MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Conditionally authorizing the Executive Director to consent to an amendment of the lease between Third and Mission Associates LLC, a California limited liability company, and The California Historical Society, a California non-profit public benefit corporation, consistent with an Agreement for Disposition of Land for Private Development for property at 680 Mission Street; Former Yerba Buena Center Redevelopment Project Area D-1

EXECUTIVE SUMMARY

At its meeting of May 6, 2014, the Commission continued its consideration of the resolution authorizing the Executive Director to consent to an amendment of a 99-year lease between Third and Mission Associates LLC (the “Developer”), an affiliate of Related California, and The California Historical Society (“CHS”) governing approximately 15,000 square of usable space in The Paramount at 680 Mission Street (the “Lease Amendment”). The Lease Amendment would have allowed CHS to relinquish 10,000 square feet in the Paramount in exchange for a lease buy-out price of $2.25 million, which would have been paid to CHS and the Office of Community Investment and Infrastructure (“OCII”) in installments over time, which is more fully explained below and explained in the Commission Memorandum for the May 6, 2014 meeting attached to this memorandum as Exhibit A.

As a condition of its consent to the Lease Amendment, the Commission directed staff to explore ways to retain the space being relinquished by CHS for other non-profit uses. Staff explored the idea, but determined that the space was not suitable for non-profit uses because it is not accessible to the street and would be prohibitively expensive to build-out.

Subsequently, the Developer offered to provide approximately 4,100 usable square feet of non-profit space in the Jessie Hotel, another building owned by the Developer which is adjacent and connected to The Paramount, in addition to the $2.25 million payment for the CHS space in the Paramount. The Jessie Hotel space would be leased to the City and County of San Francisco (the “City”) and subleased to non-profit users, pursuant to the terms attached as Exhibit B (the “Term Sheet”). The Term Sheet is currently being incorporated into a separate lease agreement for the Jessie Hotel space between the City and the Developer (the “Jessie Hotel Lease”). It is anticipated that the Jessie Hotel Lease will be brought forward to the City’s Board of Supervisors for approval in September 2014. The Commission’s consent to the Lease Amendment would be conditioned upon the Board of Supervisors’ approval of the Jessie Hotel Lease.

In sum, the revised transaction adds the Jessie Hotel Lease commitment to the May 6, 2014
transaction. Staff is now asking the Commission to consent to the Lease Amendment in exchange for (1) the payment of $946,949, and (2) the Jessie Hotel Lease commitment. Staff has reviewed the revised transaction and finds it responsive to the Commission’s directive.

Staff recommends authorizing the Executive Director to consent to the Lease Amendment.

DISCUSSION

Summary of the May 6, 2014 Transaction

On May 6, 2014, staff asked the Commission to consent to the following transaction. CHS and the Developer had executed an Amended and Restated Agreement for Amendment of Lease and Reduction of Leased Premises (the “Lease Amendment”) which reduced CHS’s leased premises by 10,000 square feet and allowed the Developer to lease the 10,000 square feet at market rates to other users, in exchange for a lease buy-out price of $2.25 million, which would be paid to CHS and OCII in installments over time. The Lease Amendment is included in the Commission Memorandum for the meeting of May 6, 2014, which is attached to this memorandum as Exhibit A.

OCII would receive a portion of the $2.25 million because OCII is obligated to recover the pro-rata share of the discounted land price given to the Developer in 1999 for reserving the full 15,000 square feet of space in The Paramount specifically for CHS, since that public benefit will no longer exist. OCII’s portion equals $946,949, which represents about two-thirds of the Developer’s land discount in today’s dollars. In sum, the payment from the Developer would be distributed as follows:

<table>
<thead>
<tr>
<th>Timing of Payment</th>
<th>Amount of Payment CHS</th>
<th>Amount of Payment OCII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close of Escrow</td>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>January 2015</td>
<td></td>
<td>$250,000</td>
</tr>
<tr>
<td>January 2016</td>
<td></td>
<td>$250,000</td>
</tr>
<tr>
<td>January 2017</td>
<td></td>
<td>$250,000</td>
</tr>
<tr>
<td>January 2018</td>
<td>$53,000</td>
<td>$196,949</td>
</tr>
<tr>
<td>January 2019</td>
<td>$250,000</td>
<td></td>
</tr>
<tr>
<td>January 2020</td>
<td>$250,000</td>
<td></td>
</tr>
<tr>
<td>January 2021</td>
<td>$250,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$1,303,000</strong></td>
<td><strong>$946,949</strong></td>
</tr>
</tbody>
</table>

