MEMORANDUM

January 13, 2012

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

FROM: Monique Moyer
      Executive Director

SUBJECT: Informational presentation on responses to the request for proposals for the lease, rehabilitation, and development of the 20th Street Historic Buildings within the 69-acre Pier 70 site, located near the intersection of 20th Street and Illinois Street.

DIRECTOR’S RECOMMENDATION: Informational Only – No Action Required

Summary

The 20th Street Historic Buildings are six buildings on or near 20th Street at Pier 70. These historic resources, some dating to the 1880s, are in need of substantial investment to return to active use, likely through a private/partnership. Following an extensive outreach process to attract interest, on October 4, 2011, the Port invited ten parties to submit proposals for this development opportunity.

On December 2, 2011, the Port received responses to the Request for Proposals (RFP) for the 20th Street Historic Buildings from the following parties:

- CULTURESTRUCTURE Partners LLC, a to-be-formed partnership of Development Advisory Services, Inc. (DAS) and NCA Real Estate (NCA)
- Equity Community Builders, LLC (ECB), Build Inc., UP (a non-profit formed by Build, Inc.)
- Orton Development Inc.
- Placeworks, LLC

This Staff Report refers to these respondents as: Culturestructure, ECB/UP, Orton, and Placeworks for ease of reference.

This Print Covers Calendar Item No. 9B
This Staff Report begins the process of reviewing these proposals. Attached are each developers’ proposal summary. The responses also included financial and technical information to support the proposal. The developer selection process will proceed to the next step of interviews, financial and reference checks, and a technical panel review of the four submittals. These steps can lead to a Port Commission action to enter into exclusive negotiations, not an approval of a development project, which may come much later.

**20th Street Historic Buildings**

The 20th Street buildings form the historic core of Pier 70 as shown in Exhibit A. The buildings themselves evoke an era when even industrial buildings were constructed as near-cathedrals: the enormous Union Iron Works (UIW) Machine Shop, built in 1885-86 has a 60’ interior height, building-length skylights and row-upon-row of high arched windows down the entire façade. Its companion building is the UIW Office Building, a Renaissance Revival structure built in 1896, with rounded porticos, two-story arched windows, and a copper “headband” topping its façade. Both of these are unreinforced masonry structures and red-tagged at present.

Two Classical Revival buildings constructed by the 1905 successor to UIW, Bethlehem Steel, at the height of the City Beautiful Movement, are appointed in hardwoods, marble, brass, and elegant tile. The Administration Building, finished in 1917, was built at the corner of 20th and Illinois Streets as the grand entry to the shipyard. Next to it is the Power House, built five years earlier – a Beaux Arts structure housing four large air compressors.

The final two structures are a metal-clad foundry-and-warehouse dating from 1916, with unusual windows and monitor skylights and a basic heavy warehouse, dated to 1941.

These six buildings and adjacent yard areas are termed the “20th Street Historic Buildings”:

1. Bethlehem Steel Office Building – Building 101
2. Powerhouse – Building 102
3. Union Iron Works Office Building – Building 104
4. Union Iron Works Machine Shop – Building 113/114
5. Union Iron Works Foundry – Building 115/116
6. Heavy Warehouse – Building 14

In total, these buildings have over 250,000 square feet of building space with potential in some cases, for additional mezzanine construction.

**First Step: Request for Interest**

The Port, policy makers and the community have invested substantial time and thought to create the Pier 70 Preferred Master Plan (“Master Plan”) to structure the revitalization of this extraordinary area of the waterfront. The Master Plan vision retains the ship repair operations, preserves the historic buildings, creates new waterfront parks, and defines opportunities for new development. On May 11, 2010, the Port Commission endorsed the vision, goals, objectives, and design criteria of the Master Plan and authorized a two-track developer solicitation process to attract private investment to Pier 70 (Resolution 10-27). One track being the 20th Street Historic Buildings solicitation.
The other effort was a developer solicitation for 25 acres at the eastern edge of Pier 70, primarily for job-focused, office and/or biotech purposes. Following a competitive development solicitation process, on July 8, 2011, the Port Commission approved an exclusive negotiation agreement with Forest City Development California, Inc. for the 25 acre site. The Port expects Forest City and the developer of the 20th Street Historic Buildings to collaborate with each other and the Port to realize the Master Plan vision.

