OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

118-0292021-002

Agenda Item **No. 5(c)**
Meeting of September 21, 2021

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Sally Oerth, Interim Executive Director

SUBJECT: Authorizing a Fourth 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

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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 developing the former Transbay Temporary Terminal site that OCII acquired in January 2021 and ensuring that at least 35% of all new housing in the Project Area is permanently affordable housing.

In April 2016, the Successor Agency Commission ("Commission") approved an Agreement for Option to Purchase Transbay Block 4 with F4 Transbay Partners LLC, a Delaware limited liability company (the "Developer") (as amended by the First, Second, and Third Amendments thereto, the "Option Agreement"). At the time, the Developer sought to acquire Transbay Parcel F from the Transbay Joint Powers Authority ("TJPA") and required as a condition of that purchase that OCII enter into the Option Agreement so that the Developer could fulfill the affordable housing obligations of Parcel F through the development of Block 4.

In September 2018, the Commission approved a non-binding Term Sheet (the "2018 Term Sheet") outlining the mixed-use, mixed-income development program for Block 4 (the "Project") along with the First Amendment to the Option Agreement. OCII and the Developer have since made significant progress in negotiating a Disposition and Development Agreement ("DDA") for the sale and subsequent development of Block 4

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pursuant to the 2018 Term Sheet, in accordance with the provisions of the Option Agreement. However, in March 2021 the Developer informed OCII staff that it did not believe key aspects of the 2018 Term Sheet to be financially feasible, specifically, the quantity of affordable units at 49% of the Block 4 residential units and the land price of $45 million.

In June 2021, the Developer proposed a revised housing program with 40% affordable units. On June 15, 2021, Commission approved a Third Amendment to the Option Agreement (Resolution No. 23-2021) to provide a short-term extension to the Outside Option Exercise Date established in the Option Agreement to allow OCII staff time to review the Developer's proposal in collaboration with OCII's financial consultant.

After consultation with OCII's financial consultant, Century Urban, who conducted an extensive review of the Developer's financial model and of similar developments in San Francisco, staff recommends Project program that provide 45% affordability. The Developer has agreed to proceed to the next phase of the Option Agreement, the land appraisal phase, using this program. Final project feasibility however will not be determined until after the land appraisal process has been completed.

The Developer now requests an extension of the Outside Option Exercise Date established in the Option Agreement to allow time to finalize the DDA and schematic design in accordance with the revised housing program, finalize environmental review documentation, and establish a land price based on the appraisal process set forth in the Option Agreement.

OCII staff proposes a Fourth Amendment to the Option Agreement (the "Fourth Amendment") to extend the Outside Option Exercise Date to March 31, 2022, with an interim good faith milestone to complete the DDA and finalize elements of the schematic design that affect land value within 45 days. The Fourth Amendment would allow the Executive Director to authorize a one-time three-month extension at her sole discretion (if exercised, this extension would bring the Outside Option Exercise Date to June 30, 2022). In addition, the Fourth Amendment updates Exhibit C to the Option Agreement, the non-binding Term Sheet (now known as "Program for Appraisal"), to reflect the Project as currently proposed to guide final DDA negotiations, final schematic design review, and appraisal instructions.

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

BACKGROUND

Transbay Project Area

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 Ordinances No. 84-15, (June 18, 2015) and No. 62-16 (April 28, 2016) ("Redevelopment Plan"). The Redevelopment Plan establishes the land use controls for the 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

Zone Two in which the San Francisco Planning Code applies through a delegation agreement between OCII and the Planning Department.

A major focus of the Project Area is to redevelop 10 acres of former highway access ramp properties owned by the State of California (the "State-Owned Parcels") to generate funding for the TJPA to construct what is now the Salesforce Transit Center (the "Transit Center"). OCII's role is to complete the enforceable obligations that the Department of Finance has finally and conclusively approved under Redevelopment Dissolution Law. These enforceable obligations include the Implementation Agreement between TJPA and the Former Agency, which requires OCII to facilitate the sale and development of certain State-Owned Parcels to third parties, to implement the Redevelopment Plan, and to comply 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 whose income does not exceed 60% Area Median Income ("AMI"), and an additional 10% of the units for households whose income does not exceed 120% AMI.

Block 4 is a formerly State-Owned Parcel. It is located within Zone One, specifically on the northern third of the block that was previously the Transbay Temporary Bus Terminal. Now that the Transit Center is operational, bus service at the Temporary Bus Terminal has ceased. OCII acquired the site of the former temporary terminal in January 2021.

Under the Redevelopment Plan and the Development Controls, Block 4 is planned for residential development with a 450-foot-high tower, two mid-rise podium buildings (at 85' and 65' in height), and low-rise townhouses (up to 50' in height) situated around a shared open space parcel and atop a shared underground parking structure.

Block 4 Relationship to Parcel F

Parcel F is another formerly State-Owned Parcel, located in Zone Two (under Planning Department jurisdiction, but still subject to the Redevelopment Plan) adjacent to the western end of the Transit Center. 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 in April 2016, and in June 2016 the Developer closed on the sale of Parcel F for a price of $160 million.

In January 2021, the Commission exercised its authority under the Redevelopment Plan in conditionally approving a variation to the Redevelopment Plan's on-site affordable housing requirement to allow the project at Parcel F to pay a fee in-lieu of directly developing required Parcel F affordable units off-site at Block 4 as was initially planned. Based on the approved Development Agreement for Parcel F, the Parcel F project will now pay a $47.6 million in-lieu fee to OCII. OCII in turn intends to provide a loan of $47.6 million to subsidize the Mid-Rise Affordable Project at Block 4. This loan is assumed in the Project’s financial model and is reflected in the revised Term Sheet (now the "Program for Appraisal"), Exhibit C as attached to the Fourth Amendment for Commission consideration.

Option Agreement

The Option Agreement provides the Developer with a right to exclusive negotiations for a DDA with OCII for a project that would include both market rate and a significant number of affordable units (with no OCII subsidy). 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. The Option Agreement preserves the Commission’s sole and absolute authority to determine the terms and conditions of the DDA and provides for termination of the Option if milestones, including reaching agreement on a DDA by a certain date, are not met.

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 (increasing from 450’ to 501’) and mid-rise (increasing from 65’/85’ to 150’), and consolidation of two mid-rise buildings into a single mid-rise building. The additional tower height, which will require a Redevelopment Plan Amendment and amendments to the Development Controls, is 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 included a non-binding Term Sheet (Exhibit C to the Option Agreement, “2018 Term Sheet”) to define elements of the Block 4 program and provide base terms from which to continue to negotiate the DDA and develop the Schematic Design.

The 2018 Term Sheet provided that Below Market Rate (“BMR”) units would all be rental, located in both the lower two thirds of the rental component of the tower and in a 100% affordable mid-rise building (the “Mid-Rise Affordable Project”), and provided a range of unit sizes and affordability levels including a significant amount of housing for moderate income levels, which has long been challenging to achieve in affordable housing rental projects. The affordability percentage (49%) was established to meet the Transbay Affordable Housing Obligation based on the then-current Project Area development pipeline. The Developer also proposed to provide $175,000 for an SBE capacity study and local worker training; a detailed strategy to maximize the number and success of Certificate of Preference (“COP”) holders securing housing at Block 4; a Transfer Fee on resales of all market rate homeownership units to fund future maintenance of Transbay Park; and community-serving ground floor commercial space at 50% of market rent.

The Project as contemplated by the 2018 Term Sheet included:

- 713 mixed-income residential units, of which 347 would be below market rate (49%);
- 12,900 SF of retail;
- 388 parking spaces in two levels of below-grade parking; 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 approved Mercy Housing as the Developer's affordable housing developer partner for the Project.

On June 27, 2019, the Executive Director granted the discretionary twelve-month extension of the Outside Option Exercise Date allowed under the First Amendment.

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.

On December 15, 2020, the Commission authorized a Second Amendment to the Option Agreement to facilitate the anticipated completion of DDA negotiations. The Second Amendment extended the Outside Option Exercise Date to March 31, 2021 and authorized the Executive Director to extend an additional three months at her sole discretion. The Executive Director granted the extension, bringing the Option Agreement Outside Exercise Date to June 30, 2021.

In March 2021, the Developer provided OCII staff with a financial model for Block 4 and asserted that the Project is not financially feasible at an affordability level of 49% and a land price of $45 million. The Developer stated at that time that Block 4 could support a maximum affordability level of approximately 39%, assuming unit types, sizes, and income levels pursuant to the 2018 Term Sheet, and could not support any payment for the land. Pursuant to direction from the Commission and feedback from OCII's financial consultant[1], OCII staff sought a revised proposal from the Developer that achieved affordability at 49%, consistent with the 2018 Term Sheet. In early June 2021, the Developer provided a revised proposal of 40% affordability with modifications to unit counts and affordability levels. This proposal introduced BMR studio unit types, introduced units at 40% of Area Median Income ("AMI") in the Mid-Rise Affordable Project, and increased overall income levels for BMR units in the tower (adding a greater percentage of BMR units at 120% AMI, rather than an even distribution between the 100%, 110%, and 120% AMI levels).

