OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

122-0132017-002

Agenda Item No. 5(e)
Meeting of October 3, 2017

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Nadia Sesay, Interim Executive Director

SUBJECT: Informational presentation from Related California on the status of securing a grocery store tenant in the Transbay Block 8 mixed-income housing development (250 Fremont Street); Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

Transbay Block 8 (the "Project") is located on Folsom Street between First and Fremont Streets and consists of 548 units in a 55-story mixed income residential tower and two podium buildings. The developers of Block 8 are Related and Tenderloin Neighborhood Development Corporation (together the "Developer"). The Disposition and Development Agreement and Schematic Designs were approved by the Commission in April 2015, the Developer closed escrow on the land in December 2015, and began construction in November 2016. The Project includes 70 inclusionary affordable units in the tower, and 80 affordable units subsidized by OCII in the podium buildings. All of the affordable units are affordable to very low-income households earning up to 50% of Area Median Income.

In addition to the residential use, the Project also includes 12,385 square feet for a grocery store, which would be located partially in the basement level (10,131 square feet) and on the ground floor level (2,254 square feet) of the tower. Since the Developer has not yet secured a grocery tenant for this space, Section 9.07 of the DDA requires that the Developer use good faith efforts to obtain a tenant. The good faith efforts include hiring a listing agent to market the space, providing adequate staffing to support those efforts, and reporting quarterly to OCII on its progress including market surveys and descriptions of its outreach efforts ("Quarterly Updates"). The DDA also reads that should the Developer be unable to enter into a lease with a grocery tenant at least 12 months prior to the anticipated completion date of the phase that includes the grocery space, then the Developer may seek approval from the Commission to terminate its obligation to secure a grocery tenant. The Developer anticipates completion of construction of the retail portion of the Project in August 2019.

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OCII has been receiving Quarterly Updates from the Developer since January 2016. The July 5, 2017 Quarterly Update (see Attachment A) states that the Developer has hired Colliers as their broker to market the grocery space. Colliers has contacted Bi-Rite, Gus's Community Market, and Woodlands about the Block 8 space. In addition, the Quarterly Update includes an updated survey of retail offerings in the Transbay and Rincon Hill areas, information about Amazon's purchase of Whole Foods, and potential grocers and market halls planned in the Transbay area.

(Originated by Shane Hart, Project Manager Transbay)

Nadia Sesay
Interim Executive Director

Attachment A: Related California Transbay 8 Retail Quarterly Update, dated July 5, 2017

Attachment A

RELATED

MEMORANDUM

Date: July 5, 2017

To: Shane Hart, Transbay Project Manager (OCII), Sarah Price, Development Specialist (OCII)

From: Jonathan Shum (Related), Balint Simsik (Related), Sarah White (TNDC)

Subject: **Transbay Block 8 – Retail Quarterly Update**

The following is the Transbay Block 8 ("Project" or "TB8") quarterly update for evaluating the viability of a potential grocer tenant at the Project. The following activities and events transpired during the second quarter of 2017 – all of which will have an impact on the grocer concept at TB8:

- Colliers, the Project's retail broker, has contacted the following new prospects to move the marketing process forward:
  - Bi-Rite Market: still waiting for feedback
  - Gus's Community Market: still waiting for feedback
  - Woodlands Market: see comments below.
- Enclosed is a survey identifying the retail offerings in the Transbay District and Rincon Hill trade area. The trade area has experienced a net increase in food and beverage offerings – both "grab and go" and "sit down" concepts – since the last time the survey was conducted in Summer 2015. See Exhibit A.
- Amazon.com Inc. announced on June 16, 2017 that it would acquire Whole Foods Market Inc. for $13.7 billion which would transform the online retailer into a major player in the bricks-and-mortar grocery sector. The proposed transaction will have a significant impact on other grocer retailers since they will have to adapt to Amazon's growing presence in the grocery sector. Related is still assessing the impact of this event on TB8. See Exhibit C.
- Related has opted to engage a different design firm as opposed to Sutti Associates (referenced in the last quarterly update) to review and comment on the current retail plans and specifications.
- Grocers and Market Halls that are Planned/In Negotiation/Under Construction:
  - Woodlands Market plans to open its store at 201 Folsom Street (Lumina) in Summer/Fall 2017. Along with the 9,500sf store, the grocer announced that it will open a 1,150sf Woodlands Pet Shop to enhance Lumina's retail offering. Woodlands Market has posted signage indicating that it is hiring staff – see Exhibit A. Colliers has been in discussions with Woodlands Market to obtain a better understanding of the market's strategy.
  - 6X6, the retail development located at 945 Market Street, will feature a food hall along with multiple restaurants and lounges on its fifth floor. The project offers 250,000sf on six floors and 167 parking spaces. Construction is completed at the project but all rentable space remains vacant.

