

TRANSBAY BLOCK 8 “AVERY LANE”

420-488 Folsom Street
San Francisco, CA 94105

Retail Update
Commission on Community Investment &
Infrastructure (“CCII”)

December 18, 2018

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TRANSBAY BLOCK 8 “AVERY LANE”

INTRODUCTION

RETAIL MARKET OUTLOOK & TRENDS

GROCER DESIGN

GROCER OUTREACH EFFORTS

Q&A

INTRODUCTION

- **Related California:** Jonathan Shum, Vice President
- **Jones Lang LaSalle Brokerage (JLL):** Laura Tinetti, Senior Vice President

RELATED CALIFORNIA

- Largest affordable housing developer in California with a 30-year track record
- Related California has completed over 14,000 affordable housing units
- Related California has over 1,500 affordable housing units under development
- History of owning its properties long term and engaged neighborhood stakeholder
- Led by Bill Witte, Chairman and Founder
- **Transbay Block 8 Role:** Market Rate Development Partner

TENDERLOIN NEIGHBORHOOD DEVELOPMENT CORPORATION

- Every day TNDC helps over 4,700 people with low incomes thrive by building deeply affordable homes and supportive communities
- TNDC develops affordable housing across nine San Francisco neighborhoods including the Tenderloin
- TNDC operates 41 properties with 11 in development
- Led by Donald Falk, Chief Executive Officer
- **Transbay Block 8 Role:** Non-Profit Development Partner and Social Services Provider

TRANSBAY BLOCK 8 “AVERY LANE”

- 548 residences of which 150 are affordable (27% on site)
- Social services provided by TNDC for affordable housing residents
- Earlier completion vs DDA schedule resulting in much needed housing, property tax revenue, sales tax revenue, and Mello Roos revenue
- Creation of “**Avery Lane**” an activated privately owned **public open space** inspired by Maiden Lane and Belden Place lined with neighborhood serving retail
- Active and engaged member-supporter of The East Cut neighborhood



Avery Lane



Construction progress as of December 2018



The Shops at Avery Lane

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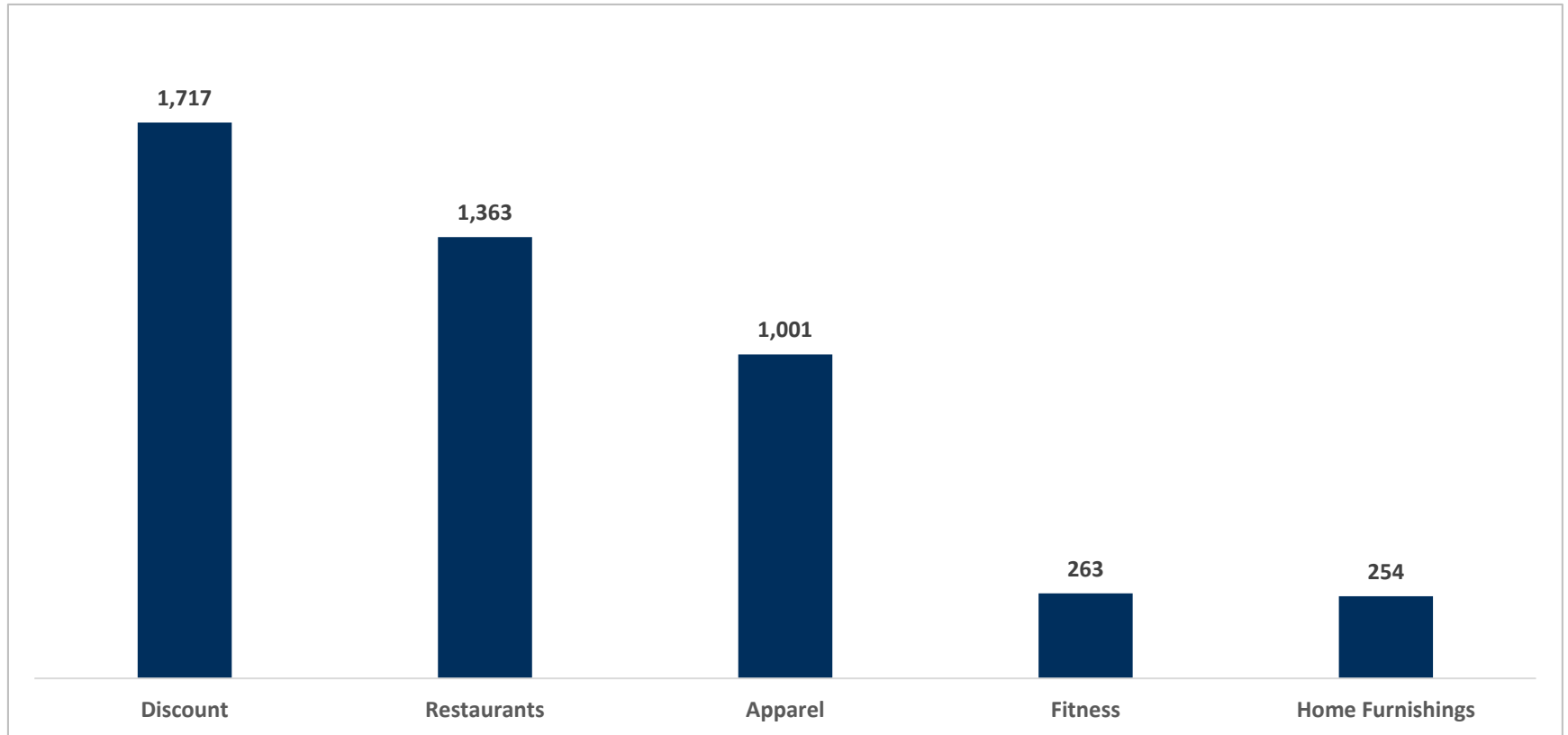
GROCER DESIGN

