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OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

118-0122023-002

Agenda Item **No. 5(e)**
Meeting of May 2, 2023

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Authorizing, at a public hearing under Section 33431 of the Health and Safety Code, an Option Agreement with F4 Transbay Partners LLC, a Delaware limited liability company, for the option to purchase Block 4 of Zone One of the Transbay Redevelopment Project Area and adjacent future Tehama Street Right of Way; Providing notice that this action is within the scope of the Transbay Redevelopment Project approved under the Transbay Terminal/Caltrain Downtown Extension/Redevelopment Project Final Environmental Impact Statement/Environmental Impact Report ("FEIS/EIR"), a Program EIR, and is adequately described therein for purposes of the California Environmental Quality Act ("CEQA"); and adopting environmental findings pursuant to CEQA; Transbay Redevelopment Project Area

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London N. Breed
MAYOR

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EXECUTIVE SUMMARY

On June 21, 2022, the Successor Agency Commission ("Commission") approved a Disposition and Development Agreement ("DDA") with F4 Transbay Partners LLC, an affiliate of Hines, Urban Pacific, and Goldman Sachs (the "Sponsor"), and Transbay Block 4 Housing Partnership, L.P, an affiliate of Mercy Housing California (the "Affordable Developer"), as well as multiple related actions. The DDA authorizes, subject to an amendment to the Redevelopment Plan for the Transbay Redevelopment Project Area ("Redevelopment Plan"), a mixed-use development on Transbay Block 4 ("Block 4") generally comprised of 681 residential units, ground floor retail, public and private open space, the construction of an extension of Tehama Street, streetscape improvements, and underground vehicular and bicycle parking (the "Project").

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Following the Commission hearing, the Planning Commission took action to recommend a Redevelopment Plan amendment for the Project and related actions to recommend General Plan and Zoning Map amendments. Similarly, legislation for Project approvals was introduced at the San Francisco Board of Supervisors ("Board of Supervisors" or "BOS") and scheduled for hearings.

In August 2022, prior to the scheduled BOS hearings, the Sponsor informed OCII staff that development progress had stalled on a separate but related development project at Parcel F and thus its affiliate entity would be unable to provide OCII with an enforceable letter of credit in the amount of the Parcel F affordable housing fee ("LOC") as required under Parcel F's Development Agreement ("DA") with the City and County of San Francisco ("City"). Pursuant to the DDA, OCII intended to lend the proceeds of the Parcel F affordable housing fee as a low-interest loan to fund a portion of the affordable housing Block 4. This loan was critical to the Sponsor securing overall project financing and meeting the schedule requirements set forth in the DDA.

Without the certainty of the LOC to fulfill DDA obligations, OCII and the Sponsor jointly requested that the BOS table the legislation for Block 4.[1] Subsequently, the Sponsor put forth proposals to modify the DDA terms to address the delayed Parcel F affordable housing fee as well as other concerns regarding unfavorable overall market conditions and competition for affordable housing funding sources. These proposals were described in the informational memorandum to the Commission on December 6, 2022.

Through the course of subsequent discussions with the Sponsor, market conditions continued to deteriorate, with increasing interest rates and construction costs, and an overall lack of available real estate investment capital. The Sponsor informed OCII staff that even with the proposed changes to DDA terms, it would not be able to secure financing and proceed with development in this economic environment.

Because of this, OCII staff and the Sponsor agree that it is not productive to pursue DDA modifications at this time. The proposed Option Agreement serves to pause negotiations and preserve the DDA as approved by the Commission, allowing time for the Sponsor and OCII staff to monitor market conditions to determine if/when conditions improve such that the Sponsor could reasonably secure financing and meet the DDA obligations. Key provisions of the Option Agreement include:

- **Term of Option:** initial term of six months, with two six-month extensions granted at the sole discretion of the OCII Executive Director; as well as a up to two three-month extensions to be granted if/when the Sponsor initiates required legislative approvals with the Planning Department and the BOS (the first is automatic, and the second is at the Executive Director's discretion if additional time is needed to complete the required hearings);

[1] Due to a time-sensitive requirement for Board of Supervisors action on the General Plan amendment, the General Plan amendment legislation was recommended for disapproval by the Board of Supervisors and will need to be reinitiated with the Planning Commission should the Project proceed.

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- **Exclusivity:** Sponsor has the exclusive right to develop Block 4 in accordance with the DDA by reinitiating required legislative approval, exercising the Option and entering into the DDA. During the Option term, OCII will not solicit proposals or negotiate terms for the development of Block 4 with other parties, however OCII will not be prohibited from seeking, preparing and compiling information about feasible development at Block 4 that maximizes affordable housing and that may be used in a future offering of the site after the Option expires;
- **Option payment:** as consideration for the Option, the Sponsor will pay OCII $115,385 for the initial term and for each authorized extension; and
- **Quarterly reporting:** the Sponsor will monitor financial market conditions and provide OCII with quarterly market reports.

OCII staff recommends approval of the Option Agreement for Block 4 with F4 Transbay Partners, LLC and adoption environmental review findings pursuant to CEQA.

BACKGROUND

Transbay Redevelopment Project Area

The BOS established the Project Area and approved the Redevelopment Plan for the Transbay Redevelopment Project Area by Ordinances No. 124-05 (June 21, 2005) and No. 99-06 (May 9, 2006), as amended by Ordinances No. 84-15, (June 18, 2015) and No. 62-16 (April 28, 2016). The Redevelopment Plan establishes the land use controls for the Project Area, and divides the Project Area into two sub-areas:

- Zone One in which the Redevelopment Plan and Transbay Redevelopment Project Area Development Controls and Design Guidelines ("Development Controls") define the development standards, and
- Zone Two in which the San Francisco Planning Code applies.

A major focus of the Project Area is to redevelop 10 acres of former highway access ramp properties previously owned by the State of California (the "State-Owned Parcels") to generate funding for the Transbay Joint Powers Authority ("TJPA") to construct what is now the Salesforce Transit Center (the "Transit Center"). OCII's role is to complete the enforceable obligations that the State Department of Finance has finally and conclusively approved under Redevelopment Dissolution Law. These enforceable obligations include the Implementation Agreement between TJPA and the Former Agency, which requires OCII to facilitate the sale and development of certain State-Owned Parcels to third parties, to implement the Redevelopment Plan, and to comply with California Assembly Bill 812, codified in Section 5027.1 of the California Public Resources Code, which requires that 35% of all new or rehabilitated residential units in the Project Area be affordable to low- and moderate-income households.

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Block 4 is a formerly State-Owned Parcel located within Zone One of the Project Area. Block 4 is the northern portion of the former Transbay Temporary Terminal site (Assessor's Block 3739, Lot 010), generally located at 200 Main Street, bounded by Howard, Main and Beale Streets and extending approximately 165 feet southeast from Howard Street. Immediately adjacent to the southwest lies the approximately 40-foot-wide future Tehama Street right of way (Assessor's Block 3739, Lot 011) (the "Tehama Parcel"). Together, Block 4 and the Tehama Parcel comprise the "Site". OCII acquired the Site from the TJPA in January 2021.

Block 4 Actions to Date

OCII has been negotiating a deal for Block 4 with the Sponsor since the Commission's approval of an Agreement for Option to Purchase Block with the Sponsor in 2016 ("Prior Option"). The proceeds of the sale would be transmitted to the TJPA for Transit Center construction. Negotiations culminated in an approval of the Project through several actions in June 2022 as further described below. The table below summarizes key Block 4 actions to date.

Date	Action/Body	Description
2016	Parcel F Purchase Agreement *TJPA*	Required that OCII enter into an option for Block 4 so that the Sponsor could fulfill the affordable housing obligations of Parcel F through the development of the Site
2016	Prior Option *Commission*	Granted Sponsor a right to exclusive negotiations for DDA with OCII; established purchase price methodology and percentage affordability
2018	First Amendment to the Prior Option *Commission*	Mercy selected as Affordable Developer; extended negotiations period; established a Term Sheet outlining the Project program
2020	Second Amendment to the Prior Option *Commission*	Extended the negotiation period
2021	Third Amendment to the Prior Option *Commission*	Short-term extension to evaluate a proposed reduction to the percentage of affordable units
2021	Fourth Amendment to the Prior Option *Commission*	Replaced the 2018 Term Sheet with the Program for Appraisal; extended the term to finalize negotiations and complete the appraisal process
June 21, 2022	• Environmental review findings • Redevelopment Plan amendment • Conditional Development Controls amendment • Disposition and Development Agreement • Conditional Schematic Design *Commission*	Approval of the Block 4 Project. Key DDA terms: • 681 residential units, 45% affordable • Land purchase price of $6,000,000 (determined by the Prior Option two-party appraisal process); • Enhanced outreach to COP holders; • OCII loan of approximately $46.7 million (funded with proceeds from the Parcel F affordable housing fee); • SBE Mentoring and Capacity Building Program funding; • Community-serving retail; and

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		• Transfer fee on condominium sales and resales to fund maintenance of the planned public park on Transbay Block 3.
July 28, 2022	• General Plan amendment • Zoning Map amendment • Redevelopment Plan amendment *Planning Commission*	Approvals related to increased height and bulk limits in regulatory documents needed to facilitate the Block 4 Project
November 1, 2022	General Plan amendment *BOS*	• Legislation introduced to approve the Redevelopment Plan amendment, DDA and Air Rights Lease, and Zoning Map amendment, but was not acted upon and is now held at the BOS Land Use and Transportation Committee to the call of the Chair; • The BOS was required to act upon the General Plan amendment legislation within 90 days of Planning Commission approval. ○ *Because DDA terms were in question, the General Plan amendment ordinance was recommended for disapproval with the intent that it would be reintroduced if/when the Project proceeds.*

On June 21, 2022, the Commission approved a DDA and related actions, including a proposed amendment to the Redevelopment Plan for a project that was to include a 47-story tower with a six-story townhouse adjunct, a 16-story mid-rise building, a single-story podium with underground facilities, and associated streetscape and open space improvements. The Commission Memorandum for the Project approval is attached to this Memorandum. The Project was to provide 681 total residential units, including 155 market rate condominium units in the tower and in the townhouse adjunct, 324 rental units in the tower (including 219 market rate units and 105 below market rate units affordable to moderate income households), as well as 202 rental units in a 100% affordable project in the mid-rise building (including one unrestricted manager's unit) (the "Mid-Rise Affordable Project"). In addition, the Project was to include ground floor retail (a portion of which is restricted for community-serving uses), public and private open space, the construction of a new portion of Tehama Street (which will be conveyed to the City upon completion), streetscape improvements, and underground vehicular and bicycle parking.

The DDA with the Developer and the Affordable Developer, established the terms and conditions upon which the Developer would purchase the Site and develop the Project. Key terms included:

1) payment of the fair reuse value of Block 4, which is $6,000,000 (as determined by the Prior Option two-party appraisal process);
2) development and completion of improvements in accordance with a Schedule of Performance;
3) permanent housing affordability restrictions;
4) enhanced outreach to Certificate of Preference ("COP") holders to improve the success of COP households in securing housing at the Project;
5) an OCII loan of approximately $46.7 million to fund the Mid-Rise Affordable Project;
6) compliance with OCII policies, including the Small Business Enterprise ("SBE") Program;

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7) financing for the SBE Mentoring and Capacity Building Program;
8) community-serving retail requirements; and
9) creation of a transfer fee on condominium sales and resales to fund maintenance of the future Transbay Park adjacent to the Site on Transbay Block 3.

The proposed Project exceeded height and certain bulk restrictions as established in both the Redevelopment Plan and the Development Controls, and did not strictly conform with other controls established in the Development Controls. The Project design, however, achieved several objectives of the Redevelopment Plan and Development Controls, including a large number of affordable housing units. Thus, OCII staff recommended, and the Commission approved, amendments to the Redevelopment Plan and Development Controls.

Block 4 Relationship to Parcel F

Parcel F is another formerly State-Owned Parcel, located in Zone Two of the Redevelopment Plan Area (under Planning Department jurisdiction and subject to the Planning Code) adjacent to the southwestern end of the Transit Center. In early 2016 the TJPA entered into an agreement with an affiliate of the Sponsor ("Parcel F Developer") to purchase Parcel F, contingent on Commission approval an option for the purchase of Block 4. Under the Redevelopment Plan and City Code, all residential projects in the Project Area must provide on-site inclusionary units. The Parcel F Developer sought relief from this obligation for the Parcel F project by entering into agreement with OCII that would provide for the construction of affordable units on Block 4 instead of on Parcel F.

Following Commission approval of the Prior Option in April 2016, the Parcel F Developer closed on the sale of Parcel F in June 2016 and began predevelopment.

In 2020, the Parcel F Developer proposed paying an affordable housing fee to OCII that would satisfy the inclusionary housing obligation at Parcel F and that OCII would use at Block 4. In January 2021, the Commission approved, by Resolution No. 02-2021, a variation from the on-site inclusionary housing obligation for the Parcel F project on the condition that the Developer contribute to OCII an amount equal to one hundred fifty percent (150%) of the inclusionary housing fee that applied to other projects under the Planning Code. On March 23, 2021, the Board of Supervisors approved the Parcel F DA that included, among other things, the payment of the housing fee to OCII.

