

MEMORANDUM

May 5, 2011

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Ann Lazarus, Vice President
Hon. Francis X. Crowley
Hon. Leslie Katz

FROM: Monique Moyer
Executive Director

SUBJECT: Informational Presentation on the Lease and Development of Seawall Lot 337 and Pier 48 bounded by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay

DIRECTOR'S RECOMMENDATION: Information Only - No Action Required

EXECUTIVE SUMMARY

On September 15, 2010 the Port entered into an Exclusive Negotiation Agreement (“ENA”) for the mixed use development of Seawall Lot (SWL) 337 and the adjacent Pier 48 with Seawall Lot 337 Associates, LLC (“Developer”).

Staff has been working with Developer to further define the proposed development concept. To this end, multiple conceptual site plan iterations have been reviewed with a goal of determining the flexible mix of uses which could support a feasible economic structure to ultimately deliver a successful project, i.e. one which will provide sufficient return to justify private investment; respond to the economic needs of the Port; meet the public objectives of the City and its residents; and fulfill the communities land use and design objectives for the site. The project differs from most other Port projects because of the scale of the opportunity site and the master planning efforts that must occur prior to development. Additionally, Developer is proceeding in an economic climate that poses extraordinary uncertainties regarding development markets and financing. Based on these factors, Port staff structured ENA business terms to provide flexibility and reduce Developer’s front end investment allowing it to proceed with site due diligence and provide flexible benchmarks to address the needs of a master planned project.

THIS PRINT COVERS CALENDAR ITEM NO. 9B

BACKGROUND

In October 2007, the San Francisco Port Commission initiated a two-phase developer solicitation process for SWL 337, a 16 acre Port waterfront site located along the south side of China Basin Channel, generally bounded by Third and Mission Rock Streets, and Terry Francois Boulevard; and Pier 48, a 212,500 square foot warehouse complex adjacent to SWL 337. Currently SWL 337 is used as a surface parking lot under lease to a San Francisco Giants affiliate. Pier 48 uses include, among other things, ballpark overflow parking in the northern shed and storage for the Department of Elections in the southern shed. All of these current uses are on short term leases in anticipation of development.

On May 12, 2009, the Port Commission awarded the SWL 337 development opportunity to Developer and authorized exclusive negotiations for a mixed used development project at SWL 337 and Pier 48.¹ That fall, the Developer informed the Port of changes to its development entity resulting from unforeseen impacts of the economic recession. Concurrent with Developer's complex internal reorganization efforts, Port and the Developer spent several months negotiating the terms of an Exclusive Negotiation Agreement (ENA).

EXCLUSIVE NEGOTIATION AGREEMENT

On May 25, 2010 the Port Commission approved the terms of the ENA and on September 15, 2010 the ENA was executed. The ENA is the agreement between the Port and Developer governing how the required agreements will be negotiated. It specifies the time frames and milestones for Port Commission, Planning Commission and Board of Supervisors review and approval. The ENA outlines a 2 phase approach. Phase 1 allocates 24–30 months for the parties to reach agreement on a project plan and financial terms culminating in Term Sheet approval by the Port and endorsement by the BOS. Phase 2 allocates 3 years to complete the entitlement and permitting process for the project. The benchmarks outlined in the ENA are shown in Exhibit B.

ENA PERFORMANCE BENCHMARKS UPDATE

Developer has met all benchmarks to date including the following:

On December 14, 2010 Developer submitted a Public Relations Program which describes its plans for conducting outreach to various community groups and stakeholders in the vicinity of the project, for educating the public with respect to the project, and for informing the Board of Supervisor's and other regulatory agencies about the project. Port staff including the Port's Public Information Officer have confirmed Developer's proposed program, if effectively implemented, will accomplish these outreach goals.

¹ Subject to the ENA's Financial and Negotiating Principles attached to Resolution No. 09-26.

On February 21, 2011 the Developer submitted its Formation Documents. This internal agreement defines team member roles and obligations as summarized below:

Wilson Meany Sullivan – Primary role as development adviser
Farallon Capital Management – Limited advisory role; probable limited equity stake
The Cordish Companies – 50% equity role
San Francisco Giants – 50% equity role (increase from RFP submittal)

Prior to receiving the Formation Document, Developer's team had included up to six partners. In addition to those mentioned above, Kenwood Investments and Stockbridge Capital were previously associated with the project but have since withdrawn, Staff believes the San Francisco Giant's significantly increased equity stake enhances the project's viability given their successful development experience on the San Francisco waterfront and their strong ties to the local and regional community. Similarly, The Cordish Companies' continued significant role serves to validate their commitment to the project's feasibility.

