office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

Cal. Health and Safety Code
33433 Report

Transbay Block 1
July 08, 2016

INTRODUCTION

The Office of Community Investment and Infrastructure ("OCII"), in its capacity as the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, submits this report, which is consistent with the requirements of Section 33433 of the California Health and Safety Code ("33433 Report"). Specifically, Health and Safety Code Section 33433 ("Section 33433") requires that before any property acquired, in whole or in part, with tax increment funds is sold or leased for development by a former redevelopment agency, the legislative body of the community shall approve by resolution the sale or lease after a public hearing. Under Health and Safety Section 33007, the Board of Supervisors ("BOS") is the legislative body for this purpose.

On June 21, 2016, the Commission on Community Investment and Infrastructure ("Commission") approved an Owner Participation/Disposition and Development Agreement ("OP/DDA") between the OCII and Block One Property Owner, L.P., a Delaware limited partnership, and an affiliate of Tishman Speyer ("Developer"), for the development of a residential project on Block 1 in the Transbay Redevelopment Project Area ("Project Area").

The Redevelopment Agency of the City and County of San Francisco (the "Former Agency") purchased a portion of Block 1, Assessor's Block 3740, Lot 027, referred to as the "OCII Parcel"), with tax increment funds for the purpose of fulfilling its affordable housing obligations. OCII has prepared this 33433 Report in support of the BOS consideration and approval of the sale of the OCII Parcel under Section 33433.

BACKGROUND

Transbay Affordable Housing Obligation

The Project Area was established in June 2005 with the adoption of the Redevelopment Plan for the Transbay Project Area (the "Redevelopment Plan") by the BOS. The Redevelopment Plan establishes the land use controls for the Project Area, and divides the Project Area into two sub-areas: Zone One, in which the Development Controls and Design Guidelines for the Transbay Redevelopment Project ("Development Controls") define the development standards, and Zone Two, in which the San Francisco Planning Code applies. OCII has land use jurisdiction over development in Zone One; the Planning Department has land use jurisdiction over Zone Two under a delegation agreement with OCII.

The Redevelopment Plan and various enforceable obligations authorize the development of 10 acres of property formerly owned by the State of California to generate funding for the construction of the Transbay Transit Center and also implement the affordable housing requirements of Assembly Bill 812 (Chapter 99, Statutes of 2003, codified at California Public

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Resources Code Section 5027.1) ("AB 812"). AB 812 requires OCII to ensure that 25 percent of all dwelling units developed within the project area be available at affordable housing cost to, and occupied by, persons and families whose incomes do not exceed 60 percent of the area median income, and that at least an additional 10 percent of all dwelling units developed within the project area be available at affordable housing cost to, and occupied by, persons and families whose incomes do not exceed 120 percent of the area median income (the "Transbay Affordable Housing Obligation"). The Transbay Affordable Housing Obligation is incorporated into enforceable obligations that the California Department of Finance has finally and conclusively determined to have survived the dissolution of the Former Agency and to have been assumed by OCII. 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 must be developed with a greater percentage of onsite affordable housing units than the 15% required by the Redevelopment Plan.

Transbay Block 1

The Site

Block 1 is a 53,622-square-foot site located in Zone One of the Project Area on the north side of Folsom Street between Main and Spear Streets, two blocks south and two blocks east of the future Transbay Transit Center. It is comprised of five legal parcels: Assessor's Block 3740, Lots 027, 029, 030, 031, and 032. Lot 027 is owned by OCII, having been acquired by the Former Agency in 2003 in furtherance of the Transbay Affordable Housing Obligation. The remaining Block 1 parcels are privately owned by the Developer.

The Exclusive Negotiation Agreement

The Redevelopment Plan and Development Controls require that the OCII Parcel be aggregated with the private parcels for suitable for residential development on Block 1. In November 2014, OCII entered into an Exclusive Negotiation Agreement ("ENA") with the Developer to set forth the terms and conditions upon which the parties would negotiate for (a) the sale of the OCII Parcel to the Developer and (b) the development of a combined affordable and market-rate homeownership project on Block 1. The ENA included two project scenarios: (1) a project with a 300-foot tower compliant with the height limits specified in the Redevelopment Plan, and (2) a project with a 400-foot tower requiring an amendment to the Redevelopment Plan and the Development Controls to allow additional height.

On April 12, 2016, the BOS approved, by Ordinance No. 62-16, an amendment to the Redevelopment Plan authorizing the increase in height necessary to accommodate the 400-foot tower scenario. Subsequently, negotiations between OCII and the Developer focused on the 400-foot tower scenario, which is reflected in the OP/DDA approved by the Commission.