The 20th Street Historic Buildings developer solicitation began with a Request for Interest (RFI) seeking statements of interest in building reuse from developers and/or users. At the RFI stage, the Port did not require respondents to provide identified capital sources or rehabilitation plans. Given the complexities and costs of rehabilitating these buildings, the Port's goal was to encourage interest and have a simple means for parties to present ideas. After review of the statements of interest, the Port Commission had the option to determine which, if any, parties to ask to make proposals.

The RFI for the 20th Street Historic Buildings was released on February 16, 2011. Extensive outreach to the wider San Francisco and Bay Area community of the Pier 70 RFI development opportunity was undertaken. This outreach involved contacting individuals, developers, institutions, corporations, not-for-profit foundations and other entities, schools, medical institutions, institutions of higher education, and City and County of San Francisco agencies whose mission or commercial interest might fit the goals of the Master Plan for a mix of arts, technology, education, and community benefit uses. These efforts included newspaper notices in citywide and neighborhood papers, email notices to parties that had expressed interest in Pier 70, direct outreach to potential users or developers, and presentations to business and civic organizations. To show these buildings, between February and September 2011, Port staff conducted 18 tours that were attended by 176 people, representing 80 organizations.

**Interested Expressed warranted RFP**

The RFI, as issued, encouraged responses by June 1, 2011. On June 1, 2011, the Port received 13 responses. On August 17, 2011, in accordance with Port Commission direction, the Port amended the RFI to state: “Only respondents who submit timely and complete RFI applications shall be eligible to participate in a subsequent Request for Proposals (RFP) process”. The response deadline was revised to September 23, 2011.

In total, the Port received 15 responses to the RFI. Three respondents were not real estate related (programs or professional services). Three respondents focused on specific buildings: ArtSpace Projects (101 and 104), Circus Center (115/116), and Placeworks (14) and nine respondents expressed interest in being the developer of all six buildings. Two respondents (Wilcox-Block and Pacific Waterfront Partners) did not provide a complete response to the RFI. Based on the strong response to the RFI, the Port proceeded with an invitation-only RFP for this opportunity.
The following parties were invited to respond to the RFP:

<table>
<thead>
<tr>
<th></th>
<th>Name of Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Artspace Projects, Inc.</td>
</tr>
<tr>
<td>2.</td>
<td>Build Inc. and the Urban Land Conservancy</td>
</tr>
<tr>
<td>3.</td>
<td>Circus Center</td>
</tr>
<tr>
<td>4.</td>
<td>Development Advisory Services</td>
</tr>
<tr>
<td>5.</td>
<td>Equity Community Builders</td>
</tr>
<tr>
<td>6.</td>
<td>Forest City Development California Inc.</td>
</tr>
<tr>
<td>7.</td>
<td>Kidson Land Company LLC.</td>
</tr>
<tr>
<td>8.</td>
<td>Merchant Equity Group</td>
</tr>
<tr>
<td>10.</td>
<td>Placeworks LLC.</td>
</tr>
</tbody>
</table>

Of the invited developers who did not respond to the RFP, ArtSpace and Circus Center expressed continuing interest in Pier 70, in a different role than as a 20th Street developer. Kidson, Merchant, and Forest City elected not to respond after reviewing the RFP and their firm’s business aims.

**Key Terms of the October 4, 2011 RFP**

The RFP seeks a developer to rehabilitate one or more of the 20th Street Historic Buildings under a development agreement and long-term lease consistent with the Port’s Master Plan. The selected developer will be expected, among other things, to remedy structural deficiencies, replace or repair mechanical, electrical and plumbing systems, and construct any other improvement needed to meet Building Code requirements.

To the extent possible, the Port seeks to rehabilitate these buildings with private sector investment. The negotiated transaction will be at fair market rent considering the required investment. Similarly, the lease term will be appropriate for the proposed uses, capital investment, and market conditions, not to exceed 66 years in length. All rehabilitation work must be consistent with the Secretary of the Interior’s Standards for the Treatment of Historic Properties (“Secretary’s Standards”), as each of the 20th Street Historic Buildings are contributing resources to the eligible Pier 70 National Register Historic District.