[1] OCII's economic consultant is Century Urban, a San Francisco real estate advisory firm with significant experience in investment underwriting, real estate development, public-private partnerships, and economic project feasibility.

On June 15, 2021, the Commission authorized a Third Amendment to the Option Agreement to provide a short-term extension of the Outside Option Exercise Date to September 30, 2021 to allow OCII staff time to evaluate the Developer's revised proposal in collaboration with our financial consultant.

DISCUSSION

After a comprehensive review of the Developer's financial model for the Project by both staff and Century Urban, several changes to the Project program were identified that allowed the overall model to support 45% affordability. A detailed description of Century Urban's approach and findings is provided in the Block 4 Economic Analysis, included as Attachment A to this Memorandum. The consultant's review focused on verification of returns required to secure prospective investors and lenders, program optimization, and evaluation of key assumptions including rental and sales revenue, and development and operating costs.

Through direct outreach and review of pro formas for comparable projects, the consultant identified key assumptions that, if modified, would meaningfully increase returns and thus allow the Project to support additional affordable units. These assumptions were as follows:

1. <u>Program Changes: Additional condominium units:</u> Century Urban's analysis showed that profits for the Project's for-sale condominium units are higher than returns for the tower rental units. However, condominium units are considered to carry more risk. Thus, the consultant recommended a modest change to the program to convert the top two floors of the planned tower rental units (all market rate) to for-sale condominium units. This change adds 18 tower condominium units and reduced the tower rental units by 22 (the for-sale condominiums are larger than the rental units) and generates additional returns sufficient to support an increase in supportable affordable units from 40% (the Developer's June proposal) to 42.5%. The Developer has indicated that this program change is acceptable as well as the resulting increase to supportable affordable units. The change will be reflected in the Project's schematic design submittal.

2. <u>Financial Model Changes:</u> Century Urban identified multiple changes that could be made to the financial model that better aligned the Project to other comparable metrics in the marketplace while still providing feasibility. First, the Developer's assumption around economic occupancy (which is the effective occupancy rate after considering vacancy rates as well as any differences between established contractual lease rents and then-current market rate rents for a given unit) was 93.5%, which is lower than the industry standard of 95%. Second, the Developer's proposed operating expenses were high compared to other comparable projects.

Staff's conclusion is that the additional returns generated from the incorporation of both the additional condominium units and either an increase to economic occupancy or a 10% reduction in operating expenses would allow the Project to support 45% affordable units. Further, after a comprehensive review of the consultant's work and multiple meetings with the consultant and the Developer, OCII staff recommends that the Project proceed with a 45% affordable program. As noted above, the Developer has agreed to convert two tower floors from apartments to condominiums and has agreed to move forward under the terms of the Option Agreement to appraise a 45% BMR program to determine the purchase price for Block 4. Details of the housing program are described in Option Agreement Exhibit C (the "Program for Appraisal", as revised in the Fourth Amendment). However, the Developer remains concerned that the 45% BMR program may lead to a significantly negative appraised land value, which may impact feasibility and has provided OCII with a letter stating these concerns (see Attachment B). OCII and the Developer will be pursuing the two-party appraiser methodology laid out in the Option Agreement whereby the Developer's appraiser and OCII's appraiser will separately review valuation of Block 4 and, if there is a significant deviation between the two appraisals, a third, neutral appraiser will determine which appraisal provides the most reasonable purchase price. Therefore final project approvals will be dependent on concluding that process and reaching agreement with the Developer on purchase price and its impact on feasibility.

The program at 45% affordable is consistent with the original 2016 Option Agreement, however it is below the 49% established in the 2018 Term Sheet. Working with Century Urban, staff examined several underwriting assumptions that would likely be necessary for the Mid-Rise Affordable Project to be feasible and secure the necessary tax credit equity and competitive bond allocations. These assumptions included an adjustment to general partner equity and including 40% AMI units in order to improve scoring for the California Debt Limit Allocation Committee competitive application process. In addition, staff asked Century Urban to validate the construction costs to ensure the assumptions weren't too high; Century Urban utilized a third-party cost estimator which found the assumptions to be reasonable. Thus, based on this analysis, and validation of other aspects of the financial model, the consultant concludes, and staff agrees that a housing program at 49% is not financially feasible.

At the June 15, 2021 Commission meeting, the Commission requested information from the Developer on what factors had led them to propose a program that deviated from the one contemplated in the 2018 Term Sheet. The Developer has provided a letter outlining their analysis, included here as Attachment C.

Proposed Housing Program

The current proposed housing program includes a total of 681 units, down from 685 units in the June, 2021 proposal. The reduction resulted from the change in two tower floors from apartment rental to for-sale condominium as discussed above. The tower rental units now include 105 BMR units, approximately 32% of the total tower rental units, as opposed to 21% in the June proposal. The current program for the Mid-Rise Affordable Project is consistent with the version presented to the Commission in June 2021. A comparison of the housing program from the 2018 Term Sheet, June 2021 proposal, and current program is provided in the table below.

Housing Program Summary			
Project Element	**2018 Term Sheet**	**June Proposal**	**Current Program**
Tower rental units	376	346	324
Market rate units	220	273	219
BMR units (100%-120% AMI)	156 (41% of tower rental)	73 (21% of tower rental)	105 (32% of tower rental)
Mid-Rise Affordable Project (100% affordable, 40-100% AMI)	191	202*	202*
Tower/townhome condo units (all market rate)	146	137	155
Total housing units	**713**	**685**	**681**
Total affordable units	**347 (49%)**	**274 (40%)**	**306 (45%)**

** Includes one unrestricted on-site manager's unit.*

Transbay Affordable Housing Obligation

As noted above, the 2018 Term Sheet affordable percentage was established based on the affordable units to meet the Transbay Affordable Housing Obligation at the time. The number/percentage of affordable units needed to meet this requirement fluctuates over time as projects are proposed, modified, or abandoned. Based on the current development Block 4 program (681 total units, approximately 45% affordable), Project Area affordability would be at approximately 36% (the number of affordable units exceeds the minimum required by 41 units).

	Block 4 at 45% Affordable (Current Program)		
	Total Units	**Affordable Units**	**% Affordable**
Completed			
Zone 1 (OCII)	2,196	691	31%
Zone 2	470	60	13%
	2,666	751	28%
Pipeline Estimates			
Zone 1	1,015	637	63%
Zone 2	165	-	-
	1,180	637	54%
Estimated Total	**3,846**	**1,388**	**36%**

Community Serving Commercial Space

In accordance with the 2018 Term Sheet, a portion of the ground floor retail space will be restricted for community serving or public benefit uses with rents at or below 50% of market rate. This is intended to provide opportunities for local businesses and non-profit organizations to access commercial space in the Transbay area, where commercial rents are otherwise very high. Pursuant to the Program for Appraisal, this space will be approximately 6,000 square feet, located beneath the Mid-Rise Affordable Project. While the specific structure for long term ownership of the space is still under negotiation, all parties intend that Mercy Housing will procure tenants, curate and manage this space. Mercy will leverage its experience and connections with San Francisco businesses and business-supporting organizations to market the space, identify and screen potential tenants and negotiate lease terms. Detail regarding this structure will be addressed in the DDA.

COP Outreach Strategy

The Developer committed to providing COP holder outreach beyond the typical OCII early outreach and marketing programs. Pursuant to the 2018 Term Sheet, the Developer will provide a written plan detailing unique strategies to maximize the number and success of COP holders in securing housing at Block 4. OCII received a draft plan from the Developer, included as Attachment D to this memorandum. Key strategies include:

- Lease-up teams in place by the lottery to ensure consistent communication and interactions throughout the lease-up/move-in process (and potentially beyond to provide initial resident coordination and services);
- Lease-up teams that are racially and culturally diverse;
- Multiple in-person presentations both near the Project site and in COP communities;
- Online/virtual reality tours of the neighborhood, Project, and units;
- Dedicated websites that include floor plans, interior design images, and detailed qualification and application information;
- Off-site model units available to tour;
- Social media and text message campaigns; and
- Targeted outreach and “concierge” service (such as special tours, and application readiness and assistance) to COP holders who have applied for housing in the past 24 months but were not placed.

As described in the plan, Mercy Housing will lead COP outreach and engagement for the Mid-Rise Affordable Project and the Developer will lead COP outreach for the tower BMR units. Both Mercy and the Developer will partner in these efforts with community-based organizations. OCII staff will work with the Developer to refine the plan and the final version will be included as an attachment to the DDA.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

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

NEXT STEPS

Pursuant to the Option Agreement, as amended by the proposed Fourth Amendment, the Developer and OCII staff will "negotiate all terms of a DDA except the purchase price," Option Agreement at § 2.1, within the next 45 days, resolve open comments to the Schematic Design submittal within the next 90 days, and prepare environmental review documents. OCII staff anticipates that the land sale price will be determined in accordance with the two-party appraisal method set forth in the Option Agreement. The appraisal process should be completed by March 31, 2022 (the proposed extended Outside Option Exercise Date). If this milestone is met, the Executive Director may authorize a three-month extension of the Outside Option Exercise Date to finalize documents. If granted, this extension would bring the Outside Option Exercise Date to June 30, 2022. The DDA, Schematic Design, and related documents would be presented to the Transbay Citizens Advisory Committee and Commission for consideration prior to the Outside Option Exercise Date.

