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MEMORANDUM

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To: Tiffany Bohee, Executive Director
Office of Community Investment and Infrastructure as Successor Agency to the Redevelopment Agency of the City and County of San Francisco

From: Tim Kelly

Date: July 7, 2016

Subject: Transbay Block 1: Section 33433 Land Consideration

Executive Summary

Keyser Marston Associates, Inc. (KMA) has prepared this memorandum for the Office of Community Investment and Infrastructure as Successor Agency to the Redevelopment Agency of the City and County of San Francisco (OCII, or Successor Agency) with respect to the consideration being paid to OCII for the portion of Transbay Block 1 owned by OCII (referred to as the OCII Parcel) under Section 33433 of the California Health and Safety Code. Section 33433 states that the consideration paid for land cannot be less than the fair market value of the interest to be conveyed at the highest and best use consistent with the redevelopment plan.

Block 1 is an approximately 53,622 sq. ft. parcel in the Transbay Redevelopment Project Area (“Project Area”), located on the north side of Folsom Street between Spear and Main Streets. Block 1 consists of five parcels: the OCII-owned parcel (Block 3740, Lot 027) and four parcels (Block 3740, Lot 029-032) privately owned by Block One Property Holder, L.P., an affiliate of Tishman Speyer (Developer). The OCII Parcel is approximately 33,782 sq. ft. The four privately owned parcels comprise approximately 19,840 sq.ft.

The OCII Parcel was appraised by Carneghi-Blum & Partners, Inc. in 2014. The project description in the appraisal is: (1) a 400-foot tower and a developer obligation to provide 20% inclusionary housing units together with the market-rate units in the tower and (2) a 100% affordable OCII-subsidized podium component with 76 units. The appraisal determined that with a height increase to 400 feet, the value as of July 2014 was $19,180,000.

In November 2014, OCII entered into an Exclusive Negotiation Agreement (ENA) with the Developer for (a) the sale to the Developer of the OCII Parcel and (b) the development of a combined affordable and market-rate homeownership project consisting of a residential tower, two residential podium buildings, and townhouses surrounding open space on Block 1. The terms of the ENA call for the Developer to pay the appraised value for the OCII Parcel (which was based on 20% BMR units in the tower), and to provide an overall project affordability level of 35%, a combination of 20% in the tower and adjacent townhomes, and 15% in the OCII-subsidized 76-unit podium component (the "OCII Affordable Project"). In return, OCII agreed to contribute $20,900,000 to fund a portion of the production cost of the OCII Affordable Project, or $275,000 per OCII Affordable Project unit. Since entering the ENA, the Developer has agreed to increase the number of BMR units in the tower and townhomes by 5% to 25% (or 80 units) and to distribute the BMR units throughout the first 26 floors in the tower (Developer Affordable Project). The 76 units within the OCII Affordable Project remains unchanged. In addition, the parties have agreed that the Developer will pay the $19,180,000 purchase price for the land by funding the entire construction cost of the OCII Affordable Project without the OCII subsidy of $20,900,000 agreed upon in the ENA.

The Owner Participation/Disposition and Development Agreement (OP/DDA) incorporates OCII realizing the appraised value of $19.18 million for the OCII Parcel. Thus, the consideration offered by the Developer is not less than the fair market value of the OCII parcel in 2014 as determined by an independent appraisal. In fact, the business terms exceed the conditions in the appraised value. The covenants and conditions in the OP/DDA exceed the appraisal with 25% inclusionary BMR units in the Developer Affordable Project (the appraisal was based on 20%), dispersal of the inclusionary BMR units throughout the first 26 floors of the tower, and the Developer funding the cost of the construction of the OCII Affordable Project to the extent not covered by sales revenue or the OCII contribution. The combination of the appraised value plus the incremental Developer Affordable Project obligations results in the Developer consideration of $50.18 million for the OCII Parcel. The 25% on-site developer inclusionary obligation in the tower is the highest to date as a condition of sale of an OCII Transbay parcel.

This memorandum discusses the consideration offered by the Developer for the OCII Parcel and reflects applicable development conditions and covenants under the OP/DDA (including the BMR requirements).

Analysis

The Block 1 Project (Project) is a proposed 400-foot for sale residential tower and adjacent townhomes with a mix of market rate and BMR units and an 8-and 6-story podium housing component with all BMR units. There are 391 units in total, of which 315 will be in the tower and townhomes and 76 units will be in the podium housing.

	OCII Parcel	Private Parcel	Total
Block 1: Land Area	33,782 (63%)	19,840 (37%)	53,622
Block 1: Tower/Townhomes			315 units
Block 1: Podium			76 units
BMR Units			156 units (40%)

The Project includes 156 BMR units. Of those 156 BMR units, 80 units (or approximately 25% of the 315 units in the tower) will be in the Developer Affordable Project, and 76 units will be in the OCII Affordable Project, which is 100% of the podium project. The units within the Developer Affordable Project and the OCII Affordable Project will be affordable to households earning from 80% to 120% of AMI.

Typically, sales prices are stated as a price “per door.” The price per door is based on the number of units in the private development, including private obligation to provide inclusionary BMR units, such as 20% BMR units in the tower.[1] Multiple variables impact the range of pricing, including such factors as: intrinsic value of location, expensive construction costs with high density development relative to value, and BMR requirements. Typically, OCII residential developments in Transbay (e.g. Block 6 and Block 8) have two components: a tower with inclusionary BMR units and a podium comprised entirely of BMR units. The podium component is typically financed by public sources of funding, including OCII funding, while the tower, including the inclusionary BMR units, is privately financed by the project developer. Each of the Transbay residential blocks has been required to provide BMR units on site. While there is a requirement that 35% of the units in the Transbay Project Area are affordable, the percentage of affordable units on each site has varied. For example, Block 8 included a 20% developer BMR obligation in the tower and 7% OCII sponsored podium BMR units.