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TOP RETAIL CATEGORIES FOR OPENINGS IN 2018

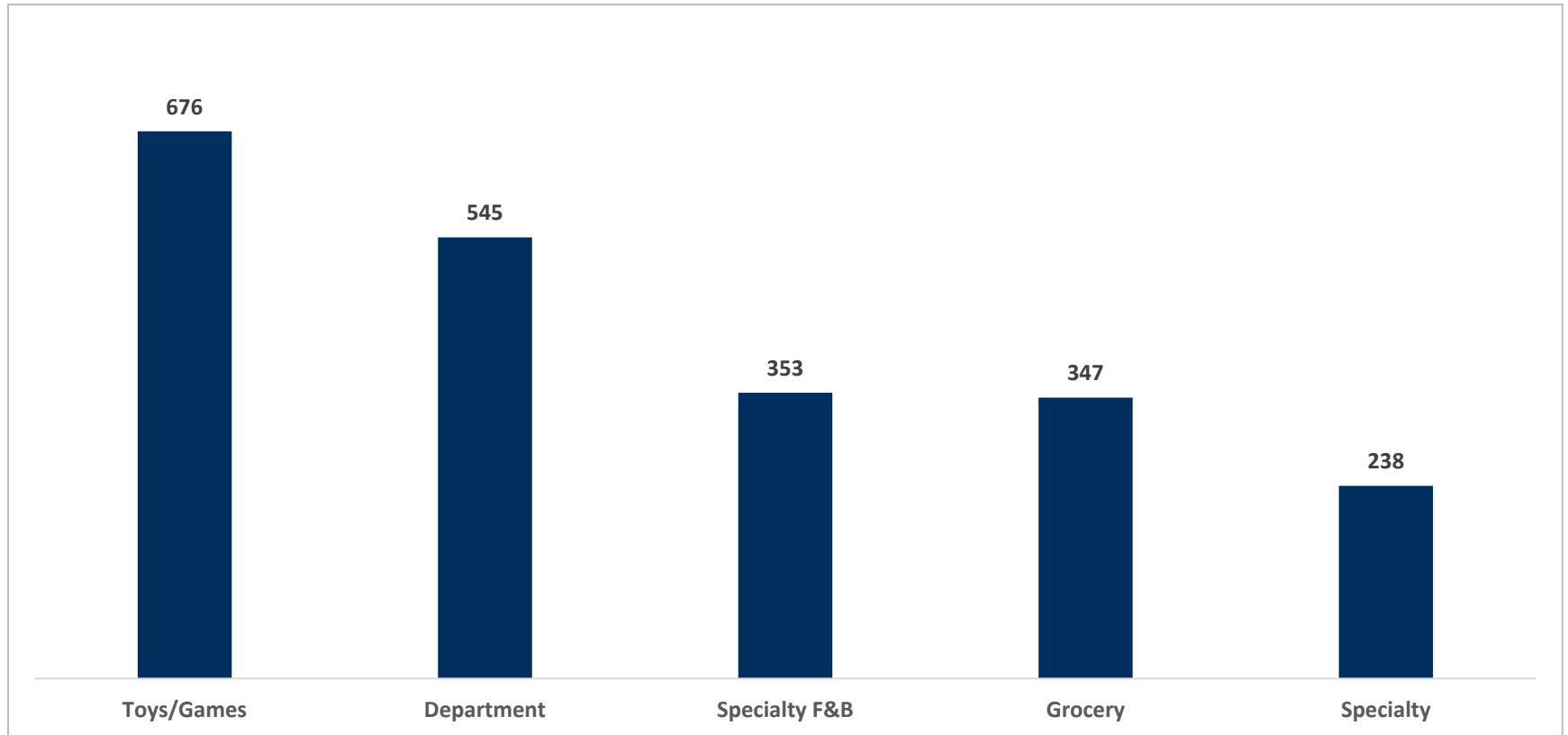
Discount and variety stores, restaurants, fitness and wellness, and apparel retailers top the list of retail categories with announced openings in 2018