(Originated by Jeff White, Housing Program Manager and Kim Obstfeld, Development Specialist)

DocuSigned by:

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Sally Oerth

Interim Executive Director

Attachments:
A. Century Urban Analysis Memo
B. Hines Letter Regarding BMR Percentage
C. Hines Memo Regarding Market Conditions
D. Draft Attachment 26 to the DDA: Enhanced COP Outreach Strategy

Century | Urban

Strategic Real Estate Advisory Services

Block 4 Economic Analysis

Presented to:

Office of Community Investment and Infrastructure

September 15, 2021

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PROPOSED BLOCK 4 DEVELOPMENT PROJECT

TO: Office of Community Investment and Infrastructure

FROM: Century Urban, LLC

SUBJECT: Block 4 Financial Analysis

DATE: September 15, 2021

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure ("OCII") has engaged Century Urban, LLC ("Century | Urban") to perform financial analysis and provide strategic advisory services to assist OCII in its negotiations with F4 Transbay Partners, LLC ("F4") to acquire the site known as Block 4 in the Transbay Redevelopment Project Area. OCII has requested that Century | Urban review F4's financial underwriting model for reasonableness in light of current and projected market conditions for the proposed project and to evaluate project feasibility and supportable on-site inclusionary housing and/or community benefits. Provided on the following pages is a summary of Century | Urban's approach, methodology, and findings as they relate to the maximum supportable on-site inclusionary housing.

Century | Urban serves as a real estate advisor to select public entities and private developers in addition to OCII and is a recognized industry leader in providing real estate economic analysis to calibrate public benefits and inclusionary housing provisions. These include the City & County of San Francisco, the San Francisco Public Utilities Commission, Port of San Francisco, the City of South San Francisco, the City of Oakland, and private entities with significant land and real estate holdings. As such, Century | Urban is privy to a broad range of market data including annual operating expenses for residential projects, rent assumptions, construction costs and developer target returns. This experience allows Century | Urban to evaluate financial pro formas and compare assumptions across many projects including those that include multiple uses within a single tower such as the proposed development project at Block 4. Century | Urban used its extensive professional experience in underwriting development projects in San Francisco and its access to market data in evaluating the Block 4 underwriting assumptions for consistency to other similar projects.

Based on its extensive analysis and research, discussions with OCII and the developer since March 2020, and its significant experience underwriting large scale development projects in San Francisco, Century | Urban finds that the Block 4 project can support up to 45% on-site inclusionary housing. These findings are based on the pro forma assumptions, the proposed revisions to the project program and anticipated market conditions, when the project is expected to be constructed. A detailed description of how Century | Urban arrived at this conclusion is provided in the following pages.

PROJECT DESCRIPTION

Transbay Block 4 is a proposed project to be located on the southern side of Howard Street between Beale and Main. The proposed development for Block 4 is a 47-story tower containing rental and for-sale condominium units, a low-rise townhouse building, and a mid-rise affordable housing project. The combined project is currently designed to include a total of 681 dwelling units with a significant portion designated as on-site affordable units. Block 4 is the last remaining residential block available for private development in the transit oriented Transbay Redevelopment Project Area. The project will be developed by the F4 partnership in which Hines is the master developer and referred to as the Project Sponsor throughout this memo.

The Project Sponsor provided an initial program that included a total of 275 inclusionary units of which 202 affordable units will be located in a mid-rise building ranging from an average area median income ("AMI") of 40% to 100% with a weighted average AMI of approximately 68%. This building is referred to as the affordable podium. Within the 47-story tower, the project will provide additional affordable housing units that range from a 100% to 120% AMI. These moderate-income units are herein referred to as the "Tower BMR". The Project Sponsor's pro forma and initial program provided 40.1% of the total unit count as on-site inclusionary housing. In addition to the affordable units, the Project Sponsor program includes 273 market rate units, 117 condominium units and 20 townhome units as summarized in Table 1 below. On September 14, 2021, following Century | Urban's analysis and various discussions with OCII, the Project Sponsor provided OCII staff with a proposed new program that includes 54 additional Tower BMR units resulting in a 45% on-site inclusionary housing as shown below. This report and Century | Urban's analysis is based on the initial program as the new program was proposed as a result of Century | Urban's work described in this memo.

Table 1. Pro Forma Program

Use	Initial Program Unit Count	New Proposed Program Unit Count
Condominium Units	117	135
Townhome Units	20	20
Tower Market Rate Units	273	219
Tower BMR Units	73	105
Podium BMR Units	202	202
Total Residential Units	**685**	**681**
Retail Gross Square Footage	7,927	7,927
Affordable Housing %	*40%*	*45%*

METHODOLOGY AND APPROACH

Century | Urban has been assisting OCII to evaluate the Block 4 project feasibility and supportable on-site inclusionary housing since March 2020. This work has included reviewing project summaries, reviewing the developer's appraisal instructions, preparing requests for information, auditing the Project Sponsor's pro forma model and performing extensive research on underwriting assumptions. Between October 2020 and March 2021, OCII, Century | Urban and the Project Sponsor participated in several meetings in which Century | Urban presented its questions and requests for information. On March 3, 2021, OCII, Century | Urban and the Project Sponsor met to review the Project Sponsor's pro forma model. The Project Sponsor delivered a live Excel version of its model after this meeting that would allow Century | Urban to evaluate the project's economic feasibility and perform economic sensitivity analysis. The Project Sponsor also provided additional information in support of its tower rental operating expense assumptions and OCII, Century | Urban and the Project Sponsor, held several meetings in which it discussed these assumptions.

The Project Sponsor subsequently delivered two separate versions of its model on June 23, 2021, and again on June 30, 2021. Each version of the model reflected corrections and/or updates to the Project Sponsor's underwriting assumptions and/or program, which in some cases were updates in reference to comments provided by Century | Urban and OCII. For example, the June 30, 2021, pro forma model reflected revisions made by the Project Sponsor to its economic occupancy and operating expense calculations in response to Century | Urban's comments. This model, which is the latest version of the Project Sponsor model received by Century | Urban and titled "B4 UW - 04.29.2021_OCII_V6_shared_Option2" is referenced as the "Project Sponsor Model" throughout this memo.

Century | Urban reviewed the Project Sponsor Model to evaluate the underwriting assumptions for reasonableness as compared to underwriting assumptions observed by Century | Urban for other similar projects and to confirm that the model functions as intended, calculations are generally correct, and the modeling approach used is generally consistent with the approach used by other developers of high rise, mixed-use projects. Based on its review of the Project Sponsor Model, Century | Urban determined that the model generally functions as expected and employs a methodology that is generally consistent with current underwriting approaches observed by other developers of similar projects. However, Century | Urban found certain underwriting assumptions and underwriting approaches to be inconsistent with the underwriting assumptions utilized by other developers based on Century | Urban's review of other developer pro forma models.

In addition, while this analysis has been prepared as the Bay Area recovers from the COVID-19 pandemic and resulting economic impacts, the analysis assumes pre-pandemic market conditions where occupancy, rents and construction costs are at pre-pandemic levels. Century | Urban believes this approach is appropriate given the long-term nature of this project. This approach is also consistent with Century | Urban's review of other projects, pro forma analysis and underwriting criteria.

Pro Forma Review Summary

Century | Urban commenced this analysis by performing a review of the Project Sponsor Model underwriting assumptions. Following its thorough review of the Project Sponsor Model, Century | Urban prepared a memorandum that included a list of comments and key assumptions that it believed warranted revision or further discussion. This memorandum was shared with the Project Sponsor on July 16, 2021. OCII, Century | Urban and the Project Sponsor held a call on July 16, 2021, to discuss the memorandum described above. It was Century | Urban's understanding that the Project Sponsor was in general agreement that the Project Sponsor Model should be updated to reflect data that is factual in nature such as affordable housing rents which are established by the Mayor's Office of Housing and Community Development ("MOHCD"). However, the Project Sponsor and Century | Urban did not come to consensus on certain key underwriting assumptions during this meeting and both parties agreed to provide additional information to support their underwriting assumptions and to perform their own analysis. Provided in the following section is a summary of the key components of the Project Sponsor Model that Century | Urban analyzed as part of its pro forma review. The intent was to evaluate the underwriting assumptions for reasonableness as compared to the underwriting assumptions observed by Century | Urban for other similar projects in San Francisco.

