MEMORANDUM

TO: Office of Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing, pursuant to the Transbay Implementation Agreement, the Executive Director to execute an Exclusive Negotiation Agreement with Related California Urban Housing, Inc, a California Limited Liability Company, and Tenderloin Neighborhood Development Corporation, a California non-profit public benefit Corporation, for a proposed residential project on Block 8 (Block 3737, Lots 005, 012, 027), located on Folsom Street between First and Fremont Streets; Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

The Transbay Redevelopment Project Area (the “Project Area”) was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State of California (the “State-owned parcels”) in order to generate funding for the Transbay Joint Powers Authority (“TJPA”) to construct the new Transbay Transit Center (the “TTC”). The Transbay Redevelopment Project Area Implementation Agreement (the “Implementation Agreement”) is an enforceable obligation that requires the Office of Community Investment and Infrastructure (“OCII”), as the Successor Agency (the “Successor Agency”) to the former San Francisco Redevelopment Agency (the “Former Agency”), to “prepare and sell [certain State-owned parcels that OCII is authorized to acquire] to third parties.” (Section 2.1 (a) of the Implementation Agreement at p. 4).

On November 20, 2013, pursuant to the Implementation Agreement, staff issued a Request for Proposals (“RFP”) from development teams to design and develop a high-density, mixed-income residential project on Block 8 in the Transbay Redevelopment Project Area, located on Folsom between Fremont and First Streets. The development program for Block 8 includes a 550-foot residential tower, adjacent 85-foot and 65-foot residential podium buildings, townhouses along the length of Clementina Street and ground-floor retail. Development teams were asked to submit qualifications, a basic development concept, and a financial proposal, including construction of affordable housing equal to 27 percent of the total units to be developed on the site. The RFP requires that the market-rate developer shall be responsible for providing funding to cover the entire cost of gap financing for affordable units equal to 10 percent of the total number of units, with no subsidy from OCII or the San Francisco Mayor’s Office of Housing and Community Development (“MOHCD”). OCII will subsidize 17 percent of the total number of units to maximum amount of $200,000 per unit.
Three proposals were received from the following development teams (listed alphabetically by lead developer): (1) Golub Real Estate Corp. ("Golub") with Mercy Housing California ("Mercy"); (2) Millennium Partners ("Millennium") with Chinatown Community Development Center ("CCDC"); and (3) Related California Urban Housing ("Related") with Tenderloin Neighborhood Development Corporation ("TNDC"). The proposals were evaluated by a selection panel comprised of OCII staff, one representative from MOHCD, one representative from the Transbay Citizen’s Advisory Committee (the “Transbay CAC”), and one representative from the San Francisco Planning Department ("SF Planning") (collectively, the “Selection Panel”), with input from an architect at SF Planning and additional staff from MOHCD, and with assistance from a professional real estate consulting firm, Keyser Marston Associates ("KMA"), under contract with OCII.

The multiple objectives of the RFP were to select a proposal that achieves the highest purchase price, includes at least 27 percent affordable housing, and architecturally adds to the burgeoning neighborhood. 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) Related and TNDC; 2) Millennium and CCDC; and 3) Golub and Mercy.

The proposal from the Related/TNDC team included a purchase price of $72,000,000 payable at the transfer of title and 653 residential units (476 market-rate and 177 affordable). The development program proposed by Related/TNDC for Block 8 includes a market-rate condominium residential project (the “Condo Project”), an 80/20 mixed-income residential component (“80/20 Project”), and an affordable residential project (the "Affordable Project"). The Condo Project and 80/20 Project are located within the 550-foot tower and the Affordable Project is located in the podium buildings and townhomes along Clementina Street. The affordable units in the Affordable Project and the 80/20 Project are rental and affordable to households earning less than 50% of AMI.

The development program also includes:

- 7,647 square feet of ground floor open space;
- a single, shared underground parking facility;
- streetscape improvements;
- ground-floor retail space along Folsom Street of approximately 10,000 square feet and a possible 22,000 square-foot grocery store on the basement level, for a total of approximately 32,000 square feet of retail; and,
- a minimum LEED Gold level of certification for sustainability.

The development program proposed by Related/TNDC, as further described below, for Block 8 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.

