MEMORANDUM

TO:        Agency Commissioners

FROM:     Tiffany Bohee, Interim Executive Director

SUBJECT: Conditionally authorizing the Executive Director to draft an Exclusive Negotiation Agreement, approval of which is subject to a State Supreme Court decision regarding the authority of redevelopment agencies, with Golub Real Estate Corporation as lead developer for a high-density residential project on Blocks 6/7, located on Folsom Street between Fremont and Beale Streets; Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

On July 6, 2011, pursuant to an Informational Memorandum to the Agency Commission, staff issued a Request for Proposals (“RFP”) from development teams to design and develop a high-density, mixed-income residential project on Blocks 6/7 in the Transbay Redevelopment Project Area. The development program for Blocks 6/7 includes approximately 550 market-rate and affordable housing units, neighborhood serving retail, and a child-care facility integrated into two master-planned blocks. Development teams were asked to submit qualifications, a basic development concept, and a financial proposal, including a minimum total purchase price of $18 million for the land attributable to the market-rate portion of the project and a maximum Agency subsidy of $200,000 per unit for the stand-alone affordable housing. The RFP also informed prospective applicants of the potential impact of newly-enacted state laws suspending redevelopment agency activities and establishing a Voluntary Alternative Redevelopment Program. Pursuant to the Redevelopment Plan for the Transbay Redevelopment Project Area (“Redevelopment Plan”), all sales proceeds will go to the Transbay Joint Powers Authority (“TJPA”) to help pay the cost of building the new Transbay Transit Center.

Four proposals were received from the following development teams (listed alphabetically by lead developer): (1) Avant Housing LLC with Chinatown Community Development Corporation and Bridge Housing; (2) Golub Real Estate Corporation with Mercy Housing California; (3) Grosvenor Americas with Eden Housing; and (4) Related Companies with Tenderloin Neighborhood Development Corporation. The proposals were evaluated by a selection panel comprised of Agency staff, 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. A representative from the Agency’s Contract Compliance Division was present during the evaluation process and monitored the discussion and scoring for fairness and objectivity.
The multiple objectives of the RFP were to select a proposal that: (1) achieves the highest purchase price, (2) maximizes the total number of affordable units, (3) achieves the lowest possible per unit subsidy for the affordable units, and (4) maximizes efficiencies and cost savings across the entire project. 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) Golub Real Estate Corporation; 2) the Related Companies; 3) Avant Housing; and 4) Grosvenor Americas. The proposal from the Golub Real Estate Corporation (“Golub”) included a purchase price of $30,000,000 payable at the transfer of title, 545 residential units (409 market rate units, including 61 inclusionary units; 136 Agency-sponsored affordable units), and a requested Agency subsidy of $186,000 per affordable unit.

Based on the outcome of the selection process, staff is recommending that the Executive Director draft an Exclusive Negotiation Agreement (the “ENA”) with Golub for the development of Blocks 6/7. The Transbay CAC unanimously endorsed this recommendation at its meeting of November 16, 2011. Should the Commission approve this recommendation, staff will return to the Commission at a later date for approval of the ENA, subject to a State Supreme Court decision regarding the authority of redevelopment agencies.

Staff recommends conditionally authorizing the Executive Director to draft an ENA with Golub.

BACKGROUND

Blocks 6/7 comprise two adjacent development sites connected by a proposed extension of Clementina Alley. Block 6 is a 42,625-square-foot parcel on Folsom Street between Fremont and Beale Streets, two blocks south of the future Transbay Transit Center. Block 7 is a 27,728-square-foot parcel located between Fremont and Beale Streets, immediately north of Block 6. Per the RFP, the two sites will share a common underground parking garage.

Blocks 6/7 are part of the Transbay Redevelopment Project Area (the “Project Area”), a 40-acre redevelopment district at the foot of Rincon Hill which includes the Transbay Transit Center (under construction) and approximately 12 acres of vacant public land. 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. Pursuant to the Redevelopment Plan, all of the land sales proceeds from Blocks 6/7 have been pledged to the Transbay Joint Powers Authority (“TJPA”) to help pay the cost of constructing the new Transbay Transit Center.