PRO FORMA KEY ASSUMPTIONS ANALYSIS

As noted above, Century | Urban serves as a real estate advisor to various public entities and private developers in addition to OCII. As such, Century | Urban has access to a broad range of market data. Century | Urban used its vast experience in underwriting projects in San Francisco and its access to market data in evaluating the Project Sponsor's underwriting assumptions. Provided below are the key components of the Project Sponsor Model that Century | Urban analyzed.

- ***Project Program –*** As shown in Table 1, the initial proposed program includes a mix of apartments, condominiums, townhomes and ground floor retail. All affordable housing units are anticipated to be rental units. The condominiums will be market rate and are currently designed to be constructed on the upper floors of the tower, providing excellent view corridors to generate high sales prices. The proposed program includes 137 condominium units and 20 townhome units, which combined comprise approximately 20% of all units in the project. Given the projected sales price per square foot, the for-sale units are anticipated to generate significant proceeds driving much of the economic value of the project. Furthermore, while the Project Sponsor included studio units within the affordable podium and Tower BMR, the program did not include market rate studio units. Century | Urban analyzed the program for value maximization, which included a focus on the number of studio units and condominium units. Century | Urban concluded that the inclusion of market rate studio units would not generate significant economic value and thus did not recommend adjustments to the rental unit mix. However, Century | Urban's analysis determined that a greater number of condominium units generated significant economic value and thus recommended a revision to the condominium program as described in the "Key Assumptions Adjustments to Project Sponsor Model" section below.

- ***Development Budget*** – In April 2021, Century | Urban engaged TBD Consultants, a cost estimating firm, to prepare its own construction budget for the project based on schematic drawings provided by the Project Sponsor. Given that the project will include multiple uses within a single tower and the current high construction cost environment, a third-party cost estimate was important to confirm that the Project Sponsor's construction cost assumptions were consistent with similar projects. In May 2021, TBD Consultants delivered its cost estimate to Century | Urban. The construction cost estimate prepared by TBD Consultants was slightly lower than Hines' construction cost estimate by approximately 2%. Century | Urban believes that the variance between the Project Sponsor construction budget and the TBD Consultants cost estimate was reasonable and did not warrant adjustments. In addition, Century | Urban reviewed the Project Sponsor's soft cost assumptions such as financing fees, interest rates, architectural and engineering costs and developer fee and determined that the assumptions were reasonable as compared to other projects analyzed by Century | Urban. Consequently, Century | Urban did not recommend adjustments to the Project Sponsor Model related to the development budget.

- ***Affordable Podium Proforma*** – The affordable podium, entirely comprised of affordable housing units, is anticipated to be developed and managed by Mercy Housing. Mercy Housing engaged California Housing Partnership Corporation ("CHPC") to prepare a pro forma model for the affordable podium consistent with the underwriting standards established by the California Tax Credit Allocation Committee ("TCAC"). While the Project Sponsor includes its own separate analysis of the affordable podium within its Project Sponsor Model, the CHPC operating assumptions and estimates for financing sources should be reflected in the Project Sponsor Model given that the CHPC pro forma model is the pro forma adopted and utilized by Mercy Housing. Century | Urban reviewed a CHPC pro forma dated July 7, 2021, to compare to the Project Sponsor Model. Century | Urban found that the Project Sponsor Model generally conformed to the CHPC pro forma with a few exceptions as described in the "Key Assumptions Adjustments to Project Sponsor Model" section below.

- ***Operating Revenues*** – Century | Urban reviewed the Project Sponsor's rent and other income assumptions and believes the Project Sponsor market rate rent assumptions are in line with pre-pandemic market rents within the Transbay district based on its review of asking rents in the months prior to the pandemic. Other income also appeared to be in-line with similar projects analyzed by Century | Urban. Therefore, Century | Urban did not recommend adjustments to the Project Sponsor Model operating revenue assumptions.

- ***Operating Expenses*** – As noted previously, the 47-story tower is expected to include a mix of luxury condominiums, luxury townhomes below market rate apartments and market rate apartments. Given the multiple uses within the tower, the Project Sponsor anticipates that it will form a master homeowners association ("HOA") to oversee the management of the tower. The Project Sponsor estimated the condominium and townhome units share of total operating expenses and allocated the remaining total projected operating expenses to the market rate rental units and Tower BMR units. Century | Urban reviewed the pro forma operating expense assumptions allocated to the market rate tower units and the Tower BMR units and participated in three separate calls with the Project Sponsor in which it presented its basis for the operating expense assumptions. Century | Urban also performed research and obtained recent budgeted or actual operating expenses for 10 high rise luxury projects in San Francisco, which it shared with the Project Sponsor. The Project Sponsor Model operating expense assumption was higher than 9 of the 10 projects evaluated by Century | Urban. However, given the mixed-use nature of the Block 4 project that will be managed through a master HOA, Century | Urban believes that the use of an HOA consultant would provide greater insight into the reasonableness of the Project Sponsor Model underwriting assumption. While Century | Urban believes an adjustment to the market rate and Tower BMR operating expense assumption may be warranted, it has placed less emphasis on this recommendation.

- ***Loss-to-Lease and Economic Occupancy*** – According to the Project Sponsor, the firm has an internal underwriting policy to reflect a loss-to-lease in new development projects in addition to a 5% vacancy factor. A loss-to-lease calculation generally estimates the amount of gross potential rent that cannot be collected due to contractual rental rates being fixed for the term of a lease, usually 12 months. That is, if market rents increase during the term of a lease the owner will not benefit from that increase until the term of the lease expires and a new lease with the higher rent is executed. While this underwriting approach is consistent with pro formas for stabilized operating assets (i.e., existing apartment buildings with greater than three years of operating history), this approach is generally not employed for development projects reviewed by Century | Urban. By including a loss-to-lease calculation in addition to a 5% vacancy rate, the Project Sponsor Model reflected an economic occupancy that was lower than the 10 developer pro formas reviewed by Century | Urban. These 10 pro formas are for large-scale, new development projects in San Francisco and Oakland, and reflected a market rate economic occupancy of approximately 95% and a below market rate economic occupancy of between 95% and 98% as shown in Table 2 below. In addition, the CHPC pro forma for the affordable podium reflected a 95% economic occupancy.

Table 2. Economic Occupancy Comparables

#	Project Neighborhood	Uses	Residential Units	Source of Information	Source Data Year	Market Rate Economic Occupancy	BMR Economic Occupancy
1.)	South Beach	Apartments, Office, Retail	700	Developer RFP Response	2020	95%	95%
2.)	Fillmore District	Apartments, Condos, Retail	2,515	Developer pro forma	2020	95%	95%
3.)	City of Oakland	Apartments/Retail	1,416	Developer pro forma	2020	95%	NA
4.)	Mission Bay	Apartments, Condos and Commercial	1,200	Developer pro forma	2019	94%	94%
5.)	SOMA	Apartments, Condos, Hotel, Retail	290	Developer RFP Response	2019	96%	96%
6.)	SOMA	Apartments, Office, Retail	533	Developer RFP Response	2019	95%	97%
7.)	India Basin	Apartments, Retail	1,375	Developer response to DDA RFI	2018	95%	98%
8.)	Central Waterfront	Apartments, Retail	2,601	Developer response to DDA RFI	2018	96%	96%
9.)	Balboa Park	Apartments, Condos, Retail	680	Developer RFP Response	2017	95%	95%
10.)	Balboa Park	Apartments, Retail	1,100	Developer RFP Response	2017	95%	95%

KEY ASSUMPTIONS ADJUSTMENTS TO PROJECT SPONSOR MODEL

As noted above, the Project Sponsor shared it pro forma model with OCII and Century | Urban to allow OCII and Century | Urban to review the Project Sponsor's underwriting assumptions and to perform sensitivities and evaluate the maximum supportable on-site affordable housing. Century | Urban made the recommended adjustments described in the "Pro Forma Key Assumptions Analysis" section above to the Project Sponsor Model in order to estimate the project returns under these revised assumptions. The adjustments to the Project Sponsor Model are described below:

CHPC Assumptions – On July 9, 2021, the Project Sponsor provided a copy of an updated CHPC pro forma for the affordable podium, which reflected the inclusion of studio units, 2021 MOHCD rents, reduced operating expenses and other adjustments to improve the competitiveness of the project. As the CHPC pro forma was received after the Project Sponsor Model was delivered to OCII and Century | Urban, these revisions were not reflected in the Project Sponsor Model. Thus, Century | Urban revised the Project Sponsor Model to reflect the updates and revisions per the CHPC proforma, which included the following adjustments:

- Podium rents were updated to reflect the MOHCD 2021 rent limit schedule.

- Utility allowances were updated to reflect MOHCD 2021 rent limit schedule.
- LIHTC Threshold Basis Limits were updated to reflect the TCAC schedule for 2021 and the adjustments were updated to reflect the most recent CHPC pro forma.
- Podium permanent financing debt service coverage ratio assumption decreased to 1.15x per CHPC pro forma.
- Podium operating expenses were updated to reflect the assumptions per the CHPC pro forma.

