

RESOLUTION NO. 77-2008

Adopted July 15, 2008

AUTHORIZING AN EXCLUSIVE NEGOTIATIONS AGREEMENT WITH 706 MISSION STREET CO LLC, A DELAWARE LIMITED LIABILITY COMPANY, FOR THE DEVELOPMENT OF A MIXED-USE PROJECT, INCLUDING A RESIDENTIAL TOWER AND MUSEUM SPACE, ON 706 MISSION STREET (ASSESSOR'S BLOCK 3706, LOT 93) AND AGENCY PARCEL CB-1-MM LOCATED AT THE NORTH SIDE OF MISSION STREET BETWEEN THIRD AND FOURTH STREETS (ASSESSOR'S BLOCK 3706, PORTION OF LOT 117) AND ALSO AUTHORIZING OTHER ANCILLARY ACTIONS; YERBA BUENA CENTER REDEVELOPMENT PROJECT AREA

BASIS FOR RESOLUTION

1. The Redevelopment Agency of the City and County of San Francisco (the "Agency") is completing its activities in the Yerba Buena Center Redevelopment Project Area (the "Project Area"), which will expire on January 1, 2010.
2. The Agency's last developable parcel of land in the Project Area, Agency Parcel CB-1-MM, is located in the first of the Yerba Buena "central blocks" at the north side of Mission Street between Third and Fourth Streets (the "Agency Property"). It is approximately 9,800 square feet and is currently encumbered with an Agreement for Disposition of Land for Private Development ("LDA") that was entered into on July 30, 1993 with the Mexican Museum, a California nonprofit corporation (the "Mexican Museum"). The LDA contemplates the development of a 65,000-square-foot stand-alone museum on the Agency Property. The LDA has been amended eight times, most recently on December 7, 2004.
3. Adjacent to the Agency Property is privately-owned property that is the site of the "Mercantile Building," a historically important office/retail building of approximately 100,000 square feet (the "Developer Property"). The owner of this property is 706 Mission Street Co LLC, a Delaware limited liability company (the "Developer"), which is comprised of Millenium Partners, the developer of the adjacent Four Seasons Hotel and Residences, and JMA Ventures, another developer.
4. The Developer is proposing to build an innovative new mixed-use project that would span both the Developer Property and the Agency Property (together the "Site"). The Agency and the Developer currently anticipate that the development will consist of the following components: (a) up to 500,000 net square feet of residential, office and/or hospitality uses in a tower of a height to be determined; (b) a cultural component between 35,000 and 40,000 net square feet fronting Jessie Square (the "Cultural Component"); (c) a rehabilitated historically

important Mercantile Building; (d) additional retail and/or cultural uses on the ground floor of the Mercantile Building; and (e) the purchase of the existing 460 space public parking garage (the “Jessie Square Garage”), which would serve both the public and project-related uses (collectively, the “Project”).

5. The Developer and the Agency propose to enter into an Exclusive Negotiations Agreement (the “ENA”) that is a binding agreement between the Developer and the Agency--although subject to the LDA with the Mexican Museum--to negotiate exclusively in good faith the terms of the proposed mixed-use development on the Site. The ENA contemplates a lengthy public review process and approvals from other regulatory bodies in addition to the Commission. The ENA will terminate on January 1, 2010 or earlier as permitted under the ENA.
6. The ultimate goal of the ENA, at the end of its approximately 18-month term, is to enter into an Owner Participation and Disposition and Development Agreement (“OP/DDA”) with the Developer for the disposition of the two Agency-owned properties and the development of the Project before the Project Area expires. The entitlements for the Project will also likely include amendments to the Yerba Buena Center Redevelopment Plan (the “Redevelopment Plan”) to allow for residential uses on the Site, and to the San Francisco zoning map to allow development of the contemplated tower element.
7. The proposed real estate transaction contemplated under the ENA calls for the Agency to convey the Agency Property and the Jessie Square Garage to the Developer for substantial consideration, which may include the following: the Developer’s construction of the base, core, and shell of the Cultural Component, which will be conveyed after completion back to the Agency at no cost for use by the Mexican Museum; the Developer’s payment of \$5 million to an operating endowment for the Cultural Component to support its future operations; the rehabilitation of the historically important Mercantile Building; the payment or defeasance of the outstanding amount of bond debt associated with the Jessie Square Garage (approximately \$43 million); and the maintenance of at least 210 spaces, subject to the Agency’s existing agreements with the Contemporary Jewish Museum and St. Patrick’s Church, in the Jessie Square Garage for public use at rates similar to those at other City public parking garages. In addition, the proposed transaction will also result in other significant public benefits, including a 28% affordable housing requirement that the Developer will satisfy with an estimated \$22 million in-lieu fee.
8. The ENA contemplates a sole source sale of the Agency Property and the Jessie Square Garage that would be consistent with the Redevelopment Plan and the California Community Redevelopment Law. Prior to entering into any final agreements, the Agency will comply with the procedural requirements for notice and public hearing for the sale of Agency property without a public bid, as described in Section 33431 of the Health and Safety Code.

