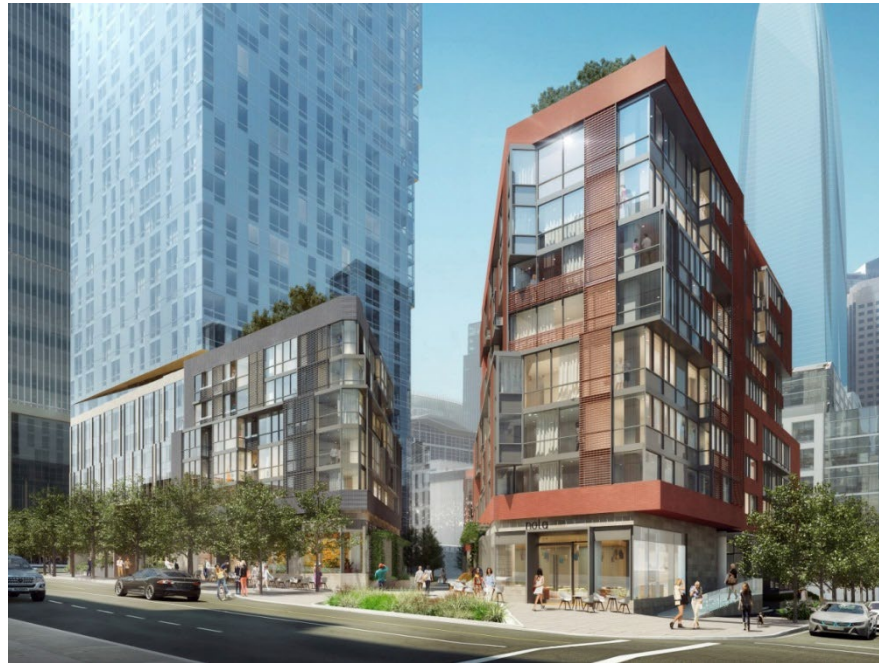


# OCII COMMISSION

## Transbay Block 8 Grocery 250 Fremont Street



**December 18, 2018**



# Commission Actions

1. Find that Developer has made good faith efforts to lease grocery space
2. Approve termination of Developer's obligation to provide a grocery store in Transbay Block 8

# Summary of Key Findings

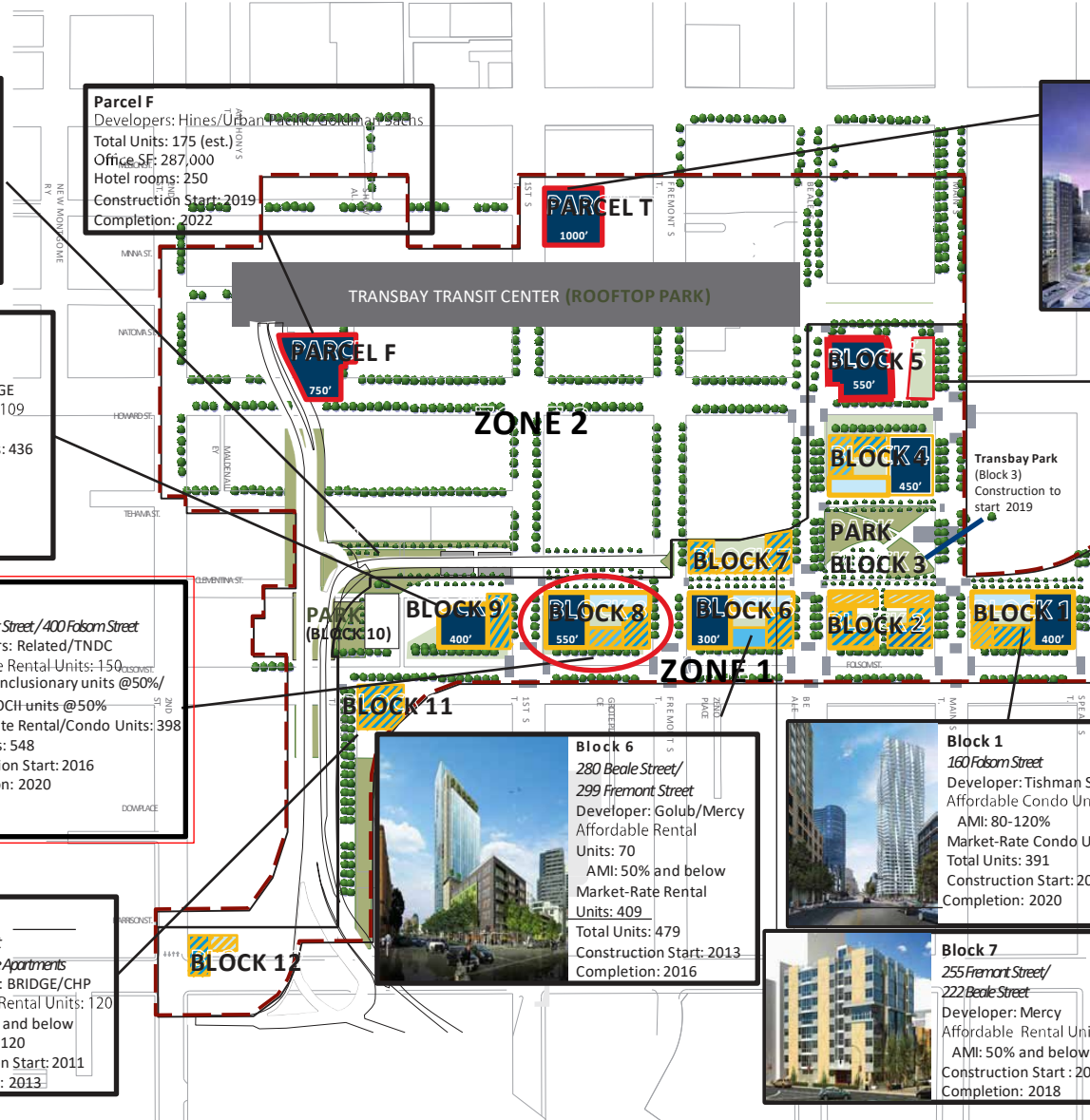
- Appropriate outreach was done, including many local small grocers
- Challenging market conditions – too much competition too close to site
- Findings peer reviewed by OCII's consultant (Strategic Economics)
- Developer has met conditions of DDA