Based on the approved variation and the terms of the Parcel F DA, the Parcel F project will pay an approximately $46.7 million in-lieu fee to OCII. OCII will provide a loan in the same amount to subsidize the Mid-Rise Affordable Project at Block 4 (this is addressed in the DDA approved by the Commission in June 2022). According to the Parcel F DA, the Parcel F Developer will pay the affordable housing fee in full to OCII at least 45 days prior to the Block 4 close of construction financing or earlier, based on other stated construction/permitting milestones. To allow OCII to provide commitments for the OCII loan for Block 4, the Parcel F DA obligates the developer to provide a LOC in the amount of the affordable housing fee to OCII within 30 days of the Effective Date of the DDA.

In August 2022, the Sponsor notified OCII staff that the development of Parcel F had stalled due to unfavorable market conditions and as a result, the Parcel F Developer would be unable to provide OCII with the LOC. Without the LOC or receipt of the Parcel F affordable housing fee, OCII is unable to provide a funding commitment to Block 4. Without such commitment, Block 4 could not proceed with securing financing and could not meet the schedule of performance obligations set forth in the DDA.

DISCUSSION

As discussed in the December 2022 informational memorandum to the Commission (attached to this Memorandum), the Sponsor proposed, and OCII staff examined, potential substantive changes to the DDA relating to Project delivery obligations and responsibilities and suggesting an alternative funding source for the OCII loan to Block 4. The intent of these potential changes was to improve the viability of the Project, allowing it to proceed on the schedule set forth in the DDA. The memorandum indicated that the Sponsor and OCII staff would return to Commission for a subsequent hearing to authorize an agreement that would clarify the scope of any negotiations to revise DDA terms and set forth a schedule for a negotiations period.

Over the course of subsequent discussions to frame a negotiations period and agreement, market conditions continued to worsen and it became evident that the Sponsor would not be able to proceed with development of the Project in the timeframe contemplated by the DDA. Given this, OCII staff does not recommend pursuing further negotiations with the Sponsor at this time. Instead, staff and the Sponsor would like to preserve the DDA as approved by the Commission and pause on any negotiations to allow time to monitor market conditions. Nonetheless, the Option Agreement provides that the Developer report on market conditions and may suggest DDA revisions that facilitate development of the site.

As drafted, the Option Agreement preserves the Developer's right to enter into the DDA and purchase the Site. The Option Agreement sets for the following provisions:

Topic	**Option Agreement Provision**
Option Term	Initial term of six months, with two available six-month extensions at the sole discretion of the Executive Director for a cumulative term of up to 18 months; Two additional three-month extensions to allow for legislative hearing approvals. The first is an automatic extension upon Sponsor's submittal of a General Plan Referral application to the San Francisco Planning Department; the second is at the discretion of the OCII Executive Director if, during the initial three-month period following General Plan Referral application submittal it becomes evident that more time is needed to complete the hearing process.

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Exclusivity	Sponsor will have the exclusive right to develop the Site in accordance with the DDA, including exercising the Option and entering into the DDA. During the Option Term, OCII will not solicit proposals from other parties or negotiate any agreement or term sheet for development of the Site with any other parties. OCII may, however, study alternative development scenarios for the Site and may engage consultants for the same purpose.
Quarterly Reporting	Sponsor agrees to monitor real estate financing market conditions over the course of the Option Term and will provide quarterly reports to OCII that describe the effects of overall market conditions on the Sponsor's ability to proceed with development of the Project. In addition, the report may include any suggested revisions to the DDA that would facilitate the more immediate development of the Site.
Option Payment	Sponsor will pay OCII $115,385 as consideration for the Option upon execution of the Option Agreement and will pay an additional $115,385 for each granted six-month extension. The payment is non-refundable to the Sponsor. The amount was established based on the amount of consideration under the Prior Option, pro-rated for the Option Term.
Option Exercise	To exercise the Option and enter into the DDA, the Sponsor must complete BOS final adoption of legislation required to enact the DDA. Following BOS adoption, the Sponsor may deliver the fully executed DDA to OCII.
Agency Costs	Sponsor will not be responsible for OCII staff costs during the term of the Option Agreement. While Option Payment funds may not be directly applied to such costs, it is assumed that any costs incurred by OCII for work related to the Project would be within the amount received as Option Payment.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

On June 15, 2004, the Board of Supervisors affirmed, by Motion No. 04-67, the certification under CEQA of the Final Environmental Impact Statement/Environmental Impact Report for the Transbay Terminal/Caltrain Downtown Extension/Redevelopment Project ("FEIS/EIR"). Subsequently, the Board of Supervisors adopted, by Resolution No. 612-04 (October 7, 2004), findings that various actions related to the project complied with CEQA and the Former Agency Commission adopted, by Resolution No. 11-2005 (January 25, 2005), findings and a statement of overriding considerations and mitigation and monitoring program adopted in accordance with CEQA. On June 21, 2022, the Commission determined, by Resolution No. 18-2022, that the Project was within the scope of the FEIS/EIR and adopted environmental findings for the Project.

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NEXT STEPS

With Commission's approval of the Option Agreement, OCII and the Sponsor will execute the document and the Sponsor will remit the Option Payment. The Sponsor will monitor market conditions and the Sponsor will provide quarterly reports as described above. OCII staff will also monitor market conditions and will begin to study development scenarios that maximize and expedite the delivery of affordable housing on Block 4.

(Originated by Kim Obstfeld, Senior Development Specialist)

DocuSigned by:
Thor Kaslofsky
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Thor Kaslofsky
Executive Director

Attachment 1: Map of the Transbay Project Area
Attachment 2: Commission Memorandum (June 21, 2022)
Attachment 3: Commission Memorandum (December 6, 2022)

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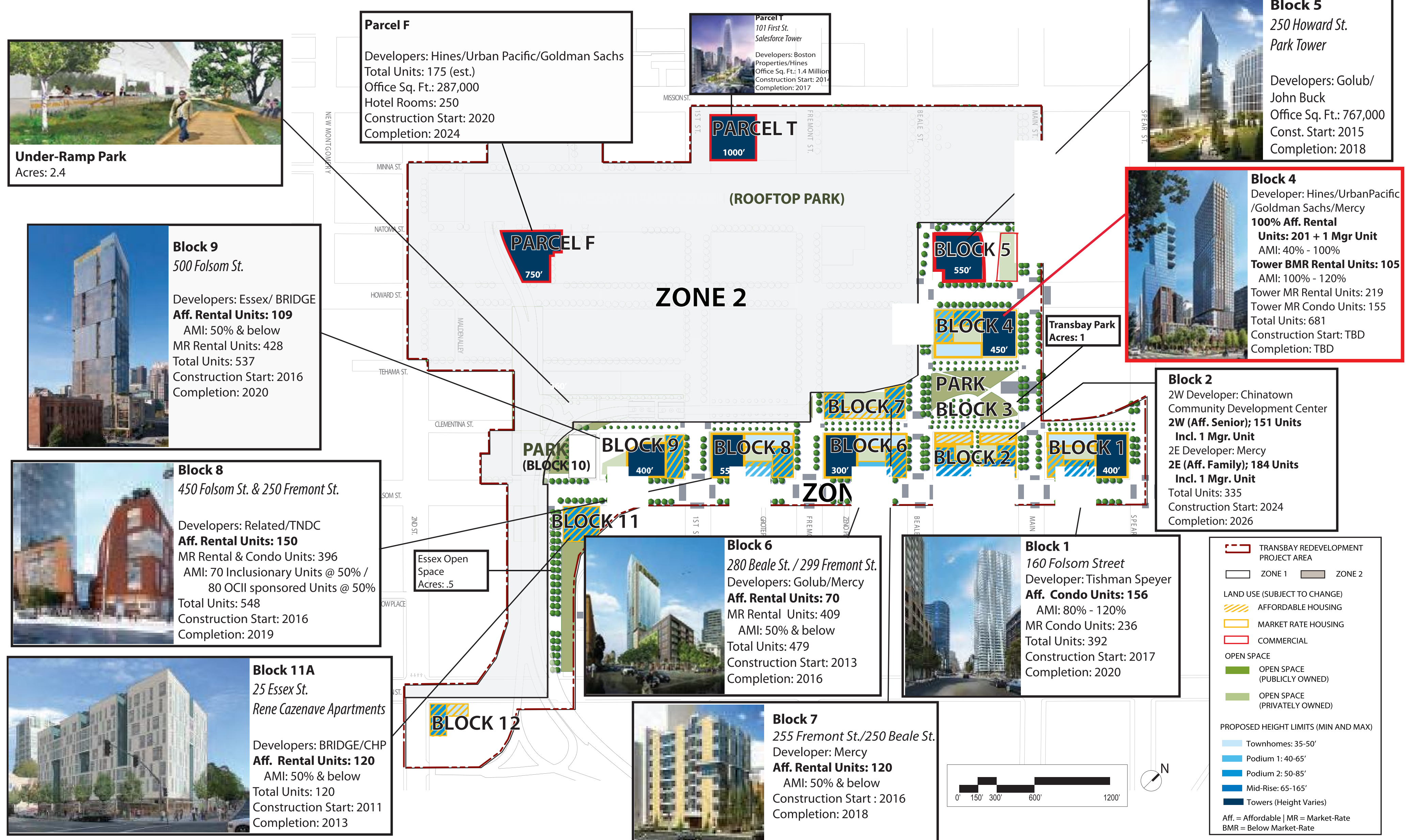
ATTACHMENT 1: Map of Transbay Redevelopment Project Area

TRANSBAY REDEVELOPMENT PROJECT AREA



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118-2132022-002

Agenda Items **No. 5(e-j)**
Meeting of June 21, 2022

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Adopting environmental review findings pursuant to the California Environmental Quality Act related to the approval of amendments to the Redevelopment Plan for the Transbay Redevelopment Project Area and Development Controls and Design Guidelines for the Transbay Redevelopment Project, a Disposition and Development Agreement for Block 4 and adjacent Tehama Street right of way within Zone One of the Transbay Redevelopment Project Area, the Schematic Design for the development of Block 4, and related actions, such activities being within the scope of, and adequately described within, the previously approved Transbay Terminal/Caltrain Downtown Extension/ Redevelopment Project Final Environmental Impact Statement/Environmental Impact Report a program environmental impact report; Transbay Redevelopment Project Area

Approving the Report to the Board of Supervisors on the Amendment to the Redevelopment Plan for the Transbay Redevelopment Project Area in connection with the development of a mixed-use residential project on Block 4 of Zone One of the Transbay Redevelopment Project Area, and authorizing transmittal of the Report to the Board of Supervisors

Approving an amendment to the Redevelopment Plan for the Transbay Redevelopment Project Area in connection with the development of a mixed-use residential project on Block 4 of Zone One of the Transbay Redevelopment Project Area; referring the Plan Amendment to the Planning Commission for its report and recommendation to the Board of Supervisors; recommending the Plan Amendment to the Board of Supervisors for adoption

London N. Breed
MAYOR

Thor Kaslofsky
EXECUTIVE DIRECTOR

Miguel Bustos
CHAIR

Mara Rosales
Bivett Brackett
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Approving an amendment to the Development Controls and Design Guidelines for the Transbay Redevelopment Project in conjunction with the approval of a mixed-use residential project at Transbay Block 4

Authorizing, at a Public Hearing Under Section 33431 of the Health and Safety Code, a Disposition and Development Agreement with F4 Transbay Partners LLC, a Delaware Limited Liability Company, and Transbay Block 4 Housing Partnership, L.P., A California Limited Partnership, for the Purchase of Block 4 of Zone One of the Transbay Redevelopment Project Area (Block 4) and adjacent future Tehama Street Right of Way and development of approximately 681 residential units including 306 units affordable to low- or moderate-income households, ground floor retail, open space, streetscape improvements and underground parking; and adopting environmental review findings pursuant to the California Environmental Quality Act

Conditionally approving the Schematic Design of a mixed-use residential project at Block 4 of Zone One of the Transbay Redevelopment Project Area

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EXECUTIVE SUMMARY

The Successor Agency to the Redevelopment Agency of the City and County of San Francisco (commonly known as the Office of Community Investment and Infrastructure or "OCII") is completing the enforceable obligations of the former Redevelopment Agency of the City and County of San Francisco (“Former Agency”) in the Transbay Redevelopment Project Area (“Project Area”). These include implementing the Redevelopment Plan for the Transbay Redevelopment Project Area ("Redevelopment Plan") and acquiring and facilitating the development of the former Transbay Temporary Terminal site and ensuring that at least 35% of all new housing in the Project Area is permanently affordable.

Block 4 is the northern portion of the former Transbay Temporary Terminal site (Assessor’s Block 3739, Lot 010), generally located at 200 Main Street, bounded by Howard, Main and Beale Streets and extending approximately 165 feet southeast from Howard Street. Immediately adjacent to the southwest lies the approximately 40-foot-wide future Tehama Street right of way (Assessor’s Block 3739, Lot 011) (the “Tehama Parcel”). Together, Block 4 and the Tehama Parcel comprise the “Site”.