Rather than a detailed proposal, the RFP calls for a proposed “Rehabilitation Concept”. “Rehabilitation Concept” as used in the RFP includes the proposed building rehabilitation and use of one, some, or all of the 20th Street Historic Buildings, as well as a preliminary financing strategy. Rehabilitation Concepts may include one, some or all of the buildings offered. The Port Commission reserves the right to award the buildings as a single project, group the buildings into two or more projects, or not award any of the buildings. If separated into multiple projects, the Port Commission also reserves the right to select more than one respondent based on this RFP (but no more than one per building group).

**Port’s Development Objectives**

- Activities that promote public use and appreciation of the waterfront and provide an active entrance to Pier 70.
- Project concepts that can secure the needed financial investment to rehabilitate and revive these grand historic structures in the near term.
- Adaptive reuse consistent with the Secretary Standards.
- For the UIW Machine Shop (Building 113/114), a publicly-oriented use that activates Pier 70 and 20th Street.
Adaptive reuse programs and activities that promote an understanding of the site’s history, significance, and function through a program of coordinated interpretive exhibits.

Destination uses that help knit Pier 70 into the eastern neighborhoods of San Francisco and bring people to the Bay’s edge.

Sustainable development program that minimizes reliance on automobiles, uses energy efficiently and, as possible, includes alternative energy sources.

Business and employment opportunities for local workers and businesses during the design, construction and operation phases of the rehabilitated buildings.

Encouraged Land Uses and Activities

- Educational and institutional uses bringing the public, students and clients to activate 20th Street.
- Light industrial uses, including production, distribution, repair, warehousing, manufacturing, and art-related uses such as studios and exhibit spaces.
- Museum space or other types of exhibition space, such as film, music, or performance art, that preserves and makes open to the public the vast interiors of the Pier 70 industrial structures as a valued public amenity.
- Office, biotech, and research and development uses that support adaptive reuse.
- Restaurants, visitor-serving commercial, entertainment, and cultural uses that enhance the public nature of Pier 70.

Submittal Requirements

There were four components to the required submittal.

1. A “Summary” that introduces the Respondent and describes the Rehabilitation Concept proposed. Copies of these summaries are attached to this Staff Report.
2. A “Technical Information” submittal including developer team definition, developer qualifications, and conceptual pro-forma and expected sources of funds.
3. A “Confidential Financial Materials” submittal and financial disclosure questionnaire.
4. A $5,000 earnest money deposit.

The RFP did not require detailed rehabilitation plans or a binding economic proposal. It asked for a Rehabilitation Concept, including a conceptual financial structure, and demonstration of qualifications and financial capacity to do the project. After selecting a developer, the project definition and business terms will be negotiated between the Port and developer after further due diligence regarding project costs, entitlements, and other parameters. As these aspects are negotiated, Port staff will present them to the Port Commission for review, comment and direction by the Port Commissioners and the public.
Evaluation Criteria

Developer Qualifications (30 Points)

a) Successful track record of the Respondent (including joint venture partners) and the development team in successfully rehabilitating, developing, and operating facilities similar to the proposed project.

b) Experience with historic preservation projects, in particular with meeting the Secretary Standards.

c) Experience with complex projects in identifying and securing target tenants, defining the rehabilitation scope, structuring the transactions, securing necessary approvals, and managing the construction process.

d) Demonstrated ability to operate and maintain real estate projects once completed, including sustaining occupancy and addressing on-going operational needs.

e) Proven ability to work with public agencies, to achieve development desired by the public sector.

f) Sufficient staff and consultant resources to meet the project objectives.

g) Track record of local hiring and participation of locally owned businesses in prior projects.

h) Demonstrated ability to work with local organizations and/or address community concerns.

i) Demonstrated understanding, ability, and flexibility to obtain key approvals and community support in a complex political and regulatory context.

