MEMORANDUM

TO: Office of Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing, pursuant to the Transbay Implementation Agreement, the Executive Director to execute an Exclusive Negotiation Agreement with Avant Housing LLC and BRIDGE Housing Corporation for a proposed residential project on Block 9 (Block 3736, Lot 120), located on Folsom Street between Essex and First Streets; Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

The Transbay Redevelopment Project Area (the “Project Area”) was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State of California (the “State-owned parcels”) in order to generate funding for the Transbay Joint Powers Authority (“TJPA”) to construct the new Transbay Transit Center (the “TTC”). The Transbay Redevelopment Project Area Implementation Agreement (the “Implementation Agreement”) is an enforceable obligation that requires the Office of Community Investment and Infrastructure (“OCII”), as the Successor Agency (the “Successor Agency”) to the former San Francisco Redevelopment Agency (the “Former Agency”), to “prepare and sell [certain State-owned parcels that OCII is authorized to acquire] to third parties.” (Section 2.1 (a) of the Implementation Agreement at p. 4).

On April 15, 2013, the California Department of Finance (“DOF”) determined “finally and conclusively” that the Implementation Agreement, along with other Transbay-related documents, is an enforceable obligation that will not require additional DOF review in the future, although expenditures under the Implementation Agreement are subject to continuing DOF review. The Option Agreement for the Purchase and Sale of Real Property (the “Option Agreement”) provides the means by which OCII can fulfill its obligations under the Implementation Agreement to prepare and sell the State-owned parcels. The Option Agreement grants to OCII “the exclusive and irrevocable option to purchase” the former State-owned parcels in the Project Area that are programmed for development, which are listed in the Option Agreement, including Blocks 2-12 and Parcel F (Section 2.1 of the Option Agreement at p. 4).

On September 12, 2012, pursuant to the Implementation Agreement, staff issued a Request for Proposals (“RFP”) from development teams to design and develop a high-density, mixed-income residential project on Block 9 in the Transbay Redevelopment Project Area, located on Folsom between Essex and First Streets. The development program for Block 9 includes a 400-foot residential tower, an adjacent 85-foot residential podium building and ground-floor retail.
Development teams were asked to submit qualifications, a basic development concept, and a financial proposal, including construction of affordable housing equal to 20 percent of the total units to be developed on the site. The RFP requires that the market-rate developer shall be responsible for providing funding to cover the entire cost of gap financing for the affordable units, with no subsidy from OCII or the San Francisco Mayor’s Office of Housing and Community Development (“MOHCD”).

Three proposals were received from the following development teams (listed alphabetically by lead developer): (1) Avant Housing LLC with BRIDGE Housing (“Avant” and “BRIDGE”); (2) Related Companies (“Related”); and (3) Westbank Projects Corp. with Chinatown Community Development Center (“Westbank” and “CCDC”). The proposals were evaluated by a selection panel comprised of Successor Agency staff, one representative from MOHCD, one representative from the Transbay Citizen’s Advisory Committee (the “Transbay CAC”), and one representative from the Planning Department (collectively, the “Selection Panel”), with assistance from a professional real estate consulting firm, Keyser Marston Associates (“KMA”), under contract with OCII.

The multiple objectives of the RFP were to select a proposal that achieves the highest purchase price, includes at least 20 percent affordable housing, and architecturally adds to the burgeoning neighborhood. Based on evaluation of the written proposals, as well as interviews with each team, the Selection Panel scored the proposals in the following order (highest score to lowest score): 1) Avant Housing and BRIDGE Housing; 2) the Related Companies; and 3) Westbank and Chinatown Community Development Center. The proposal from the Avant Housing team included a purchase price of $43,320,000 payable at the transfer of title and 570 residential units (456 market-rate and 114 affordable).

Based on the outcome of the selection process, staff is recommending that the Commission authorize the Executive Director to execute an Exclusive Negotiation Agreement (“ENA”) with Avant and BRIDGE summarizing the terms set forth in the proposal and setting a timeline to design and develop the project. The Transbay CAC unanimously endorsed the selection of Avant/BRIDGE as the winning team at its meeting of February 14, 2013 and unanimously approved the terms of the ENA at its meeting on June 13, 2013. Should the Commission approve the ENA, staff will start negotiations with the development team and return to the Commission at a later date for approval of a schematic design for the project and a disposition and development agreement (“DDA”) with Avant and BRIDGE.