Please do not hesitate to contact the Transbay Block 8 team with any questions OCII may have.

Exhibits:

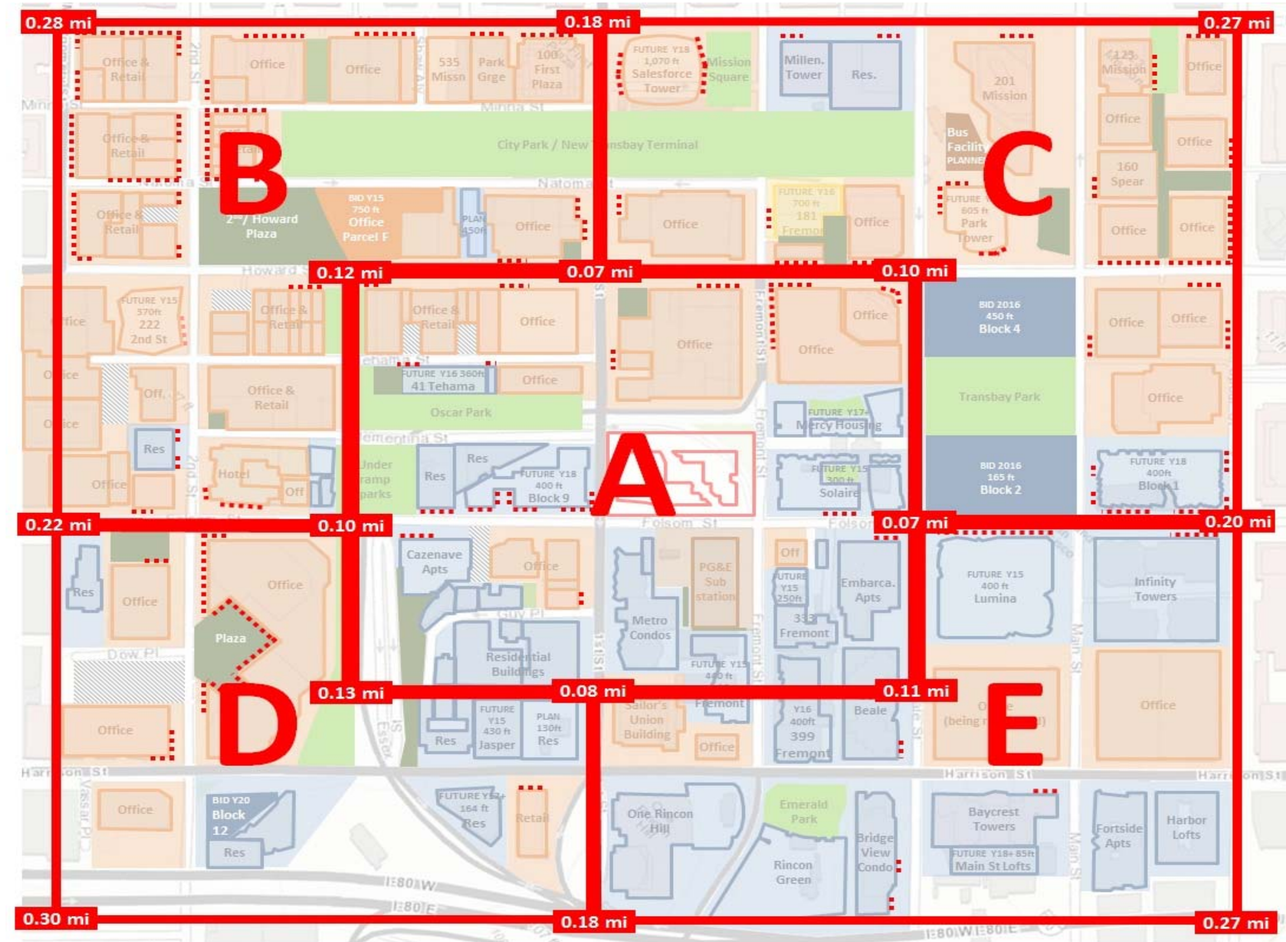
A. Transbay Street Level Retail Survey – June 2017