In April 2016, the Successor Agency Commission (“Commission”) approved an Agreement for Option to Purchase Transbay Block 4 with F4 Transbay Partners LLC, a Delaware limited liability company (the “Developer”) (as amended by the First, Second, Third, and Fourth Amendments thereto, the “Option Agreement”). At the time, the Developer sought to acquire Transbay Parcel F from the Transbay Joint Powers Authority (“TJPA”) and required as a condition of that purchase that OCII enter into the Option Agreement so that the Developer could fulfill the affordable housing obligations of Parcel F through the development of the Site.

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In September 2018, the Commission approved a First Amendment to the Option Agreement, which included a non-binding Term Sheet outlining the mixed-use, mixed-income development program for the Site (the “2018 Term Sheet”). The 2018 Term Sheet served as the basis for negotiation of the Disposition and Development Agreement (“DDA”) and development of the Schematic Design.

In March 2021, the Developer informed OCII staff that it believed the quantity of affordable units (49% of the total units) and the land price ($45 million) specified in the 2018 Term Sheet to be financially infeasible. OCII staff, with the support of its financial consultant, engaged in a detailed analysis of the financial feasibility of the 2018 Term Sheet and based on that detailed analysis concluded that 45% affordability was feasible. On September 21, 2021, the OCII Commission approved, by Resolution No. 31-2021, a revised development program that achieved a 45% affordability ratio of the total number of units. The revised program was incorporated into the “Program for Appraisal” that replaced the 2018 Term Sheet as part of the Fourth Amendment to the Option Agreement.

The Program for Appraisal served as the basis for establishing the final terms of the DDA and refining the Schematic Design. In addition, pursuant to the Option Agreement, OCII and the Developer engaged in a two-party appraisal process to determine the land price.

As currently proposed, the scope of development under the DDA (the "Project") includes a 47-story tower with a six-story townhouse adjunct, a 16-story mid-rise building, a single-story podium with underground facilities, and associated streetscape and open space improvements. The Project will provide 681 total residential units, including 155 market rate condominium units in the upper twenty floors of the tower and in the townhouse adjunct ("Tower Condominium Project"), 324 rental units in the floors 02 through 26 of the tower (including 219 market rate units and 105 below market rate units affordable to moderate income households) (referred to as the “Tower Mixed-Income Project”), as well as 202 rental units in a 100% affordable project in the mid-rise building (including one unrestricted manager’s unit) (the “Mid-Rise Affordable Project”). In addition, the Project includes ground floor retail (a portion of which is restricted for community-serving uses), public and private open space, the construction of a new portion of Tehama Street (which will be conveyed to the City upon completion), streetscape improvements, and underground vehicular and bicycle parking.

The DDA with the Developer and Transbay Block 4 Housing Partnership, L.P., an affiliate of Mercy Housing California ("Affordable Developer"), sets forth the terms and conditions upon which the Developer will purchase the Site and develop the Project. Key terms include:

1) payment of the fair reuse value of Block 4, which is $6,000,000 (as determined by the Option Agreement two-party appraisal process);
2) development and completion of improvements in accordance with a Schedule of Performance;
3) permanent housing affordability restrictions;
4) enhanced outreach to Certificate of Preference (“COP”) holders to improve the success of COP households in securing housing at the Project;
5) an OCII loan of approximately $46.7 million to fund the Mid-Rise Affordable Project;
6) compliance with OCII policies, including the Small Business Enterprise (“SBE”) Program;
7) financing for the SBE Mentoring and Capacity Building Program;

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8) community-serving retail requirements; and
9) creation of a transfer fee on condominium sales and resales to fund maintenance of the future Transbay Park adjacent to the Site on Transbay Block 3 ("Transbay Park").

The Developer has submitted a Schematic Design for the Project, and OCII staff has determined that the proposed Project as designed requires amendments to the Redevelopment Plan and the Development Controls and Design Guidelines for the Transbay Redevelopment Project (“Development Controls”). The proposed Project exceeds height and certain bulk restrictions as established in both the Redevelopment Plan and the Development Controls, and does not strictly conform with other controls established in the Development Controls. Height increases for the tower, townhouses and the mid-rise building (which is designated as two "podiums" in the Development Controls) were contemplated in the 2018 Term Sheet as a means of generating additional residential development area (and thus, affordable housing, and market rate sales and rental revenue) to support the ambitious affordable housing program. As the Project design conforms to the overall intent for the block as established in the Redevelopment Plan and Development Controls, and requested modifications facilitate the inclusion of a greater number of affordable housing units, staff recommends the amendments and a conditional approval of the Schematic Design.

In conjunction with its review of the Project and its proposed design, OCII, in consultation with the Planning Department, prepared a ninth addendum to the Final Environmental Impact Statement/Environmental Impact Report (“FEIS/EIR”) for the Transbay Terminal/Caltrain Downtown Extension/Redevelopment Project (“Addendum”). The Addendum describes and assesses the proposed Project and associated Redevelopment Plan and Development Controls amendments in relation to the Project Area project as analyzed in the FEIS/EIR. Overall, the Addendum determined that the Project would not cause significant impacts not identified in the FEIS/EIR, nor would the project cause significant impact previously identified in the FEIS/EIR to become substantially more severe.

Staff recommends that the Commission 1) adopt environmental review findings pursuant to the California Environmental Quality Act; 2) Approve the Redevelopment Plan amendment; 3) approve the Report to the Board on the Plan Amendment and authorize its transmittal to the Board of Supervisors; 4) conditionally approve the Development Controls amendment; 5) authorize the execution of the DDA; and 6) conditionally approve the Schematic Design.

BACKGROUND

Transbay Redevelopment Project Area

The Board of Supervisors of the City and County of San Francisco (“Board of Supervisors”) established the Project Area and approved the Redevelopment Plan for the Transbay Redevelopment Project Area by Ordinances No. 124-05 (June 21, 2005) and No. 99-06 (May 9, 2006), as amended by Ordinances No. 84-15, (June 18, 2015) and No. 62-16 (April 28, 2016) (“Redevelopment Plan”). The Redevelopment Plan establishes the land use controls for the Project Area, and divides the Project Area into two sub-areas:

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- Zone One in which the Redevelopment Plan and Development Controls define the development standards, and
- Zone Two in which the San Francisco Planning Code applies through a Delegation Agreement between OCII and the Planning Department.

A major focus of the Project Area is to redevelop 10 acres of former highway access ramp properties previously owned by the State of California (the "State-Owned Parcels") to generate funding for the TJPA to construct what is now the Salesforce Transit Center (the "Transit Center"). OCII's role is to complete the enforceable obligations that the State Department of Finance has finally and conclusively approved under Redevelopment Dissolution Law. These enforceable obligations include the Implementation Agreement between TJPA and the Former Agency, which requires OCII to facilitate the sale and development of certain State-Owned Parcels to third parties, to implement the Redevelopment Plan, and to comply with California Assembly Bill 812, codified in Section 5027.1 of the California Public Resources Code ("AB 812"), which requires that 35% of all new or rehabilitated residential units in the Project Area be affordable to low- and moderate-income households (the "Transbay Affordable Housing Obligation").

Based on the proposed development program for Block 4 and Project Area construction to date, the Project Area affordability level is approximately 32%, which is less than the 35% Transbay Affordable Housing Obligation. The anticipated program for other Project Area sites, however, indicates that the overall Project Area affordability level may exceed the Transbay Affordable Housing Obligation in the future (approximately 37%). This percentage may fluctuate over time as estimates of the development pipeline change and additional projects are proposed within Zone 2.

Block 4 is a formerly State-Owned Parcel located within Zone One of the Project Area. OCII acquired the site of the former temporary terminal from the TJPA in January 2021.

Under the Redevelopment Plan and the Development Controls, Block 4 is planned for residential development with a 450-foot-high tower, two mid-rise buildings (at 85' and 65' in height), and low-rise townhouses (up to 50' in height) situated around a shared open space parcel and atop a shared underground parking structure.

Block 4 Relationship to Parcel F

Parcel F is another formerly State-Owned Parcel, located in Zone Two of the Redevelopment Plan (but under Planning Department jurisdiction and subject to the Planning Code) adjacent to the southwestern end of the Transit Center. In early 2016 the TJPA entered into an agreement with the Developer to purchase Parcel F, contingent on Commission approval of the Option Agreement for the purchase of Block 4. The Commission approved the Option Agreement in April 2016, and in June 2016 the Developer closed on the sale of Parcel F for a price of $160 million and began predevelopment of Parcel F.

Under the Redevelopment Plan and Planning Code, all residential projects in the Project Area must provide on-site inclusionary units. The Developer sought relief from this obligation in the Parcel F project

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and proposed paying an Affordable Housing Fee that OCII would use at Block 4. In January 2021, the Commission exercised its authority under the Redevelopment Plan to conditionally approve a variation to the Redevelopment Plan's on-site affordable housing requirement to allow the Developer to pay a fee instead of developing the required Parcel F affordable units on-site. Based on the approved Development Agreement for Parcel F, the Parcel F project will now pay an approximately $46.7 million in-lieu fee to OCII, which will provide a loan in the same amount to subsidize the Mid-Rise Affordable Project at Block 4.

Option Agreement and DDA Negotiations

Option Agreement

The Option Agreement provides the Developer with a right to exclusive negotiations for a DDA with OCII for a project that would include market rate residential units and a significant number of affordable units. The Option Agreement established a purchase price for Block 4 of either (1) $45 million, or (2) a price determined by negotiation with OCII after the parties have agreed on all terms of the DDA except price, or (3) the fair market value of Block 4 subject to the terms of the DDA as determined by an appraisal process. The proceeds of the sale of Block 4 are to be transmitted to the TJPA for the Transbay Terminal Project, which includes the construction of both the Transit Center and the future underground train connection to existing rail lines. The Option Agreement also provides that the Developer would subsidize at least 45% of residential units to be built on Block 4 as affordable units, without an OCII subsidy. The Option Agreement preserves the Commission's sole and absolute authority to determine the terms and conditions of the DDA and provides for termination of the Option if milestones, including reaching agreement on a DDA by a certain date, are not met.

The history of the Option Agreement is summarized in the table below and described in further detail in the text that follows.

2016	Option Agreement adopted
2018	First Amendment to the Option Agreement: established a Term Sheet outlining the program and proposed height increase, Mercy selected as Affordable Developer
2020	Second Amendment to the Option Agreement: extended the negotiation period
2021	Third Amendment to the Option Agreement: provided a short-term extension to evaluate a proposed reduction to the percentage of affordable units
2021	Fourth Amendment to the Option Agreement: replaced the 2018 Term Sheet with the Program for Appraisal (established affordability at 45%), extended the term to finalize negotiations and complete the appraisal process

First Amendment to the Option Agreement

In 2018, the Commission approved a First Amendment to Option Agreement ("First Amendment") that, among other things, proposed a revised Project based on increased height limits for the Block 4 tower (increasing from 450' to 501') and consolidation of two podium buildings into a single mid-rise building with an increased height (from 65'/85' to 150'). The additional tower height, which requires amendments to the Redevelopment Plan and Development Controls, was meant to provide greater developable area over which to spread the cost of the Project's affordable housing obligation. The First Amendment approval included approval of the 2018 Term Sheet to define elements of the Block 4 program and provide base terms from which to negotiate the DDA and develop the Schematic Design.

The 2018 Term Sheet provided that Below Market Rate ("BMR") units would all be rental, located in the lower two thirds of the rental component of the tower and in a 100% affordable mid-rise building, and provided at a range of unit sizes and affordability levels including a significant amount of housing for moderate income levels, which has long been challenging to achieve in affordable housing rental projects. The affordability percentage (49%) was established to meet the Transbay Affordable Housing Obligation based on the then-current Project Area development pipeline. The Developer also proposed to provide $175,000 for an SBE capacity study and local worker training; a detailed strategy to maximize the number and success of Certificate of Preference ("COP") holders securing housing at Block 4; a transfer fee on resales of all market rate homeownership units to fund future maintenance of Transbay Park; and community-serving ground floor commercial space at discounted rents.

Lastly, the First Amendment extended the time period for DDA negotiations by one year, with an additional twelve-month extension available at the Executive Director's discretion. Concurrent with the First Amendment, the Commission approved Mercy Housing as the Developer's affordable housing developer partner for the Project. Mercy was selected by the Developer based on it's extensive construction and property management experience with large projects in San Francico, including Transbay, as well as the expertise of Mercy staff.

On June 27, 2019, the Executive Director granted the discretionary twelve-month extension of the Outside Option Exercise Date allowed under the First Amendment. Thereafter, on June 24, 2020, the Executive Director determined that the effects of the COVID-19 pandemic constituted a Force Majeure event for the purposes of the Option Agreement and agreed to postpone the Outside Option Exercise Date to January 1, 2021.

<u>Second Amendment to the Option Agreement</u>

On December 15, 2020, the Commission authorized a Second Amendment to the Option Agreement to facilitate the anticipated completion of DDA negotiations. The Second Amendment extended the Outside Option Exercise Date to March 31, 2021 and authorized an additional three months at the Executive Director's sole discretion. The Executive Director granted the extension, bringing the Option Agreement Outside Exercise Date to June 30, 2021.