Based on the outcome of the selection process, staff is recommending that the Commission authorize the Executive Director to execute an Exclusive Negotiation Agreement ("ENA") with Related and TNDC summarizing the terms set forth in the proposal and setting a timeline to design and develop the project. The Transbay CAC unanimously endorsed the selection of
Related/TNDC as the winning team at its meeting of April 10, 2014. Should the Commission approve the ENA, staff will start negotiations with the development team and return to the Commission at a later date for approval of a schematic design for the project and a disposition and development agreement ("DDA") with Related and TNDC.

**Staff recommends authorizing the Executive Director to execute an Exclusive Negotiation Agreement with Related and TNDC for a proposed residential project on Block 8.**

**BACKGROUND**

Block 8 is part of the Transbay Redevelopment Project, a 40-acre redevelopment district at the foot of Rincon Hill which includes the Transbay Transit Center (under construction) and approximately 10 acres of vacant public land. Block 8 is a 42,625-square-foot parcel on Folsom Street between First and Fremont Streets, two blocks south of the future Transbay Transit Center. 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. In addition, the Former Agency entered into several agreements to implement the Redevelopment Plan, including, among others, the Implementation Agreement, the Transbay Redevelopment Project Tax Increment Allocation and Sales Proceeds Pledge Agreement (the "Pledge Agreement"), and the Option Agreement. Pursuant to the Pledge Agreement, all of the land sales proceeds and net tax increment from Block 8 have been pledged to the TJPA to help pay the cost of constructing the new TTC.

On April 15, 2013, the California Department of Finance ("DOF") determined "finally and conclusively" that the Implementation Agreement, along with other Transbay-related documents, is an enforceable obligation that will not require additional DOF review in the future, although expenditures under the Implementation Agreement are subject to continuing DOF review. The Option Agreement for the Purchase and Sale of Real Property (the "Option Agreement") provides the means by which OCII can fulfill its obligations under the Implementation Agreement to prepare and sell the State-owned parcels. The Option Agreement grants to OCII "the exclusive and irrevocable option to purchase" the former State-owned parcels in the Project Area that are programmed for development, which are listed in the Option Agreement, including Blocks 2-12 and Parcel F (Section 2.1 of the Option Agreement at p. 4).

The Implementation Agreement requires OCII to take the lead role in facilitating the development of the State-owned parcels. Specifically, the Implementation Agreement requires OCII to: (1) prepare and sell the State-owned parcels to third parties, (2) deposit the sale proceeds into a trust account to help the TJPA pay the cost of constructing the TTC, (3) implement the Redevelopment Plan to enhance the financial feasibility of the Project, and (4) fund the state-mandated affordable housing program.

**DISCUSSION**

OCII issued the RFP on November 26, 2014. 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 OCII’s and City of San Francisco’s websites.

Development teams were asked to submit qualifications, a basic development concept, and a financial proposal. The goals of the RFP were to: achieve the highest purchase price for the land, develop 27 percent of all units as affordable with 10 percent receiving no subsidy from OCII or MOHCD and 17 percent subsidized up to $200,000 per unit by OCII, design a high quality building that would enhance the Transbay neighborhood. The RFP also stated that the selected development team would be required to comply with all of OCII’s policies, including the Certificate of Preference Program, Small Business Enterprise (“SBE”) Program, Minimum Compensation Policy, Health Care Accountability Policy, Construction Workforce Agreement Permanent Workforce Agreement and Prevailing Wage Policy.

Selection Process and Criteria

The proposals were reviewed and evaluated by the Selection Panel, with assistance from KMA. KMA advised the selection panel throughout the review process and produced a final summary analysis, which is attached to this memorandum. After the review was completed, the teams were interviewed by the Selection Panel. Each team made a 30-minute presentation and spent 30 minutes answering questions and providing supplemental information to help the Selection Panel complete its evaluation.

Proposals were evaluated using the selection criteria set forth in the RFP: (1) a total of up to 75 points were awarded for the purchase price and financial feasibility of the proposal; (2) up to 15 points for the development concept; and (3) up to 10 points for the development team experience, for an overall total of up to 100 points.

Financial Proposal – 75 Points

1. Market-Rate Project
   - Proposed Total Purchase Price (60 Points)
   - Overall Financial Feasibility of Proposal (5 Points)

2. Affordable Project
   - Overall Financial Feasibility and level of OCII Subsidy (10 Points)

Development Concept – 15 Points

- Proposed massing concept, including design quality, sustainability, constructability, proposed concept for ground floor uses, and consistency with the Development Controls

Development Team Experience – 10 Points

- Developer and architect experience in design and developing projects comparable to the proposed project. History and course of dealing with OCII, the Former Redevelopment Agency, the TJPA, and the City and SBE participation.