The most recent transaction involving the sale of publicly owned land for a residential tower in the same timeframe as Block 1 is Transbay Block 8, approved in 2014. The Block 8 transaction resulted in a land payment of approximately $150,000 per tower unit[1]

[1] OCII units, such as the 76 units within the OCII Affordable Project, are not considered because these units have a financing gap and do not support a price per door. Therefore, the price per door is based on the tower/townhome units only, including the inclusionary BMR units in the tower/townhomes.

as well as private financing for the inclusionary BMR units in the tower (OCII financing is used to fund a portion of the cost of the podium portion of the project).

- *Transbay Block 8* – Located on the north side of Folsom between First and Fremont Streets. In 2014, The Related Company and Tenderloin Neighborhood Development Corporation agreed upon the final negotiated price of $71,000,000 for an approximately 49,673-square-foot parcel. The project includes: 1) a market-rate condominium residential component and 2) a rental component with 80% market rate and 20% affordable in an approximately 550-foot tower, and an adjacent podium project. The tower enjoys the highest height limit of the Transbay Zone One residential parcels and will offer premium views. There are 474 tower units, of which 404 are market-rate units and 70 units are affordable to households earning up to 40% and 50% of AMI. The unit mix of BMR units will be proportional to that of the market-rate rental units in the tower, and BMR units will be located on floors one to seven of the tower. The podium component of the project will be separate from the tower and will be all rental BMR units. The podium will have 80 units affordable to households earning up to 40% and 50% of AMI and will be subsidized by OCII funding. The project also includes, among other things, ground-floor retail space along Folsom Street of approximately 17,320 square feet, which includes a grocery store on the basement level of approximately 10,500 square feet.

For the Block 1 OCII Parcel, the agreed upon consideration for the land is the appraised value of $19,180,000. In addition to the land consideration, the Developer is obligated to fund BMR unit production that is greater than other Transbay parcels. The additional BMR production obligation includes:

1. <u>*Construction Funding Gap for the OCII Affordable Project:*</u> The Developer is required to fund the full construction cost of the OCII Affordable Project. The cost to produce the units exceeds the OCII Affordable Project sale revenues, as summarized in the table below. In exchange, OCII is crediting the $19,180,000 land payment to the cost of the podium buildings, still resulting in OCII financial assistance but in an amount that is less than the original $20,900,000 agreed to at the time of the ENA, a net savings of $1,720,000 to OCII. After accounting for the $19.18 million land cost credit, and the Developer's anticipated revenue from the sale of the units in the OCII Affordable Project, the net financing gap to be funded by the Developer is estimated to be roughly $14,000,000, as presented in the following table.

OCII Affordable Project Construction		*76 Units*
Development costs (excluding land)[2]		$50,540,000
<Less> Average Podium Sales Revenue[3]		($17,310,976)
<Less> OCII Land Value Offset		($19,180,000)
Developer Podium Net Development Costs		$14,049,024
	Rounded	$14,000,000

2. *Additional Affordable Housing Units and Dispersal Within the Developer Affordable Project:* The increase in the Developer requirement in the Developer Affordable Project by 5% to 25% (overall the Project increases to 40%) and the dispersal of the Developer required BMRs throughout the first 26 floors of the tower and townhomes results in a cost to the Developer of approximately $17 million. This cost is in the form of lost revenues with the additional 5% BMR units and the redistribution of the market rate and BMR units within the tower. It is recognized that sales revenues on Floors 10 – 26 will decrease with the BMR dispersal. The estimated cost to the Developer is approximately $17 million.[4]

In summary, the agreed upon consideration paid by the Developer under the terms and conditions of the OP/DDA is summarized in the following table. The additional BMR obligations are condition of sale for the OCII Parcel. Therefore, the consideration under the OP/DDA Covenants and Conditions for the OCII parcel includes the increased costs funded by the Developer for the additional BMR obligations.

OCII Parcel: **Consideration under DDA Terms and Conditions** *(Allocated over 198 tower units which is a proration of 315 tower units based on OCII share of Block 1 land area)*	**Total**	**Per Unit**
Land Appraised Value	$19,180,000	$96,870[5]
OCII Affordable Project Net Development Costs (net after BMR sales revenue & OCII land value offset)	$14,000,000	$ 70,710
Additional Affordable Housing to 40% and Dispersal	$17,000,000	$ 85,860
Total Consideration	**$50,180,000**	**$253,440**

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[2] Source: OCII estimates the OCII Affordable Project development cost to be approximately $50.54 million. All estimates are rounded.

[3] Source: OCII estimates the sales price within the OCII Affordable Project to be approximately $227,776

[4] Increasing and dispersing the affordable units in the tower to 25% (20% previously, with a concentration in lower floors) causes the developer to trade high value market rate units with pricing for the BMR units. Hence there is a reduction in gross revenues and profit, estimated to be $17 million.

[5] The $96,870 per tower unit is derived using the proportionate share of the Block 1 OCII parcel land area. The OCII parcel is 63% of Block 1 land area and 63% of 315 tower units is 198 units. $19,180,000 allocated over 198 units is $96,870 per unit.

In conclusion, the total consideration is $50,180,000, which is inclusive of the appraised value of $19,180,000. The business terms incorporate OCII realizing substantially more than the appraised value for the OCII Parcel, and substantially more than the value of $150,000 per tower unit received for Transbay Block 8 parcel. Thus, the consideration offered by the Developer is not less than the fair market value of the OCII Parcel in 2014 as determined by an independent appraisal. The consideration that OCII is achieving, when the increase in developer funded contribution to BMR is included, is the highest consideration to date in the Project Area for a residential parcel.