The Project

Pursuant to the OP/DDA, the proposed project on Block 1 is a combined affordable and market-rate residential project with 391 homeownership units (the "Project"). Of those, 156 units (or 40% of the total Project) will be permanently affordable to low and moderate income households. The Project includes:

- A 400-foot residential tower and adjacent townhomes with 315 for-sale units. Of these, 235 units (75%) will be market-rate units (the "Market-Rate Project). The remaining 80 units (25%) will be inclusionary affordable units dispersed throughout the first 26 floors of the tower and in the townhomes, comprised of 50 units affordable to households earning no more than 100% of area median income ("AMI") and 30 units affordable to households earning no more than 120% of AMI (the "Developer Affordable Project");

- A 65 to 85 foot 100% affordable podium building consisting of 76 for-sale units, of which 25 units are affordable to low income households earning 80% of AMI and 51 units are affordable to moderate income households earning over 80% of AMI but less than 100% of AMI (the "OCII Affordable Project");
- Streetscape improvements including the extension of Clementina Street on the northern edge of the site and sidewalks along Folsom, Main and Spear Streets;
- Ground-floor retail space along Main, Folsom, and Spear Streets;
- Shared amenity spaces (for all residents), including an outdoor courtyard on Level 2 of the podium, an outdoor terrace on the roof of the townhomes, and an adjacent lounge space; and
- A shared underground parking garage with approximately 334 stalls.

To preserve the affordability of the affordable units in the Developer Affordable Project and the OCII Affordable Project (together, the "Affordable Housing Units"), separate homeowner associations for the affordable and market-rate units will be created under a master homeowners association that will govern shared Project amenities and costs. The OP/DDA sets a target maximum for HOA dues of $850/month for the Affordable Housing Units, and requires the Developer to establish a $225,000 fund to protect the residents of the Affordable Housing Units from excessive and/or increasing HOA costs.

The components of the Project are illustrated on the Development Program included as Attachment 1.

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 OP/DDA is included with this report as Attachment 2. Both the OP/DDA and the 33433 Report were submitted to the Clerk of the BOS and made available for public inspection and copying in advance of July 11, 2016, the date of the first publication of the notice for the BOS public hearing (scheduled for July 25, 2016) to consider approval of the 33433 Report.

(a)(2)(B)(i) The cost of the agreement to the agency, including the 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 agreement.

The Agency incurs no cost from the OP/DDA, which involves the sale of the OCII Parcel in exchange for the Developer fully funding construction of the 156 Affordable Housing Units in the Developer Affordable Project and OCII Affordable Project.

Initially, the Developer agreed, under the ENA, to pay OCII a purchase price of $19,180,000 for the OCII Parcel, and to undertake construction of the OCII Affordable Project subject to a $20,900,000 contribution from OCII to fund a portion of the construction cost. This equated to a subsidy of approximately $275,000 per unit. Subsequently, OCII and the Developer negotiated an agreement that provided additional consideration for the OCII Parcel. Under the OP/DDA, the parties agreed that the Developer would forego the $20,900,000 subsidy from OCII, and would instead apply the $19,180,000 purchase price for the OCII Parcel to the construction cost of the OCII Affordable Project. With the OP/DDA funding structure, OCII would no longer provide the $20,900,000 subsidy for the OCII Affordable Project, but would receive the purchase price of the OCII Parcel as a credit against construction cost of the OCII Affordable Project, a net savings to OCII of approximately $1,720,000 from the ENA structure. All other costs related to the clearance and development of the site will be paid by the Developer. There are no relocation costs.

(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 July 2014 appraisal by Carneghi-Blum & Partners, Inc. appraised the OCII Parcel based on the highest and best use with a 400 foot height limit and a 20% inclusionary housing requirement in the tower, and an overall project affordability level of 35%. The appraisal determined that the value as of July 2014 was $19,180,000. In November 2014, OCII entered the ENA with the Developer based on the appraised value.

(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 $19,180,000 appraised value of the OCII Parcel reflects applicable development conditions and covenants as provided under the Redevelopment Plan and further restricted by the ENA. Under the OP/DDA, the conditions and covenants on usage of the OCII Parcel are even more restrictive, and the estimated value provided under the OP/DDA for the OCII Parcel is approximately $50,180,000, which consists of three main components as follows[1]:

- Purchase Price ($19,180,000)
  OCII will receive a purchase price of $19,180,000 for the OCII Parcel (to be paid by Developer in the form of funding construction costs of the OCII Affordable Project);
- Additional Affordable Housing Units ($17,000,000)
  Under the OP/DDA, the Developer Affordable Project is must include 80 units, which is 25% of the total number of units in the Market-Rate Project. This amount represents an additional 10% from what would otherwise be required under the Redevelopment Plan

[1] *Memorandum Regarding Transbay Block 1: Section 33433 Land Consideration*. Keyser Marsten Associates, July 07, 2016.

