OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

108-0282020-022

Agenda Item **No. 5(d)**
Meeting of December 15, 2020

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Sally Oerth, Interim Executive Director

SUBJECT: Authorizing a Second Amendment to the Option Agreement with F4 Transbay Partners LLC, a Delaware Limited Liability Company, for the Purchase of Transbay Block 4; Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

The Successor Agency to the Redevelopment Agency of the City and County of San Francisco ("Successor Agency" or "OCII") is completing the enforceable obligations of the Redevelopment Agency of the City and County of San Francisco ("Former Agency") in the Transbay Redevelopment Project Area ("Project Area"). These include implementing the Agreement for Option to Purchase Transbay Block 4 with F4 Transbay Partners LLC, a Delaware limited liability company ("Developer") (as amended by the First Amendment thereto, the "Option Agreement").

OCII and Developer have made significant progress on negotiating a disposition and development agreement for the sale and subsequent residential development of Block 4, in accordance with the provisions of the Option Agreement. Remaining issues include determining a final purchase price pursuant to the appraisal process established by the Option Agreement, concluding discussions with Developer and the City concerning the timing of Developer's Parcel F affordable housing fee contribution to be used at Block 4, and reaching agreement on certain Schematic Design issues for the project.

Developer now requests an extension of the Outside Option Exercise Date established in the Option Agreement to allow the completion of DDA negotiations. In response, staff propose a second amendment to the Option Agreement providing an extension of the Outside Option Exercise Date for three months (to March 31, 2021) and to provide the Executive Director a right to extend an additional three months in her sole discretion.

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Staff recommends approval of the Second Amendment to the Option Agreement for Block 4 with F4 Transbay Partners, LLC in accordance with the following.

BACKGROUND

The Board of Supervisors of the City and County of San Francisco ("Board of Supervisors") approved the Redevelopment Plan for the Transbay Redevelopment Project Area by Ordinances No. 124-05 (June 21, 2005) and No. 99-06 (May 9, 2006), as amended by Ordinance No. 84-15, (June 18, 2015) ("Redevelopment Plan"). The Redevelopment Plan establishes the land use controls for the Transbay Redevelopment Project Area ("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
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> Zone Two in which the San Francisco Planning Code applies through a delegation agreement with the Planning Department.

A major focus of the Project Area is to redevelop 10 acres of former-highway-access-ramp property owned by the State of California (the "State-Owned Parcels") to generate funding for the Transbay Joint Powers Authority ("TJPA") to construct the Salesforce Transit Center (the "Transit Center"). OCII's role is to facilitate the sale and development of certain State-Owned Parcels to third parties and to implement the Redevelopment Plan. Part of the implementation includes compliance with California Assembly Bill 812, codified in Section 5027.1 of the California Public Resources Code ("AB 812"), which requires that 35% of all new residential units in the Project Area be affordable to low- and moderate-income households (the "Transbay Affordable Housing Obligation"). AB 812 further defines that the 35% of the units be allocated as follows: 25% of the units be low-income for households earning up to 60% Area Median Income ("AMI"), and the remaining 10% of the units be moderate-income for households earning up to 120% AMI.

Transbay Block 4 is a formerly State-Owned Parcel. It is located within Zone One, specifically on the northerly portion of the block that currently houses the Transbay Temporary Bus Terminal. Now that the Transit Center is in operation, bus service at the Temporary Bus Terminal has ceased.

Under the Redevelopment Plan and the Development Controls, Block 4 is planned for residential development as a 450' tower, two mid-rise podium buildings (at 85' and 65'), and low-rise townhouses (up to 50') situated around shared open space and on top of shared parking. Block 4 would include both market rate and inclusionary affordable units (no OCII subsidy), the latter to the extent needed to ensure that OCII meets the 35% Transbay Affordable Housing Obligation.

Parcel F is another formerly State-Owned Parcel, located in Zone Two (under Planning Department jurisdiction) adjacent to the western end of the Transit Center site. In early 2016 the TJPA entered into an agreement with the Developer to purchase Parcel F, contingent on Commission approval of the

Option Agreement for the purchase of Block 4. The Commission approved the Option Agreement on April 19, 2016, and in June 2016 the Developer closed on the sale of Parcel F for a price of $160 million.