<u>Third Amendment to the Option Agreement</u>

In March 2021, the Developer provided OCII staff with a financial model for Block 4 and asserted that the Project is not financially feasible at an affordability level of 49% and a land price of $45 million. The Developer stated that Block 4 could support a maximum affordability level of approximately 39%, assuming unit types, sizes, and income levels pursuant to the 2018 Term Sheet, and could not support any payment for the land. Pursuant to direction from the Commission and feedback from OCII's financial

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consultant[1], OCII staff sought a revised proposal from the Developer that retained affordability at 49%, consistent with the 2018 Term Sheet. In early June 2021, the Developer provided a revised proposal of 40% affordability with modifications to unit counts and affordability levels. This proposal introduced BMR studio unit types, introduced units at 40% of Area Median Income ("AMI") in the Mid-Rise Affordable Project, and increased overall income levels for BMR units in the tower (adding a greater percentage of BMR units at 120% AMI, rather than an even distribution between the 100%, 110%, and 120% AMI levels). On June 15, 2021, the Commission authorized a Third Amendment to the Option Agreement to provide a short-term extension of the Outside Option Exercise Date to September 30, 2021 to allow OCII staff time to evaluate the Developer's revised proposal in collaboration with OCII's financial consultant.

Fourth Amendment to the Option Agreement and Program for Appraisal

OCII's financial consultant found, and OCII staff concurred, that the Project was financially feasible with a maximum of 45% of units restricted for affordability. To accomplish this, the top two levels planned for market rate rental units in the tower were converted to condominium units, increasing the total number of condominiums by 20 units, from 135 to 155. The Developer did not agree that this program is financially feasible but did agree to proceed with this program for purposes of determining the land price.

On September 21, 2021, the Commission authorized a Fourth Amendment to the Option Agreement, extending the Outside Option Exercise Date to March 31, 2022, and authorizing a one-time three-month extension at the sole discretion of the Executive Director. In addition, the Fourth Amendment replaced the 2018 Term Sheet with an updated non-binding term sheet known as the "Program for Appraisal" to reflect the revised development Program.

OCII and the Developer thereafter revised the DDA to reflect the Program for Appraisal, continued to refine the Schematic Design, and prepared the Addendum. With the DDA substantively complete, OCII and the Developer prepared joint appraisal instructions, and, in February 2022, each sought separate appraisals to determine the land value pursuant to the process set forth in Section 2.4(b)(iii) of the Option Agreement (as amended), which states that the parties' MAI appraisers "*will appraise Block 4 based on the terms of the DDA, other than the purchase price, negotiated by the Parties*...." This meant that all DDA terms, with the sole exception of the purchase price, needed to be finalized prior to the start of the appraisal process to ensure that the impact of any term to land value would be accounted for in the appraisal outcome. With the appraisal process under way and key DDA terms finalized, on March 24, 2022 the Interim Executive Director exercised his authority to extend the Outside Option Exercise Date to the current expiration on June 30, 2022.

The OCII appraiser determined a land value of negative $16 million and the Developer appraiser found a positive value of $6 million. In accordance with Section 2.4(b)(vi) of the Option Agreement, "if the lower appraisal is less than 90% of the higher appraisal… [the two initial appraisers] will select a neutral

[1] OCII's economic consultant is Century Urban, a San Francisco real estate advisory firm with significant experience in investment underwriting, real estate development, public-private partnerships, and economic project feasibility.

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MAI appraiser…," whom the two appraisers selected on April 28, 2022. On May 13, 2022, the neutral appraiser concluded his review in accordance with Option Agreement Section 2.4(b)(vi) and selected the appraisal procured by the Developer as the most reasonable purchase price. Therefore, under the Option Agreement, the Purchase Price is determined to be $6 million.

DISCUSSION

Project Description

As proposed, the Project at the Site is a large-scale mixed-use, mixed-income residential development project comprised of 681 total residential units, 45% of which will be restricted for affordability to households with incomes ranging from 40% to 120% of the Area Median Income ("AMI") as published annually by the Mayor's Office of Housing and Community Development ("MOHCD"). Along with residential units, the Project includes resident amenity spaces, ground floor retail spaces, public and private open spaces, the construction of Tehama Street and additional streetscape improvements, valet-operated vehicular parking in an underground facility, and bicycle parking.

A description of the Project is summarized in the table below.

Block 4 Project Summary	
Residential Units	681 total units, 306 (45%) restricted for affordability
Tower/townhouse market rate condominiums	135 market rate condominium units located on floors 28 to 47 of the tower; and 20 units in floors 1 to 6 of the townhouses along Tehama Street
Market rate rental units	219 rental units located on floors 2 to 27 of the tower, in the following sizes: 123 one-bedrooms, averaging 363 square feet 96 two-bedrooms, averaging 1,013 square feet
Tower BMR units	105 affordable rental units located on floors 2 to 20 of the tower, including 21 units at 100% AMI, 22 units at 110% AMI, and 62 units at 120% AMI in the following sizes: 12 studios, averaging 493 square feet 47 one-bedrooms, averaging 602 square feet 34 two-bedrooms, averaging 883 square feet 12 three-bedrooms, averaging 1,101 square feet
Mid-Rise Affordable Units	201 affordable rental units and one unrestricted manager's unit located on floors 2 to 16 of the mid-rise, with tiered AMIs including 20 units at 40%, 9 units at 45%, 10 units at 50%, 33 units at 60%, 39 units at 70%, 47 units at 80%, 38 units at 90%, and 5 units at 100% in the following sizes: 20 studios, averaging 406 square feet 75 one-bedrooms, averaging 557 square feet 86 two-bedrooms, averaging 836 square feet 21 three bedrooms, averaging 1,004 square feet
Commercial space	8,389 square feet of commercial/retail space, 6,431 of which is restricted for community-serving uses

Resident amenity spaces	Tower 35th floor amenity space, with programming to be determined, accessible to condominium unit residents only Tower 12th floor amenity including solarium spaces and an outdoor terrace, accessible to residents throughout the Project Tower 2nd floor amenity space including a fitness amenity, club room and adjacent terrace, cooking accessories and seating, accessible to residents throughout the Project Mid-Rise 2nd floor community room with kitchen and resident lounge, accessible to residents of the Mid-Rise Affordable Project Mid-Rise 7th and 12th floor outdoor terraces, accessible to residents of the Mid-Rise Affordable Project and Tower Mixed-Income Rental Project (note: may be limited to Mid-Rise Affordable Project residents due to Low Income Housing Tax Credit regulations in place at the time of application)
Open space	12,584 total square feet of open space, including a central raised courtyard providing approximately 4,250 square feet of ungated publicly accessible open space, accessible via contiguous stairs from Howard Street and Tehama Street as well as a terraced seating area with views to the park along Tehama Street
Streetscape improvements	Improvements include sidewalks and bulb-outs, street trees and other plantings, public seating, streetlights, and bicycle racks
Tehama Street	Construction of the extension of Tehama Street between Beale and Main Streets for vehicular access, as designed by the Transbay Block 3 Park design team from the Department of Public Works. Ownership of the Tehama Parcel and Tehama Street improvements will be granted back to the City for acceptance after completion.
Parking	Parking for up to 275 vehicles in an underground garage parking facility with valet services; the garage includes 224 physical spaces with the use of stackers, and additional capacity may be possible with enhanced valet operations
Bicycle parking	Class I secured spaces for 556 bicycles in two below-grade bike rooms

DDA Terms

The DDA establishes the rights and obligations of OCII and the Developer governing the sale of the Site and development and operation of the Project. The Commission's consideration of the DDA has been publicly noticed for two consecutive weeks, pursuant to California Health and Safety Code Section 33431. This notice is necessary because the Commission is considering the sale of publicly owned real property without a public bidding process, as discussed under the Option Agreement section above.

Pursuant to the Option Agreement, the DDA contemplates a sole source sale of the Site based on the experience and qualifications of the Developer, and the Developer's proposal to develop Block 4 with a high level of affordable housing at 45% of the total number of residential units on the site.

The table below provides a summary of key DDA terms. The complete DDA is included as an exhibit to the enclosed 33431/DDA approval resolution.

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Key DDA Terms	
Land Sale Price	$6M, as established through the appraisal process set forth in the Option Agreement; sale proceeds will go to the TJPA.
Good Faith Deposit	Within 10 days after the DDA Effective Date[2], the Developer shall provide a good faith deposit of $2M, to be refunded upon Commencement of Substantial Construction (when Developer has achieved issuance of the foundation addendum to the site permit and secured construction financing)
Completion of Improvements	The Developer is obligated to complete the construction of the full development program (as established in the Scope of Development, Attachment 4 to the DDA).
Schedule of Performance	The Schedule of Performance (Attachment 7 to the DDA), establishes timeframes for completing key development milestones including securing permits and financing commitments, launching marketing, and commencing and completing construction. Milestone timing is subject to certain allowable extensions and force majeure provisions.
Delay of Construction Fees	If the Project is not completed within the timeframe set forth in the Schedule of Performance, the Developer will be subject to a penalty payment of Delay of Construction Fees payable to the TJPA (for tax increment), East Cut Community Benefits District and the Community Facilities District.
Transfer Fee	Condominium units in the Project are subject to a resale transfer fee of 0.5% to fund maintenance of the planned Transbay Block 3 Park.
Permanent Affordability	Permanent rent and income restrictions on tower BMR units and units in the Mid-Rise Affordable Project, along with implementation of standard OCII/MOHCD affordable housing policies and regulations. The Tower BMR units will be owned and operated by Hines. Mercy Housing will be the long-term owner/operator of the Mid-Rise Affordable Project and will provide resident services and property management staffing.
Affordable Unit Comparability	BMR units in the Tower-Mixed Income Project will have the same features as market rate rental units (such as dishwashers and in-unit laundry) but appliance and finish types will not be the same. The BMR unit distribution (shown in Attachment 23 to the DDA) endeavors to disburse BMR units evenly across levels (2-20) and sides of the tower for equal access to light and views. Units in the Mid-Rise Affordable Project will have features and fixtures in keeping with those typical of OCII affordable family projects, with high quality, durable finishes and appliances.
Mid-Rise Air Right Parcel Reconveyance	The air rights parcel for the Mid-Rise Affordable Project will be established by the Developer and reconveyed to OCII for long term ownership; the Mid-Rise Affordable Project owner will then enter into an air rights lease with OCII and will own the improvements (a standard structure for OCII affordable projects). A form of the air rights lease is included as Attachment 12 to the DDA.
OCII Loan/ Mid-Rise Affordable Project Financing	Using the approximately $46.7 million in revenue received from the Developer's in-lieu fee from Parcel F, OCII will provide a low-interest residual receipts loan to subsidize the Mid-Rise Affordable Project, subject to typical OCII affordable housing

[2] The Effective Date is the date upon which the Redevelopment Plan Amendment becomes effective, which is anticipated to be in December 2022, subject to change based on requisite approval hearings.

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Key DDA Terms	
	lending terms (the loan agreement will be subject to future Commission consideration). The Mid-Rise Affordable Project will also seek funding through typical affordable housing sources* including 4% Low-Income Housing Tax Credits and tax-exempt bonds (issued by MOHCD), and loan/grant funding from State programs. The Developer will fund any remaining gap between project costs and other secure sources. ** Note: OCII staff notes that due to the size and estimated cost of the Mid-Rise Affordable Project, it will be unable to secure tax-exempt bonds based on the current competitive allocation process and associated scoring criteria which are disadvantageous to high-cost urban projects. To proceed and secure financing, the Project is reliant on changes at the state and/or federal level.*
Parking Allocation	Parking will be unbundled from units and allocated on a vehicle to unit basis as follows: • 1:1 for condominium units (155 vehicles) • 1:4 for Mid-Rise Affordable Project Units (51 vehicles) • Remaining parking allocated to the Tower Mixed-Income Rental Project, proportional to market rate/BMR split Parking will be offered to residents of affordable housing units at a reduced fee (consistent with the MOHCD inclusionary housing manual).
Enhanced COP Outreach	The Developer committed to providing COP holder outreach beyond the typical OCII early outreach and marketing programs. The “Enhanced COP Outreach Strategy” is included as Attachment 26 to the DDA, and detail strategies intended to maximize the number and success of COP holders in securing housing at Block 4. Key strategies include: • Lease-up teams that are racially and culturally diverse and are in place early to provide consistency in communications; • Multiple in-person presentations both near the Project site and in COP communities; • Online/virtual reality tours of the neighborhood, Project, and units; • Dedicated informational websites; • Off-site model units available to tour; • Targeted outreach and “concierge” service (such as special tours, and application readiness and assistance) to COP holders who have applied for housing in the past 24 months but were not placed. Mercy Housing will lead COP outreach and engagement for the Mid-Rise Affordable Project and the Developer will lead COP outreach for the tower BMR units. Both Mercy and the Developer will partner in these efforts with community-based organizations.
Marketing and Lease-Up	Developer will follow OCII protocols for the marketing and lease-up of affordable units, including implementation of occupancy preferences, early outreach (incorporating enhanced COP outreach strategies), and marketing plans.
Community-Serving Commercial	Approximately 6,431 square feet of ground floor retail space will be restricted for community serving or public benefit uses under policies of MOHCD governing the use of retail spaces in affordable housing projects. This is intended to provide opportunities for local businesses and non-profit organizations to access

Key DDA Terms	
	commercial space in the Transbay area, where commercial rents are otherwise very high. Mercy Housing, through its affiliate Mercy Commercial, will manage the space, including marketing, identifying and screening potential tenants, and negotiating lease terms.
OCII Policy Compliance	The Developer and its contractors are obligated to participate in OCII's SBE Program, Construction Workforce Program, and First Source Permanent Hiring Program, and compliance with Prevailing Wages Policy.
SBE Mentoring and Capacity Building Program	Developer shall finance and implement, in consultation with OCII, an SBE Mentoring and Capacity Building Program. The program will provide SBE's with directed coaching, education, and mentoring complementary to OCII's existing policy goals.

