

Item 3 – Amended and Restated Lease between City and SF Market Corporation

Budget and Finance Committee

September 14, 2022



SF Wholesale Produce Market

- Connects farmers and their fresh produce to food businesses and communities throughout the Bay Area and the state
- Only nonprofit wholesale produce market of its scale in the country
- 23-acre facility provides over 350,000 square feet of space to 26 businesses
- Incubates and supports a variety of small businesses
- Moves hundreds of thousands of pounds of fresh produce daily
- Provides a resilient and secure food safety campus



Produce Market History



Historical Timeline

1870s

ORIGINS

Produce merchants began operating near the Golden Gateway, creating the relationships that formed The SF Market.



1963

CURRENT LOCATION

The SF Market moved from the Embarcadero to its current location, securing a 50-year lease with the City.



2000

INITIAL EXPANSION

The first expansion of The SF Market included a new 55,000-square-foot warehouse now home to Earl's Organic Produce and Vegiworks.



2013

NONPROFIT SOCIAL ENTERPRISE

The SF Market signed a 60-year ground lease with the City of San Francisco and became a 501(c)(3) organization, the only nonprofit market of our scale.



2015

REINVESTMENT IN ACTION

The Reinvestment Plan was initiated and the first phase was the completion of 901 Rankin, a LEED Gold Building.



2020 & Beyond

GROWING OUR VISION

The next phases of the Reinvestment Plan include upgrading and replacing the original warehouses and rerouting the road network.

Reinvestment Plan: Need

By 2000, it became clear reinvestment was needed



Reinvestment Plan: Vision





Reinvestment Plan: 2012 Lease Provisions

- Lease facilitates Reinvestment Plan: 5 new buildings and Marshaling Yard
- Net rent from tenant goes into development fund
- The SF Market is required to fund the entire cost of roadway improvements

Proposed Amendments to Market's Ground Lease with City:

Background and Rationale

- Over the last 4 years, it has become clear that a small number of aspects in the Market's current lease need significant adjustment for the Reinvestment Plan to proceed and succeed.
- The Market has been in active discussions with OEWD, RED, and the City Attorney's Office since 2020 and the fully negotiated changes to the lease are in front of the Committee today.

Proposed Amendments to Market's Ground Lease with City:

- Changes related to facilitating conventional mortgage financing of the Reinvestment Plan
- Changes to the lease's Schedule of Performance for:
 - Permanent vacation of Jerrold Ave.
 - Milestones for public roadway improvements
 - Completion of new buildings
- Updates to Recitals and other context-setting language (not substantive)
- Miscellaneous technical amendments (not substantive)

2012 Ground Lease with the City: Current Schedule of Performance

Current schedule of performance requires:

- Re-construct and improve multiple adjacent public streets and intersections – most notably Innes Avenue between Toland and Rankin Streets - before 1900 Kirkwood (1st building) is opened
- Complete street improvements before permanently vacating Jerrold Ave. through the Market
- Complete the five new buildings on the following schedule
 - Commence construction of 901 Rankin by 2016 (completed)
 - Commence construction of 1st and 2nd central market buildings (east side) by 2023
 - Commence construction of 3rd and 4th central market buildings (west side) by 2033

Proposed Changes to the lease's Schedule of Performance

2012 Ground Lease with the City: Current challenges

- Unprecedented escalation of construction costs have made it impossible to be able to develop new warehouses on the existing schedule as well as fund more than \$18 million in public roadway improvements at the front end of the project
- The Market needs to be able to be able to:
 - 1) Permanently vacate Jerrold Ave. between Toland and Rankin Streets as soon as possible to proceed with its next warehouse
 - 2) Disconnect schedule for public street improvements from schedule for completing the new buildings, in order to focus the Market's resources on its core mission and allow Market to continue to work in partnership with other stakeholders to improve the surrounding street network

Proposed changes to the lease's Schedule of Performance

Revise Schedule of Performance to:

- Allow Jerrold Ave. to be vacated concurrent with lease approvals
- Require completion of all surrounding roadway improvements by 2036
- Require an earlier roadway phase – improvement of Innes Extension, connecting east end of Innes to Jerrold – to be completed by 2031
- Require commencement of construction on four remaining new buildings on the following schedule:
 - Complete construction of 1st Central Market building by 2025
 - Complete construction of 2nd Central Market building by 2031
 - Complete construction of 3rd Central Market building by 2036
 - Complete construction of 4th Central Market building by 2041

** These dates represent deadlines in the Lease; the Market intends to build the buildings as soon as possible*



Innes Avenue Construction

Entire segment of roadway between Toland and Rankin Streets must be redesigned and rebuilt to City standards, including intersections at Innes/Toland, Innes/Selby, and Innes/Jerrold/Rankin