B. Woodlands Market at 201 Folsom St.

C. Amazon to Buy Whole Foods for $13.7 Billion

Exhibit A. Transbay Street Level Retail Survey – June 2017

TRANSBAY STREET LEVEL RETAIL SURVEY - JUNE 2017



TOP LEFT - B

BAKERY / CAFÉ
- Café Madeline
- Chatz Coffee
- Crêperie Saint-Germain Kiosk
- Galvanize
- Hive Coffee Bar
- Illy
- Juice Shop
- Muffins Muffins
- Peet's Coffee and Tea
- Proper Food
- Red Door Coffee
- Sausalito Café
- Specialty's Café & Bakery
- Starbucks
- Starbucks
- Whole Cakes

RESTAURANT / BAR
- Anchor and Hope
- Archive Bar & Grill
- Atlas Taproom
- Captain Eddie Rickenbacker's
- Chipotle
- El Faro
- Hunan Restaurant
- Jersey Find Foods Pizza
- K'Asian Korean Food
- Kate Obrien Irish Pub
- Lee's Deli
- Loa Table
- Mixt
- Natoma Cabana
- North India
- Oasis Grill
- Osha Thai
- Perilla
- Portico
- Ristorante Umbra
- Roy's
- Salt House
- Soma Eats
- Southside Spirit House
- Split Bread
- Subway
- Sweet Green
- Tava Indian Cuisine
- The Roastery

BANK
- Bank of America
- Chase Bank
- Patelco Credit Union
- Wells Fargo

SERVICES
- Academy of Art
- FedEx
- Imprint CP
- Kaplan
- Vanguard Properties
- WeWork
- Yoshida Picture Framing

STORE
- Blick Art Materials
- CVS
- Patrick & Co
- Play Pet Lifestyle
- SoMA Wines
- Walgreens

LAUNDRY SERVICES
- Mission Plaza Cleaners
- Shine Cleaners

MEDICAL / PHARMACY
- Esethics Dental
- Lunettes Optometric

SALON
- Hair Shaper

GOVERNMENT
- Department of Child Services

HOTEL
- Courtyard Marriott

CLUB
- Temple Nightclub

BOTTOM LEFT - D

BAKERY / CAFÉ
- Eden Plaza Café
- Fearless Coffee

RESTAURANT / BAR
- Fly Trap
- Lee's Deli
- Local Kitchen and wine merchant
- Red Dog Restaurant
- Rooster and Rice
- Small

GALLERY
- Terra Gallery

BANK
- Wells Fargo

SERVICES
- FedEx

GYM
- 24 Hour Fitness

DAYCARE
- Bright Horizons Child Care

SALON
- Hook & Scissor

CENTER - A

BAKERY / CAFÉ
- Café Venue
- Joe & The Juice
- Peet's Coffee and Tea
- Philz
- Prima Café
- Socola Chocolatier and Barista

RESTAURANT / BAR
- Chipotle
- Dragon Eats
- Fayala
- Spice Kit
- Subway
- Sushi Fantastic

SERVICES
- Affintel Communications
- Mexican Consulate
- Nasdaq Entrepreneurial Center

STORE
- Sitematic Kitchen Studio

MEDICAL / PHARMACY
- Koshland Custom Compounding

SALON
- Groove Salon
- Supercuts

GYM
- Corepower Yoga
- SF Iron

LAUNDRY SERVICES
- Shine Cleaners

TOP RIGHT - C

BAKERY / CAFÉ
- Howard Street Coffee Roastery
- Peets
- Sausalito Café
- Specialty's Café & Bakery
- Starbucks
- Starbucks
- Sweet Joanna's Café
- Working Girl's Café

RESTAURANT / BAR
- City Kinetics
- Eatsa
- Folger Coffee Company
- HeyDay
- Lee's Deli
- Peets
- RN74 Restaurant
- Subway
- Super Duper Burger
- Town Hall
- Whats Up Dog
- Yank Sing

BANK
- Bank of the West
- Charles Schwab
- Chase Bank
- Wells Fargo

SERVICES
- UPS

DAYCARE
- Marin Day School

STORE
- San Francisco Florist
- Rincon Market

MEDICAL / PHARMACY
- Rincon Chiro

SALON
- Pampered Hands Salon

LAUNDRY SERVICES
- Celebrity Cleaners

BOTTOM RIGHT - E

BAKERY / CAFÉ
- Gabby's Café and Store

RESTAURANT / BAR
- Prospect Bar and Restaurant

GROCER
- The Market on Main

SERVICES
- XIM Consulting
- XiMad Apps for Life

GYM
- Van Buren Fitness

Exhibit B. Woodlands Market at 201 Folsom St.