Land Use and Development Document Amendments

The Project as proposed requires amendments to the Redevelopment Plan, Development Controls, the City's General Plan, and the City's Planning Code height map. Overall, these changes:

1) Facilitate an increase in the overall number of units, and, particularly, a higher number of affordable units;
2) Improve massing, proportionality, and form aesthetic;
3) Maintain view corridors between buildings; and
4) Ensure adequate public open space as well as resident open space.

<u>Redevelopment Plan Amendment</u>

As currently proposed, the Project necessitates an amendment to the Redevelopment Plan to increase the maximum height of the tower and increase certain bulk restrictions as described in the table below.

Redevelopment Plan Amendment			
Control Type	**Plan Standard**	**Proposed Amended Standard**	**Change**
Height – Tower	Max. 450' on Block 4	Max. 513' on Block 4	+ 63'
Bulk – Tower	Max. floor plate 13,000 SF (applies to all floors above 85' in bldgs. with overall heights from 501' to 550')	Max. floor plate of 15,200 SF for floors between 85' and 122' in a Tower over 500' in height on Block 4	+ 2,200 SF
Bulk – Mid-Rise	Max. floor plate 7,500 SF (applies to all floors above 85' in bldgs. with overall heights from 85' to 250')	Max. floor plate of 13,500 SF for floors above 85' in bldgs. with heights from 85' to 250' on Block 4	+ 6,000 SF

The proposed changes are specific to Block 4 and serve to increase the developable area, thereby increasing potential revenue from condominium sales and residential rents, enabling the Project to support affordability at 45%, and fulfill the other development obligations as set forth in the DDA. These changes are appropriate to the context and the urban design of the surrounding district.

At 513 feet to the rooftop and 552 feet with screening, the scale of the Project would be 48 feet lower in height than the adjacent Block 5 “Park Tower” building and would help maintain the concept of a “saddle” shaped by building heights along the skyline between Rincon Hill and the Financial District, as viewed from the east and the west, and as envisioned by the Transit Center District Plan (“TCDP”). In addition, the heights of towers constructed and proposed north of Block 4 and south of Market Street have increased substantially since the approval of the Development Controls – a result of the TCDP adopted in 2012. The increased height proposed for Block 4, from 450 feet to 513 feet, falls well below the heights of towers built and proposed in the northern portion of Transbay and in the TCDP area between Howard and Market Streets. The increased height of the tower will result in additional market rate condominium dwelling units, which would allow the Project to support a high level of affordability.

The increase in the Plan’s maximum floor plate area would affect the lower quarter of the tower, extending the base from 85 feet to 122 feet and providing a proportional tapering of the tower massing. The increase in floor plate area in the Tower affects three floors of the Project.

The proposed Plan Amendment would also increase the maximum floor plate sizes in mid-rise buildings. Together with amendments to the Development Controls (discussed below), this would allow the reformulation of locations mid-rise and low-rise for height and bulk on the Site, to create a single, larger mid-rise site and a townhouse location attached to the Tower.

<u>Development Controls Amendment</u>

In addition to amendments to the Redevelopment Plan, the Developer is seeking an amendment to the Development Controls to facilitate similar height and bulk changes as well as other modifications to the development standards as outlined in the table below.

The proposed amendment introduces a revised development scenario into the Development Controls that modifies the designations and layout of Block 4, introducing a mid-rise designation with greater height and bulk (replacing the previous podium designation), and modifying the townhouse parcel dimensions and height proportionally to the increases in the mid-rise. The form of the proposed amendment to the Development Controls is attached as Exhibit A to the draft Resolution conditionally approving the amendment to the Development Controls.

The proposed changes, and justifications for the changes, to the Development Controls are described in Attachment 2.

<u>General Plan and Planning Code Height Map Amendments</u>

As a companion to the Redevelopment Plan and Development Controls amendments, the Project needs an amendment to the City’s General Plan to increase the Block 4 height as identified in Figure 1 of the Transbay Center District Sub Area Plan and in the Planning Code height map. The General Plan amendment and Planning Code height map amendment are subject to review and approval by the San Francisco Planning Commission and Board of Supervisors and will be considered in conjunction with the proposed Redevelopment Plan amendment in upcoming hearings.

The Planning Commission hearing to consider the amendments to the General Plan and the Planning Code height maps is scheduled for July 28, 2022. Upon recommending the proposed amendment to the General Plan, the Planning Commission would be verifying that the proposed Plan Amendment is consistent with the General Plan and make its necessary report and recommendation to the Board of Supervisors. The Board of Supervisors hearings on the Plan Amendment are proposed for July and September 2022.

Schematic Design

The lead design architect for the tower and townhouses is Solomon Cordwell Buenz, and the architect for the Mid-Rise Affordable Project is San Francisco-based Kennerly Architecture and Planning. The Schematic Design Document is enclosed as an exhibit to the Schematic Design conditional approval resolution.

The design features a 513-foot tower on the northeast corner of the Site at Howard and Main Streets. At the ground floor, the tower building features a corner retail space at Howard and Main Streets, as well as separate ground floor lobbies for the apartments and condominiums facing Howard and Main Streets, respectively.

Attached to the tower is a 71-foot townhouse building facing Tehama Street and the planned Transbay Block 3 Park to the south. The townhouse building features a small entry lobby as well as private raised stoops and patios at the ground level facing the park, each with a residential unit entry door. Some of the upper floor units in the townhouse building feature private balconies. The articulated paving, cladding, and planting around private entries will complement the planting and paving on Tehama Street and the park beyond, all contributing to the intended residential feel at the street.

A 163-foot mid-rise building anchors the northwest corner of the Site. The L-shaped building steps down to 115 feet along Howard Street between the tower and mid-rise, and steps further down to 68 feet at the corner of Beale and Tehama Streets. Retail bays fronting Howard Street and a corner retail space at Tehama and Beale Streets activate the ground floor of the Mid-Rise building. The main entrance lobby to the building is located along Tehama Street.

The buildings are centered around a landscaped courtyard open space, located on the roof of the podium level. The open space is ungated and publicly accessible via stairs from Howard and Tehama Streets and from the elevators in the lobby of Tower and Mid-Rise buildings. On Tehama, a landscaped terraced seating area adjacent to the courtyard open space access stairs creates a visual connection between the park and raised courtyard open space.

Vehicles will access the Project from Main and Beale Streets – with two loading bays on Beale, and an entrance to the underground shared parking garage from Main Street. The ground floor of the tower accommodates the garage entry, loading for valet parking and waiting room and interior access to both lobbies. The ground floor of the podium includes the driveway ramps to the basement levels, a central valet service office (which will provide service 24 hours a day) and a single handicapped accessible

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space. Vehicles will be parked in the two level below-grade garage. The garage also includes secured resident bicycle parking rooms.

The Project conforms to the required tapering of massing through stepped reductions of floor plate areas on upper floors and a vertical rhythm of window mullions from the base to the top of the buildings. The Project's façade design is inspired by the Key System, in reference to the Site's history as an artery of the original public rail transit that connected much of the East Bay with San Francisco. The materiality is defined by the earth-toned metal and limestone cladding system that once embellished the Key System. Both buildings feature an enclosure design that complements the Project's scale, while providing texture and visual interest by employing a pattern of serrated curtain wall at depths ranging from zero to 24 inches. On the tower, the two parallel facades facing Main Street and the interior courtyard follow a varying and opposite gradient pattern as the enclosure moves up and down the floor levels. The mid-rise building maintains a uniform serrated gradient within stacked bounding frames on the Howard and Beale Street frontages. The Schematic Design proposes a distinctive copper color of the tower's paneling system to differentiate it from the glassy skin of the adjacent Park Tower building when viewed from afar within the skyline.

COMMUNITY OUTREACH

The Transbay CAC has received regular status reports in meetings since approval of the Option Agreement in 2016. In March 2022, OCII staff provided an overview and update on the status of the Project. On May 12, 2022 the Transbay Citizens Advisory Committee ("CAC") voted unanimously to recommend that the Commission approve 1) the amendment to the Redevelopment Plan, 2) the amendment to the Development Controls, 3) the terms of the DDA, and 4) the Schematic Design. CAC members were pleased to see the Project moving forward and were complimentary of the design.

In addition to the Transbay CAC and public hearings, the Developer presented the Project to the Bay Area Council on May 26, 2022, the San Francisco Housing Action Coalition on June 15, and has reached out to other organizations including the East Cut Community Benefit District to schedule presentations and answer questions.

EQUAL OPPORTUNITY PROGRAM AND COMPLIANCE WITH OCII POLICIES

The Developer has agreed to, and the DDA stipulates (as noted above), compliance with OCII's SBE Program, Construction Workforce Program First Source Permanent Hiring Program, and Prevailing Wages Policy.

In addition, the Developer will provide $100,000 to fund a study on the availability, capacity and needs of local SBE contractors to perform on large construction projects, such as Block 4. The study's findings will be used to inform OCII, the Developer, and the general contractor in maximizing SBE participation on this Project as well as future OCII projects. The Developer will also provide $25,000 per year for three years to the City's Contractor Development Program (or a similar training/technical assistance program) to assist local SBE contractors in performing work on the Project.

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The Project is currently exceeding OCII's 50% SBE participation goal for professional services contracts. To date, the Project has achieved 79.5% SBE participation, 78.2% for San Francisco-based SBEs, 0.9% for minority-owned firms, 13.1% for minority women-owned businesses, and 37.7% for women-owned firms. Please see Attachment 2 for a SBE Consultant Summary and Attachment 3 for the biographies of select participating SBE firms.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

On June 15, 2004, the Board of Supervisors affirmed, by Motion No. 04-67, the certification under CEQA of the Final Environmental Impact Statement/Environmental Impact Report for the Transbay Terminal/Caltrain Downtown Extension/Redevelopment Project ("FEIS/EIR"). Subsequently, the Board of Supervisors adopted, by Resolution No. 612-04 (October 7, 2004) findings that various actions related to the Project complied with CEQA and the Former Agency Commission adopted, by Resolution No. 11-2005 (January 25, 2005), findings and a statement of overriding considerations and mitigation and monitoring program adopted in accordance with CEQA. Subsequent to the adoption of the FEIS/EIR, the Former Agency Commission or Commission have approved and incorporated eight addenda into the analysis of the FEIS/EIR (as incorporated, the "FEIS/EIR").

OCII, in consultation with the Planning Department, has prepared Addendum No. 9 to the FEIS/EIR, dated June 13, 2022 (enclosed as Exhibit A to the resolution to adopt environmental findings). Addendum No. 9 evaluates the potential environmental effects of the proposed Project (including accompanying amendments to the Redevelopment Plan and Development Controls, as well as the authorization of the DDA and the conditional approval of the Schematic Designs) and concludes that the Project and accompanying approvals is within the scope of the project analyzed in the FSEIR and will not result in any new significant impacts or a substantial increase in the severity of previously identified significant effects, and no new information has become available that shows that the Transbay Redevelopment Project will cause new or more severe significant environmental impacts.

Addendum No. 9 recommends Improvement Measure I-TR-1 (Driveway and Loading Operations Plan (DLOP) and Improvement Measure I-TR-2 (Queue Abatement), which will further minimize transportation impacts of the Project. Compliance with these Improvements Measures has been incorporated into the requirements of the DDA.

Therefore, staff recommends that the Commission make CEQA Findings that state that no subsequent or supplemental environmental review is required under CEQA beyond Addendum No. 9 and determine that the Project (including accompanying approvals) is within the scope of the project analyzed in the FSEIR and require no further environmental review beyond the FEIR pursuant to CEQA and CEQA Guidelines Sections 15180, 15162, and 15163.

STAFF RECOMMENDATION AND NEXT STEPS

OCII staff recommends that the Commission adopt environmental review findings, approve the proposed amendments to the Redevelopment Plan and Development Controls, approve the DDA, and conditionally approve the Schematic Design.

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Upon Commission approval of each action and consistent with Community Redevelopment Law, the Sponsor will proceed to seek necessary approval actions from the Planning Commission and the Board of Supervisors for the Plan Amendment. In addition to considering the proposed Redevelopment Plan Amendment, the Planning Commission and Board of Supervisors will consider a related amendment to the General Plan to increase the allowable height on Block 4.

If the amendments to the Plan Documents and General Plan are approved, the Sponsor will further develop designs, obtain building permits, and seek to secure financing with the intent of starting construction in late 2023 with a completion date in 2027.

