

July 26, 2022

To: Honorable Members of the Board of Supervisors
Attn: Angela Calvillo, Clerk of the Board

From: Andrico Penick, Director of Property
Jon Lau, Project Manager, OEWD

RE: City Lease with the San Francisco Wholesale Produce Market

PROJECT BACKGROUND

San Francisco's produce market is operated by the non-profit San Francisco Market Corporation under the terms of an existing 60-year lease approved by the City in 2012. Located on roughly 23 acres of City property in the northwest industrial district of Bayview Hunters Point, the Wholesale Produce Market (or "Market") traces its roots in San Francisco to the early 20th century. Today, it is home to over 30 independently-owned merchant business – representing 700 direct, high-quality jobs – and serves as a vital food hub connecting farms from across the State of California with consumers in the City and the Bay Area region. The Market is generally bounded by Toland Street, Innes Avenue, Rankin Street/Caltrain ROW, and Kirkwood Avenue.

The Market plays an important role in the region's food system, and has remained fully operational throughout the COVID-19 pandemic. The Market is also an important partner in numerous of policy and program initiatives, primarily in the areas of food recovery and access. Its list of community and City partners is long.

The Real Estate Division of the General Services Agency (RED) is the property owner and landlord for the Market, while the Office of Economic and Workforce Development (OEWD) leads the City's partnership with the Produce Market.

Reinvestment and Expansion Plan

The City's current lease with the Market provides the framework for the Market's "Reinvestment and Expansion Plan", a multi-phased development plan to improve its physical campus and ensure the delivery of the Market's essential services, even in the face of disaster. Phase I of this Plan was completed in 2015, with the opening of a new 82,000 square foot warehouse at 901 Rankin Street. Subsequent phases of the Plan will replace the Market's four aging warehouse structures on its main campus, as well as make improvements to the Marshaling Yard and surrounding public streets.



In furtherance of the Market's *Reinvestment Plan*, OEWD and RED have proposed a set of amendments to the City's ground lease with the Produce Market, as described below.

AMENDED AND RESTATED LEASE

Sponsored by President of the Board Walton, the attached resolution would both amend and restate the existing 2012 lease between the City and the non-profit San Francisco Market Corporation.

Need for Lease Amendments

Although the Market was able to complete Phase I of its Plan using project equity and New Markets Tax Credits, it has become clear that conventional mortgage financing will be required in order to advance the next phases of its development. It also became clear that some aspects of the 2012 Lease's *Schedule of Performance* are no longer practical for the Market to meet. Therefore, the proposed lease amendments are designed to address these two issues, each of which significantly impacts the viability of the Market's operations and of its planned expansion.

Proposed Amendments Related to Financing the Construction of New Buildings

The way it is now

The Market has a single ground lease with the City for the entire Market campus. In lieu of paying rent to the City, the Market is permitted under the lease to deposit its "net revenue" each month into a "Project Development Account", which it may then use to help pay for the construction of the new buildings. Net revenue is simply what is left over each month from the rents paid by the Market's small business tenants, after covering the Market organization's expenses.

What needs to be changed

The structure described above will not allow a bank to make a loan against one or more of the Market's buildings. This is because to make loan, a bank needs to use one or more of the Market's buildings as collateral, in the very unlikely event that the Market defaults on its loan payments. If a default occurred, the bank would be able to take over one of the buildings and sell its leasehold rights to another owner in order to recoup its loan proceeds. Since all "net revenue" is required to go into the project development account, the Market's buildings would have essentially no value as collateral since a new owner could earn no income from temporarily owning the buildings.

Proposed amendments

Two key amendments to the lease are designed to address the issue described above and will allow the Market to obtain necessary bank financing for its new buildings.



