



33433 Report

Transbay Block 2 East

March 19, 2024

INTRODUCTION

In 2005 and 2006, the Board of Supervisors of the City and County of San Francisco (“BOS”) approved a Redevelopment Plan (“Redevelopment Plan”) for the Transbay Redevelopment Project Area (“Project Area”) to redevelop 10 acres of property owned by the State of California to generate funding for a new Transbay Transit Center and to meet state-mandated requirements for affordable housing in the Project Area (as defined below, the “Transbay Affordable Housing Obligation”). In 2008, the former Redevelopment Agency of the City and County San Francisco (“Former Agency”) entered into an Option Agreement (“Option Agreement”) with the City and County of San Francisco (“City”) and the Transbay Joint Powers Authority (“TJPA”) for the Purchase and Sale of Real Property within the Project Area. Concerning property acquired under the Option Agreement, Section 4.7.2 of the Redevelopment Plan requires that before the Former Agency sells or leases such property for development pursuant to the Redevelopment Plan, the BOS must approve the sale or lease in a manner consistent with the standards and procedures in Health and Safety Code Section 33433 (which governs the disposition of property acquired with tax increment funds).

In accordance with California Health and Safety Code Sections 34170 *et seq.* (“Redevelopment Dissolution Law”) and under San Francisco Ordinance No. 215-12 (Oct. 4, 2012) (establishing the Successor Agency Commission (“Commission”) and delegating to it state authority under the Redevelopment Dissolution Law), the Successor Agency to the Former Agency (“Successor Agency”) is administering the enforceable obligations of the Former Agency, including the Transbay Affordable Housing Obligation.

In 2021, pursuant to the Option Agreement, the Successor Agency acquired Transbay Block 2, an approximately 42,627 square-foot (0.98 acre) parcel bounded by Folsom Street, Beale Street, Main Street (Assessor’s Block 3739, Lot 014, “Block 2”). The Successor Agency now wishes to lease the easterly half of Block 2, known as “Block 2 East,” for development as affordable housing with ground floor childcare and community commercial in accordance with the Redevelopment Plan.

Accordingly, the Successor Agency submits this report to the BOS consistent with the requirements of California Health and Safety Code Section 33433 (“33433 Report”). Specifically, Section 33433 requires that before any property that was acquired, in whole or in part, with tax increment funds is sold or leased for development by a redevelopment agency, the sale or lease shall first be approved by its legislative body by resolution after a public hearing required by California Health and Safety Code Section 33431 (“Section 33431 hearing”). The BOS is the legislative body for purposes of Section 33433.

BLOCK 2 EAST MIXED-USE AFFORDABLE HOUSING PROJECT (“PROJECT”)

The Block 2 East Site

Block 2 East is an approximately 21,313 square-foot (0.49 acre) parcel (Assessor’s Block 3739, Lots 017 and 018) bounded by Folsom Street to the south and Main Street to the east. Its northern frontage will consist of a new segment of Clementina Street, a public right of way, to be completed separately by the Successor Agency. A separate senior affordable housing development will constitute its western boundary, completed on Assessor’s Parcel 3739 Lot 015.

The Block 2 East Project

The “Block 2 East Project” will range from five stories in a townhouse-style wing along Clementina Street to between 15 and 17-stories along Folsom and Main Street. The ground floor will contain 1,959 square feet of community commercial space, 6,447 square foot childcare center on two levels, landscaped open space play areas for the childcare center, resident-serving open roof decks on two floors, and a publicly accessible mid-block mews. For financing purposes, the Successor Agency will enter into two separate ground leases, one for the construction and operation of the affordable housing component and one for the childcare and community commercial component of the Project.

Affordable Housing

The “Residential Component” of the Block 2 East Project consists of all of the following except the Commercial Space. It is comprised of 184 total residential rental units, including 182 restricted units for affordability to households with incomes ranging from 30% to 80% of the Area Median Income (“AMI”) and two unrestricted manager’s units. The units are planned as a mix of studio (17), one-bedroom (76), two-bedroom (52), three-bedroom (37), a one-bedroom manager’s unit (1), and a two-bedroom manager’s unit (1). The population served will be low- to moderate-income households, including 40 units set aside for formerly homeless households.

