

1 [Hotel Development Incentive Agreement - Bespoke Hospitality, LLC - Hearst Hotel  
2 Development Project - 5 Third Street and 17-29 Third Street - Not to Exceed \$40,000,000 in  
2 Net Present Value]

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4 **Ordinance approving a Hotel Development Incentive Agreement between the City and**  
5 **County of San Francisco and Bespoke Hospitality, LLC for the Hearst Hotel**  
6 **Development Project, to provide financial assistance not to exceed \$40,000,000 in net**  
7 **present value over 20 years calculated for measurement purposes only as a percentage**  
8 **of new Transient Occupancy Taxes the City actually receives from occupancy of guest**  
9 **rooms in a proposed new hotel, related to the development and operation of a project**  
10 **on certain real property known as 5 Third Street and 17-29 Third Street; waiving**  
11 **Chapter 21G of the Administrative Code and certain sections of the Labor and**  
12 **Employment Code; ratifying past actions and authorizing future actions in furtherance**  
13 **of this Ordinance; making findings under the California Environmental Quality Act; and**  
14 **making findings of consistency with the General Plan, and the eight priority policies of**  
15 **Planning Code, Section 101.1.**

16       **NOTE:** **Unchanged Code text and uncodified text** are in plain Arial font.  
17       **Additions to Codes** are in *single-underlined italics Times New Roman font*.  
18       **Deletions to Codes** are in ~~strikethrough italics Times New Roman font~~.  
19       **Board amendment additions** are in double-underlined Arial font.  
20       **Board amendment deletions** are in ~~strikethrough Arial font~~.  
21       **Asterisks (\* \* \* \*)** indicate the omission of unchanged Code  
22       subsections or parts of tables.

23       Be it ordained by the People of the City and County of San Francisco:

24       Section 1. Findings.

25       The Board of Supervisors makes the following findings:

(a) Bespoke Hospitality, LLC (“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”). The Property is currently improved with three buildings: (i) 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, (ii) an adjacent eight-story commercial building, and (iii) an adjacent three-story commercial building. The three buildings, which have an internal connection and are collectively known as the “Hearst Building”, have an approximately 74% vacancy rate.

(b) Developer has obtained approvals from the City 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.

(c) Following the COVID-19 pandemic and the shift toward remote work, the demand for office space in San Francisco has declined and commercial vacancy rates have increased. These impacts persist even as public health threats have waned, and are particularly acute in San Francisco's downtown neighborhoods. Between the first quarter of 2019 and the first quarter of 2024, the downtown office sector experienced a fivefold increase in the total vacancy rate and high vacancy rates persist.

(d) Downtown-based businesses have historically generated nearly half of the City's sales tax revenue and almost all (95%) of the City's business tax revenue. This revenue funds many key services such as public safety, cleaning, open space, and transportation. Downtown's high commercial vacancy rates and the reduction in downtown office workers and foot traffic have adversely impacted the downtown and other sectors of San Francisco's economy, including retail and small business, and more broadly has impacted use and activation of downtown public space, transportation, and public safety.

(e) To address the high downtown commercial vacancy rates and the resulting impacts on San Francisco's larger economy, the City has approved a variety of programs to incentivize the conversion of downtown's commercial properties to housing, including waivers from inclusionary housing requirements, impact and development fees, and certain Planning Code requirements and taking actions to create a tax increment financing district, and the City's voters approved a real estate transfer tax exemption that applies to those conversions (collectively, the "Downtown Adaptive Reuse Programs").

(f) The conversion of the Hearst Building's commercial space to hotel use would, similar to the Downtown Adaptive Reuse Programs and recent Heart of the City Mayoral Executive Directive, activate underutilized property and diversify downtown land use and activities.

(g) In addition to restoring and reactivating the historic Hearst Building, the Project is anticipated to create an annual average of approximately 250 jobs during the construction period and, upon completion, support between approximately 100 and 150 net new permanent on-site jobs. The Project will also stimulate economic development and activity benefiting the downtown community and San Francisco as a whole. The Project's mix of uses will generate both daytime and nighttime activity in the downtown neighborhoods, with a new hotel catering to tourists and businesses, and new restaurant, bar, and retail space.

(h) Due to the significant proposed investment required to restore and reactivate the historic Hearst Building, Developer has received a tax credit allocation from the State Historic Rehabilitation Tax Credit program, which allocates tax credits to incentivize the rehabilitation of historic buildings that are eligible for listing on the National Register of Historic Places or California Register of Historic Places. This program requires the commencement and completion of rehabilitation work within a certain time frame, and the financing needed for the rehabilitation work is contingent on Developer achieving Project feasibility.

(i) The Office of Economic and Workforce Development (“OEWD”) retained, at Developer’s expense, an independent and experienced development and financial analyst (the “Financial Analyst”) to evaluate the Project and advise the City with regard to the financial feasibility of the Project and the net fiscal impact of the Project on City’s revenues and expenditures. Based on a detailed review of the Project’s pro forma, the Financial Analyst estimated that the Project would not be feasible to develop without financial assistance from the City. OEWD and the Financial Analyst evaluated varying levels and durations of financial assistance to measure their impact on the Project’s feasibility and determined that providing the financial assistance detailed in the Hotel Development Incentive Agreement (the “Agreement”) on file with the Clerk of the Board of Supervisors in File No. 251246 would allow the Project to reach financial feasibility based upon an industry-acceptable rate of return.