The development program for Blocks 6/7 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 Blocks 6/7 includes (1) a market-rate residential project, consisting of both market-rate units and inclusionary housing units (the "Market-Rate Project") and (2) an affordable residential project (the "Affordable Project") consisting of Agency-subsidized affordable housing units. Per the RFP, the development program for the Market-Rate Project includes a 300-foot tower and a 50-
foot townhouse development on Block 6. Fifteen percent of these units must be inclusionary housing units. Also per the RFP, the development program for the Affordable Project required a range of 100 (minimum) to approximately 150 family rental units in multiple buildings ranging from 35 to 85 feet on Blocks 6 and 7. It will include a mix of one-, two-, and three-bedroom units affordable to families whose incomes do not exceed 50% of the unadjusted area median income.

The development program also includes:

- open space parcels in the center of each block;
- a single, shared underground parking facility;
- a child care facility that will serve a mixed-income population of children from the Blocks 6/7 development and from the rest of the city;
- streetscape improvements, including the extension of Clementina Alley between Fremont and Beale Streets;
- ground-floor retail spaces along the Folsom Boulevard frontage; and
- a minimum LEED Silver level of certification for sustainability.

**DISCUSSION**

The Agency issued the RFP on July 6, 2011. 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 the Agency’s and City of San Francisco’s websites.

The RFP solicited proposals from development teams to design and build a project that meets the parameters outlined above. Development teams were asked to submit qualifications, a basic development concept, and a financial proposal, including a minimum total purchase price for the land attributable to the Market-Rate Project of $18 million or higher and a maximum Agency subsidy of $200,000 per affordable unit for the Affordable Project. In an effort to achieve the maximum purchase price for the Market-Rate Project, the RFP stated that the land payment could be delayed until December 2016 or the issuance of a Temporary Certificate of Occupancy (“TCO”), whichever comes sooner. The RFP also gave development teams the option of including a participation payment as part of the total purchase offer.

The RFP also informed potential applicants of the passage of Assembly Bill No. 1X 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session) ("AB 26") and Assembly Bill No. 1X 27 (Chapter 6, Statutes of 2011-12, First Extraordinary Session) ("AB 27"). AB 26 immediately suspended new activities of redevelopment agencies and established a process for transferring their assets and obligations to successor local agencies. AB 27 (as codified in Part 1.9 of the CRL) established the Voluntary Alternative Redevelopment Program, which provides for redevelopment agencies to continue if the city or county in which the agency is located adopts an ordinance committing to make a payment for local education and other taxing entities.

Subsequent to the RFP issuance, the California Supreme Court issued orders staying portions of AB 26 and most of AB 27 pending its resolution of California Redevelopment Assoc. v. Matosantos, No. S194861. The effect of these orders is to continue the suspension of new
redevelopment activities and to stop the alternative redevelopment program authorized under AB 27 until the Supreme Court issues a decision. Unless and until the Court restores the authority of redevelopment agencies, the Agency may not take any binding action on the selection of a developer under the RFP.

Selection Process and Criteria

The stated goals of the RFP were to: (1) achieve the highest purchase price for the Market-Rate Project, (2) maximize the total number of units in the Affordable Project, (3) achieve the lowest possible per unit subsidy for the Affordable Project, and (4) maximize efficiencies and cost savings across the entire project.

The proposals were reviewed and evaluated by the Selection Panel, with assistance from Keyser Marston Associates (“KMA”), a real estate consulting firm. KMA advised the selection panel throughout the review process and produced a final summary analysis, which is attached to this memorandum as Attachment A. After the review was completed, the teams were interviewed by the Selection Panel over the course of three days. Each team made a 45-minute presentation to the Selection Panel and spent 45 minutes answering questions and providing supplemental information to help the Selection Panel complete its evaluation.

Proposals were evaluated using the following selection criteria, which are set forth in the RFP. A total of up to 65 points were awarded to the Market-Rate Project and a total of up to 35 points were awarded to the Affordable Project, for an overall total of up to 100 points:

<table>
<thead>
<tr>
<th>Market-Rate Project – 65 Points</th>
<th>Affordable Project – 35 Points</th>
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</thead>
<tbody>
<tr>
<td>- Proposed Total Purchase Price (20 points)</td>
<td>- Overall financial feasibility</td>
</tr>
<tr>
<td>- Proposed Timing for Receipt of Payment (10 points)</td>
<td>- Agency subsidy (maximum of $200,000/unit)</td>
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<td>- Overall Financial Feasibility (10 points)</td>
<td><strong>2. Development Concept (15 Points)</strong></td>
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<td>- Proposed massing concept, including number of units, design quality, sustainability, constructability, proposed concept for ground floor uses, and consistency with the Development Controls</td>
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<td><strong>2. Development Team Experience (10 Points)</strong></td>
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<td><strong>3. Development Team Experience (10 Points)</strong></td>
<td>- Developer experience in design and developing projects comparable to the proposed project</td>
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<tr>
<td>- Developer and architect experience in design and developing projects comparable to the proposed project</td>
<td>- Developer experience in design and developing projects comparable to the proposed project and with government-assisted affordable housing programs and financing sources (5 points)</td>
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Summary of Proposals