Resident Amenities

- Ground floor multi-purpose room and upper floor amenity room
- Two roof terrace open spaces
- Community room with kitchen and roof terrace access
- Three laundry rooms
- Pet washroom

Public Open Space

- Central pedestrian mews with landscaping and public seating

Commercial Space and Childcare Center

The community commercial component is comprised of:

- 1,959 square feet of community commercial uses in two spaces with room for adjacent outdoor seating
- 6,447 square foot childcare center on two levels

Streetscape Improvements

- Sidewalks and bulb-outs, street trees and other plantings, public seating, streetlights, and bicycle racks

Parking

- 92 Class I secured bicycle spaces (no off-street vehicular parking)

Affordable Housing Ground Lease

On March 19, 2024, by Resolution 07-2024, the Successor Agency Commission authorized a 75-year ground lease for a residential air rights parcel (“Affordable Housing Ground Lease”) with Transbay 2 Family, LP (“Transbay 2 Family”), a limited partnership that is an affiliate of Mercy Housing California (“Mercy”). Pursuant to the ground lease, Transbay 2 Family will construct, own and operate the Residential Component of the Block 2 East Project. The estimated development cost to develop the Residential Component is \$189,038,828.

Ground Lease of Childcare and Community Commercial Air Rights Parcel

Also, on March 19, 2024, by Resolution 07-2024, the Successor Agency Commission authorized a 75-year ground lease for a childcare and community commercial air rights parcel (“Childcare and Community Commercial Ground Lease”) with Transbay 2 Family Commercial, LLC (“Transbay 2 Family Commercial”), an affiliate of Mercy, to construct one childcare space and two community commercial spaces totaling approximately 8,406 square feet within a separate air rights parcel. The space will be leased for community/neighborhood serving uses that have a direct benefit to the residents of the housing development and the community. The estimated development cost of the commercial space is \$11,676,682.

Prior to entering into the Affordable Housing Ground Lease and the Childcare and Community Commercial Ground Lease, the Successor Agency must submit the 33433 Report to the BOS for its consideration and approval.

Transbay Affordable Housing Obligation

The Transbay Redevelopment Project Area (“Project Area”) was established in June 2005 with the adoption of the Redevelopment Plan by the BOS. The purpose of the Redevelopment Plan was to redevelop 10 acres of property owned by the State of California to generate funding for the TJPA to construct the Transbay Transit Center and meet the affordable housing requirements of Assembly Bill 812 (“AB 812”). AB 812 requires the Former Agency (now the Successor Agency), to ensure that a total of 25% of the residential units to be developed in the Project Area be available to low-income households, and an additional 10% be available to moderate-income households, for a total of 35% affordable housing units across the Project Area (“Transbay Affordable Housing Obligation”). Per the Redevelopment Plan, individual residential projects of more than 10 units within the Project Area are required to provide a minimum of 15% onsite affordable units. Therefore, in order to meet the Transbay Affordable Housing Obligation, certain parcels in Zone One of the Project Area, such as Block 2 East, must be developed with a greater percentage of onsite affordable housing units than the 15% required by the Redevelopment Plan.

33433 REPORT COMPONENTS

Prior to entering into the Affordable Housing Ground Lease and the Childcare and Community Commercial Ground Lease (together, the “Ground Leases”), the Successor Agency must submit this 33433 Report to the BOS for consideration and approval. The following sections present the information required to be

contained in the 33433 Report in accordance with Health and Safety Code Section 33433. (The bolded text is excerpted from Section 33433.)

(a)(2)(A) A copy of the proposed sale or lease.

A copy of the Affordable Housing Ground Lease is included with this report as Attachment 1 and the Childcare and Community Commercial Ground Lease is included as Attachment 2. The Successor Agency submitted this 33433 Report and the two Ground Leases to the Clerk of the BOS and made available for public inspection and copying in advance of April 7, 2024, the date of the first publication of the notice for the April 23, 2024 BOS public hearing to consider approval of the 33433 Report.

(a)(2)(B)(i) The cost of the agreement to the agency, including 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 agreements.

The Successor Agency incurred staff time costs in acquiring the Block 2 East site and negotiating the Ground Leases. The Successor Agency provided \$2,333,653 in predevelopment loan funds for clearance of the site. The Successor Agency is not providing any improvements, all improvements will be constructed by Transbay 2 Family and Transbay 2 Family Commercial. The Successor Agency will provide Transbay 2 Family a loan in the amount of [\$61,961,845] (under a separate agreement) to cover housing construction related activities and Transbay 2 Family Commercial a loan in the amount of [\$8,676,682] (under a separate agreement) to cover commercial construction activities. Furthermore, no interest is expected to be generated on loans or bonds used to finance the Ground Leases.

(a)(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 value of the Block 2 East parcels to be leased to Transbay 2 Family and Transbay 2 Family Commercial at the highest and best use permitted under the Redevelopment Plan is \$8,700,000, as determined by Ronald Blum, MAI and Certified General Real Estate Appraiser (AG 009958). Based on that value approximately \$8,335,627 can be attributed to the affordable housing parcel and approximately \$364,373 can be attributed to the commercial parcel.

(a)(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.

