MEMORANDUM

TO: Commission on Community Investment and Infrastructure  
FROM: Tiffany Bohee  
Executive Director  
SUBJECT: Authorizing the Executive Director to consent to amendment of the lease between Third and Mission Associates LLC, a California limited liability company, and The California Historical Society, a California nonprofit public benefit corporation, consistent with the terms of a 1990 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

In 1990, the former San Francisco Redevelopment Agency (the “SFRA”) 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 Approved Redevelopment Project Area D-1. Between 1990 and 2008, the LDA was amended eleven 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.

The Site was originally purchased by the SFRA with federal urban renewal funds. When the SFRA sold the Site to the Developer under the LDA, the purchase price was discounted by $1.0 million in exchange for the inclusion of long-term non-profit space in the project. In 2003, the Developer entered into a 99-year lease with The California Historical Society (“CHS”) for about 15,000 usable square feet of space in the project, which fulfilled the LDA requirement. To protect this public benefit in the project, the SFRA required CHS and the Developer to obtain the SFRA’s consent to any change in CHS’s tenancy or to any lease termination (the “Consent”). The SFRA’s Consent is an attachment to CHS’s 99-year lease at The Paramount.

CHS no longer wants to lease 15,000 square feet at the Paramount, and would like to relinquish 10,000 square feet (or two-thirds) of its leased premises to the Developer. Once relinquished, the Developer will be able to lease the 10,000 square feet at market rates to other users. CHS and the Developer have executed an Amended and Restated Agreement for Amendment of Lease and Reduction of Leased Premises (the “Lease Amendment”) which reduces CHS’s leased premises by 10,000 square feet and allows 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 will be paid to CHS and the Office of Community Investment and Infrastructure (“OCII” or the “Successor Agency”) in installments over time. The Lease Amendment is attached to this memorandum as Exhibit A. OCII will receive a portion of the $2.25 million because the Successor Agency 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 for CHS, since that public benefit will no longer exist. The Successor Agency’s portion equals $947,000, which represents about two-thirds of the Developer’s land discount in today’s dollars. Once received, the Successor Agency will transfer this money to the City and County of San Francisco (the “City”) as Community Development Block Grant (“CDBG”) program income, since the SFRA purchased the Site with federal urban renewal funds.

CHS and the Developer are now jointly seeking the Successor Agency’s Consent to the Lease Amendment, which reflects the terms described above. Staff has reviewed the Lease Amendment and recommends consenting to its terms.

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

BACKGROUND

The SFRA originally acquired the Site (Parcel 3707-A) with urban renewal funds provided through a federal Contract for Loan and Capital Grant dated December 2, 1966 and approved by the U.S. Department of Housing and Urban Renewal (the "HUD Contract"). Under the HUD Contract, the SFRA was required to use the federal funds to carry out redevelopment activities in accordance with the Yerba Buena Center Redevelopment Plan (which expired on January 1, 2011) and the federal standards for urban renewal under Title I of the Housing Act of 1949.

In 1983, the SFRA and the City executed, with HUD concurrence, the Yerba Buena Center Redevelopment Project Area Closeout Agreement (the "YBC Closeout Agreement") whereby the SFRA agreed to retain the Site (and other parcels identified as "Project Property" in Exhibit A to the YBC Closeout Agreement) for disposition, subject to applicable federal law and subject further to restrictions on the use of any proceeds received from the sale or lease of the Site. The YBC Closeout Agreement is attached to this memorandum as Exhibit B.

In 1990, the SFRA and the Developer entered into the LDA for the sale and development of the Site. The LDA provided for the development of a new 28-story, 492,000-square-foot office building and either the demolition, or if feasible, the rehabilitation of the Jessie Hotel. The LDA also required the Developer to provide space in the Jessie Hotel to various nonprofit users and space in the new building to CHS, at a nominal cost of $1.00 per year for 99 years, for expansion of its adjacent 678 Mission Street facilities.

Between 1990 and 2008, the LDA was amended eleven times. Under the terms of the seventh amendment to the LDA, the Developer was given a discount of $1.0 million off the land purchase price in exchange for including long-term non-profit space in the project for CHS.

