



33433 Report

222 Beale Street/255 Fremont Street (Transbay Block 7)

April 7, 2016

Introduction

This report is submitted 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. The Board of Supervisors (“BOS”) is the legislative body for purposes of Section 33433. The property that is the subject of this report was not acquired with tax increment funds. However, the Redevelopment Plan for the Transbay Redevelopment Project Area (“Redevelopment Plan”) requires that the BOS approve the sale or lease of any property acquired by the Former San Francisco Redevelopment Agency (“Former Agency”) or the Office of Community Investment and Infrastructure (“OCII” or “Successor Agency”), as successor to the Former Agency, pursuant to the Option Agreement for the Purchase and Sale of Real Property (“Option Agreement”) between the Former Agency, the City and County of San Francisco, and the Transbay Joint Powers Authority (“TJPA”) in a manner consistent with the standards and procedures that appear in Section 33433.

On March 15, 2016, by Resolution 14-2016, the Commission on Community Investment Infrastructure (“OCII Commission”) authorized a 75-year ground lease (“Ground Lease”) with Mercy Housing California 64, L.P., a California limited liability partnership (“Affordable Developer”) for the construction of 120 units of very low and low income affordable family rental housing at Transbay Block 7, 255 Fremont Street/222 Beale Street (“Project”). Prior to entering into the Ground Lease, OCII must submit the 33433 Report to the BOS for consideration and approval.

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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 Transbay Joint Powers Authority to construct the Transbay Transit Center and meet the affordable housing requirements of Assembly Bill 812 (“AB 812”). AB 812 requires OCII, as Successor Agency to the Former 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 (the “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 Transbay Block 7, must be developed with a greater percentage of onsite affordable housing units than the 15% required by the Redevelopment Plan.

Block 7 Affordable Project

Development Team Selection and Subsequent Agreements

In 2011, the Former Agency issued a Request for Proposals for the development of both Block 7 and the adjacent Block 6 in the Project Area. After conducting a competitive selection process and receiving proposals from four development teams, OCII selected the development team consisting of Golub Real Estate Corp. and the Affordable Developer. Because of the dissolution of the Former Agency and a subsequent decrease in tax increment funds available for the affordable program for Blocks 6 and 7, it was decided that the development of these blocks would be phased, such that Block 6 would be developed first as a mixed-income, mixed-use project, and Block 7 would be developed as an 100% affordable project when enough funding became available. In 2013, a disposition and development agreement (“DDA”) prescribing the development of Block 6 was entered into between OCII, the Developer and the Affordable Developer. The DDA requires the Affordable Developer to carry out the construction of affordable units, a childcare center and mid-block open space on Block 7 once funds are available. A year later, in the spring of 2014, the Affordable Developer engaged its design team to develop a concept for the affordable development on Block 7 and requested a predevelopment loan from OCII. Subsequently, the OCII Commission approved the predevelopment loan in 2014 and the Project’s Schematic Design and gap loan in 2015.

The Site

Block 7, a 29,209 square foot parcel bounded by Fremont, Beale and Clementina (future) Streets, two blocks south of the future Transbay Transit Center. It is comprised of one legal parcel, Assessor’s Block 3738, Lot 018, which is owned by OCII, having been transferred to OCII in 2013 pursuant to the Option Agreement and in furtherance of the Transbay Affordable Housing Obligation. The parcel will be leased to the Affordable Developer through the 75-year Ground Lease for the development of the Project.

The Project

The development program for the Project is comprised of two eight-story podium buildings on the east and west ends of Block 7, adjoined by a row of four-story townhomes to produce a total of 120 rental units set at 40% and 50% AMI levels, including a manager’s unit. The units are planned as a mix of one-, two- and three-bedroom units. The Project will also include the following features:

- Ground-floor, licensed childcare facility with approximately 40 slots;
- Landscaped outside open space and indoor community space for Block 7 residents;
- Other on-site amenities, such as laundry facilities and offices for a variety of resident services such as housing retention assistance and referral services for medical and case management, and property management offices;
- Streetscape improvements pursuant to the Transbay Streetscape and Open Space Plan; and

The parcel is currently owned by OCII, and will transfer to the Mayor’s Office of Housing and Community Development (“MOHCD”) in the future. Specifically, OCII will own the Block 7 parcel until the completion of construction of the Project and issuance of a certificate of completion, at which time ownership will transfer to MOHCD as the housing successor agency in compliance with Redevelopment Dissolution Law. The Affordable Developer will own the improvements and lease the parcel from OCII/MOHCD, consistent with the typical ground lease terms of the Former Agency and MOHCD.

33433 Report Components

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 and italicized text is excerpted from Section 33433.)

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

Pursuant to Section 33433, a copy of the Ground Lease is included with this report as Attachment 1 and both the Ground Lease and the 33433 Report were submitted to the Clerk of the BOS and made available for public inspection and copying in advance of April 13, 2016, the date of the first publication of the notice for the April 27, 2016 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 total cost of OCII's acquisition of the Transbay Block 7 parcel was \$0. OCII will not incur clearance, relocation, or improvement costs associated with the lease to the Affordable Developer. Furthermore, no interest will be generated on loans or bonds used to finance the land acquisition or the subsequent lease to the Affordable Developer.

(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 7 parcel to be leased to the Affordable Developer at the highest and best use permitted under the Redevelopment Plan is \$18,750,000, as determined on September 30, 2015 by Joseph I. Napoliello, MAI.

(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.*

The estimated value of the property to be leased, determined at the use and with the conditions, covenants, and development costs required by the Ground Lease, is \$292,275. This value is determined by the present value of the lease payments to be made by the Affordable Developer during the 75-year term of the Ground Lease, which is \$292,275 using a discount rate of 5%. The annual ground rent is \$1,875,000, but only \$15,000 of that amount is guaranteed. The difference between the annual rent and the guaranteed amount, "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. OCII and MOHCD's loan policies require that any surplus cash first be directed towards the repayment of the OCII gap loan outstanding principal and second to the lease 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 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 55-year term of the 40% and 50% AMI restrictions on the property, is substantially less than the \$18,750,000 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 Project, thereby ensuring the long-term availability of affordable housing for very low income families.

(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 7 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 7 was a surface parking lot operated by the State of California, until it was acquired by the TJPA to be used for construction staging; the parcel was subsequently transferred to OCII in 2013 through a quitclaim deed. 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.” Block 7 is identified as an “Underutilized Area” on Figure V-3 in the Report on Plan.

The Ground Lease will allow for the development of the Project, which will transform a vacant, underutilized surface parking lot/construction staging area, bringing quality architecture, new homes, and a childcare facility to the community. Additionally, it will assist in the elimination of blight by providing housing opportunities for a population—low and very low income families—that is underserved by the market and at serious risk of homelessness. It will also help OCII 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 Ground lease were submitted to the Clerk of the BOS and made available to the public for inspection and copying in advance of April 13, 2016, the date of the first publication of the notice of the first public hearing, as mandated by Section 33433. The 33433 Report and Ground Lease are also available at the OCII offices, One South Van Ness Avenue, 5th Floor, San Francisco, California.

Prepared by: Office of Community Investment and Infrastructure

Attachment 1: Transbay Block 7 Ground Lease, March 15, 2016