On March 15, 2011, the Developer submitted its Revised Proposal Concept. This benchmark is a critically important step initiating a 6-month period of intense review and analysis informing, refining and ultimately producing a Revised Proposal by late summer 2011. The Revised Proposal will serve as the basis for the project's term sheet.

NEXT STEPS

Port staff is working closely with Developer in weekly meetings to review and critique the Revised Proposal Concept. Our combined efforts this spring and summer will produce a Revised Proposal that includes a master plan level of detail regarding the development program, height and massing, parking and transportation, and phasing; an outline of a flexible development approach that will allow Developer to respond to changes in the economic and development environment; and a revised financial plan integrated with the outlined development approach.

Recognizing the key role of community input to date, staff and Developer will continue ongoing outreach to the Central Waterfront Advisory Group, the Mission Bay Citizen Advisory Committee, the Rincon Point-South Beach Citizen Advisory Committee and appropriate regulatory agencies. Beginning in early summer, input from these and other stakeholders will inform and help shape the Revised Proposal.

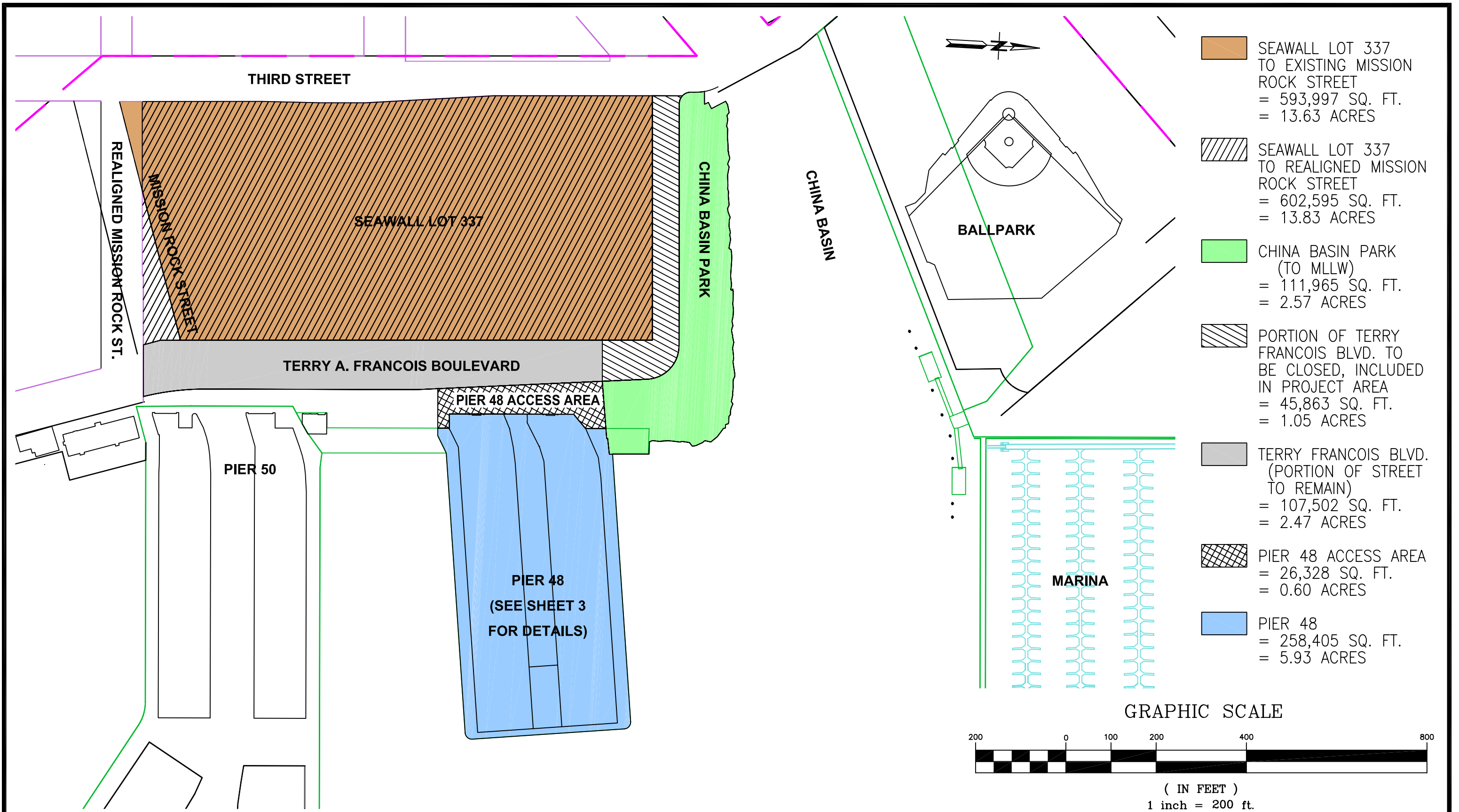
Prepared by: Phil Williamson, Project Manager
Jonathan Stern, Assistant Deputy Director
Waterfront Development
For: Byron Rhett, Deputy Director
Planning & Development