# TRANSBAY REDEVELOPMENT PROJECT AREA



**Parcel F**  
Developers: Hines/Urban Redevelopment Corp.  
Total Units: 175 (est.)  
Office SF: 287,000  
Hotel rooms: 250  
Construction Start: 2019  
Completion: 2022

**PARCEL T**  
1000'



# Development Program

- **548 total units in a 55-story tower**
  - 398 market rate units
  - 70 inclusionary rental units in tower
  - 80 OCII funded rental units in 2 podiums
- **17,600 SF of retail**
  - 13,101 SF Grocery
    - 2,717 SF on ground floor
    - 10,384 SF in basement level

# Ground Floor Grocery Space

2,717gsf



# Basement Grocery Space

10,384gsf



# DDA Grocery Requirements

- **April 2015:** Commission approval of TB Block 8 DDA and Schematic Design with Related and TNDC
- **DDA requirements for grocery store:**
  - Developer use good faith efforts to obtain a tenant
    - Hire a listing agent to market the grocery space
    - Provide adequate staffing to support efforts
    - Provide OCII with quarterly updates of progress
      - Market surveys
      - Outreach efforts
      - Obstacles

# DDA Grocery Requirements

- **DDA requirements for grocery store continued:**
  - Commission approval required to terminate grocery obligation
    - Developer unable to lease grocery space
    - Developer may request termination within 12 months prior to completion of retail
    - Scheduled retail completion date June 2019
    - Commission approval "shall not be unreasonably withheld, conditioned, or delayed"

# Developer Good Faith Efforts

- **Developer hired Colliers International as retail listing broker:**
  - Contacted 13 potential local, regional, and national grocers
    - 8 of the 13 grocers were local
  - All declined, reasons as follows:
    - **Competition:** Too close to existing markets (e.g. Woodlands Market)
    - **Space:** not enough sq. ft., not contiguous, not traditional high parking ratio
    - **Lack of interest:** unresponsive to marketing or not interested in area

# Developer Good Faith Efforts - Outreach

| Tenant                                                                              | Type     | Size (sf) | Status | Comments                                                                                                                                                             |
|-------------------------------------------------------------------------------------|----------|-----------|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    | Local    | 15,000    | Passed | Required +40 parking stalls, concerned with uncertain neighborhood, and proximity to Woodlands two blocks away.                                                      |
|    | Local    | 10,000    | Passed | Did not like basement space. Anticipated \$650/sf construction cost, staffing, inventory, and working capital. Requested \$520/sf of TI allowance and deferred rent. |
|    | Local    | 17,000    | Passed | Required at least 17,000sf of contiguous space.                                                                                                                      |
|    | Local    | 10,000    | Passed | Unresponsive.                                                                                                                                                        |
|    | Local    | 7,500     | Passed | Unresponsive after multiple conversations with broker.                                                                                                               |
|    | Local    | 20,000    | Passed | Concerned about split level - L1 and Basement.                                                                                                                       |
|    | Local    | 30,000    | Passed | Space is too small.                                                                                                                                                  |
|    | Local    | 15,000    | Passed | Concerned about lack of parking and proximity to Woodlands.                                                                                                          |
|   | Regional | 20,000    | Passed | Not interested in San Francisco at this time.                                                                                                                        |
|  | National | 15,000    | Passed | Not enough parking and proximity to Woodlands.                                                                                                                       |
|  | National | N/A       | Passed | Focused on convenient store format instead of grocer format.                                                                                                         |
|  | National | 20,000    | Passed | Required at least 20,000sf of contiguous space.                                                                                                                      |
|  | National | 30,000    | Passed | Acquired by Amazon.                                                                                                                                                  |

# Developer Good Faith Efforts

- **Developer provided adequate staffing to support efforts**
- **Developer provided OCII with progress updates**
  - Quarterly updates with market surveys, outreach efforts, obstacles
  - Annual updates for Commission and CAC
    - August 18, 2015
    - March 15, 2016
    - October 3, 2017