(15%), and an addition 5% from what was set forth in the ENA. In addition, the location of the units in the tower changed from Floors 1-5, as agreed upon in the ENA, to Floors 1-26 floors. The value of the additional 5% affordable units and broader distribution of affordable units within the Developer Affordable Project is estimated to be approximately $17,000,000; and

- Additional Construction Funding Gap for OCII Affordable Project ($14,000,000)
  Under the OP/DDA, the parties agreed that the Developer would fund the entire cost of constructing the OCII Affordable Project, estimated to be $50,500,000. The Developer's anticipated sales revenue from the 76 units within the OCII Affordable Project is $17,300,000, and the land cost for the OCII Parcel (paid in the form of a credit against construction costs) is $19,180,000. Collectively, this leaves a construction funding gap for the OCII Affordable Project of approximately $14,000,000, which will be funded by the Developer.

Taking these factors into account, the value obtained by OCII through the OP/DDA transaction is approximately $50,180,000, comprised of:

(1) $19,180,000 purchase price (credited against construction costs);
(2) $17,000,000 resulting from the increase in the percentage of affordable units and the broader dispersal of the affordable units in the Developer Affordable Project, and
(3) $14,000,000 construction funding gap for the OCII Affordable Project to be paid by the Developer.

Therefore, the value received by OCII for the sale of the OCII Parcel is greater than the fair market value of the OCII Parcel as determined by an independent appraiser. In addition, as further detailed in Attachment 3, the consideration being received by OCII equates to $253,440 per tower unit. This per unit consideration is substantially greater than the consideration that OCII has received on its two most recent residential transactions in Transbay: $150,000 per unit on Block 8 and $79,486 per unit on Block 9, both of which closed escrow in 2015.

(a)(2)(B)(iv) An explanation of why the sale 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.

The OCII Parcel was formerly occupied by a portion of the Embarcadero Freeway, which was demolished after the 1989 Loma Prieta Earthquake. After the freeway was demolished, the OCII Parcel was a surface parking lot operated by the State of California. 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 adoption materials 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." The OCII Parcel is identified as an "Underutilized Area" on Figure V-3 in the Report on the Redevelopment Plan. The development of the Project on Block 1 will assist in the elimination of blight by transforming a vacant, underutilized surface parking lot, bringing quality architecture and new homes to the community.

Additionally, the development of the Project will assist in the elimination of blight by providing housing opportunities for low and moderate income households, a population whose housing needs are underserved. Land availability, high construction costs, and financing tools result in new housing development in San Francisco that skews toward both high income and low income residents, but minimal production for moderate income households. Financing tools available to both market-rate and non-profit affordable developers in San Francisco are a key determinant in the types of housing that gets built in the City. Extremely high development costs in San Francisco influence market-rate developers to build product serving high income residents that maximizes developer profit. On the opposite end of the spectrum, non-profit affordable housing developers are also constrained, but for different reasons. Affordable housing developers face similar challenges in terms of expensive land and high construction costs. The issue of expensive San Francisco land is often mitigated by the City and OCII's policy of providing City-owned sites to affordable housing developers using below market rate ground leases. These leases often restrict use of the site for affordable housing targeted to households earning less than 60% AMI. Furthermore, the Federal (Low-Income Housing Tax Credits), State (Multifamily Housing Program [MHP] or Affordable Housing & Sustainable Communities [AHSC]), and City (Local Operating Subsidy Program [LOSP]) financing tools that non-profit developers rely on to build affordable housing also target specific low income populations earning as little as 10% of AMI for the City's formerly homeless population to no more than 60% AMI for many of the other financing programs. These policies result in affordable housing serving very low income and low income households. Consequently, very few units for moderate income households (those earning over 80% AMI, but less than 120% AMI) are built because market-rate developers are not incentivized to build this product and affordable developers generally only have access to financing tools for housing serving households earning 60% or less. Very few resources exist to subsidize the construction of moderate income housing. Therefore, a project like this Block 1 Project that is providing 25 homeownership units for low income households and 131 homeownership units for moderate households earning over 80% but less than 120% AMI is unique in generating units for underserved populations.

Prepared by: Office of Community Investment and Infrastructure

Attachment 1: Development Program
Attachment 2: Owner Participation/Disposition and Development Agreement, June 21, 2016
Attachment 3: Keyser Marston Associates, Inc. Memorandum, July 07, 2016