



June 5, 2014

Office of Community Investment and Infrastructure
Attn: Mike Grisso, Office of Community Investment and Infrastructure
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

Re: Request for Variation 181 Fremont Street
San Francisco, CA Block 3719/Lots 10 & 11
Case No. 2007.0456EBKXV

Dear Mr. Grisso:

Pursuant to section 3.5.5 of the Redevelopment Plan for the Transbay Redevelopment Project Area (the “Plan”), 181 Fremont Street LLC, (the “Project Sponsor”) hereby requests a variation from the requirements of section 4.9.3 of the Plan and section 415.6 of the San Francisco Planning Code in exchange for the payment of \$13.85 million dollars to the Office of Community Investment and Infrastructure (“OCII) for the provision of affordable housing within the Transbay Redevelopment Project Area (the “Project Area”).

181 Fremont is a unique mixed-use high-rise development project (the “Project”). The Project contains office space and for-sale residential units, including 11 inclusionary affordable ownership units at the top of the tower. The construction of for-sale, on-site affordable housing units at the top of a high-rise creates practical difficulties for maintaining the affordability of the units because homeowners association (“HOA”) fees, already high in such developments, will likely increase such that the original residents would not be able to afford the payments.

The burden placed on the Project Sponsor to maintain the affordability of the units creates an undue hardship for both the Project Sponsor and the owners of the inclusionary housing units. A variation allowing the Project Sponsor to pay an affordable housing fee to OCII will increase OCII’s ability to delivery affordable housing units within the Project Area, a primary goal of the Plan, create deeper affordable levels, produce more net affordable units, and maintain land values necessary for the Transbay Joint Powers Authority’s financing assumptions.

The Plan and Planning Code

Pursuant to section 3.5.5 of the Plan, OCII, in its sole discretion, may grant a variation from the Plan, the Development Controls and Design Guidelines, or the Planning Code, if enforcement would result in practical difficulties for development creating an undue hardship for the property owner and constitute an

unreasonable limitation beyond the intent of the Plan. OCII may grant variations only if there are unique physical constraints or other extraordinary circumstances applicable to the property. Any variation granted must be in harmony with the Plan and not materially detrimental to the public welfare or neighboring property or improvements.

Section 2.1G of the Plan states that it is both the purpose of California Redevelopment Law and a major objective of the Plan to strengthen the community by supplying affordable housing with the deepest affordability levels economically feasible. The Plan requires that 35% of all new housing units in the Project Area be affordable. Both Planning Code section 415.6 and section 4.9.3 of the Plan require that at least 15% of all new housing development units must be on-site, affordable housing units. To achieve this requirement, the Redevelopment Plan must utilize both inclusionary units and stand-alone affordable housing developments. The Plan's 2005 report set a goal of 388 inclusionary units and approximately 795 stand-alone affordable housing units.

The Project and the Project Area

The Project is currently the only approved or proposed mixed-use office and housing development within the Plan Area. The Project's tower contains 54 floors comprised of approximately 400,000 sq. sf. of office and retail space, and 74 residential units, the smallest number of residential units of any high-rise development in the Project Area. Office and retail uses occupy the lower 38 floors and residential units, including 11 inclusionary units, occupy the upper 15 floors.

The Plan Area covers 40 acres and includes blocks programmed for: (i) stand-alone affordable housing developments; (ii) all or a majority of office space; and (iii) a combination of market and affordable housing. The Transbay Joint Powers Authority ("TJPA") established specific land value goals for each block in its funding plan for the Transbay Transit Center ("TTC"). There are a limited number of publicly-owned blocks remaining upon which affordable housing may be built to meet the Plan's 35% affordability requirement.

Affordability Challenges

Due to the unique nature of the Property, maintaining the affordability of the affordable units in harmony with the Plan is problematic. The residential units within the Project are for-sale and include high HOA fees, in excess of \$2,000 per month. Although the initial price of the affordable for-sale units would be adjusted to reflect the cost of the HOA fees, after completion of the project the HOA may raise fees at any time regardless of the effect on the affordable units. Because the HOA, in its sole discretion, may increase HOA fees, once affordable units may quickly become unaffordable. The potential increase in turn-over of the units will de-stabilize the affordable community within the Project and create an undue hardship for both the Project owner and future owners of the affordable units. The granting of a variation will increase the number of affordable units with the Project Area and allow the production of units with deeper affordability levels.

Affordable Housing Fee

The Project Sponsor proposes to pay an affordable fee in the amount of \$13.85 million dollars to OCII to subsidize the equivalent an estimated 55 stand-alone affordable housing units on publicly owned parcels in the Project Area.

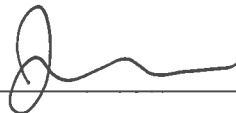
The fee is above and beyond that required pursuant to section 415.5 of the Planning Code. The amount of the fee was determined by The Concord Group (“TCG”), a real estate economics firm engaged by OCII. TCG calculated the net additional revenue that would accrue to the Project Sponsor if the 11 on-site affordable units were converted to market-rate units.

In summary, a variation from the on-site affordable housing requirements under the Plan and Planning Code would (i) result in the payment of \$13.85 million dollars to OCII in consideration of the elimination of the on-site requirement; (ii) provide OCII the ability to subsidize up to approximately 55 affordably housing units, with a net gain of 22 affordable units; (iii) prevent undue hardship to the Project Sponsor and future affordable housing unit owners; (iv) maintain of land values necessary for the TJPA’s financing assumptions; and (v) remain in harmony with the intent of the Plan to produce affordable housing at the deepest affordability levels.

The Project Sponsor is prepared to enter into an agreement with OCII confirming such obligation to make the affordable housing fee payment in exchange for the requested variation. Please contact me at the e-mail or telephone number shown above if you have any questions.

Best regards,

181 FREMONT STREET LLC, a
Delaware limited liability company

By:  _____

Name: Jay Paul

Its: President