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

Proposal 1:
Lead/Market-Rate Developer: Avant Housing LLC
Affordable Developer: Chinatown Community Development Corporation and Bridge Housing
Lead/Market-Rate Architect(s): Skidmore, Owings & Merrill LLP and Fougeron Architecture
Affordable Project Architect(s): Leddy Maytum Stacy and Saida + Sullivan Design Partners
Market-Rate Purchase Offer: $18,050,000
Market-Rate Offer Timing: $5,050,000 paid at start of construction; balance paid at earlier of December 2016 or issuance of TCO
Requested Agency-Subsidy: $183,000 per affordable unit
Market-Rate Project: 346 market-rate units and 59 inclusionary affordable units
Affordable Project: 161 Agency-subsidized affordable units

Proposal 2:
Lead/Market-Rate Developer: Golub Real Estate Corporation
Affordable Developer: Mercy Housing California
Lead/Market-Rate Architect(s): Solomon Cordwell and Buenz
Affordable Project Architect(s): Santos Prescott and Associates
Market-Rate Purchase Offer: $30,000,000
Market-Rate Offer Timing: $30,000,000 paid in full at execution of DDA (clarified in interview to mean at transfer of title) – approx. 2013
Requested Agency Subsidy: $186,000 per affordable unit
Market-Rate Project: 348 market-rate units and 61 inclusionary affordable units
Affordable Project: 136 Agency-subsidized affordable units

Proposal 3:
Lead/Market-Rate Developer: Grosvenor Americas
Affordable Developer: Eden Housing
Lead/Market-Rate Architect(s): BAR Architects
Affordable Project Architect(s): n/a
Market-Rate Purchase Offer: $21,000,000
Market-Rate Offer Timing: $21,000,000 paid at earlier of December 2016 or issuance of TCO
Requested Agency Subsidy: $199,000 per affordable unit
Market-Rate Project: 257 market-rate units and 45 inclusionary affordable units
Affordable Project: 131 Agency-subsidized affordable units

Proposal 4:
Lead/Market-Rate Developer: Related Companies
Affordable Developer: Tenderloin Neighborhood Development Corporation
Lead/Market-Rate Architect(s): Handel Architects
Affordable Project Architect(s): David Baker & Partners
Market-Rate Purchase Offer: $22,000,000
Market-Rate Offer Timing: $22,000,000 paid at earlier of December 2016 or issuance of TCO
Requested Agency Subsidy: $195,000 per affordable unit
Market-Rate Project: 325 market-rate units and 57 inclusionary affordable units
Affordable Project: 100 Agency-subsidized affordable units

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) Golub Real Estate Corporation; 2) the Related Companies; 3) Avant Housing; and 4) Grosvenor Americas. Six out of the eight members of the Selection Panel awarded the highest total score to the Golub team. Of the other two members, one had Golub in second place by only 0.5 points. The average total score for Golub was nearly three full points higher than for the second place team, Related. The total cumulative score for Golub was 23 points higher than Related’s.

<table>
<thead>
<tr>
<th></th>
<th>Average Score</th>
<th>Cumulative Score</th>
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</thead>
<tbody>
<tr>
<td>Golub Real Estate Corp.</td>
<td>89.9</td>
<td>720</td>
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<tr>
<td>Related Companies</td>
<td>87.1</td>
<td>697</td>
</tr>
<tr>
<td>Avant Housing</td>
<td>86.3</td>
<td>690</td>
</tr>
<tr>
<td>Grosvenor Americas</td>
<td>76.7</td>
<td>614</td>
</tr>
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Analysis of Results

Market-Rate Project

Financial Proposal (40 points)
The RFP required a minimum purchase price of $18,000,000 payable at the earlier of December 2016 or issuance of a TCO. All of the proposals met the minimum purchase price and timing requirements for receipt of the offer. However, Golub’s purchase price offer of $30,000,000 was 26% to 40% higher than the other offers received. Additionally, Golub offered to pay the total purchase price in 2013, more than three years earlier than any of the other teams. By offering the highest purchase price and the earliest payment of the total price, Golub was able to achieve the
highest average score on the financial proposal, which was 40 points out of the 100 total points possible. The other teams received scores that were proportionally lower based on how much lower their purchase offers were compared to Golub’s and based on the fact that their payments would come later than Golub’s.

