



Subject: Approval of Vertical Disposition and Development Agreement for the sale of Parcel K North / Pier 70

Date: January 14, 2019

Executive Summary

The Port is requesting co-sponsorship and introduction of legislation on January 15, 2019 to (1) approve a Vertical Disposition and Development Agreement between the Port and a joint venture of TMG Partners and Presidio Bay Ventures for the sale of Parcel K North at Pier 70 for residential condominium development for a total consideration of \$24,350,000; (2) adopt findings under the California Environmental Quality Act; (3) and adopt findings of consistency with the General Plan and the eight priority polices of Planning Code Section 101.1(b). Pursuant to the Disposition and Development Agreement between the Port and FC Pier 70, LLC for the development of the 28-Acre Site at Pier 70 approved by the Board of Supervisors in 2017, the Port is required to offer Parcel K North for sale at or above its fair market value established by a proprietary appraisal and specify that the successful bidder must close escrow on the sale by February 15, 2019, with resulting net sales proceeds used to pay for entitlement costs associated with development of the 28-Acre Site.

Prior Approvals

Enacted #	Short Title
Ord. 227-17	General Plan Consistency Findings and General Plan Amendment - Pier 70 Mixed-Use District Project
Ord. 225-17	Planning Code and Zoning Map Amendments - Pier 70 Special Use District
Reso. 401-17	Disposition and Development Agreement - FC Pier 70, LLC - Pier 70 Project
Reso. 402-17	Public Trust Exchange Agreement - California State Lands Commission - Pier 70 Project
Ord. 220-18	Establishing Sub-Project Areas G-2, G-3 and G-4 and Adopting Appendix G-2 to Infrastructure Financing Plan (Port of San Francisco, Pier 70)
Reso. 298-18	Authorizing Issuance of Port Infrastructure Financing District Bonds (Port of San Francisco, Pier 70) - Not to Exceed \$273,900,000, \$196,100,000 and \$323,300,000 for Sub-Project Area G-2, Sub-Project Area G-3, and Sub-Project Area G-4, Respectively
Ord. 265-18	Summary Street Vacation, New Sidewalks, and Property Transfer - Michigan Street

Background – Pier 70 Mixed-Use District Project

Property

The Port owns an approximately 72 acres along San Francisco's Central Waterfront known as Pier 70. Beginning in 2006, the Port initiated an intensive planning process that culminated in a project to restore and redevelop an approximately 35-acre site located at Pier 70 bounded generally by Illinois Street on the west, 20th Street to the north, San Francisco Bay on the east and 22nd Street on the south ("Project Site"). The Project Site includes (1) an approximately 28-acre Port-owned site bounded generally by Michigan Street on the west, 22nd Street on the south, San Francisco Bay on the east, and 20th street on the north ("28-Acre Site"); (2) an adjacent 3-acre site owned by the Port at 20th and Illinois Streets known as "Parcel K"; and (3) approximately 3 acres of land immediately south of Parcel K owned by Pacific Gas and Electric known as the "Hoedown Yard".

Project Approvals

On October 31, 2017, the Board of Supervisors approved several pieces of legislation to establish the Pier 70 Mixed-Use District Project on the Project Site, including: 1) a trust exchange agreement between the Port and the California State Lands Commission, effective on September 14, 2018, to impress or confirm the public trust on portions of Pier 70 area most useful for public trust purposes and remove the public trust from areas more suitable for development for nontrust uses ("Trust Exchange"); (2) amendments to the Planning Code to create the Pier 70 Special Use District ("Pier 70 SUD") over the Project Site and related amendments to the zoning maps; (3) a Disposition and Development Agreement ("DDA") between the Port and FC Pier 70, LLC ("Forest City") for development of the 28-Acre Site; (4) a Development Agreement between the City and Forest City for the 28-Acre Site; and (5) General Plan consistency findings and findings under the California Environmental Quality Act. In 2018, the Board of Supervisors also approved legislation establishing public financing districts – an Infrastructure Financing District over the 28-Acre Site and Parcel K to finance public infrastructure within the Pier 70 SUD and an Infrastructure and Revitalization Financing District over the Hoedown Yard to fund affordable housing within the Pier 70 SUD.

Project Summary

At full build-out, the Pier 70 Mixed-Use District Project will include: (1) 1,100 to 2,150 new residential units, at least 30% of which will be on-site housing affordable to a range of low- to moderate-income households; (2) between 1 million and 2 million gross square feet of new commercial and office space, including space for small-scale manufacturing, retail, and neighborhood services; (3) rehabilitation of three historic buildings categorized as significant contributing resources to the historic district; (4) transportation demand management on-site, a shuttle service, and payment of impact fees to the Municipal Transportation Agency that it will use to improve transportation connections through the neighborhood; (5) 9 acres of new open space, potentially including active recreation on rooftops, a playground, a market square, a central commons, and waterfront parks along the shoreline; (6) on-site strategies to protect against sea level rise; and (7) replacement studio space for artists leasing space in Building 11 in Pier 70 and a new arts space.