Source: JLL Research – *US Retail Outlook 2Q 2018, From Screens to Stores*, and *October 2018 Retail Store Closure Summary*.

TOP RETAIL CATEGORIES FOR CLOSURES IN 2018

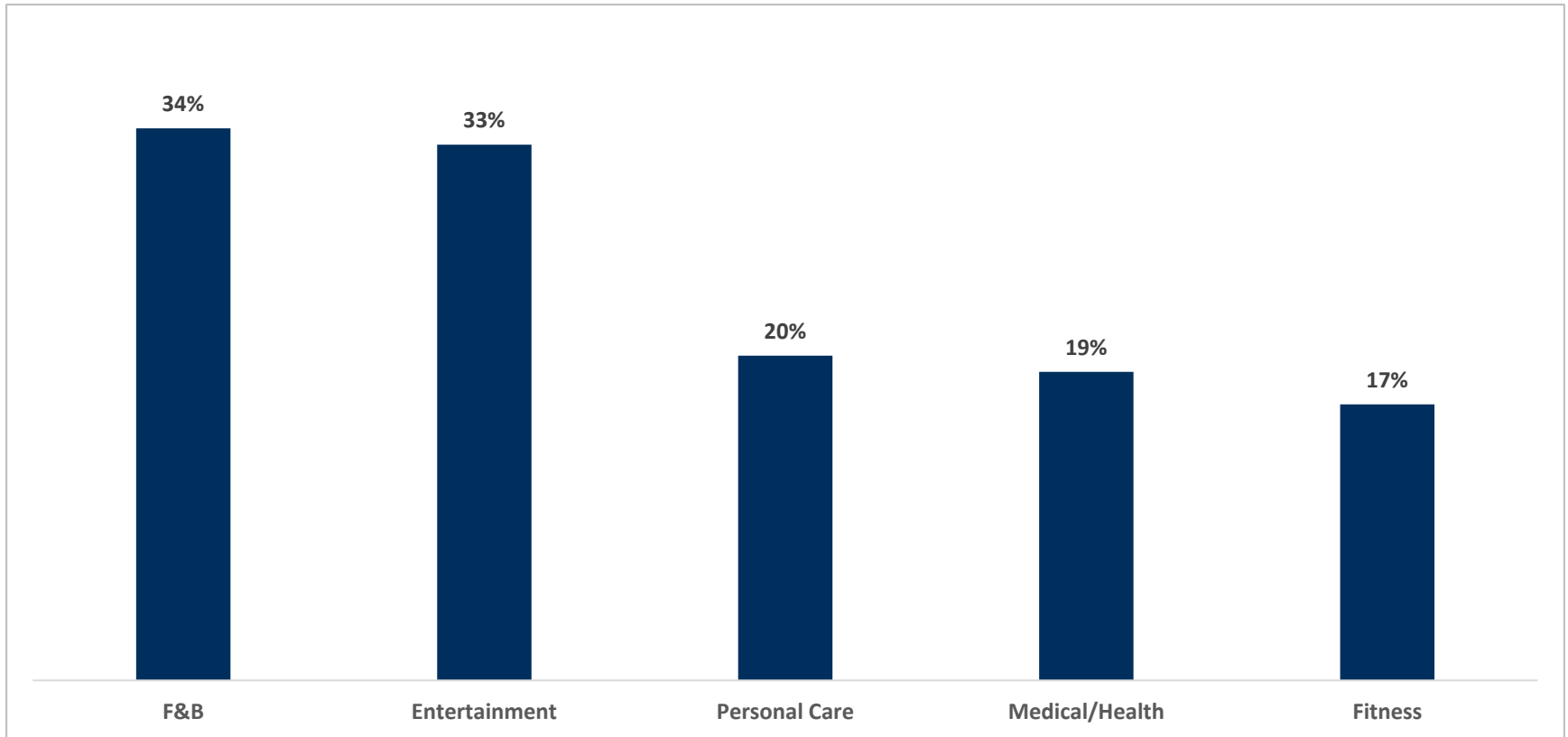
2017 saw the largest number of closures over the past 5 years. 2018 closures are lower to date



