



Edwin M. Lee, Mayor  
Naomi M. Kelly, City Administrator



John Updike  
Director of Real Estate

October 28, 2014

**Civic Center Office Space Development Opportunity  
1500 Mission Street at South Van Ness Avenue (Goodwill site)**

Through Naomi Kelly,  
City Administrator

Honorable Board of Supervisors  
City & County of San Francisco  
1 Dr. Carlton B. Goodlett Place  
City Hall, Room 224  
San Francisco, CA 94102

Dear Board Members:

Attached for your consideration is an Ordinance approving and authorizing the Director of Property to execute a conditional purchase and sale agreement (conditional "PSA") with Goodwill SF Urban Development, LLC ("Developer") for the proposed City acquisition of a portion of real property at 1500 Mission Street, located at the corner of South Van Ness and Mission (commonly known as the "Goodwill Site"). The Developer acquired the Goodwill Site on October 21, 2014 to develop the 2.5 acres with approximately 50% office space and 50% residential, with ground level retail fronting South Van Ness and Mission. This represents a true mixed-use development and an opportunity to activate the area while creating a vibrant gateway to the Civic Center.

The Developer plans to develop a 466,400 square foot, 17 or 18 story office building on behalf of the City (the proposed City "Office Project"), including a one-stop permitting center on the ground floors; shared City conference, meeting, training and boardroom facilities; and child care facilities for City employees located on the Goodwill Site. The remainder of the Goodwill Site will be developed for 550 residential units ("Residential Project"), including approximately 110 affordable units. The Office Project alone is expected to generate over \$30 million in local business participation.

**Background**

The Board of Supervisors approved a letter of intent and exclusive negotiating agreement between the City and Developer by Resolution No. 312-14 on July 29, 2014 to negotiate this conditional PSA and introduce it to the Board by no later than October 31, 2014. The Real Estate Division negotiated this agreement through continual guidance and assistance from our City Attorney's Office, Office of Public Finance, Planning Department, Contract Monitoring Division, Department of Public Works, SFMTA and the Controller's Office, and countless other City departments and agencies.

### **The Office Parcel**

Board Approval of this Ordinance will conditionally approve the City's purchase of a 52,900 sq. ft. portion of the Goodwill Site (the "Office Parcel"). The Board still must vote at a later date whether to ratify this conditional PSA on the basis that the environmental impacts have been adequately avoided, mitigated, or overridden under CEQA. The Developer has already started the design and environmental review process with our Planning Department and anticipates returning to the Board to seek project entitlements in mid-late 2016 (this date is referred to in the conditional PSA as the "CEQA Date"). If the Board elects to grant entitlements and by doing so, certifies the CEQA findings, then under separate action, the Board would vote whether to ratify the PSA. If the PSA is ratified, staff would concurrently seek authorization for the City's issuance of certificates of participation or another form of indebtedness (such as use of our commercial paper program) in an amount needed to pay for the acquisition of the Office Parcel. Through that appropriation, the City would also seek authorization to fund the construction of the Office Project, the true hallmark of the City's participation in this endeavor.

### **New City Office Building**

If the Board votes to ratify the PSA on the CEQA Date and authorizes the necessary funding, the City and Developer will promptly finalize the City's acquisition of the Office Parcel in late 2016 or early 2017 (the "Closing Date"). On the Closing Date, the Director of Property and Developer will concurrently execute a Construction Management Agreement (the "CMA") in substantially the same form attached as Exhibit P to the PSA, for the Developer to construct the Office Project on the City's Office Parcel. The Developer would also enter into the general contract for the construction of the Office Project with construction expected to commence immediately after. Depending on the actual CEQA Date, the projected 26-month construction period should expect to start immediately and is expected to be completed, and thus allowing for the City's occupancy of its new building, in late 2018 or early 2019.

### **Project Costs / Obligations**

Through its acquisition of the Office Parcel on the Closing Date, the City anticipates expending approximately \$56 million to acquire the entitled land (inclusive of pre-development costs). The construction and development costs under the CMA, including remaining soft costs and Developer fees, are expected to cost an additional \$271 million. The total not-to-exceed expense for both the acquisition of the Office Parcel and completion of the Office Project is \$326,690,953. The detailed budget of both the Office Parcel and construction of the Office Project is attached as Exhibit D to the PSA. The estimated "all-in" cost of just over \$700 per square foot is comparable to recent sales of existing office buildings, whereas here, the City secures a new, LEED Gold, Class-A office building.

### **Project Benefits**

Upon completion of the Office Project, the City would add an approximate 466,400 square foot office building to the emerging Civic Center neighborhood. The City could terminate approximately 60,000+ square feet of City-as-tenant leases and sell three City-owned buildings in the Civic Center that may be repositioned for other more appropriate uses, such as housing.

Most importantly, the City finally consolidates the Departments of Public Works, Building Inspection, and Planning into one location with a robust one-stop permit center on the ground floor. Retirement & Health Services System, General Fund training facilities, and others would also relocate to the new City Office Building to consolidate the City's benefit services within the same City block. This is all part of the City's goal to help transition the City from rented to owned space, reducing long-term exposure to fluctuations in the Civic Center rental market, while improving customer services.

### **The Process Ahead**

Upon enactment of this Ordinance, the City and Developer will work with regulatory agencies during the environmental review and CEQA processes to seek the office and residential entitlements of the Goodwill Site. Concurrently, the City and Developer will finish designing the City Office Building and finalize the scope of work for inclusion in the CMA. So long as the PSA does not prematurely terminate, the City would incur no additional expenses until it acquires the land on the Closing Date.

Through a companion Ordinance, the City seeks to appropriate \$8,072,300 in the unlikely event that the conditional PSA terminates as a result of City default where the City must reimburse the Developer for design development costs attributable to the Office Project. The City will receive credit for the \$1,250,000 approved by the Board and Mayor in July of 2014 for any Design Development Costs owed due to termination.

### **Future Efforts Associated with the Project**

The City will be offering for sale in early 2015 an existing office building located at 30 Van Ness Avenue (at Market Street), with a leaseback to the City until late 2018 (including contingencies beyond that date). The City will also offer for sale 1660 Mission Street (current home of Dept. of Building Inspection) and 1680 Mission Street (current home of some Dept. of Public Works staff). Net proceeds from all three sales are an essential equity source of the Office Project. Prior to the CEQA Date, or the date which the Board must vote whether to ratify this PSA, we will return to the Board with the results of those sales offerings for consideration and approval of sale.

If you have questions regarding this conditional PSA or CMA, please do not hesitate to contact me.

Respectfully,

John Updike  
Director of Property

Approval of this Ordinance obligates the City to pay Developer up to \$8,072,300 in project development costs.