Staff recommends authorizing the Executive Director to execute an Exclusive Negotiation Agreement with Avant Housing and BRIDGE Housing for a proposed residential project on Block 9.

BACKGROUND

Block 9 is part of the Transbay Redevelopment Project, a 40-acre redevelopment district at the foot of Rincon Hill which includes the Transbay Transit Center (under construction) and approximately 10 acres of vacant public land. Block 9 is a 31,564-square-foot parcel on Folsom
Street between First and Essex Streets, two blocks south of the future Transbay Transit Center, as shown on the map in Attachment 1. The Project Area was established in June 2005 with the adoption of the Redevelopment Plan for the Transbay Project Area (the “Redevelopment Plan”) by the Board of Supervisors. In addition, the Former Agency entered into several agreements to implement the Redevelopment Plan, including, among others, the Implementation Agreement, the Transbay Redevelopment Project Tax Increment Allocation and Sales Proceeds Pledge Agreement (the “Pledge Agreement”), and the Option Agreement. Pursuant to the Pledge Agreement, all of the land sales proceeds from Block 9 have been pledged to the TJPA to help pay the cost of constructing the new TTC.

The Implementation Agreement requires OCII to take the lead role in facilitating the development of the State-owned parcels. Specifically, the Implementation Agreement requires OCII to: (1) prepare and sell the State-owned parcels to third parties, (2) deposit the sale proceeds into a trust account to help the TJPA pay the cost of constructing the TTC, (3) implement the Redevelopment Plan to enhance the financial feasibility of the Project, and (4) fund the state-mandated affordable housing program. The Option Agreement provides the means by which OCII can fulfill its obligations under the Implementation Agreement to prepare and sell the State-owned parcels, by granting OCII an option to purchase certain State-owned parcels in order to facilitate their development. On April 15, 2013, DOF determined “finally and conclusively” that the Implementation Agreement, along with other Transbay-related documents, is an enforceable obligation that will not require additional DOF review in the future, although future infrastructure expenditures under the Implementation Agreement are subject to continuing DOF review.

The development program for Block 9 conforms to the goals and requirements of the Redevelopment Plan, the Development Controls and Design Guidelines for the Transbay Redevelopment Project (“Development Controls”), and the Transbay Redevelopment Project Area Streetscape and Open Space Concept Plan. The development program for Block 9 includes a market-rate residential project (the “Market-Rate Project”) and an affordable residential project (the "Affordable Project"), both within a single building comprised of an 85-foot podium and 400-foot tower. Per the RFP, the development program requires 20 percent of all units be affordable to families whose incomes do not exceed 50% of the unadjusted area median income.

The development program also includes:
- 2,400 square feet of ground floor open space;
- a single, shared underground parking facility;
- streetscape improvements;
- ground-floor retail spaces along the Folsom Boulevard frontage; and
- a minimum LEED Silver level of certification for sustainability.

**DISCUSSION**

The Successor Agency issued the RFP on September 12, 2013. The RFP was publicized to developers, architects, and real estate professionals, including SBEs, through direct mailing,
Advertisements in newspapers of general circulation and community newspapers, and postings on OCII’s and City of San Francisco’s websites.

Development teams were asked to submit qualifications, a basic development concept, and a financial proposal. The goals of the RFP were to: achieve the highest purchase price for the land and develop 20 percent of all units as affordable with no subsidy from the Successor Agency or MOHCD. The RFP also stated that the selected development team would be required to comply with all of OCII’s policies, including the Small Business Enterprise (“SBE”) Program, Minimum Compensation Policy, Health Care Accountability Policy, Construction Workforce Agreement, Permanent Workforce Agreement and Prevailing Wage Policy.

**Affordable Housing Requirement**

The RFP requested that at least 20 percent of all units in the Project must be affordable to qualifying households and no direct subsidy will be available from the Successor Agency or MOHCD to help pay the cost of constructing the Project. The 20 percent figure is based on staff projections of the amount of affordable housing required on Block 9 in order to achieve the 35 percent affordable housing required by State law for the Project Area as a whole, as shown in Attachment 2. The RFP provided developers with two options for delivering the affordable units:

1. **80/20 Development**: single developer with 20% of all units inclusionary rental housing
2. **Joint Development**: separate affordable and market-rate developers

Any project selecting the Joint Development alternative is required to have an ownership structure similar to other affordable housing projects funded by MOHCD and the Successor Agency. There will be a separate “Air Rights Parcel” for the Affordable Project, which will be initially owned by the Successor Agency, and conveyed to MOHCD upon completion of construction. The Successor Agency will enter into an Air Rights Lease with the Affordable Developer at close of construction financing. When construction is complete and the Successor Agency has issued a certificate of completion, the interest of Successor Agency as owner of the Air Rights Parcel and lessor under the Air Rights Lease will be conveyed to MOHCD.