Summary of Proposals

Three proposals were received, as follows (listed alphabetically by lead/market-rate developer):
<table>
<thead>
<tr>
<th>Proposal</th>
<th>Lead/Market-Rate Developer</th>
<th>Affordable Developer</th>
<th>Architect(s)</th>
<th>Landscape Architect(s)</th>
<th>Purchase Offer</th>
<th>Market-Rate Units</th>
<th>Affordable Units</th>
<th>Developer Funded</th>
<th>OCII Funded</th>
</tr>
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<tr>
<td>Proposal 1</td>
<td>Golub Real Estate</td>
<td>Mercy Housing</td>
<td>SCB, LMS, and Paulett Taggart Architecture (SBE)</td>
<td>TS Studio (SBE) and Project Landscape Architects</td>
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<td>98</td>
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<td>Proposal 2</td>
<td>Millennium Partners</td>
<td>CCDC</td>
<td>Handel Architects and YamaMar (SBE)</td>
<td>Surfacedesign (SBE)</td>
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<td>98</td>
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<td>Proposal 3</td>
<td>Related Housing LLC</td>
<td>TNDC Housing</td>
<td>OMA and Fougeron Architecture (SBE)</td>
<td>CMG</td>
<td>$72,000,000</td>
<td>162</td>
<td>314</td>
<td>79</td>
<td>98</td>
</tr>
</tbody>
</table>

**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) Related and TNDC; 2) Millennium and CCDC; and, 3) Golub and Mercy. All five members of the Selection Panel awarded the highest total score to the Related/TNDC team. The average total score for Related/TNDC was 7.8 points higher than for the second place team, Millennium/CCDC. The total cumulative score for Related/TNDC was 39 points higher than Millennium/CCDC’s.
Analysis of Results

Financial Proposal (75 points)
The purchase price was determined solely by current market conditions as there was no minimum purchase price included in the RFP. Related/TNDC and Millennium/CCDC’s offered purchase prices were within 3% of each other. The third developer, Golub/Mercy, offered more than 30% less than the other two developers. The number of points allocated to the purchase price was 60 out of 100, with each team receiving scores that were proportionally lower than the highest price offered. The relatively small difference ($2,000,000) between Related/TNDC and Millennium/CCDC’s offers resulted in scores of 60 and 58.3, respectively, for purchase price. Golub/Mercy scored 40.8 points.

Subsequent to the RFP publication and OCII selection process, the TJPA has requested a close of escrow date of October 1, 2015, instead of the March 31, 2016 date in Related/TNDC’s original proposal. The ENA includes a reduction in the purchase price of a not-to-exceed amount of $2,000,000 as a result of this more aggressive schedule. The amount of the reduction in the purchase price will be the actual cost to Related of acquiring the capital to pay the purchase price six months earlier than originally proposed, up to a maximum of $2,000,000, as documented to the satisfaction of OCII and TJPA staff. The timing of the close of escrow is essential to the TJPA for them to remain on schedule for construction of the TTC. Since all of the proceeds of the sale are pledged to the TJPA, they have agreed to a reduction in the purchase price in exchange for an expedited closing date. OCII, in consultation with TJPA, reserves the right to delay the closing date until March 31, 2016, in which case the Purchase Price shall be $72,000,000 with no Purchase Price Reduction. Any decision to delay the closing date shall be made no later than the date of execution of the DDA. At the maximum amount, the reduction in purchase price would result in both Related/TNDC and Millennium/CCDC receiving 60 out of 60 points for purchase price, pursuant to the formula outlined above. As discussed in detail below, Related/TNDC scored higher than Millennium/CCDC in a majority of the remaining categories and therefore would still have received the highest average and cumulative score by the Selection Panel.

Up to five additional points were allocated based on overall feasibility of each team’s financial proposals as analyzed by KMA. As described in Attachment 1, KMA analyzed all three proposals in detail to ensure that their assumptions and market data were reasonable and that the proposed project was feasible. All of the teams demonstrated a strong capacity to deliver the project. All three teams have experience developing high-rise residential buildings in the Bay Area and more specifically San Francisco. Specifically Related has experience delivering mixed-income high-density housing projects throughout the nation and have demonstrated their ability to secure a myriad of funding types to successfully complete projects including: Crescent Cove in Mission Bay, The Paramount in Yerba Buena, Ocean Avenue South in Santa Monica, the
Caledona in New York, and The Century in Los Angeles. All three affordable partners have experience delivering affordable housing units in San Francisco and have worked with either OCII or MOHCD in securing funding for those units. A selection of TNDC’s completed projects in San Francisco, include, Mason Street Housing, Arnett Watson Apartments, Polk Gear Senior Apartments, and Curran House. All three teams received five out of five points from all panelists for financial feasibility of the market-rate units.

