

**Office of Community
Investment and Infrastructure**
(Successor to the San Francisco
Redevelopment Agency)

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33433 Report

280 Beale Street (Transbay Block 6)

August 29, 2013

This report is submitted consistent with the requirements of Section 33433 of the California Health and Safety Code. Specifically, the Section 33433 states that before any property that was acquired, in whole or in part, with tax increment funds is sold or leased for development, the sale or lease shall first be approved by the legislative body by resolution after a public hearing. The Board of Supervisors is the legislative body for purposes of Section 33433. The property that is the subject of this report was not acquired with tax increment funds. However, the Redevelopment Plan for the Transbay Redevelopment Project Area (“Redevelopment Plan”) requires that the Board of Supervisors shall approve the sale or lease of any property acquired by the Former San Francisco Redevelopment Agency (“Former Agency”) or the Office of Community Investment and Infrastructure (“OCII”), as Successor to the Former Agency, pursuant to the Option Agreement for the Purchase and Sale of Real Property (“Option Agreement”) in a manner consistent with the standards and procedures that govern the disposition of property acquired with tax increment funds and that appear in Section 33433 of the California Health and Safety Code.

On April 16, 2013, the Commission on Community Investment and Infrastructure (“CCII”) approved a disposition and development agreement between OCII and the development team or Golub Real Estate Corporation (“Golub” or “Developer”) and Mercy Housing California (“Mercy” or “Affordable Developer”) for the development of 409 market-rate residential units and 70 affordable family rental residential units (at 50 percent of area median income), along with shared open space and a shared underground parking garage, on the parcel located at 280 Beale Street, commonly known as Block 6 in the Transbay Redevelopment Project Area (“Project Area”). The Golub/Mercy team was selected by the Former Agency after a competitive request for proposals (“RFP”) was issued in July 2011 and proposals were received from a total of four development teams. Block 6 is the first phase of a larger development that includes an additional 77 affordable family rental residential units (also at 50 percent of area median income) and a child care facility that will be developed on Block 7, immediately adjacent to Block 6, by Mercy. The DDA, however, does not cover Block 7 because it will be constructed at a future date when additional affordable housing funds are available to OCII.

Pursuant to Section 33433, a copy of the DDA is included with this report as Attachment 1 and both the DDA and this report have been submitted to the Clerk of the Board and made available for public inspection and copying on August 30, 2013, in advance of the

September 1, 2013, date of the first publication of the notice of the public hearing on September 17, 2013. Below is a summary of the agreement, as required by Section 33433, Subsections (2)(B)(i-v):

(2)(B)(i) The cost of the agreement to the agency, including the land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency, plus the expected interest on any loans or bonds to finance the agreement.

Block 6 is currently owned by the Transbay Joint Powers Authority (“TJPA”) and will be transferred to OCII pursuant to the Option Agreement at no cost. All clearance costs will be paid by the Developer, pursuant to the DDA, and there are no relocation costs. All improvements will be constructed at the development team’s cost. However, pursuant to the Transbay Redevelopment Project Implementation Agreement (“Implementation Agreement”), the DDA provides that the Developer shall be reimbursed up to \$2,250,000 for the cost of constructing streetscape improvements on Blocks 6 and 7. In the original RFP, OCII was to provide this reimbursement. However, due to the dissolution of the Former Agency and the lack of funding available to OCII, the DDA states that OCII will work with the Interagency Plan Implementation Committee (“IPIC”) to allocate funds from the proposed Mello-Roos Community Facilities District (“CFD”) to reimburse the Developer, up to a maximum of \$2,250,000. Block 6 is required to be part of the proposed CFD will be subject to the special tax.

(2)(B)(ii) The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the plan.

The highest and best use value of Block 6 at the time the responses to the RFP were received in October 2011 has been estimated by Keyser Marston Associates, Inc. (“KMA”) to be \$35.13 million. The highest and best use value is the value of Block 6 as a market-rate residential development with 15 percent inclusionary affordable housing, or a total of 407 market-rate units and 72 inclusionary affordable units. A memorandum summarizing the highest and best use value calculated by KMA is included with this report as Attachment 2.

(2)(B)(iii) The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments which the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the agency shall provide as part of the summary an explanation of the reasons for the difference.

The purchase price in the DDA for Block 6 is \$30 million. In addition, the DDA requires the Developer to pay \$24.3 million for affordable housing (“Affordable Housing Fee”), for a total of \$54.3 million. The Affordable Housing Fee will be paid to OCII and used to fund the entire subsidy required for the affordable residential units on Block 6 and a portion of the subsidy required for the affordable housing units on Block 7, to be constructed at a future date. Approximately \$14 million of the Affordable Housing Fee

will be used for Block 6 and approximately \$10.3 million will be used for Block 7. Based on the anticipated subsidy required for the affordable housing units (approximately \$200,000 per unit), the Affordable Housing Fee will allow OCII to subsidize a total of approximately 120 affordable housing units, or nearly 70 percent more affordable housing than what would be achieved under the highest and best use scenario described above. The additional affordable housing units are required in order to comply with Assembly Bill 812 (“AB 812”), which was enacted by the California Legislature in 2003. AB 812 mandates that a total of 35 percent of all residential units developed in the Project Area be affordable to low- and moderate-income households.

(2)(B)(iv) An explanation of why the sale or lease of the property will assist in the elimination of blight, with reference to all supporting facts and materials relied upon in making this explanation.

Block 6 was formerly occupied by a portion of the Embarcadero Freeway, which was demolished after the 1989 Loma Prieta Earthquake. After the freeway was demolished, Block 6 was a surface parking lot operated by the State of California, until it was acquired by the TJPA to be used for construction staging. Surface parking were identified as an economic indicator of blight in the 2005 Report on the Redevelopment Plan for the Transbay Redevelopment Project, which was prepared as part of the adoption materials for the Board of Supervisors. The section of the Report on the Redevelopment Plan titled “Underutilized Areas and Vacant Lots” on Page V-8 states, “Given the Project Area’s density and location in the Financial District, surface parking lots do not maximize the economic and development potential of the lot or area.” Block 6 is identified as an “Underutilized Area” on Figure V-3 in the Report on the Redevelopment Plan. The Golub/Mercy project on Block 6 will assist in the elimination of blight by converting a surface parking lot/construction staging area into a dense, mixed-use residential development.

Prepared by: Michael J. Grisso, Senior Project Manager

Attachment 1: Disposition and Development Agreement, April 16, 2013

Attachment 2: Keyser Marston Associates, Inc., Memorandum, August 23, 2013