The Successor Agency and MOHCD did consider proposals with different ownership and/or financing structures as long as goals and objectives of the RFP were met. The scoring criteria in the RFP did not establish any preference for one or the other of the options for the affordable housing, only that the development team provide the entire subsidy necessary to construct the units, along with the offered purchase price and that the Affordable Developer and Lead Developer must comply with Successor Agency and MOHCD policies related to the financing, development and operation of affordable housing.

**Selection Process and Criteria**

The proposals were reviewed and evaluated by the Selection Panel, with assistance from KMA. KMA advised the selection panel throughout the review process and produced a final summary analysis, which is attached to this memorandum. After the review was completed, the teams were interviewed by the Selection Panel. Each team made a 30-minute presentation to the Selection
Panel and spent 30 minutes answering questions and providing supplemental information to help the Selection Panel complete its evaluation.

Proposals were evaluated using the selection criteria set forth in the RFP: (1) a total of up to 75 points were awarded for the purchase price and financial feasibility of the proposal; (2) up to 15 points for the development concept; and (3) up to 10 points for the development team experience, for an overall total of up to 100 points.

Financial Proposal – 75 Points
1. Proposed Total Purchase Price (65 Points)
2. Overall Financial Feasibility of Proposal (10 Points)

Development Concept – 15 Points
- Proposed massing concept, including design quality, sustainability, constructability, proposed concept for ground floor uses, and consistency with the Development Controls

Development Team Experience – 10 Points
- Developer and architect experience in design and developing projects comparable to the proposed project

Summary of Proposals

Three proposals were received, as follows (listed alphabetically by lead/市场-rate developer):

<table>
<thead>
<tr>
<th>Proposal 1</th>
<th>Lead/Market-Rate Developer:</th>
<th>Affordable Developer:</th>
<th>Architect(s):</th>
<th>Purchase Offer:</th>
<th>Development Scheme:</th>
<th>Market-rate units:</th>
<th>Affordable units:</th>
<th>Avant Housing LLC</th>
<th>BRIDGE Housing</th>
<th>SOM and Fougeron Architecture</th>
<th>$43,320,000</th>
<th>Joint Development Alternative</th>
<th>456</th>
<th>114</th>
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<td>Proposal 2</td>
<td>Lead/Market-Rate Developer:</td>
<td>Affordable Developer:</td>
<td>Architect(s):</td>
<td>Purchase Offer:</td>
<td>Development Scheme:</td>
<td>Market-rate units:</td>
<td>Affordable units:</td>
<td>Related Companies</td>
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<td>Handel Architects</td>
<td>$43,500,000</td>
<td>80/20 Development Alternative</td>
<td>403 rental and 84 for-sale</td>
<td>101 inclusionary</td>
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<tr>
<td>Proposal 3</td>
<td>Lead/Market-Rate Developer:</td>
<td>Affordable Developer:</td>
<td>Architect(s):</td>
<td>Purchase Offer:</td>
<td>Development Scheme:</td>
<td>Market-rate units:</td>
<td>Affordable units:</td>
<td>Westbank Projects Corp</td>
<td>Chinatown Community Development Center</td>
<td>Bjarke Ingels Group and Leddy Maytum Stacy</td>
<td>$34,100,000</td>
<td>80/20 Development Alternative</td>
<td>563</td>
<td>139 affordable units</td>
</tr>
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Results of the Selection Process

Based on evaluation of the proposals as well as interviews with each development team, the Selection Panel scored the proposals in the following order (highest score to lowest score), as detailed in the table below: 1) Avant Housing; 2) the Related Companies; and, 3) Westbank. Four out of the five members of the Selection Panel awarded the highest total score to the Avant team. The other member had Avant in second place by 0.8 points. The average total score for Avant was 1.1 points higher than for the second place team, Related. The total cumulative score for Avant was 5.5 points higher than Related’s.

