INFORMATIONAL MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell, Executive Director

SUBJECT: To update the Commission on ownership changes at the Metreon; Yerba Buena Center Approved Redevelopment Project Area D-1

PURPOSE OF INFORMATION

The purpose of this Informational Memorandum is to update the Commission about a recent change in ownership of the Metreon, a four-story building at the intersection of Fourth and Mission Streets that houses cinemas, restaurants, and retail space. FC Metreon, LLC, a subsidiary of Forest City Enterprises (“Forest City”) recently sold its 50% interest in the Metreon to Westfield Metreon LLC, a subsidiary of the Westfield Group (“Westfield”), a national retailer which owns the nearby San Francisco Centre. Westfield now owns the Metreon in its entirety. The Agency owns the land on which the Metreon sits, and groundleases it to Westfield. The details of this transaction and related issues are explained in this Informational Memorandum.

DISCUSSION

The Metreon, located at 101 Fourth Street in the Yerba Buena Center Approved Redevelopment Project Area D-1, was constructed in 1999 and consists of cinemas, restaurants, and retail space. The Agency owns the land under the Metreon and leases it to Westfield pursuant to the 1997 Central Block 2 Entertainment and Retail Lease (the “Ground Lease”). The term of the Ground Lease is 85 years and runs through 2082. Between 1997 and April 2006, the Agency’s tenant under the Ground Lease was Yerba Buena Entertainment Center, LLC (a partnership of Millennium Partners SF, Inc., and WDG Yerba Buena, Inc.) (the “Original Tenant”).

The Ground Lease provides that after completion of the Metreon a tenant may transfer its interest in the Ground Lease to a “Permitted Transferee.” A Permitted Transferee is defined as a party “possessing the experience, qualifications and financial resources” necessary to fulfill the tenant’s obligations and appropriately operate the project, as reasonably determined by the Agency. In April 2006, the Agency Commission approved the transfer of the Ground Lease from the Original Tenant to Westfield and Forest City with each party qualifying as Permitted Transferees. When the Metreon sale closed in 2006, Westfield and Forest City each owned an undivided 50% tenant-in-common interest in the Metreon.

2010 Metreon Sale – Forest City to Westfield

In May 2010, Westfield and Forest City notified the Agency that they were contemplating a sale under which Westfield would acquire Forest City’s interest in the Metreon, and Westfield would become the sole tenant under the Ground Lease. Although the Commission previously approved Westfield as a Permitted Transferee in 2006, staff undertook additional due diligence to
determine whether Westfield continued to meet the requirements as a Permitted Transferee under the Ground Lease. The following is a summary of staff’s findings:

- The Westfield Group’s 2009 Annual Report summarizes the company’s position as the world’s largest listed retail property group by equity market capitalization. The Group has interests and operates a high quality portfolio of 119 regional shopping centres in Australia, New Zealand, the United States and the United Kingdom, valued at around $59 billion, with almost 24,000 retailers in more than 10 million square meters of retail space. Westfield Group manages all aspects of shopping centre development from design and construction through to leasing, management and marketing.

- At the end of 2009, Westfield Group had total assets of over $47 billion, and equity (assets less liabilities) of over $24 billion. Westfield Group’s operational earnings for 2009 were over $2 billion (an increase of 6.2% from 2008), although they reported an after-tax loss of $450 million, with substantial property write-downs, reflecting the impact of the global recession. Westfield Group’s “1st Quarter 2010 Review” reports improving conditions in the United States and the United Kingdom, and the company expects to commence approximately $1 billion in development projects during 2010, including $200 million in investments in the United States.

- Westfield Group operates 55 shopping centers in the United States, with an asset value of approximately $15 billion. Westfield Group’s assets include shopping centers throughout northern and southern California. In San Francisco, Westfield Group owns and successfully operates 100% of the San Francisco Centre. Westfield Group owns 50% of the Emporium/Bloomingdales project and is solely responsible for its operation.

- A search of the Westlaw database, finds that the Westfield Group is not involved in any legal proceedings that would raise concerns about its business practices or financial solvency, or impact its ability to fulfill its obligations under the Ground Lease.

Therefore, based on the above findings, staff determined that Westfield continued to qualify as a Permitted Transferee under the Ground Lease. On July 30, 2010, by recordation of an Assignment and Assumption of Ground Lease, Forest City sold its 50% interest in the Metreon to Westfield. As a result of this transfer, Westfield is now the Agency’s sole tenant under the Ground Lease.

**Workforce Statistics**

A full analysis of Metreon workforce statistics will be included in the Commission Memorandum for conditional approval of the schematic design for improvements to the complex, which is currently scheduled for September 2010.

_Originated by Denise Blades, Development Specialist_

Fred Blackwell
Executive Director