Source: JLL Research – *US Retail Outlook 2Q 2018, From Screens to Stores*, and *October 2018 Retail Store Closure Summary*.

CONSUMER DEMAND SURVEY

Consumer demand surveys indicate customers are seeking retail offerings that are either experiential or cannot be replaced by/complements technology



Source: JLL Research – *US Retail Outlook 2Q 2018, From Screens to Stores*, and *October 2018 Retail Store Closure Summary*.

TECHNOLOGY'S DISRUPTIVE IMPACT ON RETAIL

- Clicks-to-Bricks retailers are aggressively expanding their physical footprints
- Digital brands are expanding their presence with plans of ±850 stores over 5 years
- NY and LA are the most popular locations for pop-ups. NY (41%), SF (12%), and LA (12%) are the top markets for first permanent locations
- 74% of Clicks-to-Bricks retailers sell apparel and accessories
- Average store is 2,800sf (e.g. Amazon Go at ±2,500sf)
- Grocers are adding grocery pickups and one-hour delivery to copy Amazon+Whole Food model

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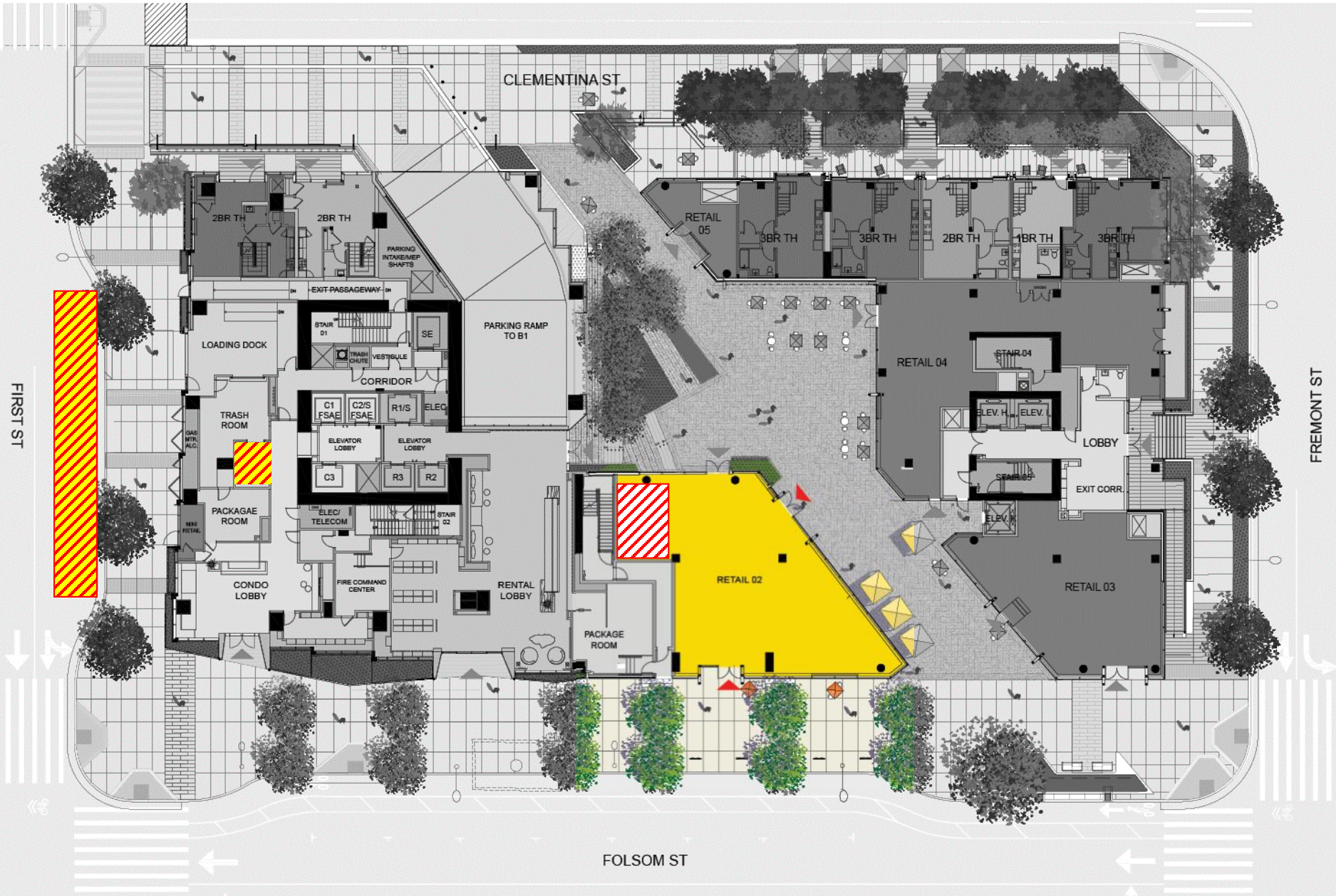
Q&A

GROCER DESIGN PROCESS

- Original 2014 proposal envisioned a 2-level, ~25,000sf grocer space (Whole Foods)
- Feedback from the community and OCII included contacting local grocers between 5,000sf and 20,000sf in addition to national operators (Gus's, Bi-Rite, Mollie Stone's)
- Project was designed to accommodate a customer elevator, loading zone, loading dock, service elevator, and back-of-house path of travel in response to grocers' design criteria