9. The Project, by integrating the Agency Property with the Developer Property, will serve several significant redevelopment purposes: (i) the project, as an integrated development, will have a greater value than if the individual components were developed separately, (ii) the project satisfies the Agency's long-term redevelopment goals for the Agency Property, (iii) the Agency is unable to finance the redevelopment of the Agency Property on its own and believes a stand-alone project would pose insurmountable design and financial problems, and (iv) the project allows the Developer, who is an adjacent property owner, to redevelop its property into a substantially better project.
10. Agency staff believes, and representatives from the Mexican Museum have concurred, that the Project is the best opportunity to develop a new museum for the Mexican Museum—the goal of the LDA.
11. In addition to the Commission's consideration of an OP/DDA, a number of regulatory approvals must occur over the next 18 months to fully entitle and approve this Project. These additional regulatory steps include certification of an environmental impact report, schematic design approval, historic preservation review, an Agency lease with the Mexican Museum, an amendment to the Redevelopment Plan to allow for residential uses on the Developer Property, and modifications to the City Zoning Map to allow for a tower on the Site.
12. The proposed ENA provides that the Developer will give the Agency a \$100,000 performance deposit and will also pay all Agency costs associated with the entitlements and approvals process, including the costs of staff time and overhead and the fees of any consultants that the Agency retains to fulfill its obligations under the ENA. Staff is considering the use of financial consultants, outside legal counsel, and other professional services to complete the transaction over the next 18 months.
13. The proposed ENA includes a list of performance benchmarks that the Developer and the Agency must meet over the course of the next approximately 18 months before the Project Area expires on January 1, 2010. These performance benchmarks detail milestones in the following areas: environmental review, rehabilitation of the Mercantile Building, design review for the entire Project, the purchase of the Jessie Square Garage, and the path toward various regulatory approvals and the preparation of all transaction documents related to the Project.
14. Agency authorization of the ENA is statutorily exempt from the California Environmental Quality Act ("CEQA") as a feasibility and planning study, pursuant to CEQA Guidelines Section 15262. The ENA will facilitate completion of the design of the Project and will not independently result in significant physical effects on the environment.
15. Staff recommends authorizing the ENA with the Developer for the development of a Project on the Site.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that the Executive Director is authorized to enter into an Exclusive Negotiations Agreement with 706 Mission Street Co LLC, a Delaware limited liability company, that is subject to the LDA with the Mexican Museum and that proposes the development of a mixed-use project, including a residential tower and museum space, on 706 Mission Street (Assessor's Block 3706, Lot 93) and Agency Parcel CB-1-MM located at the north side of Mission Street between Third and Fourth Streets (Assessor's Block 3706, portion of Lot 117) in the Yerba Buena Center Redevelopment Project Area, substantially in the form lodged with the Agency General Counsel, and furthermore is authorized to enter into any and all ancillary documents or take any additional actions necessary to consummate the transaction, including the hiring of outside consultants and legal counsel with funds provided by the Developer.

APPROVED AS TO FORM:

A handwritten signature in black ink, appearing to read "James B. Morales", written over a horizontal line.

James B. Morales
Agency General Counsel