INFORMATIONAL MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell, Executive Director

SUBJECT: Notice of intent to issue a Request for Qualifications from development teams to joint venture with the Agency to design, rehabilitate, lease-up, and operate a vacant, 260,000-square-foot building known as Building 813 into commercial/R&D space that would include a clean-tech/green-tech business incubator and the United Nations Global Compact Sustainability Center; Hunters Point Shipyard Redevelopment Project Area

PURPOSE OF INFORMATION

The purpose of this Informational Memorandum is to inform the Commission of Agency staff's intention to issue a Request for Qualifications ("RFQ") from development teams to form a joint venture partnership with the Agency and the City of San Francisco’s Office of Economic and Workforce Development (the “City”) to convert a vacant, 260,000-square-foot warehouse at the Hunters Point Shipyard (the “Shipyard”), commonly known as Building 813, into commercial/R&D space that would include about 60,000-square-feet of green-tech/clean-tech incubator space and the United Nations Global Compact Sustainability Center (the “U.N. Sustainability Center”). The Agency is seeking experienced teams to design, build, lease-up, and operate this $30-$50 million adaptive reuse project under a long-term lease with the Agency.

As of this writing, the draft RFQ is still being reviewed by City and Federal staff, but the Agency does not expect material changes to the content. Assuming no material changes, Agency staff will release the RFQ in early/mid February 2010 unless the Commission objects by the close of business on Thursday, February 4. Staff anticipates returning to the Commission with a recommended development team in late spring.

DISCUSSION

Project Overview

Building 813 is a vacant 260,000-square-foot, four-story reinforced concrete warehouse built in 1948 that is located on Crisp Road at the western entrance to the Shipyard. It functioned as a supply storehouse for the United States Department of the Navy (the “Navy”), which remains the current owner of the building. The Navy is expected to transfer ownership of Building 813 to the Agency in early 2011, however redevelopment work can proceed under the Agency’s existing license agreement with the Navy.
More than 2.5 million square feet of “green” commercial/R&D space is planned for the Shipyard, with the area along Crisp Road designated as a focal point for companies driving the emerging green economy. The redevelopment of Building 813 into an “innovation center” housing a clean-technology business incubator and the U.N. Sustainability Center will be essential to seeding an early identity for this area and attracting like businesses and institutions. The business incubator will serve as operating space for early-stage, innovation driven companies in the clean-tech and green-tech sectors. The Sustainability Center will include office/conference space devoted to research and development related to climate change and clean technologies. The remainder of the building would be available for other commercial/R&D uses.

Building 813 is in need of significant back-to-life investments that are expected to cost between $30 and $50 million. Nonetheless, after extensive study, Agency and City staff have determined that retaining and rehabilitating the building is more cost effective than demolishing and constructing a new building, since many of the existing building’s unique features would be difficult to replicate (i.e., large floor plates, high ceilings, large industrial-style windows).

The Agency has approximately $7.25 million in grant funding from the United States Department of Commerce’s Economic Development Administration (“EDA”) for the predevelopment and rehabilitation of Building 813 as part of a planned "arts and technology district" on the Shipyard. Of this amount, $3.25 million must be spent by August 15, 2011; the remainder must be spent by August 15, 2012. Additional funding sources may include: private debt and equity, new market tax credits, seismic loan funds from San Francisco’s Seismic Safety Loan Program, historic tax credits, energy credits, corporate fundraising to be undertaken by the City, the United Nations, and other federal, state, and local grants.

Given the deadlines associated with the federal grants, as well as the complexities of the project, the redevelopment of Building 813 will likely be phased. As explained in further detail in the attached RFQ, the preferred approach would involve completing the entire project in a single phase over a period of one to five years. The alternative two-phased approach would involve completing initial design and rehabilitation work with the EDA grant funds before the August 15, 2010 and August 15, 2012 deadlines and completing the rest of the work at a later date.