GROUND FLOOR

2,717gsf

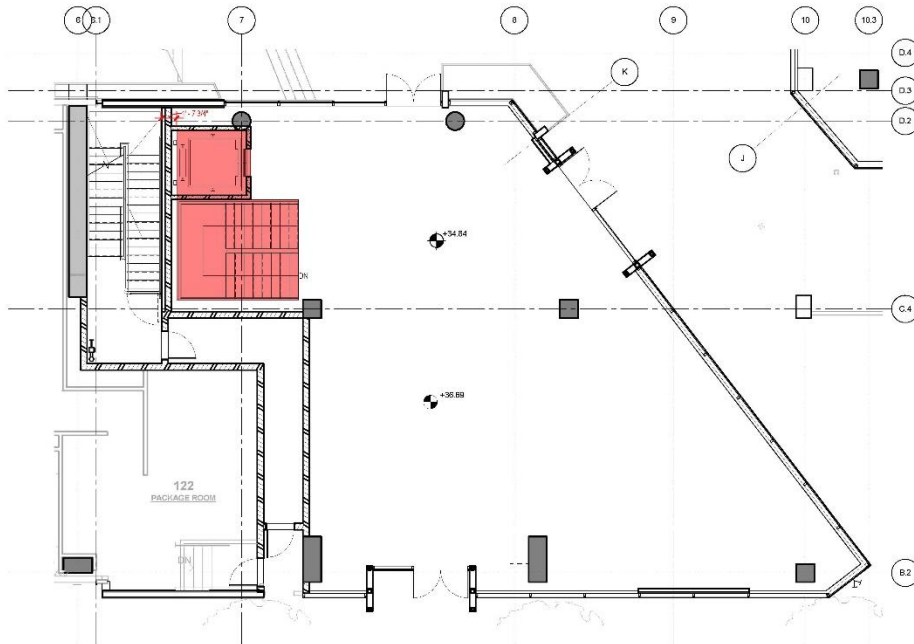


SECOND FLOOR

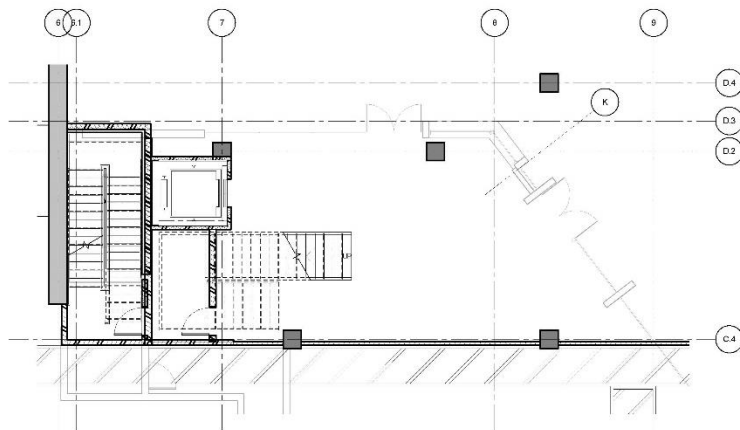
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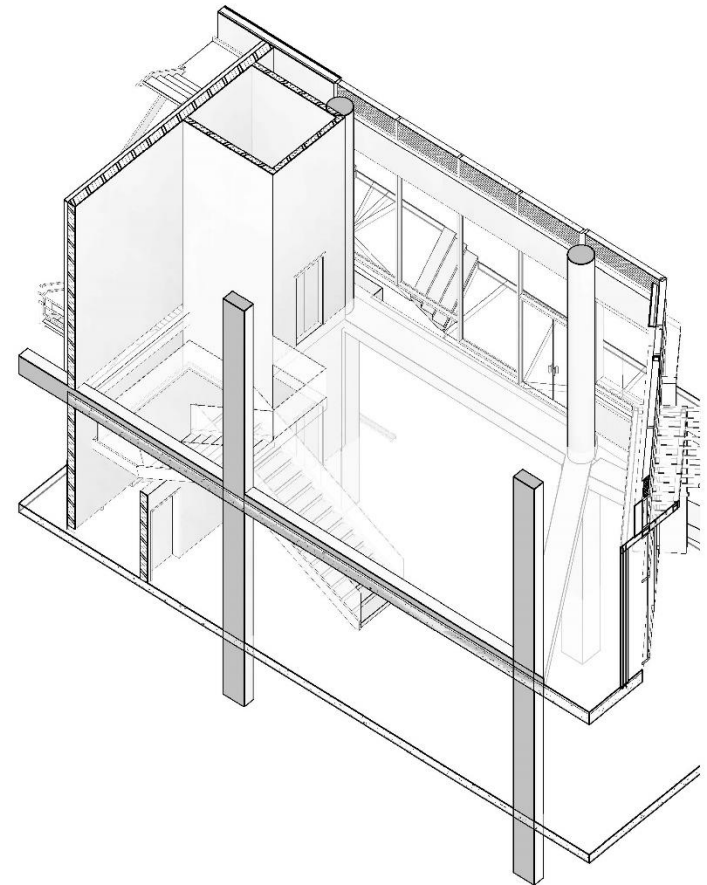
ACCESSIBILITY DESIGN



