

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.