<table>
<thead>
<tr>
<th></th>
<th>Average Score</th>
<th>Cumulative Score</th>
</tr>
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<tr>
<td>Avant Housing</td>
<td>98.3</td>
<td>491.5</td>
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<tr>
<td>Related Companies</td>
<td>97.2</td>
<td>486.0</td>
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<tr>
<td>Westbank</td>
<td>81.5</td>
<td>407.5</td>
</tr>
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Analysis of Results

Financial Proposal (75 points)

The purchase price was determined solely by current market conditions as there was no minimum purchase price included in the RFP. Related and Avant offered purchase prices that were within 0.4% of each other. The third developer, Westbank, offered more than 20% less than the other two developers. The number of points allocated to the purchase price was 65 out of 100, with each team receiving scores that were proportionally lower than the highest price offered. The relatively small difference ($180,000) between Related and Avant’s offers resulted in scores of 65 and 64.7, respectively, for purchase price. Westbank scored 51 points. Up to ten additional points were allocated based on overall feasibility of each team’s financial proposals as analyzed by KMA. As described in Attachment 3, KMA analyzed all three proposals in detail to ensure that their assumptions and market data were reasonable and that the proposed project was feasible. In the interviews, all of the teams indicated that their assumptions reflected the increase in recent construction starts and anticipated increase in supply within the next few years. All three teams received high scores for financial feasibility, with Avant and Related receiving a 10 out of 10 score from all but one of the reviewers.

All of the teams demonstrated a strong capacity to deliver the project. Avant and Related both have local offices with experience in the Bay Area and more specifically San Francisco. While Westbank’s experience is in Canada, they have successfully developed buildings of a similar scale to Block 9 and partnered with local affordable housing developer, Chinatown Community Development Center. Avant demonstrated both experience and ability to fund and manage the project through its partnership with the California Public Employees Retirement System (“CALPERS”) and Essex Property Trust. The team has built high density residential buildings throughout San Francisco and the Bay Area, including the SOMA Grand, 900 Folsom/260 Fifth Street, and Brickyard in San Jose, among others.
Avant housing showed a strong financial commitment from CALPERS which they have partnered with on various other development projects. Essex Property Trust has also been brought in to serve as a financial partner and eventual property manager. The team chose the Joint Development Concept for the affordable housing and partnered with BRIDGE Housing on the proposal to build approximately 114 affordable housing units. BRIDGE has extensive experience financing, building, maintaining, and operating affordable housing project within San Francisco and throughout the Bay Area. Some of BRIDGE's recent projects include Rene Cazenave supportive housing for formerly homeless individuals on Block 11a within the Transbay Project Area, The Coronet senior apartment building in the Richmond District in San Francisco, Irvington Terrace family rental housing in Fremont California and Mission Walk affordable for-sale condominiums in the Mission Bay North Redevelopment Project Area.

**Development Concept (15 points)**

Per the RFP, the development concept for the Project must include a residential tower of up to 400 feet in height and a podium building up to 85 feet in height. The Selection Panel evaluated the proposed development concept for each submittal, including the quality of the design, sustainability features (minimum of LEED Silver), the proposed concept for ground floor uses, and consistency with the Development Controls. All of the proposals included innovative design concepts that create a vibrant urban community, achieve a minimum LEED Silver certification, and advance the goals of the Project Area.

The proposals all received scores for the development concept of between 10 and 15 points, out of a maximum of 15 points. All but one reviewer gave the Avant/BRIDGE design the highest score. The total cumulative design scores for the three proposals were: 1) Avant/BRIDGE 68; 2) Westbank/CCDC 66; and, 3) Related 62. The panel responded favorably to many elements of the Avant/BRIDGE design including their overall site plan, with a publicly accessible pathway extending from Folsom Street to Clementina Alley, the inclusion of townhouses along Clementina Alley, a single driveway entrance on First Street, differentiated façade treatment along the Folsom Street frontage, and the sleek design of the tower. The team also proposed a LEED Gold building which exceeds the current standards for this type of building in San Francisco. Renderings of the Avant/BRIDGE designs are included in Attachment 3.