In addition to the above, Century | Urban revised the Tower BMR rents to reflect the MOHCD 2021 rent limit schedule.

Condominium Program – Century | Urban performed a sensitivity analysis to determine if converting two floors of apartments to condominiums would provide significant economic value. In reviewing the Schematic Drawings Submittal ("SD Submittal") dated September 9, 2019, Century | Urban determined that converting the top two floors of apartments to condominiums would yield 22 fewer apartments and 18 additional condominiums assuming the condominium units on the converted floors would be identical to the lower most condominium floor in the SD Submittal. Century | Urban discussed this programmatic change with the Project Sponsor who indicated that should the Project Sponsor elect to convert two floors of apartments to condominiums, it would reallocate the rental units to for-sale units in a manner consistent with Century | Urban's approach. While condominium investments are generally risker than apartment investments, Century | Urban does not believe that an increase of 18 additional condominium units would impact the overall project risk profile. Thus, Century | Urban did not make other adjustments to its revised version of the Project Sponsor Model such as sales price, absorption or development costs. Based on its analysis, Century | Urban determined that the impact of converting 22 rental units to 18 condominium units is accretive to project economics and resulted in an increase to the projected project level levered internal rate of return ("IRR") of approximately 1.7% and an increase in the condominium profit margin of approximately 2.5%.

Economic Occupancy – As noted above, Century | Urban reviewed 10 developer pro formas for large scale projects including nine pro formas for projects in San Francisco and one project in Oakland. These projects averaged a 95% economic occupancy for the market rate units and 96% for the below market rate units. With the Project Sponsor's inclusion of a loss-to-lease in addition to a 5% vacancy rate, the Project Sponsor Model resulted in an economic occupancy of 93.5% for the market rate units and 94.1% for the below market rate units. Century | Urban removed the loss-to-lease calculations in the Project Sponsor Model to result in a 95% economic occupancy for both the market rate units and Tower BMR units. The resulting impact on Project Sponsor Model was an increase to the levered IRR of approximately 0.3%.

Century | Urban shared the economic results of the revised Project Sponsor Model with OCII and the Project Sponsor during its call on July 16, 2021. In addition, Century | Urban provided its revised version of the Project Sponsor Model with the Project Sponsor on July 20, 2021. According to OCII, the Project Sponsor indicated to OCII during a later call that it had found no errors in Century | Urban's approach to revising its model.

DEVELOPER TARGET RETURN

Century | Urban is active in the Bay Area providing economic analysis associated with residential ground-up development projects. In addition, Century | Urban has longstanding and seasoned relationships within the land use, development, and broader investment community. This affords access to "real time" market information such as developer target returns. As noted previously, Century | Urban contacted various developers and real estate equity investors in early July 2020 to determine the level of economic return a project like Block 4 would need to generate in order to attract the necessary capital to finance the project. Target returns for apartment buildings are often quoted in terms of a return-on-cost, which is the ratio between net operating income and development cost, and target returns for condominiums are often quoted in terms of a profit margin or levered IRR. Following its conversations with developers and equity partners, Century | Urban concluded that the most appropriate return metric is a project-level levered IRR due to the Block 4 mix of apartment units, condominium units and townhome units.

The Project Sponsor has indicated that it intends to develop and retain long-term ownership of the rental components of the Block 4 tower, also known as a build-to-core strategy. The Project Sponsor Model shows a sale date of approximately 11 years following completion. Based on Century | Urban's professional experience and research, a build-to-core strategy is less common than the more typical development strategy, which is to construct a project and sell the completed buildings shortly after the buildings are stabilized. As an IRR is a time-based return metric, the sooner a developer realizes economic gains, the higher the IRR. Therefore, a build-to-core strategy would be expected to generate a lower project level IRR than the more typical development with a merchant developer strategy of a near term sale at stabilization to harvest value and profit. Based on the conversations with developers and equity partners, Century | Urban ascertained that a target levered IRR return for a build-to-core project ranges between 11% and 14% depending on the risk profile of the project. Factors affecting the project's risk profile include the number of condominium units, the number of affordable housing units and current market conditions. Each of these factors is described in greater detail below.

Condominium Units – Condominium units are generally viewed as a higher risk investment than apartment units. Unlike apartment buildings, which generate revenue over time, condominiums offer a one-time opportunity to generate proceeds, which are highly dependent on interest rates, housing supply, and demand for housing at the time they are completed. These factors have an influence on condominium prices and sales velocity. As a result, developers typically require higher returns for condominium projects than for apartment projects. In addition, the condominium project is the primary driver of economic value for the Block 4 project. Thus, it is appropriate that the target levered IRR be on the higher end of the range.

While the condominium units generate a significant amount of economic value, 18 additional condominium units modestly increases the risk profile of the project given the more limited demand for these units. That is, the condominium projected sales price per unit is approximately $3.7 million in today's dollars, which has lower demand as compared to more moderately priced units. Thus, there is a limit to the number of luxury units that the market can support. Given the size of the project, the addition of 18 condominium units should not materially affect the condominium sales absorption assumptions; however, increasing the number of condominium units beyond 18 may result in a longer sales period and potentially lower sales prices, which would not benefit the project returns.

Affordable Units – The Block 4 project is anticipated to provide more than 40% on-site inclusionary housing units, which, in Century | Urban's professional experience, would be one of the larger percentages of inclusionary housing within a single mixed-income development project in San Francisco. The impact of this level of inclusionary housing on project economics has not been recently tested and it is unclear whether a higher level of on-site inclusionary housing would impact the project's ability to generate the projected condominium and townhome sales prices. Given this uncertainty, Century | Urban believes it is appropriate that the target levered IRR be on the higher end of the range provided by Century | Urban's field research. Thus the 11-14% target return range applies to projects with a maximum of 45% on-site affordable housing.

Based on the factors noted above, Century | Urban believes a target project level levered IRR of approximately 14% is appropriate for this project up to the recommended 45% on-site affordable housing.

AFFORDABLE HOUSING ECONOMIC ANALYSIS

Century | Urban utilized the Project Sponsor Model to perform its affordable housing economic analysis. Century | Urban elected to utilize the Project Sponsor Model for this analysis instead of its own model as it believed by using the Project Sponsor's own model, it would limit questions arising from differences in the model structure and would allow all parties to focus on the underwriting assumptions. Century | Urban's analysis focused on determining the maximum level of affordable housing that the project can support while generating the target return, which is estimated to be an approximately 14% levered IRR. At OCII's direction and for purposes of this exercise, the additional affordable housing units would be in the tower and would be at a moderate-income level. For every moderate-income unit added to the program, the equivalent amount of square feet was deducted from the market rate program thus the total building square feet remained constant.

Century | Urban began its analysis by making the revisions to the model described in the "Key Assumptions Adjustments to Project Sponsor Model" section above. The results of this analysis are shown as Alternative Case A in Table 3 below. Next, Century | Urban increased the number of moderate-income units and decreased the number of market rate units until the target return was achieved. At 45% inclusionary housing, the project was estimated to achieve the target return. The results of this analysis indicate that the project can support up to 45% on-site affordable housing and generate a reasonable market return per Century | Urban's field research.

In addition to performing the above analysis, Century | Urban prepared a separate sensitivity, Alternative Case B, to evaluate the impact of reducing operating expenses for the market rate apartment units and Tower BMR units. In addition to reducing operating expense, this sensitivity also included the CHPC pro forma revisions described above and the conversion of two floors of apartments to two floors of condominiums but excluded the adjustments to the economic occupancy calculations. The Alternative Case B adjustments resulted in a levered IRR of approximately 13.6%, which is on the higher end of the range of returns determined from Century | Urban's field research. Thus, it demonstrates that a reduction in the operating expense assumption would enhance the project economics and further support Century | Urban's finding that the project can provide 45% on-site inclusionary housing and earn a market rate return.

Table 3. Summary of Affordable Housing Economic Analysis

Affordable Housing Scenario Analysis		Developer Pro Forma - July 2021 v6	Alternative Case A	Alternative Case B
Program Summary				
1.)	Condominium Units	117	135	135
2.)	Townhome Units	20	20	20
3.)	Tower Market Rate Units	273	219	219
4.)	Tower BMR Units	73	105	105
5.)	Podium BMR Units	202	202	202
6.)	Total Units	685	681	681
7.)	**Affordability Percentage**	**40%**	**45%**	**45%**
Key Assumptions Sensitivity to Developer Pro Forma [1]				
8.)	Additional Condominium Floors	None	2 Floors	2 Floors
9.)	OpEx Reduction to Tower Apartment Units [2]	0%	0%	10%
10.)	Tower Market Rate Economic Occupancy [3]	93.5%	95.0%	93.5%
11.)	Tower BMR Economic Occupancy	94.1%	95.0%	94.1%
Project Economics @ Affordability Percentage Noted in Row 7				
12.)	Unlevered IRR	6.4%	7.0%	6.8%
13.)	Levered IRR	12.1%	13.9%	13.6%
14.)	Tower Rental Untrended Return-on-Cost	4.9%	4.5%	4.6%
15.)	Tower Rental Trended Return-on-Cost	5.8%	5.6%	5.6%
16.)	Condo/Townhouse Profit Margin	23.2%	25.7%	25.7%

[1] Grey shading denotes change to developer pro forma assumptions.
[2] Project Sponsor Model reflects annual operating expenses per unit of $11,116 for market rate units and $11,564 for below market rate units.
[3] Excludes one manager unit. With the inclusion of the manager unit, the economic occupancy is 94.6% in Alternative Case A.