Exhibit C - Amazon to Buy Whole Foods for $13.7 Billion

TECHNOLOGY

Amazon to Buy Whole Foods for $13.7 Billion

Whole Foods would continue to operate stores under its brand

The acquisition of Whole Foods would give Amazon a 460-store network that can also serve as a distribution network. Shown, an Austin, Texas, Whole Foods in 1981, the chain's first location. PHOTO: AUSTIN AMERICAN STATESMAN/ASSOCIATED PRESS

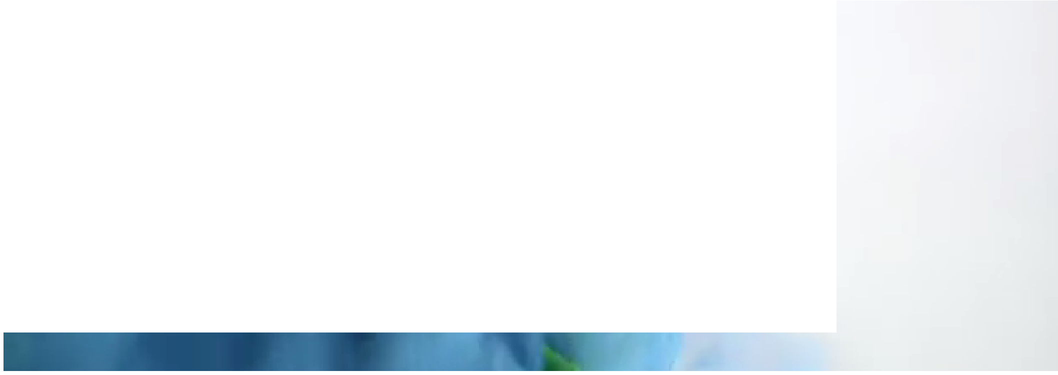
By Laura Stevens and Annie Gasparro

Updated June 16, 2017 7:34 p.m. ET

Amazon.com Inc. said on Friday it would buy Whole Foods Market Inc. for $13.7 billion, including debt, instantly transforming the online giant into a major player in the bricks-and-mortar retail sector it has spent years upending.

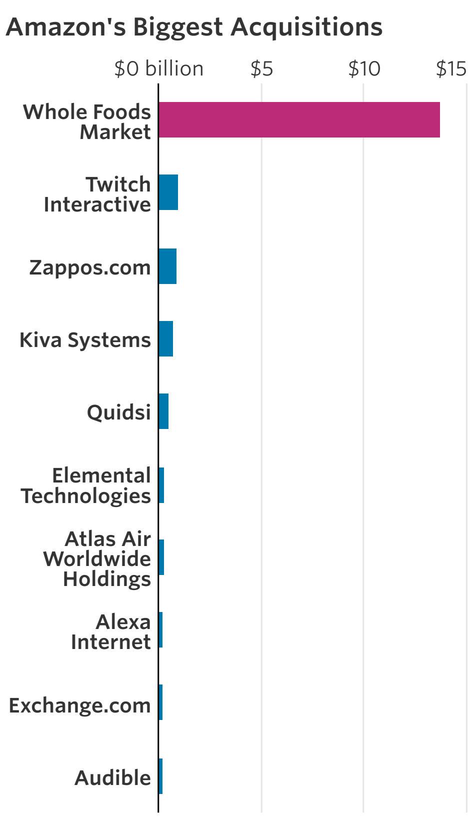
The acquisition, Amazon's largest by far, gives it a network of more than 460 stores that could serve as beachheads for in-store pickup and its distribution network. It would make Amazon an overnight heavyweight in the all-important grocery business, a major spending segment in which it has struggled to gain a foothold because consumers still largely prefer to shop for food in stores.

In its drive to conquer consumer spending, Amazon has ventured far from its roots as an online book seller. It is developing its own delivery network, and has become a significant video content creator and cloud data service provider.



Its Whole Foods deal is a blow to other retailers, notably Wal-Mart Stores Inc., WMT -0.99% ▼ which derives more than half of its sales from groceries and is struggling to compete online. Traditional grocers such as Kroger Co. and Albertsons Cos. have been battling volatile food prices, lackluster consumer spending and stiffer competition from deep discounters, online merchants and a plethora of other places to purchase food.