03 LEVEL 1 - P65
1/8" = 1'-0"



02 LEVEL B1 - P65
1/8" = 1'-0"



01 AXON

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GROCER OUTREACH EFFORT

- Since 2014, Related and TNDC has marketed the space to over 20 grocer prospects ranging from local to national operators at commercially reasonable terms
- While there was generally a positive initial response, the following concerns were expressed by grocer prospects resulting in them passing on the project:
 - Unestablished Transbay neighborhood
 - Proximity to Woodlands Market
 - Split-level, non-contiguous layout
 - Inadequate parking despite the project providing maximum allowable spaces
 - Rising construction and labor costs in a sector with historically low margins
 - Retail sector undergoing technology disruption

TIMELINE OF GROCER OUTREACH EFFORTS

2015	2016	2017	2018	2019
♦ Executed DDA				
♦ Conducted retail survey of Transbay District				
♦ Engaged Intelligent Analytics to determine potential grocer revenue				
♦ 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				
♦ Start of Construction				
♦ Close of Construction Financing				
♦ Listing agreement signed with Retail Broker				
♦ Finalized marketing materials and soliciting interest from national and regional/local grocers				
♦ Trader Joe's opens store on 4th & Market				
♦ Updated retail survey emphasising need for F&B evening/weekend services				
♦ Amazon acquires Whole Foods Market				
♦ Woodlands Market opens at Lumina (Folsom & Main)				
♦ Related updates CCII on outreach efforts				
♦ Grocer revenue forecast updated to account for Woodlands Market				
♦ All viable grocer tenants effectively pass on TB8				
♦ Related sends Grocer Release Letter to OCII				
♦ OCII engages Strategic Economics and confirms Related's findings				
♦ Complete Construction				



Trader Joe's opening downtown SF location next week



Upscale Marin grocer opens first full-service grocery store in Rincon Hill

THE WALL STREET JOURNAL.
Amazon to Buy Whole Foods for \$13.7 Billion

Whole Foods would continue to operate stores under its brand

GROCEr OUTREACH EFFORTS

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	10,000	No response	Closed it's only store Summer 2017.
	Local	20,000	Passed	Concerned about split level - L1 and Basement.
	Local	20,000	Passed	Not interested in expanding beyond their Glen Park location.
	Local	30,000	Passed	Space is too small.

GROCEER OUTREACH EFFORTS (continued)