1. Inclusion of a “back-up” fair market rent structure to be used only in the unlikely event of foreclosure. This defined rent schedule guarantees that the City continues to receive payments after a foreclosure, and that the building retains some “value” to a lender and can, therefore, serve as collateral in a traditional bank loan.
2. Inclusion of a “Separate Parcel Lease” structure that will allow the Market to place each building on a separate legal parcel, and have separate leases with the City for each building/phase. These individual building-specific leases would have the same terms as the current overall lease, and the Market would retain its basic obligations under said Master Lease. This structure will allow the Market to borrow against each building separately, so that in the unlikely event of a foreclosure, the bank could only foreclose on a single building, rather than the entire Market campus.

Note on potential foreclosure

City staff has examined both the Market’s anticipated borrowing and its historical and projected revenue streams. Because the Market’s revenue is expected to be much higher than its loan payments at all times, staff’s assessment is that the possibility of a default on loan payments is very remote. Further, under the lease amendments, the Director of Property must approve each request from the Market to enter a commercial loan agreement, and must also notify the Board of Supervisors of any such “financing event”.

Proposed Amendments Related to the Current Lease’s Schedule of Performance

The way it is now

The 2012 lease includes a “schedule of performance” setting out key milestone dates for the Reinvestment Plan, including completion dates for individual buildings and project phasing relative to surrounding street improvements.

What needs to be changed

Unprecedented escalation of construction costs has made it impossible for the Market, as a nonprofit organization, to fund construction of four new buildings (each approximately \$40M+ in today’s dollars) on the existing schedule as well as spend an estimated \$18 million on public roadway improvements at the front end of the project. In order to realistically be able to complete the Reinvestment Plan, the Market needs to be able to:

- Permanently vacate Jerrold Avenue between Toland and Rankin Streets as soon as possible to 1) provide a safe and secure market campus, and 2) develop a Final Map with DPW, which is needed for construction permits and financing.
- Disconnect the schedule for surrounding street improvements (outside the Market’s campus) from the schedule for completing the new warehouse buildings, which are part of the Market’s actual operations. Such a move will allow the non-profit Market to focus its limited resources on its core mission of operating a produce exchange, rather than designing and building public roads. (The Market will continue to partner with the



City and other stakeholders to improve the surrounding street network, as described below).

Proposed amendments

Staff proposes the following lease amendments to address these phasing and schedule of performance issues:

1. Make Jerrold Ave. vacation effective immediately (was already conditionally approved by the Board of Supervisors in 2012)
2. Require completion of all roadway improvements by 2036
3. Modify target construction commencement dates on four remaining new buildings as follows (these dates represent deadlines in the Lease; the Market intends to build the buildings as soon as possible):
 - Building #1 by 2024
 - Building #2 by 2030
 - Building #3 by 2035
 - Building #4 by 2040

The City and Market share the goal of delivering the *Reinvestment and Expansion Plan* as soon as possible, and ensuring the long-term viability of the essential services the Market provides. The above phasing amendments are needed for the Market to continue performing its vital role in the region's food delivery system.

SURROUNDING ROADWAY IMPROVEMENTS

OEWD and the Market are committed to causing the improvements to the public roadways surrounding the Market's campus as soon possible. In particular, rebuilding Innes Avenue, which will replace Jerrold Avenue as the main connection between Third Street and Bayshore Boulevard, is a project of significance for the entire neighborhood. Workers and residents of Bayview Hunters Point deserve a clear, safe, and convenient east-west connection through the district as soon as possible, and such a roadway connection benefits a wide variety of stakeholders.

To this end, OEWD – with the support of the Mayor and Supervisor Walton – has secured up to \$10M in funding from state and local sources for the rebuild of Innes Avenue between Toland and Rankin Streets. This dedicated funding puts the City in a very good position to complete the improvements to Innes Avenue before 2028, which is the date the SFPUC expects to re-open the portion of Jerrold Avenue adjacent to its Southeast Water Treatment Plant.

STAFF CONTACT

Please contact Jon Lau, OEWD Project Manager at jon.lau@sfgov.org, with further questions on this matter, including briefing requests.

