my knowledge the information I have provided here is true and complete.

I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

<p>SIGNATURE OF CITY ELECTIVE OFFICER OR BOARD SECRETARY OR CLERK</p> <p>BOS Clerk of the Board</p>	<p>DATE SIGNED</p>
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OFFICE OF THE MAYOR
SAN FRANCISCO



DANIEL LURIE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Adam Thongsavat, Liaison to the Board of Supervisors
RE: Hotel Development Incentive Agreement - Bespoke Hospitality, LLC - Hearst Hotel Development Project - 5 Third Street and 17-29 Third Street
DATE: December 16, 2025

Ordinance approving a Hotel Development Incentive Agreement between the City and County of San Francisco and Bespoke Hospitality, LLC for the Hearst Hotel Development Project, to provide financial assistance of up to \$40,000,000 in net present value over 20 years calculated for measurement purposes only as a percentage of new Transient Occupancy Taxes the City actually receives from occupancy of guest rooms in a proposed new hotel, related to the development and operation of a project on certain real property known as 5 Third Street and 17-29 Third Street; waiving Chapter 21G of the Administrative Code and certain sections of the Labor and Employment Code; ratifying past actions and authorizing future actions in furtherance of this Ordinance; making findings under the California Environmental Quality Act; and making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1.

Should you have any questions, please contact Adam Thongsavat at adam.thongsavat@sfgov.org