Commission on Community Investment and Infrastructure

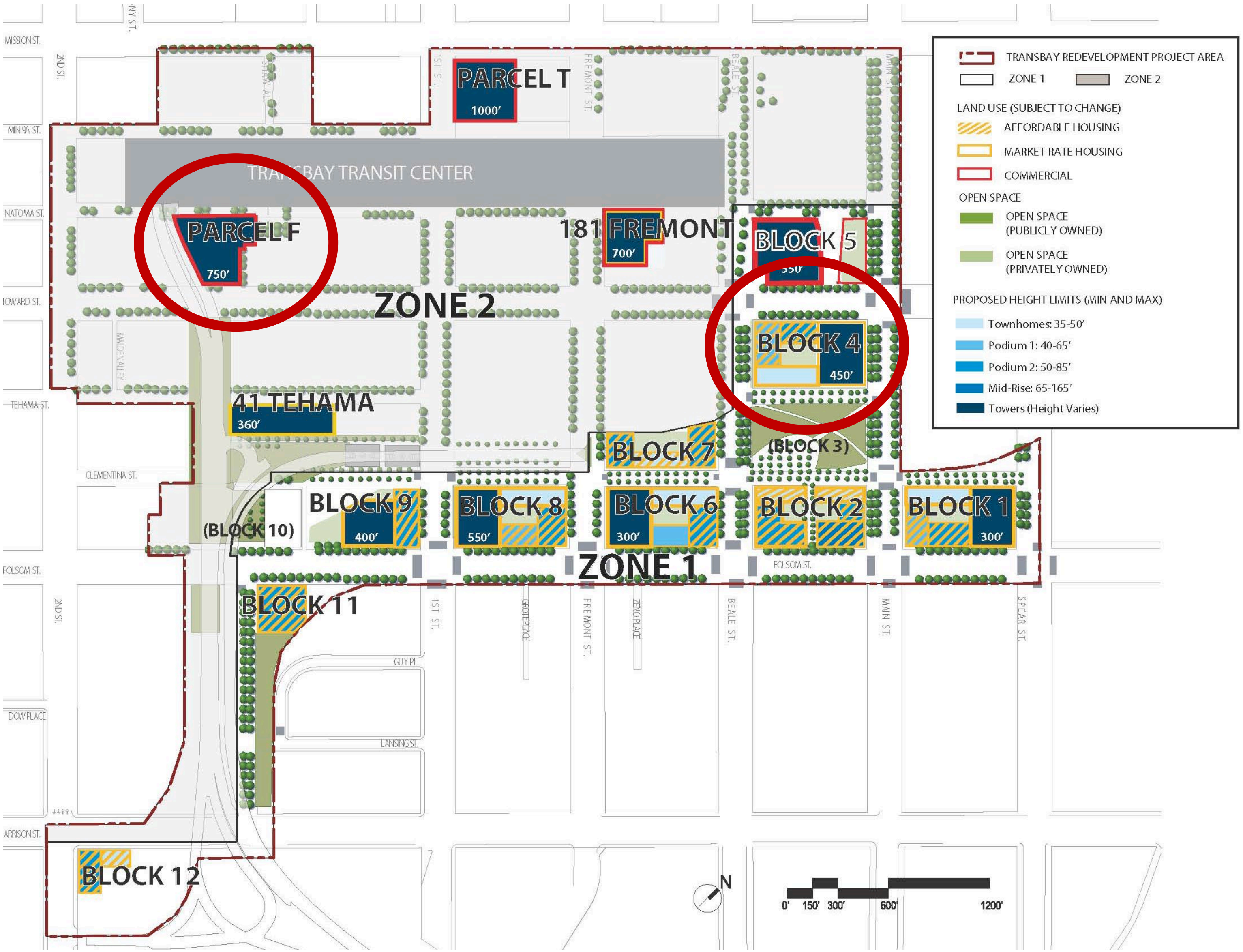
542-550 Howard Street (Parcel F)

Variation Request

OCII

January 19, 2021

Transbay Redevelopment Project



Parcel F and TB Block 4

- **2016**:
  - Parcel F acquisition by Developer included option for TB Block 4

  - TB Block 4 Option Agreement between OCII and Developer

  - Option Agreement anticipated a variation for Parcel F to allow off-site inclusionary

TB Block 4 Option Agreement

2018:

Commission approved Amendment to Option:

- Adopted non-binding Term Sheet for the Project (included height increase)
- Extended negotiations period by one year

12/2020:

- Commission approved 3-month extension thru March 2021, with additional possible 3 months

Parcel F

- Zone Two, Planning Department jurisdiction
- 61-stories
- Hotel: floors 1-16, 189 rooms
- Office: floors 17-32, 276,000 SF
- Condominiums: floors 33-62,165 units
    - 33 on-site units must be BMRs
    - Homeowners association fees more than $2,500 month

Variation Request

- On-Site Requirement per Planning Code and Redevelopment Plan
- Variation from Redevelopment Plan to convert 33 on-site affordable units to market-rate units
- Originally variation anticipated off-site to Block 4
- Instead, variation allows Developer pay $45-$47 million in lieu fee to OCII
    - Subsidizing 192 affordable units at TB Block 4 if OCII & Developer reach agreement on DDA

Variation Requirements

- Variation criteria:
  - Practical difficulties creating undue hardship for the property owner
  - Unreasonable limitation beyond the intent of the Plan
  - Unique physical constraints or other extraordinary circumstances applicable to the property

Extraordinary Circumstances

- Project is unique
  - Mixed-use hotel, office and housing development
  - Small number of residential units on the top floors of luxury high-rise
  - 165 residential units located in upper 28 floors of 61-story tower

Practical Difficulties and Undue Hardship

- Affordable units at top of tower, with high HOA fees, create practical difficulties for Project and undue hardship for future BMR owners
  - HOA fees cannot be set lower based on BMR status
  - No program for assisting BMR owners with HOA increases after initial occupancy
  - HOA fees can be increased without support of BMR owners because BMR owners in minority of total HOA membership
  - BMR owners may face hardship of having to sell unit
- Hardship constitutes unreasonable limitation beyond intent of Redevelopment Plan to create affordable housing for the longest feasible time

Additional Impacts of High HOA Fees

- HOA fees disproportionately large portion of housing costs, distorts mortgage size
- BMR buyers are impacted proportionally more by high HOA fees than market-buyers
- Small first mortgage limits ability to recoup money at sale; majority paid toward HOA fees rather than building equity
- BMR homeowner's higher risk translates to unit in event of foreclosure

Parcel F Affordable Housing Fee

- $45-47 million
- 150% of Inclusionary Affordable Housing Program fee
  - Methodology: residential square fee multiplied by $210.47/SF factor (2020 fee)
  - Impact Fee Register to be further updated for 2021
  - Enforceable letter of credit due 30 days after the effective date of the DDA between OCII and Developer

Impact of Affordable Housing Payment

- Payment 1.5 times fee of Inclusionary Affordable Housing Program fee
- Subsize 192 units at Block 4’s 100% affordable mid-rise; approximately $243k/unit in OCII loan subsidy
- Recent OCII funded affordable housing in Transbay:
  - TB 8: $200k/unit
  - TB 7: $220k/unit
  - TB 1: $260k/unit

Summary of Actions & Next Steps

Date	Approval Body	Subject Matter
1/14/21	Transbay CAC	Variation (*approved)*
1/19/21	OCII Commission	Variation
1/28/21	Planning Commission	Development Agreement (DA) & other project/zoning related matters
Feb 2021	Board of Supervisors	DA, other project matters, Variation

Office of Community Investment and Infrastructure

Questions & Comments