**Development Team Experience (10 points)**

The Selection Panel scored the proposals based upon the experience of the market-rate developer, affordable developer, and architects, both in and outside of San Francisco, with comparable mixed-use residential towers. All of the development teams were qualified, with Avant/BRIDGE and Related teams having the most comparable experience in North America and the Bay Area in particular. Both of these teams scored the maximum number of cumulative points possible: 50. Avant/BRIDGE demonstrated significant, recent experience with residential towers, particularly in the Bay Area. Avant’s architect, SOM, is a world-class architect that has designed many buildings in the Bay Area and around the world. The second architect on the Avant/BRIDGE team, Fougeron Architecture, is an SBE and complements the design aesthetic of SOM.
Exclusive Negotiation Agreement

The ENA sets forth the terms for negotiating the sale of Block 9 based on the selected development proposal. It includes the terms of the sale, development program, developer contributions, policies, liabilities, among other items. The term of the ENA is one year from the date of execution, with the potential for two six-month extensions and includes the following key terms:

- Payment of a $43,320,000 purchase price, at or prior to close of escrow, by Avant into the trust account established by the TIPA.
- Payment of a $500,000 ENA Deposit by Avant in addition to the purchase price, which will be used to cover OCII’s staff and legal costs during the negotiations period. The ENA Deposit includes $60,000 in legal fees for the City Attorney’s Office, and Avant is responsible for up to $40,000 in City Attorney’s Office legal fees in addition to the ENA Deposit, for a total of up to $540,000. Any portion of the ENA Deposit spent on actual staff costs and legal fees is non-refundable under any circumstances. In the event of a default by OCII, only the portion of the ENA Deposit not spent on actual staff costs and legal fees is refundable to Avant.
- Delivery of the Affordable Project in its entirety, including providing the subsidy required to develop the affordable housing (approximately $17 million, but up to the total amount required, with no maximum).
- Conveyance of the Air Rights Parcel to the Successor Agency that will be leased back to the Affordable Developer.
- Compliance with the Successor Agency and MOHCD policies with regard to delivering and underwriting the affordable housing units.
- Inclusion in the Community Facilities District and Community Benefit District which are both in the formation phase.

During the ENA period, the Avant/BRIDGE team will be responsible for the following:

- Obtaining financial commitments from lenders and/or equity participants;
- Completing its “due diligence” review of the physical conditions on the site, preparing financial projections, and completing preliminary development plans;
- Revising the proposed project concept and schematic design as a result of the review process, and to respond to new information concerning the physical conditions on the site. OCII will work with Avant and BRIDGE to achieve a final project that is mutually acceptable; and
- Meeting certain milestones specified with dates in a schedule of performance to be determined and attached to the ENA.
- Adhering to the OCII requirements outlined in the RFP, including but not limited to the Non-Discrimination and Equal Benefits Policy and the Small Business Enterprise Program.

ENA period will conclude with the drafting of a Disposition and Development Agreement with Avant/BRIDGE, which will be presented to the Commission for consideration in early 2014. Accompanying the DDA for consideration will be supplemental environmental review
documents, including wind and traffic studies, and a schematic design package that will conform to the land use controls for Block 9. A complete copy of the ENA is included with this memorandum as Attachment 5.

Staff is recommending that the Commission approve the ENA with Avant/BRIDGE for the development of Block 9. The Transbay CAC unanimously endorsed the selection of Avant/BRIDGE as the winning team at its meeting of February 14, 2013 and unanimously approved the terms of the ENA at its meeting on June 13, 2013. Should the Commission approve this recommendation, staff will return to the Commission with a schematic design and DDA in approximately 6 months.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

Authorizing the Executive Director to execute an ENA is an administrative activity that is not a “project” as defined by California Environmental Quality Act (“CEQA”) Guidelines Section 15378(b)(5). This action allows for negotiations between the Successor Agency and Avant/BRIDGE and will not independently result in a physical change in the environment and is not subject to environmental review under CEQA. Subsequent Agency actions are required to enter into a DDA and to provide approvals for the future development project.

(Originated by Courtney Pash, Assistant Project Manager, and Michael J. Grisso, Senior Project Manager)

[Signature]
Tiffany Bohee
Executive Director

Attachment 1: Transbay Redevelopment Project Area Map
Attachment 2: Transbay Residential Development Projections
Attachment 3: Transbay Block 9 KMA Proposal Analysis
Attachment 4: Transbay Block 9 Conceptual Designs
Attachment 5: Transbay Block 9 ENA