(Originated by Kim Obstfeld, Development Specialist)

DocuSigned by:
Thor Kaslofsky
B10961FA8449406...

Thor Kaslofsky
Executive Director

Attachment 1: Map of Transbay Project Area
Attachment 2: Development Controls Amendment Summary
Attachment 3: SBE Consultant Summary
Attachment 4: SBE Biographies

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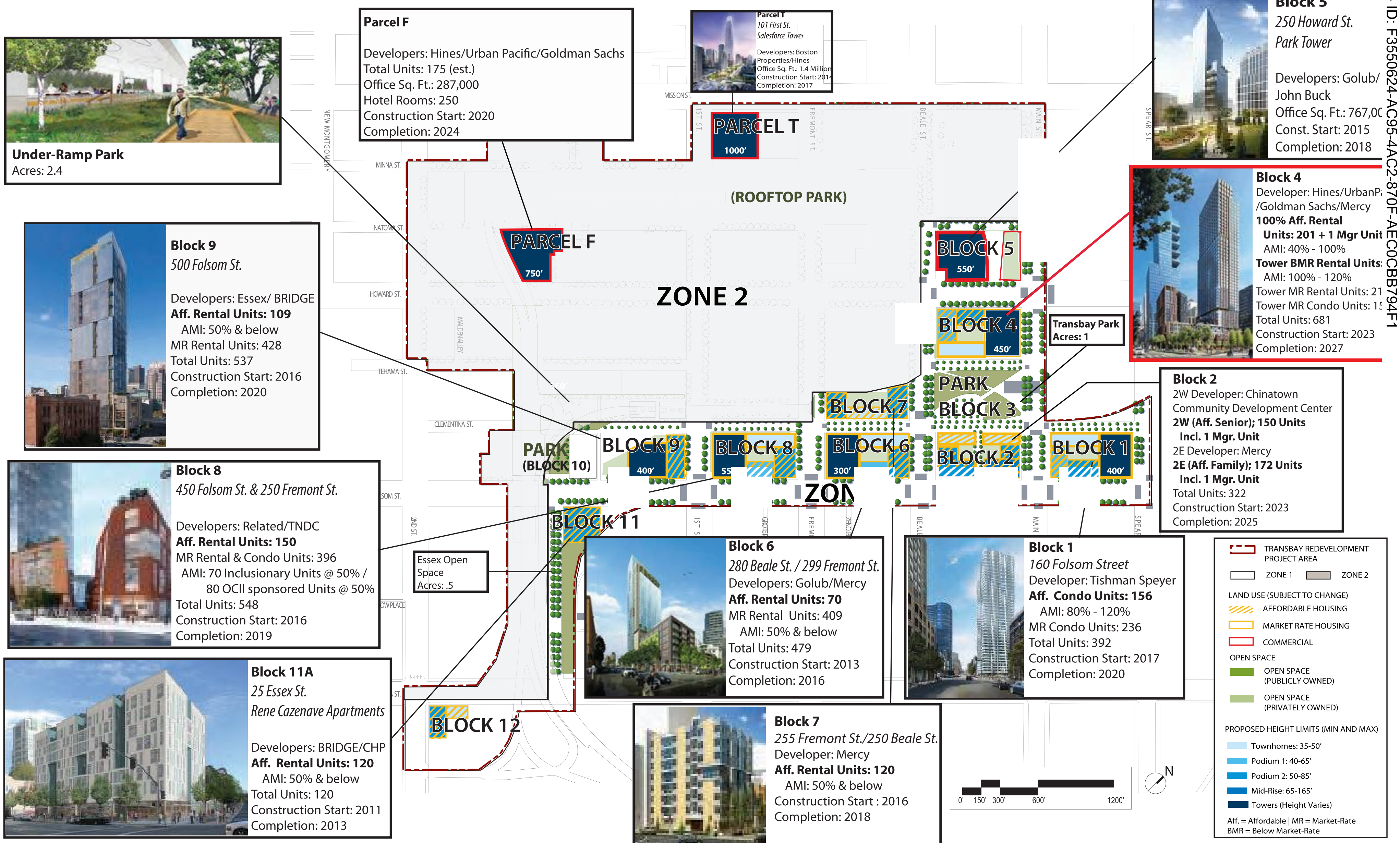
Attachment 1

TRANSBAY REDEVELOPMENT PROJECT AREA



6/15/2022

Attachment 2

Development Controls Amendment Summary				
No.	**Topic**	**Development Control**	**Proposed Amendment**	**Amendment Justification**
Overall				
1	Parcel, Setback & Height Maps	Proposed Project is not compliant with restrictions on Parcel Map 3, Setback Map 4 and Height Map 5 in the Development Controls	Add alternative to parcel, setback and height maps to match the Project	• Maps 3, 4 and 5 require revisions to approve the Project and its Schematic Design. • The form-based zoning of the Development Controls remains in effect. Original Parcel area footprints are maintained. Parcel heights are increased in proportion to one another. Heights and setbacks are modified, described and justified below.
2	Construction over Open Space Parcel	Only allowed on one block fronting Folsom Street to accommodate expansion of a ground-floor commercial use, with open space on roof	Allow construction over Open Space Parcel on Block 4 to accommodate ground-floor driveway aisles and parking, with open space on roof	• Using the Open Space Parcel for at-grade driveway aisles and valet parking accommodates a ground-floor automobile drop-off at the Tower lobby. • Allowing ground-floor, lobby-level valet drop-off enhances the marketability of the Tower units, and therefore, the financial feasibility of the Project.
3	Off-street parking on ground floor	Not allowed above grade	Allow off-street valet or temporary parking at grade within the Open Space Parcel on Block 4	• Using the Open Space Parcel for temporary or at-grade parking facilitates a ground-floor automobile drop-off at the Tower lobby. • Allowing ground-floor, lobby-level valet drop-off enhances the marketability of the Tower units, and therefore, the financial feasibility of the Project.
4	Townhouse frontage	Townhouse stoops are required fronting Main and Beale Streets on Block 4	Eliminate required Townhouse frontages on Main and Beale Streets on Block 4	• Ground floor area is needed for retail, lobby, vehicular access, and other building-supporting uses, such as utilities. • Curb cuts on Main Street for garage access and on Beale Street for loading access. • Main and Beale Streets have high volumes of pedestrian traffic and therefore are more appropriate for street-level retail and lobby uses than for residential stoops. • Ground floor units do not exist nor are proposed along Main and Beale Streets on Blocks 2, 3, 4 and 5 in Zone One, the

Attachment 2

Development Controls Amendment Summary				
No.	**Topic**	**Development Control**	**Proposed Amendment**	**Amendment Justification**
				Design for Development's "Main-Beale Precinct."
5	Setbacks on Howard, Main, Beale and Tehama Streets.	6' to 10' setbacks are required on Howard, Main, Beale and Tehama Streets, except at the corners of Howard and Main Streets and Howard and Beale Streets.	Eliminate setback requirement on Beale and Howard Streets, reduce setback length on Main Street frontage to align with Townhouse building's exterior side yard, remove setback requirement on Mid-Rise Project's Tehama Street frontage	• Townhouse frontage requirements and their corresponding setbacks are proposed to be removed on Main and Beale Streets on Blocks 4 and 2. • Ground floor building area is needed for retail, lobbies, vehicular access, and other building-supporting uses. • Urban retail pedestrian experience enhanced by bringing retail and lobby uses closer to block edge and sidewalk and is consistent with existing surrounding development. • Allows for increased building footprints and massing. This accommodates additional dwelling unit square footage, particularly within the portions of the buildings below 85' in height that have no additional bulk controls.
Tower and Townhouse Controls				
6	Tower Building Maximum Height	450' on Block 4	Increase max. height of Tower Parcel to 513' on Block 4	• The proposed height is lower than that of the adjacent Park Tower building and helps maintain the concept of a "saddle" shaped by building heights along the skyline between Rincon Hill and the Financial District, as viewed from the east and the west, and as proposed by the TCDP. • The distinctive copper color of the Tower's paneling system will differentiate it from the glassy skin of the adjacent Park Tower building when viewed from afar within the skyline. • Heights of towers constructed and proposed north of Block 4 and south of Market Street have increased substantially since the approval of the Development Controls – a result of the TCDP adopted in 2012.

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Attachment 2

Development Controls Amendment Summary				
No.	**Topic**	**Development Control**	**Proposed Amendment**	**Amendment Justification**
				• The increased height causes minimal added shadow over parks. • The increased height in the Tower will produce additional dwelling units, contributing to the Project's ability to deliver 45% affordability.
7	Tower Building Maximum Screening Height	10% of building height, or 51' for a 513'-tall Tower	Reduce to 39' while requiring adequate screening of rooftop mechanical equipment	• Lowered screening results in a max. 552'-tall profile on the skyline, which is approximately 50' lower than the profile of the adjacent Park Tower building, and a desirable differentiation in the skyline.
8	Maximum Floor Plate Area	13,000 sf for the portions of a 513-foot-tall Tower higher than 85'	Increase on Block 4 to 15,200 sf for the portions between 85' and 122' in height of a Tower over 500' tall	• The increased floor plate area in the lower quarter of the Tower extends the Tower base from 85' to 122' to provide a proportional tapering of the Tower massing. • The increase in floor plate area in the Tower affects three floors, producing additional dwelling units, contributing to the Project's ability to deliver 45% affordability.
9	Maximum Plan Dimension	130' for buildings with heights ranging between 501' and 550'	Increase to 150' for buildings with heights ranging between 501' and 550' on Block 4	• Park Tower, located immediately to the north of Block 4 across Howard Street, is a commercial office building with a larger floorplate than allowed by the original Development Controls. In 2015 the Development Controls were amended to allow for the Park Tower development. As a result of the expansion of the Tower Parcel on Block 5 and its increased bulk, to avoid placing the Block 4 Tower directly across Howard Street from Park Tower, the Block 4 Tower is required to have a longer dimension along Main Street and a shorter dimension on Howard Street, which results in a need for an increased max. plan dimension along Main Street, as well as an increased max. floor plate aspect ratio.
10	Maximum Floor Plate Aspect Ratio	1:1.2 for building with heights between 501' and 550'	Increase to 1:1.46	

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Attachment 2

Development Controls Amendment Summary				
No.	**Topic**	**Development Control**	**Proposed Amendment**	**Amendment Justification**
11	Townhouse Parcel Height	Max. height of Townhouse Parcels is 50’	Increase max. height of Townhouse Parcel to 71’ on Block 4	• Increase proportional to the increase in heights of all Block 4 buildings. • The increase in heights produce a “stepping up” effect of building heights from Block 3 Transbay Park north to the higher heights of buildings in the Transit District Subarea and Zone Two of the Project Area. • The increased height produces a minimal increase in new shadow on parks.
12	Townhouse Maximum Number of Floors	4 floors	Increase to 6 floors on Block 4	• Corresponds to the increase in height of the Townhouse row.
13	Townhouse width	Max. width of Townhouses is 30’	Apply the max. width to a 30’ architectural modulation on the front façade of the Block 4 Townhouse adjunct, thus allowing units wider than 30’ within the Townhouse building.	• The appearance of 30’-wide architectural modulations on the front façade of the Townhouse building, from the ground-floor stoops to the upper floor, mirrors the appearance of 30’-wide Townhouse modules.
Mid-Rise Controls				
14	Block 4 Podium 1 Parcel Height	Max. height is 65’	Increase height max. to 163’, merge Podium 1 Parcel with Podium 2 Parcel and portion of Townhouse Parcels and redesignate as a Mid-Rise Parcel	• Increased heights are similar to or lower than the height of buildings immediately surrounding the Project and in its vicinity. • Increased heights produces additional affordable units, contributing to the Project’s ability to deliver 45% affordability.
15	Block 4 Podium 2 Parcel Height	Max. height is 85’	Increase height max. to 115’, merge Podium 2 Parcel with Podium 1 Parcel and portion of Townhouse Parcels and redesignate as a Mid-Rise Parcel	
16	Maximum Plan Dimension	100’ for buildings with heights in the range of 85’ to 250’	Increase to 147’ for buildings with heights in the range of 85’ to 250’ on Block 4	• Needed to effectuate the merging of the Podium Parcels and a new Mid-Rise on Block 4.
17	Maximum Floor Plate Aspect Ratio	1:1.6 for buildings with heights in the range of 85’ to 250’	Increase to 1:1.7 for buildings with heights in the range of 85’ to 250’ on Block 4	• Ratio updated as a result of changes to max. plan dimensions.
18	Maximum Floor Plate Area	7,500 sf for buildings with heights in the range of 85’ to 250’	Increase to 13,500 sf for buildings on Block 4 with heights in the	• Larger Mid-Rise floor plates are needed to effectuate the merging of the Podium Parcels

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Development Controls Amendment Summary				
No.	**Topic**	**Development Control**	**Proposed Amendment**	**Amendment Justification**
			range of 85' to 250' (height of Mid-Rise Affordable Project)	to create a new Mid-Rise on Block 4. The new Mid-Rise's bulk is increased to cover portions of both Podium Parcels. • Increased Mid-Rise floor plate will produce additional affordable units.
19	Mid-Rise Parcel designation	Designated as Townhouse Parcel	Redesignate about 75'-long segment of Townhouse Parcel to the Block 4 Mid-Rise Parcel	• Redesignation required to be consistent with the proposed building type and height.
20	Mid-rise Parcel Height at Tehama & Beale	Max. height of Townhouse Parcel is 50'	Portion of Townhouse Parcel redesignated as Mid-Rise Parcel includes max. height increase to 68'	• Increased height aligns with the increased height of the Townhouse Parcel to create a unified massing that properly frames the Transbay Block 3 Park. • Increasing the affordable unit count brings the construction cost per unit down (a factor in securing affordable housing financing sources). • Merging a portion of the original Townhouse Parcel with the new Mid-Rise Parcel increases the "efficiency ratio," allowing more units to access one common vertical circulation core and therefore devoting more floor area to dwelling units. .