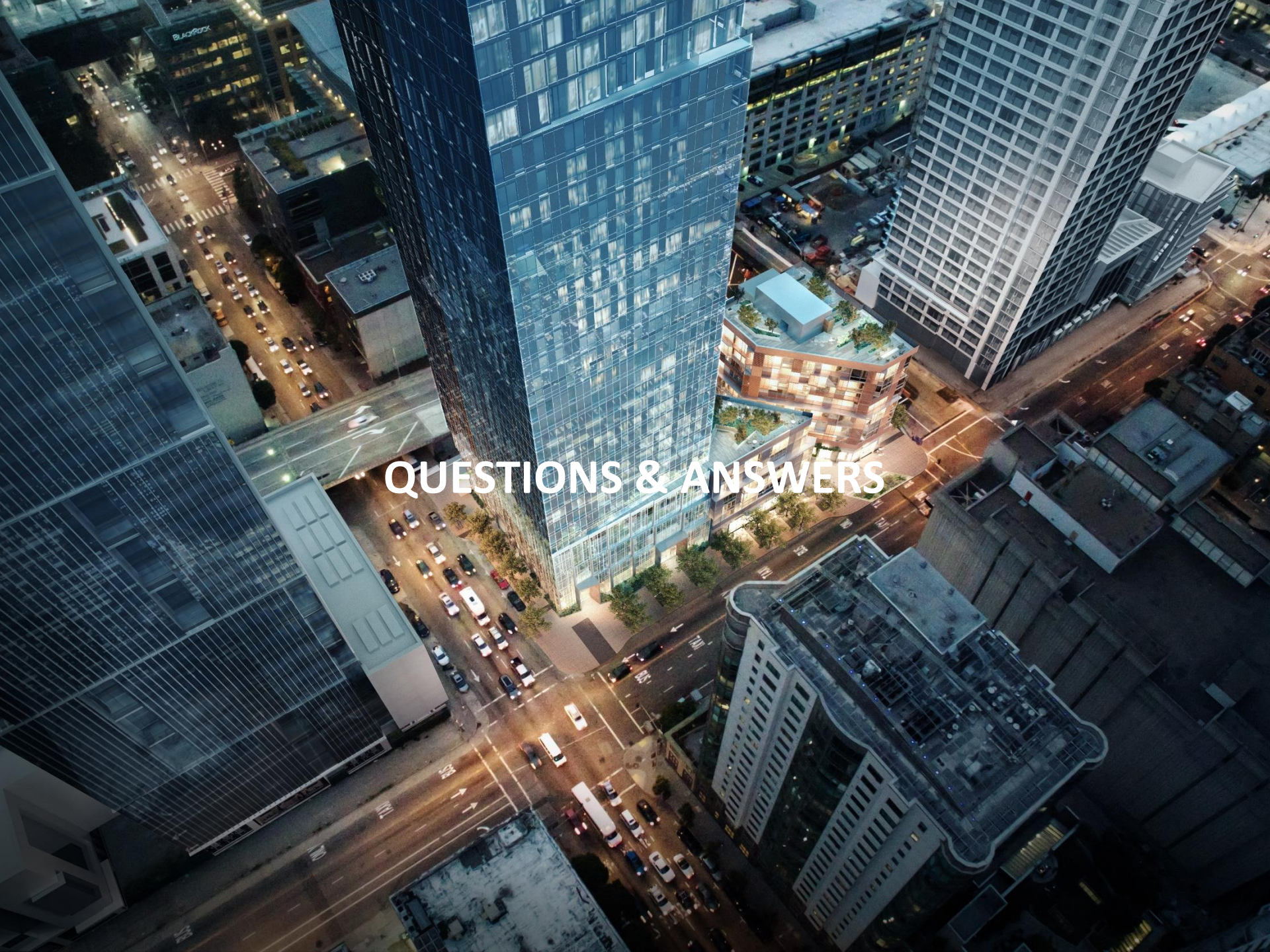
Tenant	Type	Size (sf)	Status	Comments
	Local	20,000	Closed	Out of business. Location replaced by Shake Shack.
	Local	5,000	Passed	Not interested in expansion.
	Local	15,000	Passed	Concerned about lack of parking and proximity to Woodlands.
	Regional	20,000	Passed	Not interested in San Francisco at this time.
	Regional	20,000	Passed	Concentrating on its Santa Cruz store renovation.
	Regional	20,000	Passed	Concerned about non-contiguous space and basement setup.
	National	15,000	Passed	Not enough parking and proximity to Woodlands.
	National	N/A	Passed	Focused on convenient/smaller 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.

INSUFFICIENT FOOD & BEVERAGE OPTIONS TO SUPPORT EXISTING AND FUTURE RESIDENTIAL POPULATION



REQUEST

- The project team respectfully requests the release of its obligation to pursue a grocer tenant after a comprehensive outreach process
- Release ensures adequate time to identify residential-serving retail tenants and mitigates the risk of vacant ground floor retail in the East Cut neighborhood
- Executed DDA
 - Section 9.07 – If the Lead Developer is unable, despite such good faith efforts, to enter into a lease with an Acceptable Grocery Tenant on commercially reasonable terms acceptable to Lead Developer at least twelve (12) months prior to anticipated Completion of the Phase that includes the Grocer Space, then Lead 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.

An aerial, high-angle photograph of a city intersection at night. The central focus is a tall, modern skyscraper with a blue-tinted glass facade that reflects the surrounding lights. To its right is another tall building with a white, grid-like facade. The streets are filled with cars, their headlights and taillights creating streaks of light. The overall scene is a dense urban environment with various buildings and infrastructure visible.

QUESTIONS & ANSWERS