CONCLUSION

Based on its extensive analysis and research, discussions with OCII and the Project Sponsor since March 2020, and its significant experience underwriting large scale development projects in San

Francisco, Century | Urban finds that the Block 4 project can support up to 45% on-site inclusionary housing. These findings are based on the pro forma assumptions, the proposed program and anticipated market conditions when the project is expected to be constructed.

Attachment B

Hines

September 9, 2021

Office of Community Investment & Infrastructure
Attn: Sally Oerth, Interim Executive Director

RE: Transbay Block 4

Dear Interim Executive Director Oerth,

Following OCII Commission on June 15th, 2021, we have been working closely with you and your staff to determine the BMR program at Transbay Block. Per the terms of the Option Agreement Section 3.3, OCII retains sole discretion to determine the affordability requirements for the Block 4 project. Staff has provided us with the option to either terminate negotiations or to proceed with presenting a 45% BMR program to OCII Commission on September 21st, 2021 for approval to continue with the final phase of DDA negotiations. After careful consideration we can confirm we are in agreement with moving forward under the terms of the Option to appraise a 45% BMR program to determine the purchase price for Block 4 and finalize the DDA.

We are however concerned that a 45% BMR program may lead to a significantly negative appraised land value, which could indicate the project is financially infeasible with this program. As we have demonstrated to staff through our extensive financial disclosures, several RFI responses and due diligence discussions, our own independent financial analysis indicates that requiring such a high BMR percentage may jeopardize project feasibility. Accordingly, while we are committed to advancing to the appraisal process, we reserve our right under the Option Agreement to decline to enter into the DDA pending the outcome of the appraisal and our own independent analysis thereof.

Sincerely,

Dan Esdorn
Managing Director

CC: Allie Stein, Associate

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September 9, 2021

Office of Community Investment & Infrastructure
Attn: Sally Oerth, Interim Executive Director

RE: Transbay Block 4

Dear Interim Executive Director Oerth,

As you know, the proposed Transbay Block 4 ("TB4") project has emerged from a now over five-year long partnership between OCII, F4 Transbay Partners ("F4") and Mercy Housing. We have worked diligently with you and your staff since 2016 to develop a program at TB4 that will be the largest affordable housing project in the Transbay District and will meet or exceed the Transbay Redevelopment Areas 35% Affordable Housing Obligation ("Transbay Affordable Housing Obligation"). In addition to creating housing for over 680 new families at a wide range of income levels (including for BMR residents at 45%-120% of SF AMI), the project will fund the construction of an extension of Tehama Street, help fund the ongoing operation of a new one-acre park and deliver over 8,000 square feet of community-serving retail. It will also provide 1,600 desperately needed construction jobs, over $200 million in Mello-Roos proceeds for the Salesforce Transit Center, support the development of SBE contractors, and provide high-quality housing for Certificate of Preference holders. TB4 is an unprecedented and highly ambitious project that aims to set a new standard in combining high quality design, community-oriented programming, and income diversity in San Francisco.

Hines

Beyond the team's ambitious programmatic goals, market conditions during this last five years have also provided unprecedented challenges, not only for TB4 but also for San Francisco's entire housing development pipeline. The project team and OCII staff have worked diligently to attempt to address these significant hurdles along the way, as referenced during our previous presentation to your Commission in June of this year. Further to your Commission's requests, we are providing the following executive summary that highlights the evolution of the primary market factors impacting feasibility since the TB4 Option Agreement was approved in 2016.

Analysis

We have identified changes in five key factors as being the most relevant to capture the challenges to feasibility for TB4 today, generally summarized in the below graphic:

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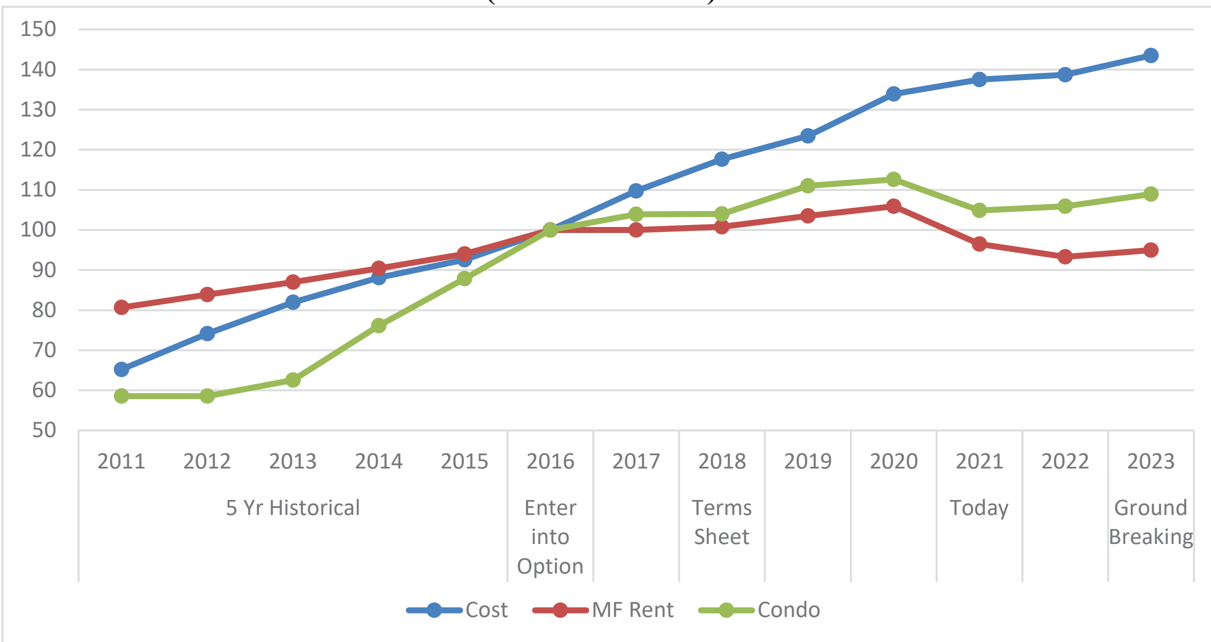
San Francisco Residential Revenue and Construction Cost Evolution Index (2016 = Baseline)



Sources: Cost: TBD Consultants Bid Index, MF Rent: Cushman & Wakefield/CoStar, Condo: Zillow

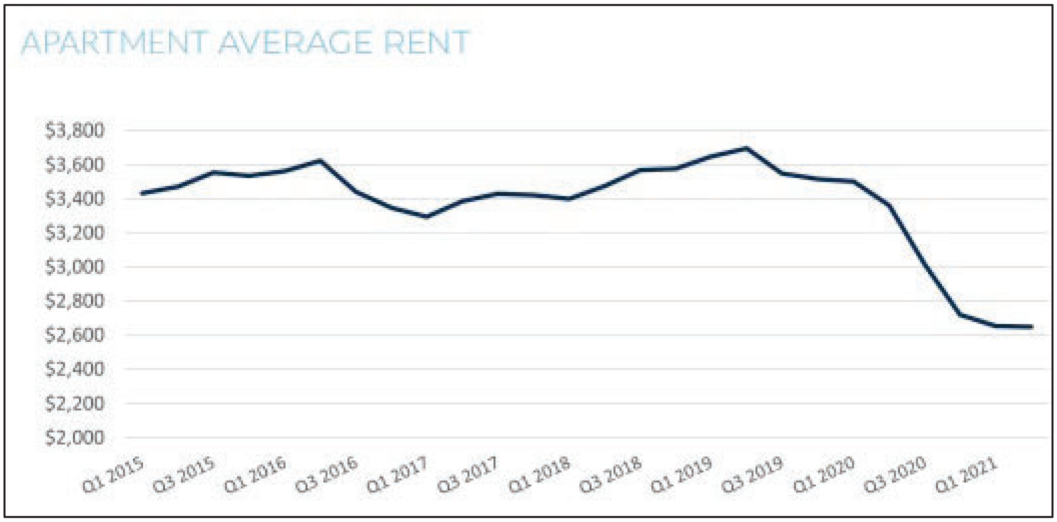
1. Increased Construction Costs

Between 2012-2016 construction costs grew an average of 7% per year. Since 2016 cost escalation has skyrocketed with San Francisco experiencing over 30% hard cost escalation, 13.5% of which occurred between 2018-2020.[i] Today, San Francisco is often cited as the most expensive city in the world to build in.[ii] Market experts anticipate construction cost escalation to return due to pent up demand at a rate of 3.5% in 2022 and between 4-5% in 2023 and 2024[iii]. A variety of factors cause this escalation including labor shortages due to layoffs over the past 18 months and those workers not returning to the construction industry, volatility in materials costs such as the current 73% increase in lumber and increase in insurance costs.[iv]

We estimate cumulative cost escalation since 2018 has added over $85MM or $125,000 per unit in hard cost to the project budget for TB4. Market experts project future cost escalation of 4% per year, which would add an additional $20MM or $30,000 per unit to the TB4 project budget each year between now and groundbreaking in 2023.[v] The total impact of past and projected future escalation between now and groundbreaking will add over $152MM or $224,000 per unit in cost.