The final project, known as “The Paramount,” was completed in 2002 and consists of: (1) a 43-story, mixed-use residential tower with 495 rental units and related facilities; (2) approximately

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1 Two-thirds of $1.0 million (the discount to the land price given to the Developer in 1999) equals $667,000. Escalating that figure by the change in the Consumer Price Index since 1999 yields a current fair market value of approximately $947,000.
42,000 square feet of retail space; (3) about 300 off-street parking spaces; (4) 15,000 square feet of space in The Paramount for expansion of CHS’s office, gallery, and storage space; and (5) the preservation of the four-story Jessie Hotel façade and the creation of about 7,000 square feet in a new Jessie Hotel building.

DISCUSSION

In January 2003, CHS and the Developer entered into a 99-year lease for approximately 15,000 square feet of space spread across multiple floors at The Paramount. Subsequently, CHS acquired and renovated an adjacent building -- 678 Mission Street -- as its headquarters and planned to expand into its space in The Paramount. CHS made several improvements to its Paramount space, including installing an elevator to connect its adjacent headquarters building to The Paramount. However, after years of study, CHS was ultimately unable to use the space for its programmatic needs and it has remained vacant.

Proposed Lease Amendment Requiring Agency Consent

As a result, CHS no longer wants to lease 15,000 square feet at the Paramount, and would like to relinquish 10,000 square feet (or two-thirds) of its leased premises to the Developer. CHS and the Developer have executed the Lease Amendment to effectuate this reduction in CHS’s premises in The Paramount, and are seeking the Successor Agency’s Consent to its terms. To read the full text of the Lease Amendment, see Exhibit A attached to this memorandum. The key terms of the Lease Amendment include:

- **Reduced square footage for CHS.** The proposed Lease Amendment would reduce CHS’s leased premises in The Paramount by 10,000 square feet, from 15,000 square feet to about 5,000 usable square feet. The 10,000 square feet CHS would be giving up is located on the third floor of The Paramount, and the 5,000 square feet CHS would be keeping is located in the basement of The Paramount.

- **No restrictions on the relinquished square footage.** The Developer will be allowed to lease the relinquished 10,000 square feet at market rates to other users, in exchange for a lease buy-out price of $2.25 million, which will be paid to CHS and the Successor Agency in installments over time, as described below.

- **Distribution of the $2.25 million lease-buyout price.** Under the terms of the proposed Lease Amendment, the $2.25 million would be paid to CHS and OCII in installments over seven years. First, the Developer would make an up-front payment of $500,000 to CHS. Then, the Developer would pay the balance of $1.75 million in seven equal annual payments of $250,000 plus 1% interest per annum. The entirety of the first three annual payments, and a portion of the fourth annual payment up to $947,000, would be paid directly to OCII, evidenced by a separate promissory note for that amount; the balance would be paid directly to CHS.

Because the Site was originally purchased by the SFRA with federal urban renewal funds, the $947,000 that OCII will receive from this transaction is program income under the CDBG
program, and will be transferred to the Mayor’s Office of Housing and Community Development (“MOHCD”), which administers the CDBG program for the City.

CHS intends to use the approximately $1.3 million it will receive from this transaction to provide general support for its capital needs and operations.

In addition, MOHCD staff is considering the development of a history-outreach program for school children in the Yerba Buena, Mid-Market, and Mission neighborhoods of San Francisco, to be funded with a portion, up to $280,000, of the CDBG program income being generated by the transaction.

**Compliance with Redevelopment Dissolution Law**

Under Redevelopment Dissolution Law, with approval from a successor agency’s oversight board and the State of California’s Department of Finance, a successor agency may continue to implement “enforceable obligations” which were in place prior to the suspension of redevelopment agencies’ activities on June 28, 2011. Redevelopment Dissolution Law defines “enforceable obligations” to include bonds, loans, judgments or settlements, and any “legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy,” (Cal. Health & Safety Code Section 34171(d)(1)(E)) as well as certain other obligations. The LDA meets the definition of “enforceable obligations” under Redevelopment Dissolution Law, and is identified on OCII’s Recognized Obligation Payment Schedule. The annual transfer of funds to MOHCD will be conditioned on subsequent approvals from the Oversight Board and the California Department of Finance of the ROPS.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT (“CEQA”)**

The Successor Agency’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, Development Specialist)*

Exhibit A: Amended and Restated Agreement for Amendment of Lease and Reduction of Leased Premises

Exhibit B: YBC Closeout Agreement