



Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator

John Updike
Director of Real Estate

May 27, 2016

Through Naomi Kelly,
City Administrator

450 6th Street
Real Property Acquisition
Assignment # 7033

Honorable Board of Supervisors
City and County of San Francisco
City Hall, 1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102

Dear Board Members:

Attached for your consideration is a Resolution authorizing the acquisition of real property at 450 Sixth St., San Francisco (Block 3759 Lot 43).

In late 2015, Real Estate Division submitted legislation (file 15-1184) for the acquisition of Block 3759 Lots 09, 12, 14, and 43 for a proposed Hall of Justice replacement project known as the Justice Facilities Improvement Project (JFIP). The Board of Supervisors directed City staff to 1) redesign a potential project to exclude the rehabilitation and detention facilities; 2) to explore space needs for prevention, mental health, re-entry and other programs and services; and 3) continue to pursue the acquisition of the above referenced parcels. Such alternatives to incarceration are the topic of a working group co-chaired by Sheriff Hennessey and DPH Director Garcia. The subject property is one of the parcels included in Board file 15-1184.

450 6th Street consists of approximately 4,500 sq. ft. in a single story masonry building on approximately 6,000 sq. ft. of land. The property was appraised on October 28, 2015 by Carneghi and Partners for \$2,750,000.

The proposed purchase price is \$2,403,333 and the Seller will pay or the City will receive a credit for the Transfer Taxes due on sale (estimated to be \$18,022.50). At close of escrow, the City will be assuming an existing lease of the property to Beauty Systems Group Inc., a Delaware Corporation ("Tenant"). The lease expires April 30, 2026 and would produce gross income to the City of \$9,250 per month which equates to an approximately 4.5% return on the purchase price (see Attachment #1). When the JFIP design process has further matured and has been approved by the Board, and permitted through all relevant regulatory agencies, only then would the City then seek to terminate the lease.

The Planning Department, through General Plan Referral letter dated May 26, 2016 has found that the City's acquisition of 450 Sixth Street is consistent with the General Plan, and the eight

priority policies under Planning Code, Section 101.1 and has been fully evaluated in the 850 Bryant Street – Hall of Justice Mitigated Negative Declaration.

The acquisition of 450 Sixth Street will likely be essential to the potential development of any project adjacent to the existing Hall of Justice facilities, as recommended in the JFIP.

The Real Estate Division recommends approval of the proposed purchase. If you have any questions, please contact Charlie Dunn at 554-9861 of my office.

Respectfully,



John Updike
Director of Property

Attachments

Attachment #1

Income (as of 5/1/2016)	\$111,000
Landlord Expenses	\$2,850
Net Income	\$108,150
Capitalization Rate	4.50%
Purchase Price	\$2,403,333