All of the proposals earned high scores on the overall feasibility of their financial proposals, which were analyzed in detail by KMA. As described in the attached analysis, KMA analyzed Golub’s proposal in particular in order to ensure that their assumptions and market data were reasonable and that the proposed project was feasible. The fact that different teams came up with very different purchase offers is to be expected and is the main reason for having a competitive process. One significant difference between the Golub proposal and the others is that Golub’s Market-Rate Project took advantage of the fact that there is no minimum parking requirement in the Transbay Project Area by proposing a parking ratio of .25 parking spaces per unit (though this could be increased with valet parking or parking stackers), compared to a ratio of .56 to .66 spaces per unit for the other proposals. This difference resulted in much lower construction costs for Golub’s Market-Rate Project and explains much of the difference in their purchase offer. In the interviews, all of the teams indicated that the trend in the market for downtown housing, especially rental housing, is for lower parking ratios and indicated that they would have no trouble financing projects with ratios even lower than they had proposed.

All of the teams demonstrated a strong capacity to deliver the project. Golub was founded in 1960 and has developed, owned or managed real estate properties valued at more than $7 billion. Golub’s portfolio has included in excess of 45 million square feet of commercial property and over 50,000 residential units. Over the past 10 years, Golub or its affiliates have developed or acquired properties across the United States in cities such as Chicago, Minneapolis, Phoenix and Denver, as well as in Europe. Blocks 6/7 would be Golub’s first project in San Francisco, but the company has committed to having its own project staff on the ground in San Francisco working full time on the development. Golub demonstrated strong financial backing through its equity partner, BlackRock, a firm that Golub has worked with on several other recent projects. The Golub proposal included a strong letter of interest from BlackRock and a representative of BlackRock was present during the interview to reiterate the firm’s commitment to partnering with Golub for the Blocks 6/7 development.

**Development Concept (15 points)**

Per the RFP, the development concept for the Market-Rate Project must include a residential tower of up to 300 feet in height and a residential townhouse development along Clementina Alley. 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 on the residential tower, and advance the goals of the Project Area. The proposal from Golub included a slender-looking residential tower, an at-grade paseo from Folsom through to Clementina with opportunities for retail seating, well-articulated townhomes along the entire length of Clementina Alley, and many innovative sustainability features, along with a goal of achieving a LEED Gold certification on the tower.
The proposals received a range of scores from the Selection Panel. There was not a clear “favorite” among the designs. None of the members of the Selection Panel gave Golub the highest score in this category among the four proposals, reflecting some concerns about the design of the Market-Rate Project, which will be addressed in the design review process if Golub is selected by the Commission for exclusive negotiations. But most of the members of the Selection Panel gave Golub’s Market-Rate Project design scores that were lower but in the range of the scores of the other proposals, reflecting a general feeling that it has many good features and some excellent features. In particular, the panel gave good reviews to Golub’s overall site plan, with a retail paseo extending from Folsom Street to Clementina Alley and well-articulated townhouses along the entire length of Clementina Alley. Other proposals did not give as much attention to the retail spaces and included townhouses along only a portion of Clementina Street rather than the entire length, which is a goal of the Development Controls.

**Development Team Experience (10 points)**

The Selection Panel scored the proposals based upon the experience of the market-rate developer and architect, both in and outside of San Francisco, with comparable mixed-use residential towers. All of the development teams were qualified, but had varying degrees of experience in both developing and designing high rise residential towers. Golub demonstrated significant, recent experience with residential towers in both Chicago and Europe. Golub’s architect, Solomon Cordwell Buenz, is a world-class architect that designed One Rincon Hill in San Francisco, and has extensive experience with residential towers in Chicago. The Related team received the highest average score for experience, reflecting the large number of similar projects that they have completed around the United States and in San Francisco.