Affordable Housing Requirements

The Affordable Housing Plan attached to the DDA includes measures to ensure that at least 30% of all residential units produced at the 28-Acre Site and the adjacent Parcel K South are affordable to low- and moderate-income households, with the following components: (1) 150 or more inclusionary rental units, representing 20% of all on-site rental units; and (2) 320 or more permanently affordable units in three buildings to be developed by the Mayor's Office of

Housing and Community Development (“MOHCD”) in the 28-Acre Site and Parcel K South. Developers of market-rate residential condominiums in the Pier 70 SUD, including Parcel K North, are not permitted to build on-site inclusionary units, but are required to pay an affordable housing fee based on 28% of the units in the housing project.

Project Phasing

Development of the 28-Acre Site will occur in in three phases over 10+ years. The first phase will include up to 720 residential units, 356,000 square feet of office, 115,000 gsf of retail, arts, and light industrial space, the rehabilitation of historic buildings 2 and 12, 3.4 acres of parks, and the extension of the street grid including Maryland Street, Louisiana Street, 20th Street between Louisiana and Maryland, and 21st Street between Louisiana and Maryland Streets. Forest City started initial site work in May 2018.

Parcel K North

Parcel Assembly

The approvals for the Pier 70 Mixed-Use District Project contemplate that Parcel K will be merged with an adjacent 12-foot strip of Michigan Street and then subdivided to create four new parcels: a plaza at the corner of 20th and Illinois Streets (“20th Street Plaza”), “Parcel K North”, “Parcel K South”, and a new segment of the future 21st Street. To effectuate this parcel configuration, the Board of Supervisors authorized, among other things, vacation of a 12-foot strip of Michigan Street adjacent to Parcel K and jurisdictional transfers between the Port, Department of Real Estate and Department of Public Works to effectuate the sale of Parcel K North on October 31, 2018. Simultaneously, the Port and Forest City have been working with the City’s Department of Public Works to finalize a transfer map that will subdivide Parcel K and the 28-Acre Site into new parcels upon approval by the Board of Supervisors.

Development Requirements

Parcel K North is a trust termination parcel under the Trust Exchange, which became effective on September 14, 2018, and is therefore free from public trust use restrictions and can be sold and developed for housing. Development of Parcel K North is subject to the Pier 70 SUD. Under the Pier 70 SUD, Parcel K North is programmed for a development of up to 261,700 gross square feet of residential use, 13,200 square feet of ground floor commercial uses, and on-site parking at the maximum rate of .6 spaces/residential unit and 1 space/1,500 square feet of office space. Pursuant to the DDA, the Port is required to publically offer Parcel K North for sale for residential condominium uses at or above its fair market value established by a proprietary appraisal and specify that the successful bidder must close escrow on the sale by February 15, 2019, with resulting proceeds used to pay for entitlement costs associated with development of the 28-Acre Site.

Public Offering

On September 26, 2017, the Port Commission approved the terms of a broker-managed competitive solicitation and sale of Parcel K North for no less than its appraised fair market value, for development as residential condominiums. Subsequently, the Port, in consultation with City’s Real Estate Division, selected Collier’s International through a competitive process to competitively bid the sale of Parcel K North as the listing broker for the Port. The Port selected a joint venture between TMG Partners, a California corporation, and Presidio Bay Ventures, a California limited liability company (“Buyer”), as the highest qualified bidder for Parcel K North and negotiated a Vertical Disposition and Development Agreement with the Buyer (the “VDDA”), which requires the Buyer to, among other things:

- (i) pay a total consideration to the Port of \$24,350,000;
- (ii) construct 20th/Illinois Plaza, as a public benefit of the Pier 70 Mixed-Use District Project, subject to reimbursement from public financing sources;
- (iii) construct public improvements to the adjacent Michigan Street segment, subject to reimbursement from public financing sources;
- (iv) comply with all applicable provisions of the Mitigation Monitoring and Reporting Program for the Pier 70 Mixed-Use District Project, including the Transportation Demand Management Plan;
- (v) comply with the Illinois Street Parcel Additional Measures attached to the DDA, in order to minimize potential conflicts between American Industrial Center activities and future residential uses at the site;
- (vi) enter into a deed restriction requiring the second and each subsequent condominium purchaser to pay the Port a transfer fee equal to 1.5% of the purchase price to be deposited in the Harbor Fund for public trust purposes;
- (vii) delegate its vote to form a community facilities district to the Port and covenant to pay special taxes commencing three years after execution of the VDDA;
- (viii) comply with applicable land use restrictions, impact fees, and exactions imposed by the Pier 70 SUD, including a requirement to pay in-lieu affordable housing fees equal to 28% of the costs of on-site market-rate condominium units;
- (ix) pay all other applicable impact fees, including school facilities, utilities, and transportation fees; and
- (x) comply with the all applicable provisions of the City's First Source Hiring Program under Chapter 83 of the City's Administrative Code, Local Hiring Requirements as set forth in Chapter 82 of the City's Administrative Code, Prevailing Wage Requirements as set forth in Article II Chapter 6 and Section 23.61 of the City's Administrative Code, and other City requirements as set forth in the VDDA.