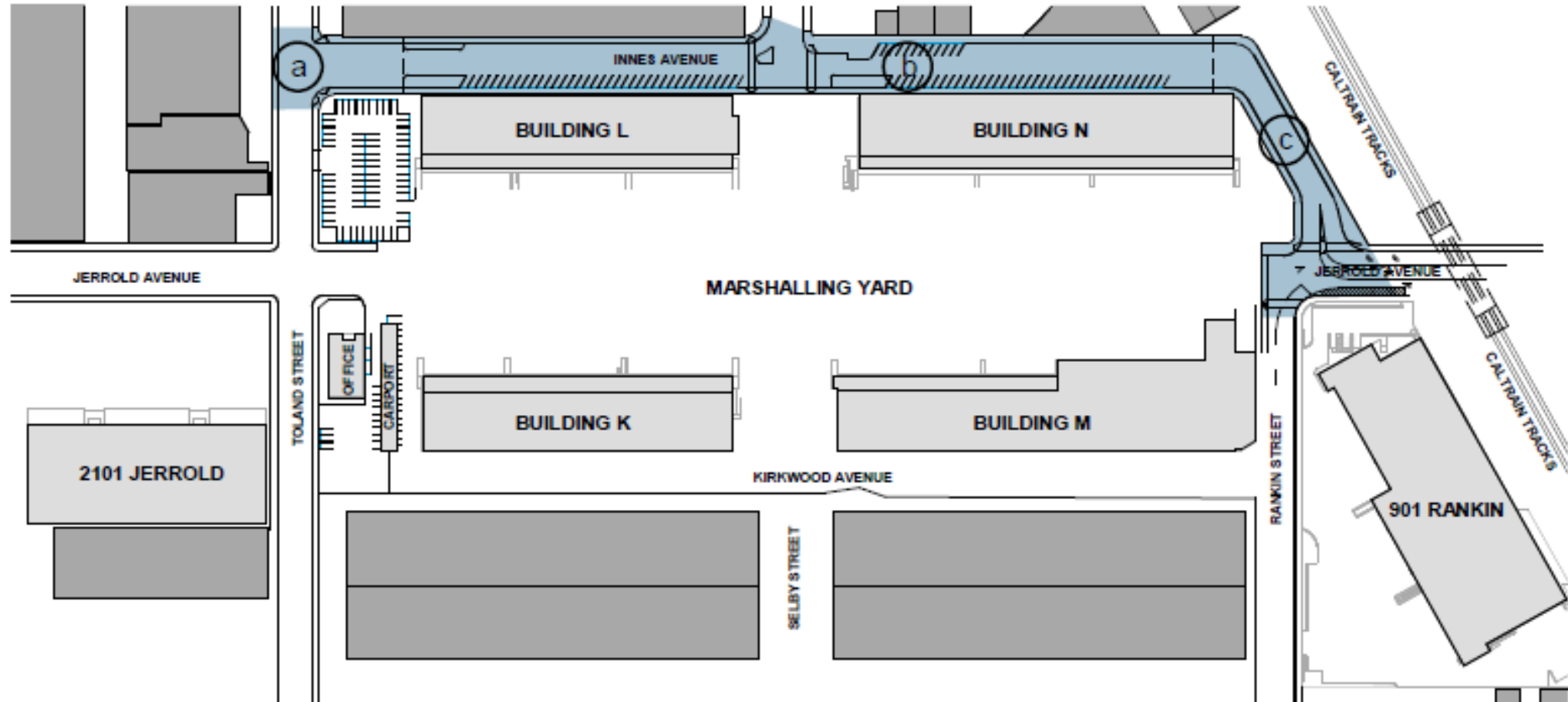


FIGURE A - FULL ROADWAY CONSTRUCTION

Proposed Changes Related to Financing the Reinvestment Plan

2012 Ground Lease with the City: Current Challenges

- 60-Year lease with the City signed in 2012
- Lease intended to facilitate the Reinvestment Plan
- Single master ground lease for entire Market campus
- “Net Revenue” from Market’s subtenants goes into a “Project Development Account”

Proposed Changes Related to Financing the Reinvestment Plan

What needs to be changed? (Based on feedback from potential lenders)

- Market leasehold interest(s) must have “saleable value” in order to serve as collateral for a conventional loan
- Preferable for each Market building (existing and new) to be subject to a separate and independent lease to prevent the possibility of a campus-wide foreclosure event





Proposed Changes Related to Financing the Reinvestment Plan

- Permit the Market to “spin-off” separate parcel leases for all buildings serving as collateral in a financing
- Create a “backup” fair market rent structure, based on an appraisal at the time of financing

Future Actions that Will Come Before the Board

- **Approval of Final Subdivision Map for Market Campus – Summer 2023**
- **Possible approval of commercial loan financing and separate parcel leases to support financing of 1900 Kirkwood – Fall 2023**
- **Approval of future commercial loan financings and separate parcel leases (if any) – future years TBD**

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MARKET

Pet Camp San Fr

Flor
Gard

Google

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Thank you