**Affordable Project**

**Financial Proposal (10 points)**

The RFP stipulated a maximum Agency subsidy of $200,000 per unit. Each of the proposals met this minimum requirement, but varied somewhat in their assumptions. The proposal from Mercy Housing, as part of the Golub team, included an Agency subsidy of $186,000 per affordable unit, and achieved lower development costs by maximizing efficiencies and economies of scale across the entire project. Initially, Agency staff had questions about the relatively lower construction costs in the Mercy proposal. However, Mercy provided additional analysis in response to Agency staff’s questions and demonstrated that their costs, while low, are achievable based on Mercy’s recent experience with similar projects. All of the proposals received high scores on the financial proposal for the Affordable Project.

**Development Concept (15 points)**

The RFP stipulated a minimum of 100 units for the Affordable Project in multiple buildings ranging from 35 to 85 feet in height. In addition to evaluating the number of affordable units in each proposal, the Selection Panel reviewed the proposed massing concept, including the quality of the design, sustainability features (LEED Silver or better), the proposed concept for ground floor uses, and consistency with the Development Controls. Each of the proposals met the minimum requirement of 100 units and included the required child care, retail, and community space components. However, there was a wide range in the total number of units in the Affordable Project across the proposals. The highest number of units was 161, in the proposal.
from Bridge/CCDC as part of the Avant team, while the proposal from Related and TNDC achieved a total of only 100 units, the minimum required by the RFP. As a result of their higher unit count and other design features that the panel members appreciated, the Bridge/CCDC proposal received the highest average score on the design of the Affordable Project.

The proposal from Mercy as part of the Golub team contained 136 units, which was the second highest among the proposals. The members of the Selection Panel gave good reviews to some aspects of the Mercy proposal, including the integration of the child care facility into the overall design, but also expressed some concerns regarding the adequacy of the design, which can be addressed during the design review period if the Golub/Mercy team is selected for exclusive negotiations. Overall, the Bridge/CCDC proposals received higher scores on the Affordable Project, while the other three proposals all received similar, lower scores.

**Development Team Experience (10 points)**
The Selection Panel scored the proposals based upon the experience of the developer and architect of the Affordable Project, both in and outside of San Francisco, with comparable affordable housing projects. All of the development teams were qualified, but had varying degrees of experience in both developing and designing comparable projects. Mercy is an experienced affordable housing developer, with numerous comparable projects both within San Francisco and nationwide.

**Next Steps**
Based on the outcome of the selection process, staff is recommending that the Executive Director draft an Exclusive Negotiation Agreement (the “ENA”) with Golub for the development of Blocks 6/7 for subsequent approval by the Agency Commission if and when the state suspension on new redevelopment activities is lifted. The Transbay CAC unanimously endorsed this recommendation at its meeting of November 16, 2011. Should the Commission approve this recommendation, staff will return to the Commission for approval of the ENA, subject to a State Supreme Court decision regarding the authority of redevelopment agencies.

The ENA will comply with the submitted proposal, the RFP, and Agency Policy, including the Agency’s Small Business Enterprise Agreement and all other contracting policies and requirements. The RFP also required that the selected development team pay a deposit of $250,000 within 30 days after the execution of the ENA (“ENA Deposit”). The ENA will include an agreed upon schedule and process required for drafting the Disposition and Development Agreement (the “DDA”), which will subsequently be presented to the Commission.

**AB 26x Compliance**
As noted above, AB 26 prohibits redevelopment agencies from incurring new or expanding existing monetary or legal obligations, subject to very limited exceptions. The California Supreme Court is reviewing the constitutionality of AB 26 and its companion measure, AB 27, and recently heard oral arguments, California Redevelopment Association v. Matosantos. In selecting Golub, the Commission’s action would not constitute a new monetary or legal
obligation. Instead, a new obligation would be incurred only if and when the California Supreme Court resolves the constitutionality of AB 26 and 27 in a decision allowing redevelopment agencies to continue, the City and County of San Francisco adopts—if necessary—an ordinance under AB 27, and the Agency Commission subsequently approves an ENA. Therefore, the current action being considered by the Commission is “conditional.” The Commission will only approve an ENA at a future date when the Agency’s authority is restored by legal or legislative action.

**California Environmental Quality Act**

Conditionally authorizing the Executive Director to draft an ENA with Golub is an Agency 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 Agency and Golub 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 an ENA and to provide approvals for the future development project.

*(Originated by Christine Maher, Development Specialist, and Michael J. Grisso, Senior Project Manager)*

Tiffany Bohee  
Interim Executive Director

Attachment A: Review of Blocks 6/7 Proposals, Keyser Marston Associates