




## MEMORANDUM

December 8, 2023

**TO:** MEMBERS, PORT COMMISSION  
Hon. Kimberly Brandon, President  
Hon. Willie Adams, Vice President  
Hon. Gail Gilman  
Hon. Ed Harrington  
Hon. Steven Lee

**FROM:** Elaine Forbes  
Executive Director 

**SUBJECT:** Informational presentation on the status of the Piers 30-32 and Seawall Lot 330 mixed-use development project generally located at the Embarcadero and Bryant Street.

**DIRECTOR'S RECOMMENDATION:** Information Only – No Action Required

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### EXECUTIVE SUMMARY

On September 22, 2020, the Port Commission authorized Port staff to initiate negotiations towards an Exclusive Negotiating Agreement (“ENA”) with Strada-TCC (the “Developer”) for the Piers 30-32 and SWL 330 project (the “Project”). On February 23, 2021, the Port Commission authorized staff to enter into the ENA. Since that time, the Developer and staff have worked through key steps of the ENA process including conducting extensive outreach to State agencies and the community and obtaining critical State legislation.

At completion, the Project will include a projected 713 units of housing including 25 percent affordable, an aquatic center including a swimming pool, a retail market hall, approximately 375,000 square feet of office space with the potential for an additional 55,000 square feet of mezzanine space within the existing first floor, a reconstructed pier, and seismic and sea level rise resilience improvements to the seawall and pier infrastructure. The projected cost of the infrastructure and resilience improvements is approximately \$460 million, which does not include vertical development.

In September 2023, the State Senate and State Assembly unanimously voted in support of SB 273 (sponsored by Senator Wiener and co-sponsored by Assemblymembers Haney and Ting), and Governor Newsom signed the bill into law on October 7, 2023. The passage of SB 273 is a huge milestone for the project and allows the developer and Port to continue on the path to environmental review and execution of transaction documents.

The Project will use both an Infrastructure Financing District (“IFD”) and a Community Facilities District (“CFD”) as sources for horizontal infrastructure within the project. Even with these sources, based on the current pro forma the Project requires an additional \$125 million to fully fund the horizontal infrastructure and resilience needs at Piers 30-32. The Developer and Port staff will work to identify and secure sources to obtain at least this amount of funds to ensure the financial success of all phases of the Project.

The Developer and staff are now working on a term sheet with the intention of bringing a negotiated term sheet to the Port Commission in January to request Port Commission approval of the term sheet. Section 4 of this report discusses partial terms from the term sheet, with remaining terms such as price and terms of payment, Port participation, and schedule of performance still under negotiation. Staff will present these terms when requesting approval of the term sheet from the Port Commission.

After Port Commission approval of the term sheet, Port staff will bring the term sheet to the Board of Supervisors (“Board”) for endorsement in early 2024, along with a request that the Board find the Project fiscally feasible. If the Board finds that the Project is fiscally feasible, the Developer may submit an environmental evaluation application for the Project to the Planning Department.

## **STRATEGIC PLAN ALIGNMENT**

The Piers 30-32 and SWL 330 project will provide a range of public benefits including publicly accessible waterfront space, maritime uses, revenue generation, and significant resilience and infrastructure improvements. Through the Project, the Port will redevelop existing surface parking lots into major mixed-use buildings with seismically strengthened infrastructure built to protect against sea level rise. Additionally, the Project will activate the South Beach waterfront area through on-site retail space and aquatic activities.

Subject to all necessary approvals and completion, the Project will achieve seven of the Port's Strategic Plan objectives:

### Economic Recovery:

Contribute to the Port's financial strength by (a) using investor capital to address the Port's deferred maintenance backlog and/or (b) generating revenues for the Port to sustain ongoing operations and address deferred maintenance at other Port facilities.

### Resilience:

Reconstruct dilapidated piers to be seismically strengthened and elevated to protect against sea level rise, complete resilience improvements along a portion of the seawall for both seismic and sea level rise projections, and retain deep water berth as a strategic emergency access location.

Evolution:

Contribute to Port's ongoing transformation to better address the needs of the public and the Waterfront.

Engagement:

Throughout the project development process, represent the values of the Waterfront communities and provide amenities that increase the public's awareness of the site's remarkable history and setting.

Equity:

Completed Piers 30-32 and SWL 330 projects will be accessible, attractive, and beneficial to a diverse group of people who live, work, and/or use the recreational assets along the Waterfront.

Sustainability:

Represent environmental stewardship in protecting the Bay and creating housing in transit- and job-rich areas reducing emissions and waste.

Productivity:

Attract tenants who contribute to an economically viable Port and capitalize on the Port's unique assets, including the use of the deep-water berth on Piers 30-32.