Up to 10 points were allocated based on financial feasibility and level of subsidy for the affordable units. The RFP stipulated that a subsidy of up to $200,000 would be provided for up to 17% of the total number of units in the Project. The requested subsidy for all three proposals varied minimally. The Related/TNDC team requested a total of $19.6 million for 98 units; however it should be noted that this is less than 17% of the total number of units as Related is proposing to subsidize the remaining 11 units it would need to get to the 17% requirement as part of the developer-subsidized program. Golub/Mercy also requested $19.6 million for 98 units of affordable housing. Millenium requested $19.355 for 98 units of affordable housing, which results in a subsidy of slightly less than $200,000 per unit. All three proposals adhered to the requirement in the RFP to build a minimum of 30% three bedrooms in the subsidized project at an affordability level up to 60% of AMI. All members of the Selection Panel gave Related/TNDC 10 out of 10 points for this category. Golub/Mercy received between 9 and 10 points from the Selection Panel, and Millennium/CCDC received between 8 and 9 points.

Development Concept (15 points)
Per the RFP, the development concept for the Project must include a residential tower of up to 550 feet in height, two podium buildings up to 85 feet in height, and townhouses lining Clementina Street. 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, and advance the goals of the Project Area.

The proposals all received scores for the development concept of between 10 and 15 points, out of a maximum of 15 points. All reviewers gave the OMA/Fougeron/CMG design for Related/TNDC the highest score, resulting in a total cumulative score of 74 points (out of a total 75). Millennium/CCDC and Golub/Mercy scored 55.5 and 55 respectively. The panel responded favorably to many elements of the OMA/Fougeron/CMG design including their overall site plan, with a publicly accessible pathway extending from Folsom Street to Clementina Alley, a small public gathering space along the passageway, and the active interaction of the retail and lobbies to the ground floor open space. The crenellation strategy will set this tower apart from the others in the neighborhood, reinforces the appearance of a tapered and slender tower, and helps maximize the sunlight that crosses into the public space. Similarly the treatment of the townhouses along Clementina Street and the planar and angular breaks in the podium buildings successfully align both project components with their surroundings. The team also proposed a LEED Gold building which exceeds the current standards for this type of building in San Francisco. Renderings of the OMA/Fougeron/CMG designs are included in Attachment 2.

Development Team Experience (10 points)
The Selection Panel scored the proposals based upon the experience of the market-rate developer, affordable developer, and architects, both in and outside of San Francisco, with comparable mixed-use residential towers. All of the development teams were qualified, with Related/TNDC having the largest breadth and most comparable experience in North America and the Bay Area in particular. Their experience financing and operating mixed income communities set them apart from the others. Related/TNDC received 50 cumulative points out of 50, Millennium/CCDC scored 45 and Golub/Mercy 44. The Related/TNDC team also included a world class architect, OMA, who has designed unique and very highly regarding towers throughout the world. The second architect on the Related/TNDC team, Fougeron Architecture, is an SBE and complements the design aesthetic of SOM. The landscape architect, CMG, has done work in the Transbay neighborhood for OCII and brings with them a demonstrated deep understanding of the forthcoming open space and streetscape plans in the neighborhood.

Proposed Project Summary

The proposal from Related/TNDC includes 653 residential units (476 market-rate and 177 affordable). The development program proposed by Related/TNDC for Block 8 includes the following components:

- Condo Project: A market-rate for-sale residential component consisting of 162 residential units of floors thirty-three to fifty-six of the tower.
- 80/20 Project: a mixed-income component consisting of 314 market rate rental units and 79 affordable rental units that affordable to household earning up to 40% and 50% of AMI for the life of the Project but in no event less than 55 years on floors 2 through 32 of the tower, in which the lower floors will be developed as affordable units and the upper floors will be developed with market-rate units unless a different configuration is agreed to by all parties.
- Affordable Project: 98 rental residential units, of which no less than 30% shall be three or more bedrooms, in podium buildings located on Folsom and Fremont Streets, and townhouses along Clementina Street, 100% of which shall be affordable to households earning up to 50% of AMI

The development program also includes:
- 7,647 square feet of ground floor open space;
- a single, shared underground parking facility;
- streetscape improvements;
- ground-floor retail space along Folsom Street of approximately 10,000 square feet and a possible 22,000 square-foot grocery store on the basement level, for a total of approximately 32,000 square feet of retail; and,
- a minimum LEED Gold level of certification for sustainability.