Affordable Housing Ground Lease

The estimated value of the Affordable Housing property to be leased, determined at the use and with the conditions, covenants, and development costs required by the Transbay Affordable Housing Obligation as incorporated into the Affordable Housing Ground Lease, is approximately \$292,275. This value is determined by the present value of the lease payments to be made by Transbay 2 Family during the 75-year term of the Affordable Housing Ground Lease and using a discount rate of 5%. The annual Affordable Housing Ground Lease rent is approximately \$833,563, set at 10% of the unrestricted value of the

Affordable Housing Ground Lease parcel, but only \$15,000 of that amount is guaranteed. The difference between the annual rent and the guaranteed amount, the “residual rent,” is to be paid from residual receipts to the extent any “surplus cash” (operating income that is in excess of operating expenses) is available. The Successor Agency and MOHCD’s loan policies require that any surplus cash first be directed towards the repayment of outstanding principal of the \$61,961,845 Successor Agency loan and second to residual rent payments, should there be any remaining funds. Residual rent payments do not accrue if unpaid. Thus, a project’s ability to pay any portion of residual rent may vary over the term of the lease and most projects targeted towards low- and very low-income populations do not produce enough surplus cash to be able to make residual rent payments in any given year. Because of this uncertainty, residual rents are not considered in the calculation of the net present value of the projected lease payments.

The present value of the fixed total rental amount, including the residual property interest at the end of the 75-year term of the 30% to 80% AMI restrictions on the property, is substantially less than the approximate \$8,335,627 fair market value of the interest to be leased, determined at the highest and best use. The less-than-fair-market-value rent is necessary to ensure the continued and successful operation of the affordable housing project, thereby ensuring the long-term availability of affordable housing for very low- and moderate-income households.

Childcare and Community Commercial Ground Lease

The estimated value of the property to be leased for commercial uses, determined by the use and with the conditions, covenants, and development costs required by the Childcare and Community Commercial Ground Lease, is approximately \$19.48. This value is determined by the net present value of the lease payments to be made by Transbay 2 Family Commercial during the 75-year term of the Childcare and Community Commercial Ground Lease and using a discount rate of 5%. The annual base rent is one dollar (\$1). The lease also contains a provision for percentage rent to be paid after full repayment of the community commercial loan, however it is not guaranteed. Percentage rent is 40% of annual Net Commercial Cash Flow (commercial income minus the Commercial Project expenses). Additionally, the commercial loan documents require that any surplus cash first be directed towards the repayment of the Successor Agency commercial loan outstanding principal and second to the Childcare and Community Commercial Ground Lease residual rent payments, should there be any remaining funds. It is unlikely percentage rent will be paid. The less-than-fair-market-value rent is necessary to ensure the continued and successful operation of the community commercial spaces.

(a)(2)(B)(iv) An explanation of why the sales 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 2 East 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 2 East was a surface parking lot operated by the State of California. Surface parking was identified as an economic indicator of blight in the 2005 Report on the Redevelopment Plan for the Transbay Redevelopment Project (“Report on the Plan”), which was prepared as part of the plan adoption documents for the BOS. The section of the Report on the 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.” The area within Block 2 East is identified as an “Underutilized Area” on in Table V-3 in the Report on Plan.

The TJPA acquired the site to be used for construction staging for the Transbay Transit Center, and from 2010 to 2019, the land was used for the Transbay Temporary Terminal, located on the block bounded by Folsom, Howard, Beale and Main Streets, to provide temporary bus terminal facilities during the construction of the Transbay Transit Center. The land was subsequently transferred to the Successor Agency in 2021 through a quitclaim deed.

The Ground Leases will allow for the development of the Project, which will transform an underutilized property, bringing quality architecture, new homes, and childcare and community commercial activities to the community. Additionally, it will assist in the elimination of blight by providing housing opportunities for a population—low- and moderate-income households—that is underserved by the market and at serious risk of homelessness. It will also help the Successor Agency to meet the requirements of the Transbay Affordable Housing Obligation.

(a)(2) The agency shall make available, for public inspection and copying at a cost not to exceed the cost of duplication, a report no later than the time of publication of the first notice of the hearing mandated by this section.

This 33433 Report and a copy of the Affordable Housing Ground Lease and the Childcare and Community Commercial Ground Lease were submitted to the Clerk of the BOS and made available to the public for inspection and copying in advance of April 7, 2024, the date of the first publication of the notice of the first public hearing, as mandated by Section 33431. The 33433 Report and Ground Leases are also available at the Successor Agency offices, One South Van Ness Avenue, 5th Floor, San Francisco, California.

Prepared by: Office of Community Investment and Infrastructure

Attachment 1: Affordable Housing Ground Lease, March 19, 2024

Attachment 2: Childcare and Community Commercial Ground Lease, March 19, 2024