Value of Sale

The Buyer has agreed to pay the Port \$24,000,000 to purchase Parcel K North. The Buyer will also make a non-refundable payment of \$350,000 for Port transaction costs. Therefore, the Port will receive total consideration of \$24,350,000. Buyer will also pay the City's one time transfer tax estimated to be \$720,000. Net proceeds from the sale and tax increment resulting from the sale and subsequent construction will be used to pay down entitlement costs associated with development of the 28-Acre Site Project, as required by the DDA.

The Real Estate Division obtained an appraisal report, prepared by Cushman & Wakefield and an appraisal review conducted by R. Blum + Associates, in compliance with Administrative Code Section 23.3. The September 2018 appraisal by Cushman & Wakefield concluded that Parcel K North has an as-is fair market value of \$24,300,000. The December 2018 review

appraisal by R. Blum + Associates recommended approval of the Cushman & Wakefield appraisal.

Property Tax Increment and Mello-Roos Special Taxes

The VDDA includes a Financing Plan and Acquisition Agreement as an exhibit that provides for Buyer to construct the following improvements, consistent with the requirements of the offering:

- 20th/Illinois Plaza, at an estimated cost of \$3.4 million; and
- Michigan Street and the Michigan Street Plaza, at an estimated cost of \$4.3 million.

Buyer will pay annual property taxes estimated at \$279,000 in the first year, 90% of these property taxes and property taxes paid by subsequent condominium owners will be captured to pay for Pier 70 improvements through Port Infrastructure Financing District G-2 (“Port IFD”). The Port will utilize property tax increment generated by Parcel K North to acquire the 20th/Illinois Plaza under terms set forth in the Parcel K North Financing Plan and Acquisition Agreement and consistent with Appendix G-2 to Infrastructure Financing Plan previously adopted by the Board of Supervisors.

The Buyer and/or subsequent condominium owners will also pay Facilities Special Taxes of \$5.02 per residential square foot, which the Port will use to pay for Pier 70 improvements, including Michigan Street and the Michigan Street Plaza. The Buyer and subsequent condominium owners will also pay Services Special Taxes of \$1.57 per residential square foot to maintain Pier 70 parks and streets, including the 20th/Illinois Plaza, Michigan Street and the Michigan Street Plaza.

The Board of Supervisors has not yet approved the two Mello Roos Community Facilities Districts (“CFD”) that will be required for Pier 70 (the “Pier 70 Condominiums CFD” and the “Pier 70 Leased Properties CFD”), because this action requires the creation of separate, legal taxable parcels at Pier 70. Creation of these parcels will occur with a Board of Supervisors action to approve a Final Transfer Map for Pier 70 that is expected to occur concurrently with the Board’s consideration of the Parcel K North transaction.

Projected Development Impact Fees

Port staff anticipates that the development of Parcel K North will generate the following development impact fees:

Table 1: Projected Development Impact Housing Fees

Fee	Amount (1)
Affordable Housing In-Lieu Fee	\$14,618,562
Childcare Fee	\$562,655
San Francisco USD Fee	\$999,710
Transportation Sustainability Fee	\$3,794,940
TOTAL	\$19,975,867

(1) Fees per 2019 schedule, not including escalation 3% annual escalation.

Use of Anticipated Affordable Housing Fees

On July 24, 2018, the Board of Supervisors approved the form and substance of a 75 year lease between the Port and 88 Broadway Family, LP. to construct and operate 125 units of affordable housing on Seawall Lot 322-1 affordable to individuals and families earning from 30-120% of Area Median Income, under a Memorandum of Understanding between the Port and MOHCD. Port and MOHCD staff have since decided that the preferred payment strategy for MOHCD to pay the \$14.9 million cost for Seawall 322-1 is to utilize the anticipated affordable in lieu fees paid to MOHCD from a future developer of Parcel K North, with the condition that if the sale of Parcel K North or the construction of the Parcel K North project is delayed or never materializes, MOHCD will need to pay the Port fair market value for Seawall Lot 322-1 from another source. Based on the 2019 fee schedule, Parcel K North is projected to generate at least \$14,600,000 in affordable housing fees.