Exhibits

- A. Location Map
- B. ENA Term and Benchmarks

EXHIBIT B

Term	<p><u>Phase 1</u>: 24 months w/ one 6 month extension <u>Phase 2</u>: 36 months w/ two 6 month extensions</p>
Performance Benchmarks	<p><u>Phase 1 Benchmarks</u>:</p> <ol style="list-style-type: none"> 1. Agree on Phase 1 Transaction Costs Budget (Completed 6/7/10) 2. Submit Public Relations Program (Completed 12/14/10) 3. Submit Developer Formation Documents (Completed 2/21/11) 4. Submit Revised Proposal Concept (Completed 3/15/11) 5. Submit Revised Proposal (Due 9/15/11) 6. Submit Community Outreach Program (Due 10/15/11) 7. Submit Public Trust Consistency Proposal (Due 12/15/11) 8. Submit Regulatory Approval Plan (Due 12/15/11) 9. Submit Term Sheet (Due 12/15/11) 10. Obtain Port Commission Endorsement of Revised Proposal and Term Sheet (Due 6/15/12) 11. Submit Draft Report to Obtain Fiscal Feasibility Endorsement from Board (Due 7/15/12) 12. Obtain Board Endorsement of Term Sheet, Finding of Fiscal Feasibility (Due 9/15/12) <p><u>Phase 2 Benchmarks</u>:</p> <ol style="list-style-type: none"> 13. Agree on Phase 2 Transaction Costs Budget 14. Submit EIR Initial Study Application 15. Publication of EIR Initial Study 16. Publication of Draft EIR 17. Planning Commission Certification of Final EIR 18. Planning Commission Approval of Required Rezoning 19. Reach Agreement on Transaction Documents 20. Obtain Public Trust Consistency Determination 21. Obtain Port Commission Approvals 22. Obtain Board Approval of Lease 23. Obtain Regulatory Approvals 24. Complete Due Diligence Investigation
Incurable Defaults	<p>The following events will cause termination of the ENA without an opportunity to cure:</p> <ul style="list-style-type: none"> • Failure to agree on terms and conditions of the Term Sheet within the time allowed • Failure to obtain Port or Board endorsement resolution within the time allowed • Failure to execute the LDDA within the time allowed • Developer voluntarily withdraws or abandons the project • Developer assigns the ENA without Port consent • Developer initiates ballot measure or is in violation of the campaign contributions law



- SEAWALL LOT 337 TO EXISTING MISSION ROCK STREET = 593,997 SQ. FT. = 13.63 ACRES
- SEAWALL LOT 337 TO REALIGNED MISSION ROCK STREET = 602,595 SQ. FT. = 13.83 ACRES
- CHINA BASIN PARK (TO MLLW) = 111,965 SQ. FT. = 2.57 ACRES
- PORTION OF TERRY FRANCOIS BLVD. TO BE CLOSED, INCLUDED IN PROJECT AREA = 45,863 SQ. FT. = 1.05 ACRES
- TERRY FRANCOIS BLVD. (PORTION OF STREET TO REMAIN) = 107,502 SQ. FT. = 2.47 ACRES
- PIER 48 ACCESS AREA = 26,328 SQ. FT. = 0.60 ACRES
- PIER 48 = 258,405 SQ. FT. = 5.93 ACRES

APPROVED BY
SAN FRANCISCO PORT COMMISSION
DATE _____

CHIEF HARBOR ENGINEER

SAN FRANCISCO PORT COMMISSION
PORT OF SAN FRANCISCO
DEPARTMENT OF ENGINEERING

APPENDIX A
SEAWALL LOT 337
DEVELOPMENT OPPORTUNITY SITE

PREPARED BY: AMN	CHECKED BY: D. OSHIMA
DRAWN BY: AMN	DATE: MAY 19, 2008
CONTRACT NO.	SCALE: 1" = 200'
DRAWING NO.	SHEET NO. 2 OF 2 SHEETS