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Transbay Block 4

Professional Consultant List

Consultant	Discipline	Total Fees	SBE Credit*	SF-SBE	MBE (*For Informational Purposes Only*)	M/WBE	WBE	Ethnicity**
Lead Architect w/ Associate	SCB / Kennerly	$ 5,335,369	$ 5,335,369	$ 5,335,369			$ 5,335,369	
Lead Architect w/ Associate	SCB / Quezada	$ 1,747,428	$ 1,747,428	$ 1,747,428		$ 1,747,428		Latina
Structure	MKA/FTF	$ 1,273,000	$ 1,273,000	$ 1,273,000				
Civil	BKF/Sage	$ 308,923	$ 308,923	$ 308,923				
MEP	Meyers	$ 1,462,200	$ 1,462,200	$ 1,462,200				
Geotechnical	Langan	$ 510,550						
Interior	Thomas Juul-Hansen	$ 1,910,000						
Acoustic	Vibro-Acoustic Consultants	$ 129,000	$ 129,000	$ 129,000	$ 129,000			Persian
Accessibility	Z Nathan	$ 72,000	$ 72,000	$ 72,000				
Building Main	Highline	$ 67,500	$ 67,500					
Elevator	Persohn/Hahn	$ 77,600						
Enclosure/Waterproofing	Morrison Hershfield	$ 194,800						
Landscape	Peterson	$ 412,550	$ 412,550	$ 412,550				
LEED Commissioning	STOK	$ 126,780	$ 126,780	$ 126,780				
LEED Consulting	AR Green	$ 106,500	$ 106,500	$ 106,500		$ 106,500		Latina
Life Safety	The Fire Consultant	$ 125,000	$ 125,000					
Parking	IPD/Waltry/Walker	$ 91,000						
Renderer	Steel Blue	$ 63,000	$ 63,000	$ 63,000				
Shadow Study	Fascast	$ 33,750						
Surveyor	Martin Ron	$ 27,000	$ 27,000	$ 27,000				
Trash Management	American Trash Management	$ 32,000						
Wind	CPP	$ 49,000						
	Total	**$ 14,154,950**	**$ 11,256,250**	**$ 11,063,750**	**$ 129,000**	**$ 1,853,928**	**$ 5,335,369**	
	% of Total Fees		**79.5%**	**78.2%**	**0.9%**	**13.1%**	**37.7%**	

* Full SBE credit is granted to joint ventures and associations where the SBE partner performs at least 35% of the joint venture or association agreement

** Ethnicity and/or gender data were gathered from third-party sources and presented for informational purposes only. Such data have not been verified.

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Transbay Block 4
SBE Consultant Biographies

Quezada Architecture (Associate Architect)

Established in 1994, Quezada Architecture (QA) is design firm based in San Francisco and Los Angeles working in a wide range of sectors and scale of projects. Our team of architects and designers create buildings and environments that reflect our clients' passions, culture, and respect for the environment. With diversity as a core value, thoughtful hiring and team building is reflected in our firm make-up which identifies as 72% women and 50% minority. QA is a San Francisco LBE (WLBE) for Interior Design and Architectural Services and a Micro-LBE (MLBE) for Space Planning and Relocation Services and Computer Aided Design (CAD). These certifications are valid through March 2025. We are also proud to be both a nationally certified Woman-Owned Business Entity (WBENC) and Minority-Owned Entity (NMSDC).

Kennerly Architecture & Planning (Associate Architect)

Founded in 2004, Kennerly Architecture & Planning, Inc. has made urban buildings and place-making a cornerstone of its practice. Working primarily in San Francisco, the work reconciles the sensitivities of neighborhood context with the high level of design and amenity which stakeholders demand. Starting with multi-unit infill buildings and residences, the projects have grown to include complex mixed-use and high-rise projects on challenging infill and brown-field sites throughout the Bay Area. Working at a range of scales from homes to high rises, interior design to urban planning, the firm has developed a reputation for the thoughtful integration of program, constraints, and high-design aspiration. Kennerly Architecture & Planning is a Woman-Owned San Francisco Local Business Enterprise and Micro Local Business Enterprise.

FTF Engineering (Associate Structural Engineer)

FTF Engineering is a structural and civil engineering firm serving clients in the greater San Francisco Bay Area and the California Central Coast. FTF was founded in 2002 and it has 20 years of experience providing structural engineering services. With offices in San Francisco and San Luis Obispo, our team of highly qualified structural engineers collaborates with project stakeholders to create innovative and efficient structural designs, provide clear construction documentation, and support construction implementation. FTF Engineering is classified as an SBE-Local Business Enterprise (SBE-LBE-CMD- 122415518) by the City and County of San Francisco City Administrator's Office Contract Monitoring Division and certified by the State of California as a small business (micro) firm (Certification No.: 2000037).

Meyers + Engineers (HVAC, Electrical, Plumbing, Fire Protection and Energy Modeling)

MEYERS+ ENGINEERS was founded in November 2014 with full operations commencing in May 2015. MEYERS+ submitted a proposal for Transbay Block 4 on April 26, 2017 at which time they were a San Francisco LBE with 26 full-time employees. Per the OCII rules, MEYERS+ ENGINEERS' fees for the project qualify as LBE fees given that the project bid date occurred while MEYERS+ was an LBE. MEYERS+ ENGINEERS is a success story of the LBE program, having graduated from the program in June 30, 2019, fulfilling their growth plan to take on the largest and most challenging projects. MEYERS+ ENGINEERS is wholly owned by its principals and are focused on their clients and projects. MEYERS+ ENGINEERS is based in 98 Battery St. in San Francisco and provide consulting engineering services for HVAC, electrical, plumbing, fire protection and high-performance sustainable design.

SAGE Engineering (Associate Civil Engineer)

SAGE is a Woman-Owned, Micro-Local Business Enterprise (WBE, Micro-LBE) with extensive experience in both private sector development and public infrastructure projects. SAGE has been in business for over 8-years providing hands-on, detail-oriented, and client-focused service to both public and private clients. Founded in 2014 as a California S Corporation, SAGE San Francisco Business Certification No. 0487321 and San Francisco LBE Cert No. CMD101716922. SAGE office is located at 12 Geary Street in San Francisco CA. The firm principals, Kirsten Hanson and Erik Alderson, each have over 20 years of experience in civil design, including recent and on-going experience with multi-family housing and high-rise projects in San Francisco. SAGE's staff consists of four full time engineering professionals with auxiliary administrative and accounting support staff.

Petersen Studio (Landscape Architect)

Petersen Studio is a San Francisco-based, local business enterprise, landscape architecture practice committed to creating engaging and enduring places rooted within the urban context. The firm specializes in high-density residential landscapes, corporate campus design, waterfront redevelopment, and public parks. Founding Principal Jacob Petersen applies his 20 years of professional experience to the hands-on leadership and oversight of each project. Petersen Studio has the expertise to deliver the most complex and challenging landscape architecture projects.

AR Green Consulting (Sustainability Consultant)

AR Green Consulting LLC is a sole owner, certified small (micro), woman-owned, and local business in San Francisco founded by Adhamina Rodriguez in 2015. AR Green specializes in green building consulting, certification, and training. Adhamina brings to the team over 24 years of experience and hundreds of successfully completed green building projects. Our practice offers a holistic approach to green buildings that anticipates gaps in scope and highlights synergies among different systems to optimize the project's performance and health. Adhamina is an accomplished green building administrator that maximizes green building certification levels.

Zachery Nathan Architect (Accessibility Consultant)

Zachary Nathan Architect is a full-service architectural firm founded in 1984 with special expertise as a disabled access consultant. Our 2 person firm is a certified San Francisco Local Business Enterprise (LBE) and a San Francisco certified Micro Local Business Enterprise. CMD102310636, expiration is October 31, 2023. Our services include disabled access surveys, plan review, construction document preparation, technical consultation, code interpretation, preparation of CASp reports, documentation of hardship, construction site visits for verification of compliance with disabled access regulations and expert witness.

Highline Consulting (Exterior Building Maintenance)

Founded in 2008, Highline Consulting, Inc. is a Livermore, CA based consulting firm specializing in the assessment, design, and documentation of Exterior Building Maintenance and Fall Protection systems which protect workers while they are exposed to great heights. The firm's Principal, Sean Branecki, has extensive industry experience in managing a wide range of operations; and is qualified by California's Department of Industrial Labor's Division of Occupational Safety and Health as an approved Scaffold Inspection & Testing (SIT) surveyor holding SIT License # 40. Highline Consulting, Inc. is certified by the California Department of General Services from 04/18/2016 to 01/31/2024 as SB (Micro), a Small Business.

The Fire Consultants (Fire Protection Engineer)

The Fire Consultants, Inc. is a fire protection engineering and consulting firm with widespread experience conducting fire protection and life safety assessments, developing fire protection reports and code compliance assessments, as well as, designing fire alarm, sprinkler and special suppression systems and reviewing those designs by others. The Fire Consultants, Inc. has offices in the San Francisco Bay Area and the Raleigh North Carolina area and participates in projects anywhere. The Fire Consultants, Inc. was registered as a small business in California at the start of the project in 2017. However, the company is no longer registered as a small business in California or San Francisco, despite meeting the revenue thresholds as a small business.

Vibro-Acoustic Consultants (Acoustical Engineer)

We formed Vibro-Acoustic Consultants (VACC) in 2000 to provide acoustical consulting & engineering solutions to industries and institutions worldwide. For 22 years, we have offered a full array of vibration, noise control, and acoustical design consulting and monitoring services. Our staff includes four full-time engineers, plus part-time specialists for unique projects. Our background includes residential and mixed-use developments, including projects with SFRA and other redevelopment agencies. Our work spans all project phases, including environmental studies to support permitting; building envelope and interior acoustical design; testing to ensure regulatory or contractual compliance; and monitoring during construction. We are certified LBE/MBE by the SF Human Rights Commission (Certificate HRC121414325) and are in the City's procurements system as Vendor #61644. We are also certified SBE/micro-small business by the California OSDS (SBA#1216481). Unlike some consultancies, we perform all work in-house. We do not subcontract out any work (such as environmental testing); therefore 100% of our budget is applicable toward LBE/MBE/SBE goals

Steelblue (Computer Graphics)

Based in San Francisco and founded in 2008, Steelblue is a creative agency that works exclusively on premier real estate projects with elite developers and architects. We are a team of strategists, creatives, artists, and architects constantly striving to evolve the communication of real estate assets. We use photorealistic visualization, filmmaking, and photography to capture unique elements of the human experience in the places in which we live. Steel Blue LLC is certified as a San Francisco Local Business Enterprise and a Micro Local Business Enterprise. Our certification number is: CMD122415883. This certification allows our company to be eligible to receive 10 percent discount/percent added in all bids/proposals with the City and County of San Francisco when bidding/proposing as a provider of computer graphics and graphic arts.

Martin M. Ron Associates, Inc. (Land Surveyor)

Martin M. Ron Associates, Inc. has been providing land surveying services in San Francisco for over 50 years. We are a small family run business specializing in downtown development projects of all sizes including both market rate and affordable housing projects. We are a California SBE certified firm and are working toward becoming a San Francisco LBE. All field personnel are members of the Local 3 Operating Engineers Union.

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OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

ATTACHMENT 3: 12/6/22 Commission Memo

118-2352022-002

Agenda Item **No. 8(a)**
Meeting of December 6, 2022

INFORMATIONAL MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Status of the Transbay Block 4 Project

On June 21, 2022, the Commission took multiple actions, including approval of a Disposition and Development Agreement ("DDA") with F4 Transbay Partners LLC, an affiliate of Hines, Urban Pacific, and Goldman Sachs (the "Sponsor"), and Transbay Block 4 Housing Partnership, L.P, an affiliate of Mercy Housing California (the "Affordable Developer"). The DDA authorizes, subject to a Transbay Redevelopment Plan amendment ("Redevelopment Plan"), a mixed-use development on Transbay Block 4 generally comprised of 681 residential units, ground floor retail, public and private open space, the construction of an extension of Tehama Street, streetscape improvements, and underground vehicular and bicycle parking (the "Project").

Residential units in the Project are located in three different building types, a tower, townhomes, and a mid-rise building. There are 155 market rate units in the upper portion of a tower and a townhouse adjunct, 324 rental units in the lower portion of the tower (including 219 market rate units and 105 below market rate units affordable to moderate income households), and 202 affordable rental units in a mid-rise project serving very low to moderate income households ("the Mid-Rise Affordable Project").