**BACKGROUND**

On December 10, 2019, the Port Commission authorized Port staff to issue an RFP for Piers 30-32 & Seawall Lot 330. After extending the process due to the COVID-19 pandemic, Port staff provided the Port Commission with an informational presentation on September 8, 2020 on the three (3) respondents who submitted complete proposals, met the minimum qualifications in the RFP, and were scored by a five-member panel. On September 22, 2020, the Port Commission authorized Port staff to initiate negotiations towards an Exclusive Negotiating Agreement ("ENA") with Strada-TCC, the respondent the panel scored highest.

Port staff gave an informational presentation to the Port Commission on the terms of the negotiated ENA on February 9, 2021 including the process, key terms, and major performance benchmarks. On February 23, 2021, the Port Commission authorized staff to enter into the ENA. Since that time, the Developer and staff have worked through key steps of the ENA process including obtaining critical State legislation discussed in Section 3. Additionally, the Executive Director has authorized two-term extensions as contemplated in the original ENA.

Since the execution of the ENA, Port staff and the Developer have conducted extensive outreach to State agencies, including BCDC and the State Lands Commission, and the community. Based on this feedback, the Developer redesigned both the Piers 30-32 and Seawall Lot 330 parts of the project (discussed further in Section 4) prior to the introduction of critical State legislation allowing the Project to move forward.

## **PASSAGE OF SB 273**

The State Senate and State Assembly unanimously voted in support of SB 273 (sponsored by Senator Wiener and co-sponsored by Assemblymembers Haney and Ting) in September 2023, and Governor Newsom signed the bill into law on October 7, 2023.

SB 273 authorizes the State Lands Commission to approve the project at Piers 30-32 generally described in this memorandum, which will allow the City to approve the Project through City permitting and environmental review processes. The passage of SB 273 is a huge milestone for the project and allows the developer and Port to continue on the path to environmental review and execution of transaction documents.

## **TERM SHEET**

The next major performance benchmark in the ENA is the Port Commission endorsement of the Term Sheet. After the Port Commission Term Sheet approval, Port staff will seek the Board of Supervisors' approval of the Term Sheet and a Fiscal Feasibility Analysis. With these approvals, the Project may commence CEQA review and transaction document negotiations. The following subsections outline key sections or terms within the Term Sheet.

### *Project Concept*

The proposed Project includes three phases of development across Piers 30-32 and SWL 330.

#### Phase 1 – 2:

The first two phases of the Project include a projected 619 units of housing, including 92 below-market rate (“BMR”) units (14.9 percent), in two residential buildings on the North and South side of SWL 330. These two buildings may be constructed together as a single Phase or sequentially as Phase 1 then Phase 2. This Phase utilizes the State Density Bonus Law enabling the buildings to go up from the existing 65/105 feet height limit (a 65-foot podium with a tower up to 105 feet, for a combined existing height limit of 170 feet) to a single tower of up to 230 feet in height. The ground floor includes community and retail space in the buildings, which form a triangle flanking the streets and framing an open space accessible to the public, and access to an on-site garage serving the residences. The Developer has also designed a building with a maximum height of 105 feet, which would decrease the number of units and potentially negatively impact the funding gap and project affordability.

The Developer will also dedicate a portion of the SWL 330 site for a 100 percent affordable housing building with a projected 94 units. The construction of this building is contingent upon obtaining the necessary funding sources including impact fees from the Project and outside sources such as the Low-Income Housing Tax Credit (LIHTC) program. Upon completion of the 100 percent affordable housing building, the Project will achieve a total of 25 percent affordable housing.

### Phase 3:

Phase 3 of the Project is the demolition of the existing Piers 30-32, strengthening of the seawall along the Project site, reconstruction of a seismically strengthened and sea-level rise resilient infrastructure, and reconstruction of the piers.

The phase will create an aquatic center with a floating swimming pool and access points for personal watercraft. Additionally, the Developer will construct a deep-water berth that allows both excursion berths and an access point during an emergency or natural disaster. Finally, the reconstructed piers will include 375,000 square feet of office space with the potential for an additional 55,000 square feet of mezzanine space within the existing first floor, 70,000 square feet of retail space primarily in a market hall, and accommodations for Red's Java House.

### *Proposed Investment in Port's Assets*

In Phase 3, the Developer will demolish the existing piers, replace them with a reconstructed pier, and construct necessary seawall and bulkhead wharf infrastructure improvements. The projected cost of these infrastructure and resilience improvements is approximately \$460 million, which does not include vertical improvements. Upon lease expiration or earlier termination, all improvements would return to the Port.

### *Changes from the Original Proposal*

The current term sheet changes the Project's phasing and final uses as originally proposed during the RFP. As contemplated in the term sheet, the Project will be delivered in up to three phases rather than as a single phase. This change has financial benefits by accelerating the availability of IFD/CFD sources before spending on horizontal infrastructure at Piers 30-32.

