Memo

To: Thor Kaslofsky
From: Colin Elliott

Re: DDA Amendments – Hunters Point Shipyard Phase I and Candlestick Point and Hunters Point Shipyard Phase 2

Date: 12/6/2012

Dear Thor

As requested I have reviewed the draft Sixth Amendment to the Hunters Point Shipyard Phase I Development and Disposition Agreement, and the draft First Amendment to the Candlestick Point Hunters Point Shipyard Phase 2 Development and Disposition Agreement.

As you know, I have been working as a real estate advisor to the City and Agency concerning these projects for the last 10 years and so I am very familiar with the background and circumstances surrounding both. In general, I am in agreement that the proposed changes strengthen the competitiveness and financeability of the projects, but would wish to make the following observations:

**Mortgage Financing, Phase 1 and 2:** It makes sense to allow the Developer to obtain land secured financing on Phase 1, assuming such financing does not impact the security of any existing or future Mello Roos or tax increment financing. The ability to cross-collateralize between Phase 1 and 2 will aid in the ability to secure financing. This is a common feature in the commercial lending market for portfolios of properties in order to give the lender additional security, particularly when one or more of the properties may not have adequate underwriting characteristics alone.

**Consolidation of 50% AMI units onto Block 49, Phase 1:** This seems to be a practical solution to the issue of how to ensure the 50% AMI units are actually built and delivered within a reasonable time frame. The financeability and marketability of the remaining blocks will be increased because of the resulting reduction in the inclusionary affordable housing requirement to 10.5%. Whether or not it is more desirable to have the 50% AMI units grouped or spread throughout the development is, however, a policy decision.
**Provision of Infrastructure Bonds or Other Security, Phase 1 and 2:** Providing bonds or other security in the amount of 125% of the estimated cost to complete the infrastructure seems reasonable provided the estimate is currently up-to-date and includes an allowance for future inflation for the time period over which the infrastructure is expected to be completed. There should also be a provision to allow for the regular review of the amount of security and for it to be increased if necessary.

**Update Schedule of Performance for Hillside (Block 48), Phase 1:** Delaying the development of Block 48 for up to 5 years makes sense in order to allow for build-out of the Hilltop and progress on Phase 2 and Candlestick. However, the Milestones should ensure that the developer will deliver at least 10.5% affordable housing on the Hilltop and not be able to delay a significant portion of the affordable housing until the Hillside is developed.

**Permit For Sale and Rental Units, Phase 1:** Phase 1 currently allows For Sale units only. It will benefit the marketability and financeability of the project to allow flexibility to do either For Sale or For Rent units depending on market conditions. A well balanced development should have a mix of both ideally.

**Change of Option to Acquire Additional Affordable Residential Units, Phase 1:** Phase 1 currently includes an option for the Agency to acquire an additional 15% of the residential units for affordable housing at a price equal to the lesser of the price offered to the public or cost, including land, plus 10%. It is proposed to change the option price to be equal to just the price offered to the public minus six percent (6%). Assuming the price offered to the public at any point in time is market price, it is difficult to say how this change might affect the amount the Agency could pay for a unit, since it depends on market conditions at the time as well as land values and construction costs. In a rapidly appreciating market it could be more, but in a depreciating or flat market, it could be the same or less.

I trust this memo is suitable for your purposes, but please do not hesitate to contact me if you require any further advice or information.

Colin Elliott
Principal – C.H. Elliott & Associates

This memo is subject to the following Limiting Conditions:

The information in this memo is provided in good faith based on the experience of the writer, but no assurance is given that the proposed amendments to the DDAs will actually result in additional financing or investor equity becoming available.

It is the nature of development that some assumptions may not materialize and unanticipated events and circumstances may occur. Therefore, actual results and outcomes will likely vary from the projections, and some of the variations may materially affect the phasing, finished product and financing of the development. Further, no assurances can be given as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters. This memorandum may not be used for any purpose other than that for which it was prepared and no liability is accepted to any third party for the whole or any part of the contents. In accordance with our usual practice, we must state that neither the whole nor any part of this memorandum, nor any reference thereto, may be included in any document, circular or statement without our prior written approval as to the form and context in which it will appear.