Following the Commission hearing, the Planning Commission took action to recommend a Redevelopment Plan amendment for the Project and related actions to recommend General Plan and Zoning Map amendments. Similarly, legislation for Project approvals was introduced at the San Francisco Board of Supervisors ("Board of Supervisors" or "BOS") and scheduled for hearings.

London N. Breed
MAYOR

Thor Kaslofsky
EXECUTIVE DIRECTOR

Miguel Bustos
CHAIR

Mara Rosales
Bivett Brackett
Alex Ludlum
Dr. Carolyn Ransom-Scott
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In August 2022, prior to the scheduled Board of Supervisors hearings, the Sponsor informed OCII staff that its affiliate entity would be unable to provide[1] OCII with an irrevocable letter of credit ("LOC") for approximately $46.7 million that was due when the DDA became effective (which was projected to occur in January 2023 under the original Project schedule) and that is required under a Development Agreement ("DA") with the City for a project at Parcel F. Parcel F is located in Zone Two of the Transbay Redevelopment Project Area. Under the Block 4 DDA, OCII had agreed to receive and commit the Parcel F DA funds to the Mid-Rise Affordable Project, a key element for the Sponsor securing overall project financing and meeting the schedule requirements set forth in the DDA.

Without the certainty of the LOC to fulfill DDA obligations, OCII and the Sponsor jointly requested that the Board of Supervisors table the associated legislation for Block 4.[2] Subsequently, the Sponsor put forth proposals to modify the Block 4 DDA to address the Sponsor's and Affordable Developer's concerns regarding unfavorable overall market conditions and competition for affordable housing funding sources.

The Sponsor and Affordable Developer seek substantive changes to the DDA relating to Project delivery obligations and responsibilities and funding for the Mid-Rise Affordable Project, including a request for OCII to be responsible for any gap in the financing of the Mid-Rise Affordable Project over a yet to be agreed upon fixed amount. The Sponsor and Affordable Developer assert that these changes will improve the viability of the Project. Key proposed terms include:

1. Since the Sponsor can no longer deliver the LOC within the Schedule of Performance as discussed above, utilize tax increment funds to advance the approximately $46.7 million Parcel F Fee as a loan to the Mid-Rise Affordable Project. The Parcel F DA would continue to require payment of the Parcel F Fee to OCII when and if that project moves forward, but the LOC requirement would be eliminated.
2. Establish a fixed amount that the Sponsor would contribute to the Mid-Rise Affordable Project rather than funding the full amount necessary to deliver the project, which will fluctuate based on costs and the availability of other funding sources. OCII would have to fund the balance of the gap.
3. Instead of simultaneous construction, bifurcate construction and delivery of the Tower/Podium and Mid-Rise Affordable Project. The Affordable Developer will be responsible for constructing the Mid-Rise Affordable Project and seeking financing commitments after the Sponsor commences construction of the Tower and Podium.
4. Have the Affordable Developer manage the Mid-Rise Affordable Project program as needed to improve competitiveness for funding sources (such changes may include deepening affordability and removing costs from tax credit basis). Per note above, OCII would be responsible for any increased gap resulting from these changes.

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[1] According to the Parcel F DA , the Sponsor is required to provide an enforceable letter of credit to OCII in the amount of the Parcel F affordable housing fee within 30 days of the effective date of the Block 4 DDA.

[2] Due to a time-sensitive requirement for Board of Supervisors action on the General Plan amendment, the General Plan amendment legislation was recommended for disapproval by the Board of Supervisors and will need to be reinitiated with the Planning Commission should the Project proceed.

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5. Extend the Schedule of Performance to include additional time for 18 months of predevelopment to, according to the Sponsor, allow overall market conditions around costs and availability of financing for the Tower to improve.
6. Sponsor noted that land value may need to be revisited to account for changes to AMI levels or deal structure given that the appraisal used to determine the current price of $6 million relied upon provisions of the current DDA.

The Sponsor suggests a six-month period to work through these proposed modifications and incorporate them into a new DDA. Staff is evaluating proposed deal modifications related to the above terms. Should negotiations proceed, the Commission would consider, at a later date, an agreement, such as an exclusive negotiations agreement, to clarify the scope of negotiations and set forth a schedule and obligations for the negotiations period.

BACKGROUND

Transbay Redevelopment Project Area

The Board of Supervisors of the City and County of San Francisco (“City”) established the Project Area and approved the Redevelopment Plan for the Transbay Redevelopment Project Area by Ordinances No. 124-05 (June 21, 2005) and No. 99-06 (May 9, 2006), as amended by Ordinances No. 84-15, (June 18, 2015) and No. 62-16 (April 28, 2016) (“Redevelopment Plan”). The Redevelopment Plan establishes the land use controls for the Project Area, and divides the Project Area into two sub-areas:

- Zone One in which the Redevelopment Plan and Development Controls define the development standards, and
- Zone Two in which the San Francisco Planning Code applies.

A major focus of the Project Area is to redevelop 10 acres of former highway access ramp properties previously owned by the State of California (the “State-Owned Parcels”) to generate funding for the Transbay Joint Powers Authority (“TJPA”) to construct what is now the Salesforce Transit Center (the “Transit Center”). OCII’s role is to complete the enforceable obligations that the State Department of Finance has finally and conclusively approved under Redevelopment Dissolution Law. These enforceable obligations include the Implementation Agreement between TJPA and the Former Agency, which requires OCII to facilitate the sale and development of certain State-Owned Parcels to third parties, to implement the Redevelopment Plan, and to comply with California Assembly Bill 812, codified in Section 5027.1 of the California Public Resources Code, which requires that 35% of all new or rehabilitated residential units in the Project Area be affordable to low- and moderate-income households (the “Transbay Affordable Housing Obligation”).

Block 4 is a formerly State-Owned Parcel located within Zone One of the Project Area. Block 4 is the northern portion of the former Transbay Temporary Terminal site (Assessor’s Block 3739, Lot 010), generally located at 200 Main Street, bounded by Howard, Main and Beale Streets and extending approximately 165 feet southeast from Howard Street. Immediately adjacent to the southwest lies the approximately 40-foot-wide future Tehama Street right of way (Assessor’s Block 3739, Lot 011) (the “Tehama Parcel”). Together, Block 4 and the Tehama Parcel comprise the “Site”. OCII acquired the Site from the TJPA in January 2021.

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Block 4 Relationship to Parcel F

Parcel F is another formerly State-Owned Parcel, located in Zone Two of the Redevelopment Plan (under Planning Department jurisdiction and subject to the Planning Code) adjacent to the southwestern end of the Transit Center. In early 2016 the TJPA entered into an agreement with an affiliate of the Sponsor ("Parcel F Developer") to purchase Parcel F, contingent on Commission approval of the Option Agreement for the purchase of Block 4. Under the Redevelopment Plan and City Code, all residential projects in the Project Area must provide on-site inclusionary units. The Parcel F Developer sought relief from this obligation for the Parcel F project by entering into an Option Agreement with OCII that would provide for the construction of affordable units on Block 4 instead of on Parcel F.

The Commission approved the Option Agreement in April 2016, and in June 2016, closed on the sale of Parcel F for a price of $160 million and began predevelopment. The Option Agreement provided for a right to exclusive negotiations with the Sponsor for a DDA requiring that the Sponsor purchase Block 4 for (1) $45 million, or (2) a price determined by negotiation with OCII after the parties agreed on all terms of the DDA except price, or (3) the fair market value of Block 4 subject to the terms of the DDA as determined by an appraisal process. The proceeds of the sale of Block 4 would be transmitted to the TJPA for the Transit Center construction. The Option Agreement also provided that the Sponsor would subsidize at least 45% of the units as affordable units, without any OCII subsidy. OCII retained the sole and absolute discretion to determine the total number and type of affordable units in the Block 4 project, as well as all other terms in the DDA, including various community benefits, except for sales price, which was to be determined by the above-described methodology prescribed in the Option Agreement.

In 2020, the Parcel F Developer proposed paying an affordable housing fee to OCII that would satisfy the inclusionary housing obligation at Parcel F and that OCII would use at Block 4. In January 2021, the Commission approved, by Resolution No. 02-2021, a variation from the on-site inclusionary housing obligation for the Parcel F project on the condition that the Developer contribute to OCII an amount equal to one hundred fifty percent (150%) of the inclusionary housing fee that applied to other projects under the Planning Code.

Based on the Commission's variation and the approved Parcel F DA, the Parcel F project will pay an approximately $46.7 million in-lieu fee to OCII. OCII will provide a loan in the same amount to subsidize the Mid-Rise Affordable Project at Block 4 (this was addressed in the DDA approved by the Commission in June 2022). According to the Parcel F DA, the Parcel F developer will pay the affordable housing fee in full to OCII at least 45 days prior to the close of construction financing on the Mid-Rise Affordable Project at Block 4 or earlier, based on other stated construction/permitting milestones. To allow OCII to provide commitments for the OCII loan for Block 4, the Parcel F DA obligates the developer to provide an enforceable letter of credit in the amount of the affordable housing fee to OCII within 30 days of the Effective Date of the DDA.

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Block 4 Actions

OCII has been negotiating a deal for Block 4 with the Sponsor since the Commission's approval of the Option Agreement in 2016. Negotiations culminated in an approval of the Project through several actions in June 2022. The table below summarizes key Block 4 related actions to date.

Date	Action	Description
2016	Parcel F Purchase Agreement *TJPA Approval*	• Required that OCII enter into an Option Agreement Block 4 so that the Sponsor could fulfill the affordable housing obligations of Parcel F through the development of the Site.
2016	Option Agreement *Commission Approval*	• Granted Sponsor a right to exclusive negotiations for DDA with OCII • Established purchase price of either 1) $45 million, or 2) a price determined through negotiation with OCII, or 3) the fair market value as determined through an appraisal process • At least 45% of residential units restricted for affordability with no subsidy from OCII
2018	First Amendment to the Option Agreement *Commission Approval*	• Mercy selected as Affordable Developer; • Extended negotiations period; • Established a Term Sheet outlining the program: ○ Tower height increase (from 450' to 501'), consolidation of two podium buildings to a single mid-rise with an increased height (from 65'/85' to 150'); ○ 49% affordability (to meet the Transbay Affordable Housing Obligation based on the then-current Project Area development pipeline); ○ Location, size, and affordability levels of affordable units; ○ Funding for SBE capacity study and local worker training; ○ Detailed strategy for Certificate of Preference ("COP") holder outreach; ○ Transfer fee on resales of all market rate homeownership units to fund future maintenance of Transbay Park; and ○ Community-serving ground floor commercial space.
2020	Second Amendment to the Option Agreement *Commission Approval*	• Extended the negotiation period
2021	Third Amendment to the Option Agreement *Commission Approval*	• Short-term extension to evaluate a proposed reduction to the percentage of affordable units
2021	Fourth Amendment to the Option Agreement *Commission Approval*	• Replaced the 2018 Term Sheet with the Program for Appraisal (established Project affordability at 45%) • Extended the term to finalize negotiations and complete the appraisal process
June 21, 2022	• Environmental review findings • Redevelopment Plan amendment	• Approval of the Block 4 Project. Key DDA terms: ○ 681 residential units, 45% affordable for households with incomes ranging from 40% to 120% of area median income

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	• Conditional Development Controls amendment • Disposition and Development Agreement • Conditional Schematic Design *Commission Approval*	○ Payment of the fair reuse value of Block 4, which is $6,000,000 (as determined by the Option Agreement two-party appraisal process); ○ Development and completion of improvements in accordance with a Schedule of Performance ○ Enhanced outreach to COP holders; ○ OCII loan of approximately $46.7 million to fund the Mid-Rise Affordable Project (to be funded with proceeds from the Parcel F affordable housing fee); ○ Financing for the SBE Mentoring and Capacity Building Program; ○ Community-serving retail requirements; and ○ Creation of a transfer fee on condominium sales and resales to fund maintenance of the planned public park on Transbay Block 3.
July 28, 2022	• General Plan amendment • Zoning Map amendment • Redevelopment Plan amendment *Planning Commission Approval*	• Approvals related to increased height and bulk limits in regulatory documents needed to facilitate the Block 4 Project
November 1, 2022	General Plan amendment *Board of Supervisors Denial*	• Legislation was introduced to approve the Redevelopment Plan amendment, DDA and Air Rights Lease, and Zoning Map amendment, but was not acted upon and is now held at the BOS Land Use and Transportation Committee to the call of the Chair • The BOS was required to act upon this the General Plan amendment legislation within 90 days of the Planning Commission approval. Because the DDA terms were in question, the General Plan amendment ordinance was recommended for disapproval with the intent that it would be reintroduced if/when the Project proceeds.

NEXT STEPS

OCII staff will evaluate the Sponsor proposals and return to the Commission, as soon as January 2023 but no later than March 2023, with a recommendation to either 1) enter into a new agreement for a negotiations period, or 2) terminate negotiations and commence work on a request for proposals for the Site.

(Originated by Kim Obstfeld, Senior Development Specialist)

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Thor Kaslofsky
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Thor Kaslofsky
Executive Director