Once received, OCII would transfer this money as Community Development Block Grant (“CDBG”) program income to the Mayor’s Office of Housing and Community Development (“MOHCD”), which administers the CDBG program for the City, since the former San Francisco Redevelopment Agency purchased the land on which The Paramount sits with federal urban renewal funds.
Summary of the Revised Transaction

In response to the concerns raised by the Commission on May 6, 2014 regarding the loss of dedicated non-profit space in The Paramount, staff investigated whether the 10,000 square feet being relinquished by CHS in The Paramount could be used by another non-profit. Staff determined the space was not suitable for another non-profit user for the following reasons: (1) it was not accessible to the street, and hence did not have its own dedicated entrance and space identity, and (2) it would be prohibitively expensive to build-out the space to make it usable as non-profit office space.

Subsequently, the Developer offered to provide approximately 4,100 usable square feet of non-profit space in the Jessie Hotel, which is adjacent to The Paramount, in addition to the payment described above. The terms of this transaction are detailed in the term sheet attached to this memorandum as Exhibit B (the "Term Sheet"), and summarized as follows:

- **Premises:** Approximately 4,100 net usable square feet on the third and fourth floors of the Jessie Hotel, adjacent to The Paramount;

- **Tenant:** The City, acting by and through the Department of Real Estate ("DRE"), which will sublease the Premises to non-profit users, as further described below;

- **Term:** Approximately 87 years, expiring December 31, 2101 (a date that is co-terminus with CHS's lease at The Paramount);

- **Rent:** $1.00 per year;

- **Common Area Maintenance Charges:** Approximately $6 per square foot per year, based on actual charges incurred; and

- **Tenant Improvements:** The City, as tenant, will be responsible for all tenant improvements in the space (which is currently a raw shell), including the construction of any and all bathrooms. MOHCD intends to use the Developer's payment of $946,949 to fund the tenant improvements. The funds would be granted through the Stabilization Program (defined below) to subtenant(s) who are able to comply with the requirements of the CDBG program. MOHCD plans to direct any portion of the Developer's payment that remains after completion of the tenant improvements to the Stabilization Program for general purposes.

In light of the restrictions placed on OCII by Redevelopment Dissolution Law, the space would be leased to DRE rather than OCII. DRE would then sublease the Jessie Hotel space to one or more non-profit users through the City's Nonprofit Rent Stabilization Program (the "Stabilization Program"). The Stabilization Program was approved by the City's Board of Supervisors in May 2014 to reduce the impact of the rapid rise of commercial rents and early terminations of leases on San Francisco non-profits serving the social services and art and culture fields. The Board of Supervisors appropriated $2.52 million to MOHCD for social service
organizations and $2.0 million to the San Francisco Arts Commission for art and culture organizations. The funding will be awarded to intermediary non-profits that will in-turn (1) make sub-grants for acquisition, rehabilitation, and tenant improvements, and (2) provide technical assistance, including space analysis, lease negotiation and review, and co-location, to 501(c)(3) registered non-profits at risk of eviction.

The Term Sheet is currently being incorporated into the Jessie Hotel Lease, a separate lease agreement for the Jessie Hotel space between the City and the Developer. It is anticipated that the Jessie Hotel Lease will be brought forward to the Board of Supervisors for approval in September 2014. The Commission’s consent to the Lease Amendment would be conditioned upon the Board of Supervisors’ approval of the Jessie Hotel Lease.

In sum, the revised transaction adds the Jessie Hotel Lease commitment to the May 6, 2014 transaction. Staff is now asking the Commission to consent to the Lease Amendment in exchange for (1) the payment of $946,949, and (2) the Jessie Hotel Lease commitment.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (“CEQA”)

OCII’s consent to the Lease Amendment would not directly cause any change in the physical environment and is therefore exempt from environmental review under the California Environmental Quality Act (Section 15061 (b)(3), State CEQA Guidelines).

STAFF RECOMMENDATION

Staff recommends authorizing the Executive Director to consent to the terms of the Lease Amendment.

(Originated by Christine Maher, Senior Development Specialist)

Tiffany Bohee
Executive Director

Exhibit A: Commission Memorandum of May 6, 2014
Exhibit B: Term Sheet – Jessie Hotel Lease