# Developer Good Faith Efforts – Progress Timeline

| 2015                                                                                             | 2016 | 2017 | 2018 | 2019 |
|--------------------------------------------------------------------------------------------------|------|------|------|------|
| ♦ Executed DDA                                                                                   |      |      |      |      |
| ♦ Conducted retail survey of Transbay District                                                   |      |      |      |      |
| ♦ Engaged Intelligent Analytics to determine potential grocer revenue                            |      |      |      |      |
| ♦ Related provides quarterly updates to OCII and updates CAC and Commission on outreach efforts  |      |      |      |      |
| ♦ Related/TNDC acquire TB8 site                                                                  |      |      |      |      |
| ♦ Retail Broker identified potential grocer tenants and square footage requirements              |      |      |      |      |
| ♦ Retail Broker expanded on potential grocer tenants and tenant-specific requirements            |      |      |      |      |
| ♦ Related provides quarterly updates to OCII and updates CAC and Commission on outreach efforts  |      |      |      |      |
| ♦ <b>Start of Construction</b>                                                                   |      |      |      |      |
| ♦ Listing agreement signed with Retail Broker                                                    |      |      |      |      |
| ♦ Finalized marketing materials and soliciting interest from national and regional/local grocers |      |      |      |      |
| ♦ <b>Trader Joe's opens store on 4th &amp; Market</b>                                            |      |      |      |      |
| ♦ Updated retail survey emphasizing need for F&B evening/weekend services                        |      |      |      |      |
| ♦ <b>Amazon acquires Whole Foods Market</b>                                                      |      |      |      |      |
| ♦ <b>Woodlands Market opens at Lumina (Folsom &amp; Main)</b>                                    |      |      |      |      |
| ♦ Related provides quarterly updates to OCII and updates CAC and Commission on outreach          |      |      |      |      |
| ♦ Grocer revenue forecast updated to account for Woodlands Market                                |      |      |      |      |
| ♦ <b>All viable grocer tenants effectively pass on TB8</b>                                       |      |      |      |      |
| ♦ Related sends Grocer Release Letter to OCII                                                    |      |      |      |      |
| ♦ <b>OCII engages Strategic Economics and confirms Related's findings</b>                        |      |      |      |      |
| ♦ <b>Complete Construction</b>                                                                   |      |      |      |      |

# Peer Review of Grocer Feedback

| Potential Tenants' Objections                                                                                                                                                                                                           | OCl Consultant Review                                                                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Competition from Woodlands Market</u> <ul style="list-style-type: none"><li>• Opened in 2017</li><li>• 11,000 SF</li><li>• 3 blocks east of Project</li><li>• Insufficient demand to support Woodlands and Project grocery</li></ul> | <i>Agrees:</i> <ul style="list-style-type: none"><li>• Current demand: could not support both grocers</li><li>• Future demand: methods uncertain – delivery service vs brick &amp; mortar</li></ul>                                                   |
| <u>Challenging space and layout</u> <ul style="list-style-type: none"><li>• Multi-level spaces in ground floor and basement not practical for grocery</li></ul>                                                                         | <i>Agrees:</i> <ul style="list-style-type: none"><li>• Small ground floor space not very usable</li><li>• Basement space too small for most mid-size grocers</li></ul>                                                                                |
| <u>Traditional high ratio parking needed</u> <ul style="list-style-type: none"><li>• Insufficient on-site parking</li></ul>                                                                                                             | <i>Disagrees:</i> <ul style="list-style-type: none"><li>• Transbay traffic too challenging</li><li>• Transit oriented neighborhood doesn't require industry standard parking, although finds site lacks sufficient off-street loading space</li></ul> |

# Grocery Store Competitors

## Block 8 Retail Space and Grocery Competitors

- Block 8
- Competitive Grocery Stores
- - - Transbay Area Half-Mile Radius
- BART Stops
- BART Rail
- MUNI Rail



# DDA Section 9.07

“If the Developer is:

- **unable, despite good faith efforts, to enter into a lease with an Acceptable Grocery Tenant**
  - on commercially reasonable terms acceptable to Developer
  - within 12 months prior to the anticipated Completion Date of the Phase that includes the Grocery Space,
- **then Developer may seek approval from the Commission to**
  - terminate its obligations under this Section 9.07,
  - which approval shall not be unreasonably withheld, conditioned, or delayed.”

# Transbay CAC

- **Transbay CAC meeting on December 13, 2018:**
  - ❖ Developer and OCII retail consultant provided presentations
  - ❖ CAC members voted 5-3 against termination of grocery obligation

# Conclusions

1. Developer has made good faith marketing efforts to lease grocery space
2. Staff have confirmed significant challenges to grocery use:
  - Local demand does not support Woodlands and new grocery at Block 8
  - Space constraints and split level format too challenging for grocer use
3. Commission approval to terminate grocery obligation "shall not be unreasonably withheld, conditioned, or delayed"
4. Staff recommendation: Developer has fully complied with terms of DDA, and obligation to provide grocery store can be terminated

# THANK YOU

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