2. Decreased Rental Revenues

In contrast to the rapid escalation of construction costs during the same time period, between 2016 and 2020 rent growth showed a modest average annual increase of only 1.5% per year.[vi] The global pandemic has had an unprecedented impact on the rental rates commanded by new developments in San Francisco. Effective asking rents across San Francisco were down 25% during the peak the pandemic.[vii] The densest downtown neighborhoods like SoMa experienced the most significant declines with rents plummeting nearly 30% during the peak of the pandemic in summer 2020. The good news is rents are improving as of 2021 with SoMa seeing 12% year over year growth however, asking rents are still down -6.2% on a trailing year basis.[viii]



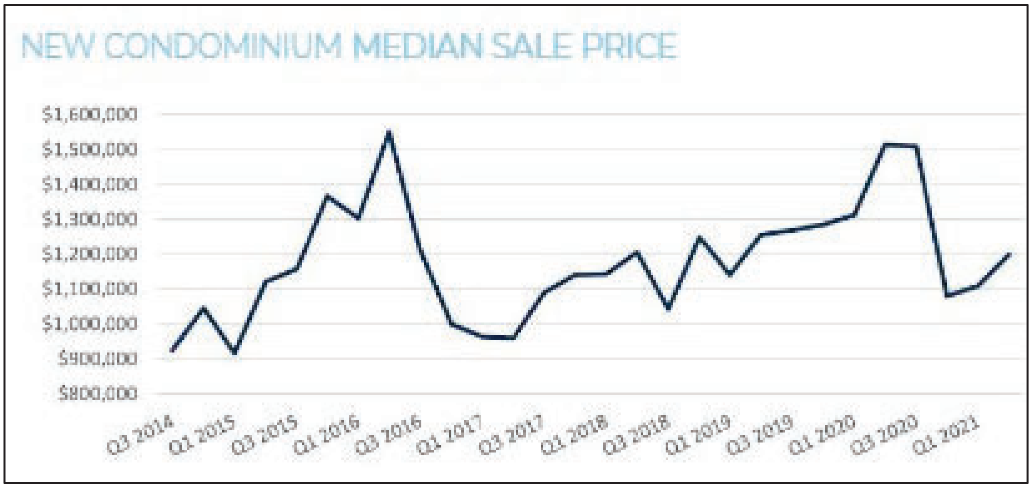
Source: Vanguard, San Francisco Residential Development, August 2021

Market forecasts do anticipate a recovery to pre-COVID levels; however generally the recovery is anticipated to be modest in speed with rents not returning back to 2019 levels until 2026.[ix] If these projections are correct, projects like TB4 will lose five years of rent growth between now and initial occupancy due to the pandemic. In contrast, as shown in the index chart above, construction costs are anticipated to grow by 28% cumulatively over the same time period.

3. Stagnant Condominium Prices

In further comparison to rapidly escalating construction costs during the 2016-2020 period, condo prices grew at an average of only 3% per year. Since then, the condo market has experienced significant dislocation, with values declining -6% from February through December 2020 due to the impacts of the global pandemic and prices down -12% year-over-year as of August.[x]

Though we have seen an uptick in condo transaction volume in 2021, buyers remain cautious about the prospects for the condo market in SF in the near-medium term. As a result, average price per square foot remained low in as of Q3 2021, down -4.1% year over year. SoMa is particularly slow to recover with the second lowest price per square foot of any neighborhood in San Francisco.[xi] These challenging market dynamics have negatively impacted investor appetite for condo projects in the aftermath of the pandemic, making it significantly more challenging for the condo components of projects like TB4 to raise cost-effective financing. Over the long term, experts expect the condo market will recover quickly with a return to pre-pandemic levels by 2023. However, this still amounts to three years of lost revenue growth while escalation continues to climb at 4% annually.[xii]



Source: Vanguard, San Francisco Residential Development, August 2021

4. Dislocation in Affordable Housing Financing

Changing dynamics in the affordable housing finance industry and the city have furthered uncertainty and budget increases for the project. Securing tax-exempt bond financing for affordable housing projects has become a competitive process due to unprecedented demand. As a 17-story Type-I building containing 202 units, the mid-rise podium component of TB4 will rely on anticipated but uncertain changes the scoring methodology in order to receive an allocation, as well as its tax credit (LIHTC) equity. This uncertainty also makes it more challenging to raise cost-effective financing for the balance of the project.

5. City Levies and Impact Fees

Changes in city levees have also increased budget over time. Impact fees have increased 25% since 2016 adding $3.3MM to the budget. In 2020 San Francisco voters approved legislation through Prop I to increase transfer taxes on properties valued at over $25MM from 3% to 6%. This 3% increase adds $2MM in sales costs to the project budget. In total, city costs have increased the project budget by almost $6MM.

Conclusion
As detailed above, OCII staff and the project team have been confronted with several significant market-based challenges since entering into the Option Agreement in 2016 and since the 2018 Terms Sheet. Prolonged cost escalation coupled with rent and condo revenue stagnation have threatened the feasibility of housing projects around the Bay Area, including TB4. The effect of these shifts has impacted all projects in San Francisco, as evidenced by recent trends in construction completions and the forward delivery pipeline. Specifically, construction completions peaked in 2016 and 2017 with over 3,500 units being delivered in each of those years following the expansion post-Great Recession. An average of 3,000 units were delivered between 2016 -2020. In contrast, projections indicate delivery of less than 1,500 units per year between 2021-2025 in large part due to the same factors outlined in this memo.[xiii]

The project team and OCII staff have worked diligently over the last five years to develop a program at TB4 that produces a project that is financially feasible, produces significant amounts of high-quality housing and a wide array of community benefits, and meets the Transbay Affordable Housing Obligation despite these challenges. We look forward to continuing this effort with OCII staff and advancing this great project to the appraisal stage and to your Commission for approval soon.

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[i] TBD Consultants, Bay Area Escalation Report 2014-2020.
[ii] https://www.sfchronicle.com/bayarea/article/SF-is-one-of-the-most-expensive-places-in-the-14888205.php
[iii] TBD Consultants, Bay Area Escalation Report 2014-2020.
[iv] https://www.sfbuildingtradescouncil.org/news/top-stories/1769-materials-costs-are-rising-what%E2%80%99s-that-mean-for-sf-construction
[v] TBD Consultants, Bay Area Escalation Report 2014-2020.
[vi] CoStar Multi-Family Market Report San Francisco
[vii] https://www.bayareamarketreports.com/trend/san-francisco-home-prices-market-trends-news
[viii] CoStar Multi-Family Market Report San Francisco
[ix] CoStar Multi-Family Market Report San Francisco
[x] Vanguard Properties, San Francisco Residential Development August 2021
[xi] https://vanguardproperties.com/newsletter/SF_Market_Update_Refresh_Sep_2021.pdf
[xii] RCLO Residential Market Analysis Report
[xiii] CoStar Multi-Family Market Report San Francisco

ATTACHMENT 26

COP Enhanced Outreach Strategies

In addition to the minimum/standard plans for COP outreach and marketing required as part of the Early Outreach Plans and Marketing Plans, the Developer and Affordable Developer (collectively, the "**Developers**") commit to preparing and implementing COP Enhanced Outreach Strategies for both the Mid-Rise Affordable and Tower Rental as outlined below. The COP Enhanced Outreach Strategy for each will be incorporated into the Early Outreach Plans for each project, which will be submitted to OCII pursuant to the Schedule of Performance. The strategies outlined below are subject to change depending upon the Developer's evaluation of the most appropriate and effective strategy at the time of COP Early Outreach Plan implementation.

Approach / Philosophy:
The COP Enhanced Outreach Strategies outlined below are intended to bolster and support the COP program through 1) increased participation; and 2) successful placement of COP-eligible individuals within the community. The specialized strategies and tactics within are designed to honor the following guiding principles:

1. Make Access Easier: We will aim to ensure that COP-eligible individuals have the ability to access information in the way they feel most comfortable; to that end, we will work diligently in partnership with Mercy, OCII, MOHCD, as well as BVSS and SFHDC to understand the best method(s) of outreach for each subset of the community, which we expect to be a combination of print, digital, and environmental approaches.

2. Privacy is Paramount: We understand the need for privacy and discretion, and will balance our enthusiastic outreach program with appropriate contact methods that have been thoroughly vetted with OCII.