(j) 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 (the "Transient Occupancy Tax") up to a financial assistance amount of \$40,000,000 in net present value. The Transient Occupancy Tax revenues will be used solely to measure the quarterly payments and the Agreement will not designate any Transient Occupancy Tax revenues for

1 any purpose, such that the Transient Occupancy Tax revenues will continue to be deposited  
2 and used in accordance with Article 7 of the San Francisco Business and Tax Regulations  
3 Code.

4 (k) Providing the payments will support the feasibility of developing the Project and  
5 allow the Project to leverage the State historic tax credits. The Project will serve many public  
6 purposes by (i) promoting economic development and contributing to San Francisco's  
7 economy and downtown recovery, (ii) activating a prominent intersection and street frontage  
8 in the downtown core, (iii) diversifying downtown land use and activities , (iv) rehabilitating and  
9 preserving the historic Hearst Building, including through seismic and building system  
10 upgrades, and (v) creating well-paying construction and permanent jobs through the  
11 development of the Project on underutilized parcels.

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13       Section 2. Planning and Environmental Findings.

14 (a) On August 22, 2018, the Planning Department published a Preliminary Mitigated  
15 Negative Declaration ("PMND"), which found that the Project could not have a significant  
16 impact on the environment. The Planning Department prepared and publicized the PMND in  
17 compliance with the provisions of the California Environmental Quality Act ("CEQA")  
18 (California Public Resources Code Sections 21000 et seq.), the CEQA Guidelines (14 Cal.  
19 Code Reg. Sections 15000 et seq.), and Chapter 31 of the Administrative Code.

20 (b) On February 14, 2019, the Planning Commission, through Motion No. 20385,  
21 affirmed the Planning Department's decision to issue a Mitigated Negative Declaration for the  
22 Project. A copy of Motion No. 20385 is on file with the Clerk of the Board of Supervisors in File  
23 No. 251246 and is incorporated herein by reference.

24 (c) On March 5, 2019, the Planning Department published a Final Mitigated  
25 Negative Declaration ("FMND").

(d) At its hearing on April 25, 2019, by Motion No. 20437, the Planning Commission adopted findings under CEQA, including a Mitigation Monitoring and Reporting Program (“MMRP”) as required by State and local law (collectively, “CEQA Findings”). The Board of Supervisors hereby adopts the CEQA Findings and MMRP by reference. A copy of Motion No. 20437 is on file with the Clerk of the Board of Supervisors in File No. 251246 and is incorporated herein by reference.

(e) The Board further finds that, with the subsequent action on the Project contained in this ordinance, (1) no substantial changes are proposed in the Project and no substantial changes have occurred with respect to the circumstances under which the Project will be undertaken that would cause new significant environmental effects or a substantial increase in the severity of previously identified effects, and (2) there is no new information of substantial importance showing that the Project would have any significant effects not discussed in the FMND, that significant effects would be substantially more severe, or that new or different mitigation measures or alternatives would substantially reduce one or more significant effects of the Project.

(g) The Board of Supervisors finds that the Agreement is, on balance, in conformity with the General Plan and the eight priority policies of Planning Code, Section 101.1 for the reasons set forth in Planning Commission Motion No. 20436. The Board hereby adopts the findings set forth in Planning Commission Motion No. 20436 as its own.

### Section 3. Hotel Development Incentive Agreement.

(a) The Board of Supervisors approves all of the terms and conditions of the Agreement, in substantially the form on file with the Clerk of the Board of Supervisors in File No. 251246.

(b) The Executive Director of OEWD (“Director”) is authorized to execute and deliver the Agreement, and the Treasurer and Tax Collector and other applicable City officials are authorized to take all actions reasonably necessary or prudent to perform the City’s obligations under the Agreement in accordance with the terms of the Agreement. The Director, at their discretion and in consultation with Treasurer and Tax Collector and the City Attorney, is authorized to enter into any additions, amendments, or other modifications to the Agreement that the Director determines are in the best interests of the City and that do not materially increase the obligations or liabilities of the City or materially decrease the benefits to the City under Agreement.

#### Section 4. Administrative Code and Labor and Employment Code Waivers.

(a) The Board of Supervisors finds that the public financial assistance provided by the Agreement is not a "Grant" within the intent of Administrative Code Section 21G.2, and waives, to the extent applicable to the Agreement, the provisions of Chapter 21G of the Administrative Code.

(b) The Board of Supervisors approves the Agreement terms and conditions for Developer's construction of the Project and waives the requirements of Labor and Employment Code Sections 103.1, 103.3(a)-(d), 103.3(f), 104.1, 104.2, 104.3, 106.1, 106.2, 106.4, and 106.6 to the extent otherwise applicable to the Project.

## Section 5. Ratification of Past City Officials' Actions and Authorization of Future Actions.

All actions taken by City officials in preparing and submitting the Agreement to the Board of Supervisors for review and consideration are hereby ratified and confirmed, and the

1       Board of Supervisors hereby authorizes all subsequent action to be taken by City officials  
2       consistent with this ordinance.

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4           Section 6. Effective and Operative Dates.

5       This ordinance shall become effective 30 days after enactment. Enactment occurs  
6       when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not  
7       sign the ordinance within 10 days of receiving it, or the Board of Supervisors overrides the  
8       Mayor's veto of the ordinance.

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10       APPROVED AS TO FORM:  
11           DAVID CHIU, City Attorney

12       By:    /s/ Carol Wong  
13           CAROL WONG  
14           Deputy City Attorney

15           4929-5493-3121, v. 1

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