**Request for Qualifications**

*Development Services Requested*

As detailed in the attached RFQ, the Agency is seeking qualifications from experienced development teams consisting of a developer, architect, and construction manager to design, build, lease-up, and operate Building 813 under a long-term master lease with the Agency. The work will be completed in three phases: 1) Conceptual Planning and Predevelopment; 2) Construction; and 3) Marketing, Lease-up, and Operations, as described below:

- During the Conceptual Planning and Predevelopment Phase, the team will work with Agency and City staff to prepare preliminary and final plans for the “Innovation Center.” The work requested includes, but is not limited to: undertaking a thorough assessment of
the building to determine project opportunities and constraints; developing a preliminary development concept; developing a temporary utility plan; managing a nationwide search for highly qualified business incubator operator(s); coordinating with City officials for the possible tenancy of the U.N. Sustainability Center; developing preliminary construction drawings for either the one-phased or two-phased approach that meet or exceed a Leadership in Energy and Environmental Design (“LEED”) Platinum level of certification; developing project proformas; developing a financing plan for the full build-out; and developing a tenanting and operations plan.

• During the Construction Phase, the team will develop detailed plans for the rehabilitation work that will need to be done in either the preferred one-phased or the alternative two-phased approach. The work requested includes, but is not limited to: developing final constructions drawings; hiring a general contractor; and managing the construction of the improvements, which must meet or exceed a LEED Platinum level of certification. This work will overlap with the marketing, lease-up and operations phase, as it will also include managing the construction of any tenant improvements.

• During the Marketing, Lease-up and Operations Phase, the team will develop detailed plans for the marketing, lease-up and operations of the building. The work requested includes, but is not limited to: entering into a long-term master lease with the Agency for the operation of the Innovation Center; launching an aggressive marketing campaign to early-state companies to locate within the business incubator(s); launching an aggressive marketing campaign to commercial/R&D tenants; finalizing plans for the tenancy of the Sustainability Center on the top floor of the Innovation Center; completing tenant improvements; and finalizing a building operations plan.

Framework for Joint Venture Partnership

The general framework for the joint venture partnership is described in the RFQ. The Agency will require the developer to perform the work detailed in the RFQ and assume the risk of all project cost overruns. In exchange, the Agency will offer (1) the $7.25 million in EDA seed money, (2) a long-term master lease whereby the developer collects the cash flow generated by the building, and (3) assistance in securing additional public financing. The terms of the master lease are negotiable, but would likely include a nominal base rent with some Agency participation in rent revenues. More details regarding the exact structure of the joint venture partnership will be negotiated at a later stage.

Submission and Selection Process

Development teams will submit basic qualifications, a preliminary development concept, and a preliminary joint venture structure. Submittals will be reviewed by a selection panel comprised of Agency and City staff and at least one representative from the Hunters Point Shipyard Citizen’s Advisory Committee (“Shipyard CAC”). Interviews and reference checks will be conducted. The team with the highest score, based on the criteria in the RFQ, will be recommended to the Shipyard CAC and the Commission in late spring of this year. If this recommendation is approved, the Agency and the selected development team will proceed with
negotiations and decide whether to embark on the preferred one-phase approach or the alternative two-phased approach. As detailed in the RFQ, the length and shape of the process will depend on which approach is selected.

Community Outreach

Over the last two years, the Shipyard CAC has been involved in discussions with Agency and City staff regarding Building 813. There were initial discussions regarding the retention or demolition of the building, followed by a workshop held specifically to determine whether the building should be used for replacement artist studio space. The Shipyard CAC was regularly updated on the findings of reports that looked at the feasibility of developing an incubator in Building 813, and options for rehabilitating the building. Staff also provided regular project updates to the Shipyard CAC as part of broader updates on the status of the EDA grants. At its most recent meeting in January, the CAC was informed of the Agency’s intent to issue this RFQ.

As of this writing, the draft RFQ is still being reviewed by outside parties, but the Agency does not expect material changes to the content. Assuming no material changes, Agency staff will release the RFQ in early/mid February 2010 unless the Commission objects by the close of business on Thursday, February 4. It will be publicized to developers, architects, and construction management firms through direct mailing, newspapers of general circulation, community newspapers, and the Agency and City websites.

*(Originated by Tracie Reynolds, Manager of Real Estate and Development Services, and Christine Maher, Development Specialist)*

Fred Blackwell
Executive Director

Attachment:  Draft Request for Qualifications (without attachments)