

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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July 9, 2021

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** July 15, 2021 Government Audit and Oversight Committee Meeting

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<p><b>Item 9</b> <b>File 21-0772</b></p>	<p><b>Department:</b> Homelessness and Supportive Housing</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution authorizes the Director of Real Estate to execute a purchase and sale agreement for 888 Post Street in the amount of \$29 million.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors approved a resolution in July 2019, urging the City’s Real Estate Division to pursue a financially feasible option to lease or purchase 888 Post Street for use as a Navigation Center or other use serving homeless and formerly homeless individuals, and in February 2020, approved the lease of 888 Post Street for use as a Navigation Center. The lease provided the City an option to purchase the property prior to August 2022 for \$29 million. The lease also provided for systems and seismic upgrades to the building, with total costs of \$14.6 million of which the City contributed approximately \$5.1 million and the balance paid by the property owner.</li> <li>• 888 Post Street is a three-story, 33,970 square foot building located at the corner of Hyde and Post Streets. A Navigation Center with 75-bed capacity opened on the third and portion of the second floor in February 2021, serving approximately 43 youth (due to COVID restrictions) between the ages of 18 and 24. The remaining portion of the second floor and the ground floor are currently vacant. The Department of Homelessness and Supportive Housing is in the process of drafting a Request for Proposals (RFP) to identify tenants and uses compatible with the Transitional Age Youth Navigation Center for the second and ground floors.</li> <li>• An appraisal conducted by R.Blum+Associates in June 2021 confirmed the purchase price, and an appraisal review will be completed as of July 12, 2021.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors authorized sale of \$425 million in 2020 Health and Recovery General Obligation Bonds in May 2021, which included \$29.1 million for the purchase of 888 Post Street for use as a Transitional Age Youth Navigation Center.</li> <li>• Total purchase costs are \$29 million for the purchase price and \$50,000 for insurance and associated transaction costs. Because the property is purchased by the City, the transaction does not incur transfer taxes which would generally be paid by the seller; the value to the seller of the foregone transfer taxes is approximately \$1.2 million.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

Administrative Code Section 23.3 requires an appraisal of the fair market value of property and an appraisal review for properties with a fair market value of more than \$200,000, prior to consideration of the property purchase by the Board of Supervisors.

## BACKGROUND

The Board of Supervisors approved a resolution in July 2019, urging the City's Real Estate Division to pursue a financially feasible option to lease or purchase 888 Post Street for use as a Navigation Center and/or workforce development and multi-use service center serving homeless and/or formerly homeless individuals (File 19-0738). Subsequently in February 2020, the Board of Supervisors approved the lease of 888 Post Street for use as a Navigation Center (File 20-0043). The lease provided the City an option to purchase the property prior to August 2022 for \$29 million.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the Director of Real Estate to execute a purchase and sale agreement for 888 Post Street in the amount of \$29 million.

### Property Description and Use

888 Post Street is a three-story, 33,970 square foot building located at the corner of Hyde and Post Streets. The City entered into a lease for the property in October 2020<sup>1</sup> for use by the Department of Homelessness and Supportive Housing as a 75-bed Navigation Center for Transitional Age Youth. The Navigation Center opened on the third and portion of the second floor in February 2021, serving approximately 43 youth (due to COVID restrictions) between the ages of 18 and 24.

The remaining portion of the second floor and the ground floor are currently vacant. According to Department staff, the Department is in the process of drafting a Request for Proposals (RFP) to identify tenants and uses compatible with the Transitional Age Youth Navigation Center for the second and ground floors.

### Prior Capital and Tenant Improvements

The original lease between the City and the property owner, TC II 888 Post, LLC, provided for the owner to make seismic and building system upgrades. Actual work completed at 888 Post Street consisted of structural/seismic upgrades; construction of a mezzanine; new electrical,

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<sup>1</sup> The rent commencement date was December 2020. The Department of Homelessness and Supportive Housing has paid \$1,045,228 on rent/lease costs as of June 2021.

mechanical, plumbing and fire/life safety systems; new elevator and elevator equipment; new roofing; accessibility and egress upgrades; new exterior fencing and re-painting; and procurement and installation of furniture, fixtures, and equipment for the Navigation Center. Space on the second and ground floors that is not currently occupied is unimproved, for which improvements will be incurred in future leases.

Total cost of the work was \$14.6 million of which the City contributed approximately \$5.1 million, with the balance paid by the property owner. The purchase and sale agreement states that all improvements and fixtures are included in the purchase.

The purchase of the property is “as-is”. The City has the opportunity to conduct testing and inspections prior to the close of the purchase. According to the Real Estate Division, all due diligence has been completed and no further testing is required.

### **Appraisals**

The purchase price of \$29 million was included in the purchase option provision in the lease between the City and TC II 888 Post, LLC. According to the Budget and Legislative Analyst’s report to February 12, 2020 Budget and Finance Committee meeting, the purchase price of \$29 million was proposed by the landlord. The Real Estate Division assessed the reasonableness of the proposed \$29 million purchase amount using an income approach to estimate the value of the lease, and 5 percent capitalization rate. An appraisal conducted R.Blum+Associates in June 2021 confirmed the purchase price. According to the Real Estate Division, an appraisal review will be completed as of July 12, 2021.

## **FISCAL IMPACT**

### **Property Purchase**

The Board of Supervisors authorized sale of \$425 million in 2020 Health and Recovery General Obligation Bonds in May 2021, which included \$29.1 million for the purchase of 888 Post Street for use as a Transitional Age Youth Navigation Center (File 21-0387). The Office of Public Finance anticipates a pricing date for the 2020 Health and Recovery General Obligation Bonds of July 20, 2021, and transaction close date of August 5, 2021.

According to the Real Estate Division, total purchase costs are \$29 million for the purchase price and \$50,000 for insurance and associated transaction costs. Because the property is purchased by the City, the transaction does not incur transfer taxes which would generally be paid by the seller; the value to the seller of the foregone transfer taxes is approximately \$1.2 million.

### **Homelessness and Supportive Housing Costs**

The Department of Homelessness and Supportive Housing included \$3,289,123 in the FY 2021-22 budget, pending before the Board of Supervisors, for operating the Transitional Age Youth Navigation Center. FY 2021-22 expenditures are funded by the State Homeless Housing and Assistance Program grant. FY 2022-23 expenditures are recommended to be funded by Our City Our Home funds.

## **RECOMMENDATION**

Approve the proposed resolution.