KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
REED T. KAWAHARA
DAVID DOEZEMA

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

# *MEMORANDUM*

**To:** Mike Grisso, Senior Project Manager
Office of Community Investment and Infrastructure as Successor Agency to the Redevelopment Agency of the City and County of San Francisco

**From:** Tim Kelly

**Date:** August 28, 2013

**Subject:** Transbay Block 6: Estimated 2011 Hypothetical Land Value

Keyser Marston Associates, Inc. (KMA) has prepared this memorandum for the Office of Community Investment and Infrastructure as Successor Agency to the Redevelopment Agency of the City and County of San Francisco. The purpose is to provide an estimate of the hypothetical land value based on the highest and best use of Block 6 at the time the responses to the RFP for Block 6 were received in October 2011. The estimate assumes that a prospective buyer does not have the obligations as stated in the Purchase and Sale Agreement for affordable housing and community benefits. However, it is assumed that the buyer would need to fulfill the standard inclusionary requirement.

Block 6 is a 42,625-square-foot parcel on Folsom Street between Fremont and Beale Streets. The block is located within San Francisco's Transbay/Rincon Hill area, adjacent to the Financial District, with excellent views of San Francisco, the Bay, and the Bay Bridge, and just two blocks south of the future site of the new Transbay Transit Center, scheduled for completion in 2017. The block is also close to the Ferry Building, Yerba Buena Gardens, AT&T Ballpark and Mission Bay.

The hypothetical land value is based on the highest and best of Block 6 which is entitled for development of a high-density residential project with ground-floor retail. The entitlements allow approximately 479 residential units in a market rate tower (including the 15% affordable component).

This valuation analysis is a retrospective assessment of land values in 2011. At that time, the economy was emerging from a major recession. However, the investment environment in San Francisco has traditionally been one of the strongest in the nation. Market activity in 2011 was primarily for apartments and increased financing of

160 PACIFIC AVENUE, SUITE 204 ➤ SAN FRANCISCO, CALIFORNIA 94111 ➤ PHONE 415 398 3050 ➤ FAX 415 397 5065
WWW.KEYSERMARSTON.COM

multifamily properties was beginning to be seen. National apartment developers and REITs were becoming more active. In late 2010 and 2011, there were limited publicly available sales of sites for development of high density apartments and typically sales prices "per door" were lower than prices paid by condominium developers prior to the recession. Multiple variables impacted the range of pricing, including such factors as: intrinsic value of location, expensive construction costs with high density development relative to value, BMR requirements, and restrictive financing criteria for new condominium developments that supported premium values prior to the recession. Reported land sales for high density residential sites include:

- *Rincon Hill*: In late 2010, 45 Lansing reportedly sold for $57,373 per unit. The site is small at 15,000 square feet and the entitlement allowed for a tower with a density at over 600 units per acre. After the sale, the entitled units were redesigned and increased up to 320 and the land value per entitled unit is adjusted to $38,900. Construction commenced in 2013 on a 39 story condominium tower.

- *South of Market*: For a site at 900 Folsom at Sixth Street, the reported price in late 2011 was approximately $69,000 per unit. The project is a 282 unit project in a concrete construction type. The density is approximately 218 units per acre. 15% of the units will be affordable. The project is under construction.

- *Mission Bay*: There were multiple land sales for apartment sites. In late 2010, UDR purchased a site for approximately $75,000 per unit. The project at Third and Channel Streets, known as Channel Mission Bay, is now under construction. Urban Housing Group purchased a site on Fourth Street for approximately $81,000 per unit and is now opened as Strata Apartments. In 2011, BRE Properties purchased two sites for approximately $115,000 per unit and construction commenced in 2013. For the reported Mission Bay land sales, the density is 160 units per acre or less. Also under the existing agreement between the Master Developer (seller of the sites) and the former Redevelopment Agency, the private development sites are all market rate units and affordable housing is developed separately on affordable sites.

- *Block 6:* In 2011, Golub offered $73,350 per unit for the market rate tower site. The offering included 15% inclusionary units within the 409 unit tower. It should be noted that while the Block 6 value per unit is less than Mission Bay, the density of the Block 6 tower site is substantially higher at approximately 380 units per acre.

In summary, for sites purchased in late 2010 and in 2011, the values per apartment unit ranged from $69,000 for a south of Market location to $75,000 to $115,000 in Mission Bay and $73,350 per unit for the market rate tower site on Block 6.

Based on the above, the hypothetical value for Block of $73,350 per unit is reasonable and is consistent with the Golub offer for the market rate tower on Block 6. The $73,350 per unit is higher than the reported 900 Folsom sale. The estimated value per unit is lower than Mission Bay, but the density is over twice that of Mission Bay, justifying a lower value per unit than Mission Bay.

In conclusion, KMA would estimate the hypothetical value for Block 6 to be $35.13 million based on 479 entitled units.