The Option Agreement provides Developer with a right to exclusive negotiations for a Disposition and Development Agreement ("DDA") with OCII. The DDA would include a purchase price for Block 4 of either (1) $45 million, or (2) a price determined by negotiation with OCII after the parties have agreed on all terms of the DDA except price, or (3) the fair market value of Block 4 subject to the terms of the DDA as determined by an appraisal process. The proceeds of the sale of Block 4 would be transmitted to the TJPA for the Transit Center construction and operation. The Option Agreement also provides that the Developer would subsidize at least 45% of residential units to be built on Block 4 as affordable units, without any OCII subsidy.

Since 2016, OCII and the Developer and Mercy Housing, Developer's affordable housing partner, have been negotiating terms for the Block 4 DDA. The Developer is proposing to increase the Tower height from 450' to 501' and to increase the podium heights from 65'/85' to 85'/150', which will require a Redevelopment Plan Amendment and amendments to the Development Controls. Below Market Rate ("BMR") units would be rental and provide a range of unit sizes and affordability levels, including a significant amount of housing for moderate income levels which has long been challenging to include in affordable housing rental projects. The Developer also proposes to provide $175,000 for an SBE capacity study and local worker training, provide a Transfer Fee on resales of any market rate homeownership units to fund future maintenance of Transbay Park, and provide community serving ground floor commercial space at 50% discounted rent.

In 2018, the Commission approved a First Amendment to Option Agreement ("First Amendment") that, among other things, proposed a revised project based on increased height limits for the Block 4 tower and mid-rise, and consolidation of two mid-rise buildings into a mid-rise single building. The additional heights were meant to provide greater developable area over which to spread the cost of the affordable housing obligation required of the project. The First Amendment approval also included a non-binding Term Sheet to provide base terms from which to continue to negotiate the DDA and develop Schematic Designs. The Project as contemplated by the Term Sheet included 713 mixed-income residential units, of which 347 would be below market rate (49%), 12,900 SF of retail, two levels of below-grade parking with 388 spaces, and 11,600 SF of open space. Lastly, the First Amendment extended the time period for DDA negotiations by one year, with an additional twelve-month extension available at the Executive Director's discretion. Concurrent with the First Amendment, the Commission also approved Mercy Housing as the Developer's affordable housing developer partner for the site.

On June 27, 2019, the Executive Director granted the discretionary twelve-month extension of the Outside Option Exercise Date allowed under the First Amendment, to allow the parties further time to finalize negotiations for the DDA, including financing for the 45 percent affordable component of the project as proposed under the Option and Term Sheet.

Thereafter, on June 24, 2020, the Executive Director determined that the effects of the COVID-19 pandemic constituted a Force Majeure event for the purposes of the Option Agreement and agreed to postpone the Outside Option Exercise Date for approximately six months, to January 1, 2021.

Developer now requests an extension of the Outside Option Exercise Date established in the Option Agreement to allow the completion of DDA negotiations.

DISCUSSION

Developer and OCII staff have resolved a significant portion of the DDA for Block 4, with a few outstanding items remaining that will require approximately 4 to 6 months to resolve. By way of update, the current development program for Block 4 includes 669 residential units including 327 below-market units (49% of all residential units), 7,930 square feet of retail, a shared below-grade garage with space for 224 vehicles and 556 bicycles, and 16,460 square feet of open spaces (both public and private).

Under the Option Agreement, Developer has the option to determine the purchase price for Block 4 via an appraisal process to determine fair market value. Earlier in 2020, Developer opted to use this option and has engaged an appraiser. OCII staff anticipate some negotiation on the appraisal. This appraisal, together with OCII's right to review and finalize negotiations, will require approximately 2-4 months to complete.

Lastly, the Developer and OCII design staff continue to work collaboratively on a Schematic Design package for Block 4 that will be provided to the Commission for approval together with the DDA. Resolution of outstanding design issues will likely require approximately 1 – 2 months.

To accommodate negotiations of these final terms of the DDA, OCII staff propose a second amendment to the Option Agreement providing an extension of the Outside Option Exercise Date for three months (to March 31, 2021) and to provide the Executive Director a right to extend an additional three months in her sole discretion.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

OCII authorization of the Second Amendment to the Option Agreement for Block 4 is statutorily exempt from the California Environmental Quality Act ("CEQA") as a feasibility and planning study, pursuant to CEQA Guidelines Section 15262. The Second Amendment to the Option Agreement will authorize OCII and the Developer to continue negotiations for the design of a project that will be subsequently reviewed and considered for approval in the sole and absolute discretion of the Commission. The Second Amendment to the Option Agreement will not independently result in significant physical effects on the environment.

(Originated by Aaron Foxworthy, Interim Development Services Manager)

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Sally Oerth

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Interim Executive Director