Financial Capacity (25 points)

Proven ability of developer to possess or attract equity and debt capital for projects similar in scope and cost to the proposed Rehabilitation Concept as evidenced by:

a) financing of comparable projects,

b) access to sufficient debt and equity, including at risk equity, for the project proposed,

c) ability to offer guarantees or bonding arrangements to ensure timely completion of the proposed project,

d) on-going relationships with financial sources.

Rehabilitation Concept (20 points)

a) Consistency of proposed Rehabilitation Concept with the Port’s objectives for the 20th Street Historic Buildings.

b) Fit of proposed use with other uses identified in the Master Plan for 20th Street and other portions of Pier 70.

Feasibility (25 points)

Determining if the proposed Rehabilitation Concept is feasible includes assessing the likelihood of Respondent and its concept meeting the Port’s Objectives in an expedient manner. Factors considered will include:

a) Evidence of ability of this Respondent to attract necessary public and private investment for the Rehabilitation Concept proposed.

b) Feasibility of the Rehabilitation Concept to address the deteriorated state of the buildings in the near term.

c) The probability of obtaining approvals for the proposed design, given the historic status of the buildings and the physical and regulatory constraints on development.

d) Cash flow projections that demonstrate the project, once operational, will meet all lease, debt service and operating expenses.

e) Demonstrated strength of real estate market for proposed uses.
Response to the RFP

Attached are the summary proposals provided by the developers. The four proposers, listed in alphabetical order, are:

CULTURESTRUCTURE Partners LLC: a to-be-formed partnership of Development Advisory Services, Inc. (DAS), NCA Real Estate (NCA): DAS is a San Francisco based, development management company which specializes in the creative reuse of infill industrial property, to provide financially viable, architectural sustainable design, multiuse master planned campuses for information based industry. NCA is a privately held real estate development and investment firm based in Newport Beach, CA with strong relationships in the institutional and private equity capital markets and expertise in all product types. The development team includes ELS Architecture and Urban Design Rudolph and Sletten, Inc, Degenkolb Engineers, Sherwood Design Engineers, Treadwell and Rollo, Jay Wallace, and Sanger and Olson.

Culturestructure has included construction of 678,000 square feet of new buildings on other sites in Pier 70 along Illinois Street in its proposal, in addition to their proposed Rehabilitation Concept for the 20th Street Historic Buildings.

Equity Community Builders, LLC, Build Inc., UP: Equity Community Builders (ECB) has joined forces with UP, a nonprofit organization established by Build, Inc. to craft a joint proposal for this exciting development opportunity. ECB and Build are both San Francisco based real estate developers with extensive experience in the adaptive reuse of historic buildings, integration of traditional and non-traditional financing mechanisms, and developments serving non-profit and public benefit organizations, as well as for profit enterprises. Since 1994, ECB has completed or now manages over $900 million worth of real estate development. Build is a real estate development firm established in 1999, which specializes in San Francisco infill residential development and has produced housing valued at over $120 million. The development team includes Leddy Maytum Stacy, Jon Worden Architects, Architectural Resources Group, Ross Construction, Murphy Burr Curry, and Van Brunt & Associates. The submittal includes statements of interest from the following tenants: Prescience, Burning Man, the Museum of Craft and Design, Obscura Digital, and ConXTech.

Orton Development Inc.: Specializes in large-scale commercial and industrial rehabilitation and redevelopment projects. Orton has redeveloped over 16 million square feet of buildings, spanning approximately 60 projects including office, industrial, R&D, loft, and warehouse space. A notable project is the rehabilitation of the Ford Assembly Plant in Richmond, California, a $50 million investment in a 525,000 square foot structure on the Richmond waterfront. The development team includes Marcy Wong Donn Logan Architects.

Placeworks, LLC: A small developer focused on public/private infill development. Placeworks submitted a proposal for Building 14 only for a “wine incubator.” Placeworks will mobilize the resources to realize the project, and then turn the building over to a, to-be-formed, wine-making cooperative which will operate the
Culturestructure, ECB/UP and Orton have proposed projects that include all six of the 20th Street Historic Buildings. The table below shows the uses proposed by building (“Bldg”), by developer.