Exclusive Negotiation Agreement

The ENA sets forth the terms for negotiating the sale of Block 8 based on the selected development proposal. It includes the terms of the sale, development program, developer contributions, policies, liabilities, among other items. The term of the ENA is one year from the
date of execution, with the potential for one six-month extension to be approved by the Executive Director and includes the following key terms:

- Payment of a $70,000,000 purchase price, at or prior to close of escrow, by Related/TNDC into the trust account established by the TJPA.
- Payment of a $500,000 ENA Deposit by Related/TNDC in addition to the purchase price, which will be used to cover OCII’s staff and legal costs up to $60,000 during the negotiations period. If the legal fees exceed $60,000, Related/TNDC shall be responsible for up to $40,000 in additional legal fees. The ENA Deposit is non-refundable.
- Delivery of the Project according the terms of the Proposal, as outlined above.
- Conveyance of the Air Rights Parcel to the OCII that will be leased back to the Affordable Developer.
- Inclusion in the Community Facilities District and Community Benefit District which are both in the formation phase.
- Compliance with OCII and MOHCD policies with regard to delivering and underwriting the affordable housing units.
- Compliance with OCII policies including, the Certificate of Preference Program, Small Business Enterprise Program, Nondiscrimination in Contracts and Benefits, Minimum Compensation Policy, Healthcare Accountability Policy, Construction Workforce Agreement, Prevailing Wage Policy, Duty of Loyalty, and all Insurance Requirements set forth by OCII.
- Land closing date of October 1, 2015.

During the ENA period, the Related/TNDC team will be responsible for the following:

- Obtaining financial commitments from lenders and/or equity participants;
- Completing its “due diligence” review of the physical conditions on the site, preparing financial projections, and completing preliminary development plans;
- Revising the proposed project concept and schematic design as a result of the review process, and to respond to new information concerning the physical conditions on the site. OCII will work with Related and TNDC to achieve a final project that is mutually acceptable; and
- Meeting certain milestones specified with dates in a schedule of performance to be determined and attached to the ENA.
- Procuring professional consultants and construction contractors in compliance with the OCII requirements outlined in the RFP, including but not limited to the goal of awarding at least 50% of all contracts to economically disadvantaged businesses in accordance with the Small Business Enterprise Program, 50% percent participation by San Francisco residents in each contractors’ total hours of employment by trade on the Site, under the Construction Workforce Agreement, and OCII’s Permanent Workforce Policy to ensure: 1) minority group persons and women are provided equal opportunity for, and are not discriminated against, in employment; 2) that San Francisco residents obtain 50 percent of the permanent jobs; and 3) that first consideration be given to project area residents for employment opportunities in the projects permanent work force.
The ENA period will conclude with the drafting of a Disposition and Development Agreement with Related and TNDC, which will be presented to the Commission for consideration in early 2015. Accompanying the DDA for consideration will be supplemental environmental review documents, including wind and traffic studies, and a schematic design package that will conform to the land use controls for Block 8. A complete copy of the ENA is included with this memorandum as Attachment 3.

Staff is recommending that the Commission approve the ENA with Related and TNDC for the development of Block 8. The Transbay CAC unanimously endorsed the selection of the Related/TNDC team as the winning team at its meeting of April 10, 2014. Should the Commission approve this recommendation, staff will return to the Commission with a schematic design and DDA in approximately 9 months.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

Authorizing the Executive Director to execute an ENA is an 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 OCII and Related and TNDC 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 a DDA and to provide approvals for the future development project.

(Originated by Courtney Pash, Assistant Project Manager, and Michael J. Grisso, Senior Project Manager)

Tiffany Bohee
Executive Director

Attachment 1: Transbay Block 8 KMA Proposal Analysis
Attachment 2: Transbay Block 8 Conceptual Designs
Attachment 3: Transbay Block 8 ENA