3. Remove Barriers wherever they Exist: In an effort to maximize access and inclusion, we will work to break down barriers that may impede our COP-eligible community from taking full access of the program – whether related to accessibility, inclusivity, financial difficulty, or any other unique situations that might pose a challenge to participants.

4. Maintain Flexibility: We understand that the best approach is one that can flex to accommodate change – whether planned or unforeseen. One important consideration is the potential addition of direct descendants and/or children that were housed in units impacted by Redevelopment actions to the list of COP-eligible individuals. We recognize that this could significantly change aspects of our outreach (e.g., communities/locations of interest, demographic data, communication preferences), and we will be prepared to pivot quickly should these changes take place.

Furthermore, we recognize the need to tailor outreach to COP-eligible individuals between the Tower Rental and Mid-Rise Affordable Units, and will work to determine the appropriate delineation between the two – while ensuring that materials which may benefit from combined strategy/outreach have the ability to do so.

Formal Presentations & Organizational Outreach:
As part of producing the Early Outreach Plans, the Developers will coordinate to implement new strategies for targeted outreach and marketing to COP holders. These new strategies for enhanced marketing are outlined below; however, these strategies will be evaluated to adapt to the quickly changing environment

and may be altered, with OCII review and approval, to best meet the needs of COP holders at the time this process is initiated.

- The Developers will create project specific lease-up teams (leasing agents, regulatory compliance individuals, and office staff) that include black and brown individuals, to ensure the COP Enhanced Outreach Strategies are implemented through a racial equity lens. Each team will maintain frequent communication to ensure continuity through lease-up completion. The project specific lease-up teams for the Mid-Rise Affordable and Tower Rental will be in place by the lottery date for each building and Developers will inform OCII of the team compositions.
- Where possible, this team member continuity will extend to allow the leasing/outreach team to lead ongoing COP group meetings in the community on a regular basis, to ensure that "familiar faces" are available starting at the time of lottery, through move-in and beyond.
- COP targeted outreach activities and workshops will be conducted and organized by community-based organizations (CBOs) and religious organizations with strong ties to COP households and communities. Two such examples of CBOs are Bayview Senior Services (BVSS) and/or San Francisco Housing Development Corporation (SFHDC). An example of such an activity is presentations at SFHDC's COP Club (if operational at the time outreach begins), which is designed to bring COP holders together in fun and engaging ways to promote financial empowerment and access to housing.
- COP specific presentations, at least three, will be conducted near (within ½ mile radius) the development site.
- COP specific presentations, at least three, will be conducted in COP communities (Western Addition and the Bayview) with the help of CBOs.

Outreach and Marketing Strategies:

The Developers will determine the most appropriate marketing strategy (understanding that the COP-eligible community will be multifaceted and require different methods of outreach to maximize access) and will take into account results of OCII's efforts to find additional eligible COP holders and preferences of COP holders. If it is safe to do so, Developers will prioritize in-person outreach, while also conducting extensive online marketing. Marketing events and efforts will include:

- Online/virtual reality enabled unit and project tours that highlight the project's amenities, available parking, etc.
- One off-site model Mid-Rise unit and one off-site Tower Rental unit available for tour
- Online and/or in person neighborhood tours
- Online and/or in person financial/rental readiness information sessions
- Online and/or in person project information sessions
- Lottery application workshops with one-on-one assistance provided by Housing Counseling Agency. A COP specific portal on project specific marketing website which will include links to further information on qualification, resources, floorplans and unit layouts, images of interior designs, and special tours, and recordings of online sessions. These websites could potentially be accessible through a custom URL, key phrase, or QR code implemented into our COP-specific advertisements/mailings.
- Highlight each property in various online presences as well as city wide and more local media outlets via print and online postings. Developers will utilize social media channels including Facebook, Instagram, and LinkedIn – and, where appropriate (and with OCII guidance), target ads to specific communities and locations that may result in a higher proportion of COP-eligible individuals.
- A text campaign to COP holders' cellular phones conducted by Housing Counseling Agency in conjunction with MOHCD.
- Coordination between lease up teams, MOHCD and OCII to contact and offer "concierge" service to reach out individually to all COP holders who have applied within the last 24 months

(but not yet housed) from the start of Early Outreach, to try to match those COP holders with an affordable unit at Transbay Block 4. MOHCD will assist with coordinating a VIP tour of the building during construction which would occur during an evening or weekend.
- Signage delivered to and posted at COP neighborhood (Western Addition and the Bayview) businesses, religious organizations, and service providers in partnership with Housing Counseling Agency

Additional information regarding the Mid-Rise Affordable and Tower Rental projects will be sent out with the COP mailers. This could include:
- Additional marketing materials;
- Maps of the Transbay neighborhood highlighting amenities and attractions;
- Miniature materials boards; and
- Information on how to log onto online information sessions.

The ideas above represent a sample of potential strategies that will be evaluated to market the project directly to COP holders and will be further evaluated, with input and approval from OCII, upon drafting of the Early Outreach Plans.

Following both online and in-person events and workshops, Developers will provide a summary describing the event, reporting the number of attendees, and noting attendee responses. With this feedback, Developers and OCII will coordinate to refine and revise strategies as needed to ensure that the approach is effective.

<u>Additional Programs to Maximize Access</u>

In an effort to maximize access and inclusion, we will work to remove barriers wherever they exist – throughout the entire outreach and leasing cycle. We are exploring a number of unique tactics to facilitate an easier, more achievable transition for every individual, including:
- <u>Moving Support</u> – Provide financial assistance to candidates who demonstrate need, either through a partnership with a moving company/companies, or by providing a specific 'moving costs' concession to a limited number of units.
- <u>Community Storefront</u> – Provide a dedicated retail storefront in communities with a high concentration of COP-eligible individuals. In this location, Mercy Housing representatives could be available as a resource for the whole community, and – in particular – prospective COP leaseholders.
- <u>Community Amenities</u> – Determine challenges that our COP-eligible community might face and address them through non-standard amenities and services provided by the development such as childcare, senior services, food resources, transportation/shuttles, etc.
- <u>Re-evaluation of Financial Criteria</u> – Adjust thresholds for income/credit for COP holders and offer assistance for individuals for whom security deposits may present undue challenge.
- <u>Continuity of Contact</u> – In order to increase the COP-eligible community's level of comfort, hire individuals who can be part of the process in a variety of roles throughout the life cycle of the project, from initial outreach, through leasing, through stabilization (e.g., ongoing monthly meetings of COP group within the building community).

COP Activity Project Applicability

Both Developer and Affordable Developer will coordinate in executing these COP Enhanced Outreach Strategies as they pertain to the Tower Rental Project and Mid-Rise Affordable Project, respectively.

COP Activity	**Mid-Rise**	**BMR Tower Units**
Dedicated Lease-Up Team,	X	X
Partner with CBOs	X	X
COP Outreach Activities & Workshops	X	X
Presentations near Site	X	X
Enhanced Marketing	X	X
Social Media Campaign	X	X

COP Outreach Timeline (subject to change)

Mid-Rise: NTP – May 2023; TCO – September 2026; lease up begins 3 months prior to TCO
Tower: NTP – May 2023, TCO – March 2027

COP Activity	**Timeline**	**Note**
Core COP lease Up Team Formed	May 2025	Members of Mercy and F4
MOUs with COP Orgs Executed		
COP Early Outreach Plans Submitted to OCII	June 2025	One month after start of Mid-Rise/Tower construction
COP Early Outreach Plans Approved by OCII	August 2025	Three months after submittal of EOPs
Extended TB4 COP Lease Up Team Formed	September 2025	Mercy, F4 and F4 TBD marketing agent
Contracts with COP Orgs Executed	October 2025	
COP Mailers #1	November 2025	10 months prior to TCO
COP Mailers #2	February 2026	7 months prior to TCO
COP Social Event #1		Coordinated with SFHDC COP Club events in coordination with BVSS
Workshop #1 w/ SFHDC and BVSS		At BVSS or TB 6/7
Site/Neighborhood Tours #1		If allowed. Shortly after mailer #2
COP Mailers #3	May 2026	4 months prior to TCO
COP Social Event #2		Coordinated with SFHDC COP Club events in coordination with BVSS
Workshop #2 w/ SFHDC and BVSS		At BVSS or TB 6/7
Site/Neighborhood Tours #2		If allowed. Shortly after mailer #3
COP Social Event #3		Coordinated with SFHDC COP Club events
Workshop #3 w/ SFHDC and BVSS		At BVSS or TB 6/7
Site/Neighborhood Tours #3		If allowed. Shortly after workshop #3
Unit Mockups (if applicable)		Tied to completion of first in place mockup unit review and acceptance
Launch Site Specific Webpage	November 2025	Tied to COP Mailer #1, with ongoing updates
Launch Social Media Campaign	May 2026	Tied to COP Mailer #3
Marketing Office Opens	May 2026	4 months prior to TCO, for the Mid-Rise and Tower