<table>
<thead>
<tr>
<th>Bldg</th>
<th>Culturestructure</th>
<th>ECB/UP</th>
<th>Orton</th>
<th>Placeworks</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Arts Hostel (guest artist studios)</td>
<td>Small offices; professional services, sole practitioners</td>
<td>Office with shared reception for complex of buildings</td>
<td></td>
</tr>
<tr>
<td>102</td>
<td>Restaurant Cafe/Restaurant/Bar/Museum</td>
<td>Restaurant main floor; ground floor: meeting rooms, classrooms, workout area</td>
<td></td>
<td></td>
</tr>
<tr>
<td>104</td>
<td>Studio/workspace for larger producers of culture</td>
<td>Small to medium offices</td>
<td>Office/Showroom/Flex space; potential ground floor retail</td>
<td></td>
</tr>
<tr>
<td>113-114</td>
<td>Multi Use Performance and Entertainment Venue</td>
<td>Light industrial/arts (interim use)/ Large technology offices; arts and other nonprofit offices</td>
<td>“New American Workplace”: craftsmen and trades, artisans, designers, technology-driven startups, food production, media and software companies, research and design, apparel, and green energy. Design, prototyping, manufacturing, wholesaling, office, and sales/retail activities</td>
<td></td>
</tr>
<tr>
<td>115-116</td>
<td>Multi-Functional Fitness and Aquatic Center</td>
<td>Clean technology incubator</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Workshop and artisan workspace, perhaps boat building</td>
<td>Industrial Arts Orgs, Garage type incubator space</td>
<td></td>
<td>“urban winery” incubator for small wineries to produce wine and sell in a shared tasting room</td>
</tr>
</tbody>
</table>

The proposals vary considerably in the nature of the rehabilitation proposed, the type of deal term, and the requested investment by the Port in the Rehabilitation Concept proposed. An analysis of these project and financial components will be part of the evaluation presented with the Staff recommendation of next steps on February 28, 2012.

On January 20, 2012, the Port Commission has invited the four prospective developers to make short presentations regarding their qualifications and proposed rehabilitation concept. The presentations are limited to five minutes and are to introduce the prospective developers to the Port Commission and the public and to hear each team’s experience and ideas for the future of Pier 70. Prospective developers will address their proposed Rehabilitation Concept for the 20th Street Historic Buildings and why they are qualified for such a project.
Public Input

This staff report and summaries of each response will be posted on the Port’s website, www.sfport.com/pier70. The website will also provide a means for the public to provide comment to the Port regarding this selection process. A special meeting of the Port’s Central Waterfront Advisory Group will be held on Wednesday, February 8, 2012 focusing on the response to the 20th Street Historic Buildings RFP. The meeting will be at 5:30 p.m. at the Potrero Hill Neighborhood House at 953 DeHaro Street.

Next Steps

Staff expects to complete the submittal review and return to the Port Commission with a recommendation at the February 28, 2012 meeting. The following factors will inform the Staff’s recommendation to select respondent(s) for negotiations:

- Written submittals received
- Interviews
- Answers to additional questions
- Evaluation and scoring by a technical panel of consisting of individuals with experience in real estate economics, land use planning and architecture/urban design
- Reference checks
- Review of financial materials provided by respondents.

The Port Commission, upon considering the staff recommendation, could then award the development opportunity to one or more of the respondents (but no more than one per building). Thereafter, the first step would be to negotiate an exclusive negotiations agreement (ENA), consistent with the Port Commission’s direction in awarding the opportunity. Once in the ENA period, the developer and the Port would formulate a project description, negotiate the transaction terms, and seek regulatory approvals, including CEQA review. As these aspects are negotiated, Port staff will present them to the Port Commission for review, comment and direction by the Port Commissioners and the public.

Prepared by:  Kathleen Diohep, Project Manager
For: Byron Rhett, Deputy Director
Planning & Development

Attachments

Exhibit A   20th Street Historic Buildings
Exhibit B   CULTURESTRUCTURE Proposal Summary
Exhibit C   Equity Community Builders, LLC, Build Inc., UP Proposal Summary
Exhibit D   Orton Development Inc. Proposal Summary
Exhibit E   Placeworks LLC Proposal Summary