RESOLUTION NO. 43-2008

Adopted May 6, 2008

AUTHORIZING AN ELEVENTH AMENDMENT TO THE AGREEMENT FOR DISPOSITION OF LAND FOR PRIVATE DEVELOPMENT WITH THIRD AND MISSION ASSOCIATES LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, TO RELINQUISH THE AGENCY’S OPTION TO LEASE THE JESSIE HOTEL AT 680 MISSION STREET FOR $716,000 (ASSESSOR’S BLOCK 3707, LOT 63); YERBA BUENA CENTER REDEVELOPMENT PROJECT AREA

BASIS FOR RESOLUTION

1. In 1990, the Redevelopment Agency of the City and County of San Francisco (the “Agency”) entered into an Agreement for Disposition of Land for Private Development, or LDA, with Third and Mission Associates LLC (the “Developer”) for the preservation of the circa-1912, four-story Jessie Hotel and the development of a new 492,000-square-foot office building at 680 Mission Street, located on the corner of Third and Mission Streets (the “Site”) in the Yerba Buena Center Redevelopment Project Area.

2. Between 1990 and 1999, the LDA was amended ten times, primarily to reflect changes in the development and to extend the performance schedule. Completed in 2002, the project — known as “The Paramount” — consists of a 43-story, mixed-use residential tower with 495 rental units.

3. Due to financial considerations, only the façade of the Jessie Hotel could be saved and new space was built directly behind the façade. The three floors of the Jessie Hotel together measure about 7,000 square feet of floor area.

4. Preservation of the Jessie Hotel façade added substantial costs to the project. As a result, the Agency approved certain changes to the building program that added value to the project. In return, the Developer agreed to grant the Agency an option to lease the Jessie Hotel for an annual rent of $1.00 for a term of 99 years.

5. For many years, all of the Agency’s efforts to sublease the Jessie Hotel revolved around the California Historical Society (“CHS”), a nonprofit corporation that owns an adjacent office building and has about 15,000 square feet of space in The Paramount. CHS had long expressed an interest in the Jessie Hotel as expansion space. After many discussions with CHS staff about the organization’s financing and expansion plans, CHS told the Agency in 2006 it was no longer interested in subleasing the Jessie Hotel space. Agency staff then investigated subleasing the space to other parties, but these options proved to be either impossible or economically imprudent.
6. In June 2006, Agency staff asked the Commission for direction in a closed session. As a result, Agency staff and the Developer have negotiated the terms of the Eleventh Amendment to the LDA with the Developer to relinquish the Agency’s lease option in the Jessie Hotel for a one-time payment of $716,000 by the Developer to the Agency. This payment represents the estimated economic value of the Agency’s option to lease the Jessie Hotel. The proposed $716,000 payment was based on a net present value calculation using market assumptions over a 10-year period.

7. Relinquishing the Agency’s option to lease to the Developer, and having the Developer manage the space, is more cost-effective and efficient than having the Agency sublease the Jessie Hotel. The reasons for this conclusion include: (1) the size, substandard configuration, and unusual layout of the space make it difficult to lease to an outside party, (2) the limited accessibility and visibility of the space makes it undesirable to an outside party, (3) the Agency would need to make a substantial investment in tenant improvements to upgrade the space to a marketable condition, and (4) the Agency staff time and cost involved in leasing the space and managing the lease would not be worth the potential lease revenue generated on such a small space.

8. The proposed action would not directly or indirectly cause any change in the physical environment and would enable the Developer to more fully meet the redevelopment and revitalization objectives of the Yerba Buena Center Redevelopment Plan (the “Plan”). Therefore, the proposed Eleventh Amendment to the LDA is exempt from environmental review under the California Environmental Quality Act (“CEQA”) (Section 15061 (b)(3), State CEQA Guidelines).

9. Based on the above, Agency staff recommends the proposed Eleventh Amendment to the LDA to enable the Agency to relinquish its lease option interest in the Jessie Hotel in exchange for a one-time payment of $716,000 from the Developer. In addition, the proposed Eleventh Amendment to the LDA would also revise the Developer’s remaining obligations with respect to signage, provide for issuance and recordation of a Certificate of Completion, and amend the permitted uses.

10. The permitted uses for the Site after the recordation of the Certificate of Completion includes uses permitted under the Plan, including residential, office and institutional uses on the second floor and within the Jessie Hotel, provided that ground-floor uses fronting Mission and Third Streets are comprised of building lobby, retail and restaurant uses.
RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that the Executive Director is authorized to enter into an Eleventh Amendment to the Agreement for Disposition of Land for Private Development with Third and Mission Associates LLC, a California limited liability company, to relinquish the Agency's option to lease the Jessie Hotel at 680 Mission Street for $716,000 (Assessor's Block 3707, Lot 63); Yerba Buena Center Redevelopment Project Area, substantially in the form lodged with the Agency General Counsel, and to enter into any and all ancillary documents or take any additional actions necessary to consummate the transaction.

APPROVED AS TO FORM:

James B. Morales
Agency General Counsel