MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing a first amendment to the master lease with the U.S. Department of the Navy for Parcel B, to extend the term from October 2, 2011 to the earlier of June 30, 2016 or upon the conveyance of Parcel B to the Office of Community Investment and Infrastructure; Hunters Point Shipyard Redevelopment Project Area

EXECUTIVE SUMMARY

For more than 20 years, the former Hunters Point Naval Shipyard (the “Shipyard”) has housed a community of artist studios and small businesses located in a number of buildings on various parcels on the Shipyard (the “Artists’ Community”). When the Shipyard became a redevelopment project area in 1997, the U.S. Department of the Navy (the “Navy”) began transferring property management responsibility for the Artists’ Community to the San Francisco Redevelopment Agency (“SFRA”) now commonly known as the “Office of Community Investment and Infrastructure” or “OCII,” the successor to the San Francisco Redevelopment Agency. In anticipation of this transfer of property management responsibility to SFRA, the Navy and SFRA entered into a master lease in December 1996 which transferred the responsibility for leasing the Artists’ Community from the Navy to SFRA (the “Master Lease”).

As Shipyard property gets transferred from the Navy to OCII, either through a conveyance or lease, OCII requires HPS Development Co, LP, the developer of the Shipyard, (the “Developer” or “Lennar”) to take over property management responsibilities at no costs to OCII, including providing the funding for the lease payments to the Navy. This is a requirement of the 2003 Phase 1 Disposition and Development Agreement’s Interim Lease between SFRA and Lennar (the “Phase 1 DDA” and the “Interim Lease”). The Interim Lease, which was executed in December 2004, expires when all the land at the Shipyard has transferred from the Navy to OCII and development agreements for those parcels have been executed.

The Master Lease expired in August 2008 and accordingly SFRA entered into a new Master Lease with the Navy for the remaining Navy portion of the Artists’ Community area (Parcel B only) for a term ending on October 1, 2011. Concurrently in August 2008, SFRA executed a First Amendment to the Interim Lease with Lennar to amend the scope of the Interim Lease to include the Artists’ Community area as part of Lennar’s property management responsibility.

Due to the uncertainty caused by the state-wide dissolution of redevelopment agencies, staff was not able to pursue an extension of the Master Lease at the time of its expiration, therefore staff is now requesting authorization to enter into an amendment to the Master Lease for a term beginning October 2, 2011 through June 30, 2016, or upon the conveyance of Parcel B to OCII,
whichever is sooner. There has been no disruption to the property management services provided to the Artist's Community during this time. The Shipyard Citizens Advisory Committee concurs with the recommendation to extend the Master Lease.

*Staff recommends approval of the First Amendment to the Master Lease with the Navy to extend the term from October 2, 2011 to June 30, 2016 or upon the conveyance of Parcel B to OCII, whichever is sooner.*

**DISCUSSION**

**Background**

Since the mid 1980's artists have occupied studios in various buildings on the Shipyard, creating the largest artist enclave on the western seaboard. Through decades of planning efforts related to the Shipyard, the need to maintain the role of the artists in the future of the Shipyard has become a clear mandate from a variety of local, state and federal stakeholders. Today there are nearly 300 artists with studios on the Shipyard.

In June 2010 a second disposition and development agreement between SFRA and Lennar was executed for the Candlestick Point area and the Phase 2 portion of the Hunters Point Shipyard ("Phase 2 DDA"). The Phase 2 development incorporates artist studio space, arts, and artists as a creative center of the Shipyard, featuring galleries, retail, and other arts-related uses in the mixed-use center known in the Phase 2 Design for Development as the Shipyard Village Center. In the Phase 2 DDA, Parcel B will be developed with new mixed use housing, commercial, and retail development, and the Artists' Community will be provided the opportunity to remain on the Shipyard in a yet to be constructed new artists' building.

**Ownership and Phasing** (see the attached Site Map included as Attachment A)

**Building 101 and 110 (not in the Master Lease)**

Building 101 (which OCII owns), is located on Parcel A (which OCII owns) and is where the majority of artists currently work. It will be retained in the Phase 2 development and will be complemented by new studio space to be constructed adjacent to Building 101 on the site where Building 110 is (also on Parcel A). Lennar currently manages these buildings as part of the Interim Lease.

**Buildings 103, 104, 115, 116, 117, and 125 (Master Lease buildings)**

These buildings are all on Parcel B which is Navy property and are the buildings included in the Master Lease. When the new studio space is constructed where Building 110 is on Parcel A (within the next two to three years), the tenants in the buildings on Parcel B will move into their new studios. The Parcel B buildings will then be demolished to accommodate the future Phase 2 development.

**The First Amendment's Terms**

The time extension to the Master Lease with the Navy will enable OCII to maintain the tenancy of the approximately 120 artists that have studios on Parcel B. The First Amendment will extend
the Master Lease's duration from October 2, 2011 to June 30, 2016 or upon the conveyance of Parcel B to OCII, whichever is sooner. The rent under the Master Lease is approximately $17,500 per month payable to the Navy. The Navy's Master Lease rent and all the property management costs associated with Lennar's property management of the Artists' Community area are borne by Lennar through the Interim Lease. Extending the term of the Master Lease with the Navy will not require any change to the Interim Lease with Lennar.

**Enforceable Obligation**

The Master Lease with the Navy is an enforceable obligation under the Dissolution Law. The Master Lease is shown on line HPSY 78 of the approved Recognized Obligation Payment Schedule ("ROPS") for January to June 2013, which was approved by the Oversight Board and the Department of Finance. OCII is obligated under the 2004 Conveyance Agreement with the Navy and the Phase 2 DDA to lease Parcel B to ensure the legal tenancy of the Artists' Community and maintain site control to make certain that the development planned on Parcel B occurs. The Master Lease is in furtherance of these enforceable obligations of OCII.

On December 14, 2012, the California State Department of Finance issued a Final and Conclusive Determination under California Health and Safety Code § 34177.5 (i), that the Phase 1 DDA and the Phase 2 DDA are enforceable obligations that survived the dissolution of the Redevelopment Agency.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT**

Commission authorization of the First Amendment to the Master Lease with the Navy are categorically exempt under Section 15301 of the California Environmental Quality Act Guidelines because they involve the leasing of existing structures with no expansion or change of use.

*(Originated by Thor Kaslofsky, Project Manager, Hunters Point Shipyard)*

Tiffany Bollee
Executive Director

Attachment A: Site Map of Artists Buildings