Retail stocks including Wal-Mart, Target Corp. and Costco Wholesale Corp. sank. Amazon shares were up more than 2% to $987.71 at the close, near its record high.



Source: Thomson Reuters Deal Intelligence
THE WALL STREET JOURNAL

“Amazon views grocery as one of the most important long-term drivers of growth in its retail segment,” writes Colin Sebastian, a Robert W. Baird analyst. The acquisition gives Amazon a scale and density “that otherwise would have taken years to build out.”

The deal came together in the past month, just after Whole Foods announced an overhaul of its board of directors, according to people familiar with the deal. The process was influenced by Amazon’s own plans to build out a network that would have competed against Whole Foods, the people added.

Amazon will pay $42 a share for Whole Foods, valuing the grocer at a 27% premium to its closing price Thursday, or $13.7 billion including debt. The deal is expected to close in the second half of this year.

Mutual-fund giant Neuberger Berman, which owns some 2.7% of Whole Foods, and activist hedge fund Jana Partners LLC, with roughly 8.2%, had been pressing the retailer to add directors experienced in retail operations, technology, finance and real estate, and to consider a sale.

Neuberger portfolio manager Charles Kantor said Amazon's bid could be topped by grocery companies worried about new competition. "It's not a big check," he said in an interview. "I would be very surprised if this is the final chapter of Whole Foods."

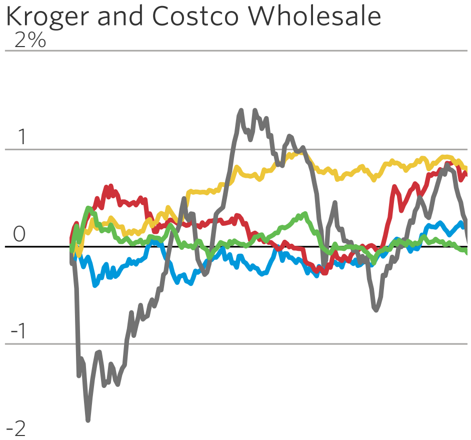
Acquiring Whole Foods is strategic for Amazon, a way to quickly grab a bigger portion of the estimated $674 billion U.S. market for edible groceries, according to consulting firm Kantar Retail. Until now, Amazon has largely focused its grocery efforts around its Amazon Fresh subscription service, which promises quick delivery of online food orders.

Analysts said they expect Amazon eventually to use the stores to promote private-label products, integrate and grow its artificial-intelligence-powered Echo speakers, boost Prime membership and entice more customers into the fold.

Online grocery shopping is logistically complex, often requiring fast delivery of cold items as part of large orders on routes where stops are spread far apart. And many consumers still prefer to touch, smell and pick out fresh items like fruits and vegetables for themselves.

Share-Price Performanc

Amazon.com, Whole Foods Market,
Kroger and Costco Wholesale



Source: WSJ Market Data Group

Online shopping accounted for 2% of grocery sales last year, according to Kantar. Before Amazon's announcement, that share was projected to grow to 3% by 2021. Amazon's food-and-beverage grocery market share was estimated at 1.1% last year, compared with 1.7% for Whole Foods, according to Cowen.

Now Amazon has to combine two distinct corporate cultures and leverage its full-scale entry into bricks-and-mortar retailing. Largely a hands-off manager of smaller acquisitions like Zappos.com, Amazon is likely to take a more active role in Whole Foods, Macquarie analyst Ben Schachter said.

Whole Foods has come under fire as traditional grocers offer more natural and organic items, which are Whole Foods' mainstay. Its shares had lost nearly half their value since a 2013 peak, and sales at stores open at least a year had slumped.

At first, the two retailers don't seem like an immediate match. Amazon is a low-price leader, while Whole Foods is a premium offering. Whole Foods' operating margins, at 5.5%, are higher than those of Amazon's North American retail business at 3%, Citi analysts note. The combined companies would be the fifth-largest U.S. grocery retailer by market share, according to an analysis by Cowen, behind Wal-Mart, Kroger, Costco and Albertsons/Safeway.

John Mackey will remain chief executive of Whole Foods; stores will operate under that name and maintain their suppliers, Amazon said in a press release. Amazon Chief

Executive Jeff Bezos said the company is “doing an amazing job and we want that to continue.”

—David Benoit and Austen Hufford contributed to this article

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Appeared in the June 17, 2017, print edition as 'Amazon Set to Devour Whole Foods.'