The current Project proposal now includes 713 residential units versus 850 units in the original RFP proposal, which was caused by design changes to adjust to community feedback. Second, the Piers 30-32 reconstruction will create one pier with a large retail market hall and the aquatic center adjacent to it rather than two piers with the aquatic center in between the piers to address input from State agencies.

## **PROJECT FINANCING**

The Project will utilize a combination of public and private sources for the horizontal infrastructure components (e.g., pier/wharf demolition and reconstruction, seawall improvements).

In the term sheet, the Port and Developer propose forming both an Infrastructure Financing District Project Area to capture tax increment and a Community Facilities District to levy special taxes on the buildings. Any IFD tax increment is anticipated to offset CFD Special Tax charges, similar to the financial structure with the Mission Rock CFD Development Special Tax and the Pier 70 Lease Properties CFD Facilities Tax.

Based on the current pro forma, the Project requires an additional \$125 million to fully fund the horizontal infrastructure and resilience needs at Piers 30-32. Changes in market factors could substantially improve the financial feasibility of the Project, potentially fully eliminating this funding gap. If market factors do not improve, the Developer and Port staff will work to identify and secure sources to obtain at least this amount of funds to ensure the financial success of all phases of the Project.

Across the City, many development projects are facing financial challenges due to the combination of high interest rates, lower demand for office and residential real estate, and rising construction costs. To address these challenges, the City is exploring many options to improve financial feasibility including.

- Adjusting impact fees or delaying their collection
- Utilizing tax increments from ad valorem taxes and other sources
- Adjusting or waiving transfer taxes

The Port may also be able to access federal and/or State for resilience, waterfront infrastructure, or affordable housing. As an example, the Port has received \$5.5 million in a Coastal Conservancy Grant to fund 65% design for demolishing the piers and reconstructing the wharf. While the developer and staff have not identified the exact mix of funds to close the \$125 million infrastructure feasibility gap at this time, the team feels confident it can secure these funds well ahead of the start of the Project.

#### *Development Agreement Structure and Ground Leases Term*

The Term Sheet contemplates Transaction Documents that consist of a master agreement such as a Lease Disposition and Development Agreement (LDDA) and/or Master Lease along with separate Ground Leases for each vertical construction site. The Ground Lease for the Piers 30-32 site will be 66 years and the SWL 330 sites will be 99 years. The SWL sites will also include a provision for fee title transfer, although this is not expected.

#### *Reimbursement of Port's Transaction Costs*

The Developer will reimburse the Port for all the Port's transaction costs including but not limited to staff time, City Attorney time, and consultant costs.

#### *DEI Plan*

As part of the term sheet, the Developer has proposed a conceptual Diversity, Equity, and Inclusion (DEI) Plan. The Project DEI Plan supports the Port's Racial Equity Action Plan (REAP) in several key areas including creating access to waterfront open space and activities, providing support and space for BIPOC-owned small businesses, and offering economic opportunities for local, BIPOC-owned, and women-owned businesses. Key proposals in the DEI Plan include:

- Providing swim and water sports access to address racial, gender, and economic disparities related to water sports access, including increasing swimming proficiency among children of color.

- Creating a BIPOC Artisan Retail Program to support BIPOC entrepreneurs for the artisan retail and maker spaces on the north side of the Pier shed building and structuring leases to improve opportunity for success.
- Emphasizing BIPC leadership when selecting a partner for the affordable housing site on Seawall Lot 330.
- Creating economic opportunity through LBE, MBE, and WBE participation, a planned Project-wide Project Labor Agreement (PLA), and a potential pipeline program with CityBuild.

Further details on the DEI Plan such as goals and metrics will be further refined in the coming years and included in the final transaction documents.

*Additional Terms Under Negotiation*

The Developer and Port staff are currently negotiating additional terms in the Term Sheet. Port staff will return to the January Commission meeting to discuss the remaining terms, including:

- Ground Leases rent and terms of payment
- Performance schedule
- Port Project Participation

**NEXT STEPS**

The Developer and Port staff are continuing negotiations on other key terms from the term sheet such as ground lease rent and terms of payment, Port participation, and schedule of performance. Staff plan to return to the January Port Commission meeting to report on the negotiated term sheet and request Port Commission approval of the term sheet.

After Port Commission approval of the term sheet, Port staff will bring the term sheet to the Board of Supervisors (“Board”) for endorsement in early 2024, along with a request that the Board find the Project fiscally feasible. If the Board finds that the Project is fiscally feasible, the Developer may submit an environmental evaluation application for the Project to the Planning Department. A Port economic consultant is currently preparing a fiscal feasibility analysis.

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