

**LONG-RANGE PROPERTY MANAGEMENT PLAN
FILLMORE HERITAGE CENTER
GARAGE AND COMMERCIAL AIR RIGHTS PARCEL**

EXECUTIVE SUMMARY

The Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the “Successor Agency”) submits its Long-Range Property Management Plan (“PMP”) for the disposition of a 112-space public parking garage (the “Garage Parcel”) and 50,000 square feet of commercial space (the “Commercial Air Rights Parcel”) (together, the “Property”) in the Fillmore Heritage Center in the former Western Addition A-2 Redevelopment Project Area, which expired on January 1, 2009.

The Fillmore Heritage Center is an \$80.5 million public-private partnership that includes 80 condominiums, the Commercial Air Rights Parcel, and the Garage Parcel. Of that \$80.5 million, about 35% (\$28.1 million) was financed using public funds from the City and County of San Francisco (the “City”) and the former San Francisco Redevelopment Agency (the “SFRA”). The public investment of dollars built the Garage Parcel and the Commercial Air Rights Parcel, both of which were intended to help revitalize the lower Fillmore Street commercial corridor.

The City financed the construction of the Commercial Air Rights Parcel by borrowing \$5.5 million from the U.S. Department of Housing and Urban Development, or HUD (the “HUD Loan”) and then loaning that money to the commercial developer (“FDC”) to build the Commercial Air Rights Parcel (the “FDC Loan”). The SFRA financed the construction of the Garage Parcel (\$5.6 million) and also contributed the land (\$6.6 million), and allowed FDC to pay the purchase price for the land over time under a ground lease on the Commercial Air Rights Parcel (the “Ground Lease”). FDC subleases the Commercial Air Rights Parcel to two subtenants, a jazz club/restaurant and a second restaurant. The SFRA provided these two subtenants with tenant improvement loans totaling \$10.4 million.

The Successor Agency continues to own the Commercial Air Rights Parcel and the Garage Parcel. FDC is currently in default on the FDC Loan and owes the City about \$1.4 million. In addition, the main tenant in the Commercial Air Rights Parcel (Yoshi’s San Francisco) is in bankruptcy and will likely not continue operating in this space for much longer.

Disposition Plan. The disposition plan for the Garage Parcel is a sale at market value. Because the land is part of the Garage Parcel, any proceeds from a sale will be considered Community Development Block Grant (“CDBG”) program income because the land was purchased with federal urban renewal grant funds.¹

¹ See Closeout Agreement by and between the Redevelopment Agency and the City Relating to Western Addition Area Two Redevelopment Project (June 16, 2982) which requires that all “proceeds from the sale or lease of such property after financial settlement . . . shall be treated as program income to the Community Development Block Grant Program” (the “Closeout Agreement”).

The disposition plan for the Commercial Air Rights Parcel is a transfer to the City to continue enforcing the Ground Lease with FDC. The Ground Lease has a 35-year term, and allows FDC to pay the remaining balance of the purchase price for the land (about \$3.0 million) to the Successor Agency over the term of the Ground Lease, after FDC pays off the FDC Loan to the City. Any payments the Successor Agency receives pursuant to the Ground Lease would be available for purposes consistent with Redevelopment Dissolution Law. The Successor Agency believes a governmental purpose exists in this case because of the significant investment of federal funds in the Property and the obligation to repay the City's HUD Loan.

In the likely event that the City forecloses on its leasehold interest in the Commercial Air Rights Parcel, the Successor Agency will sell the Commercial Air Rights Parcel at market value with the proceeds distributed first to the City to repay the HUD Loan and second to the Successor Agency for purposes consistent with Redevelopment Dissolution Law.

BACKGROUND

The Fillmore Heritage Center can be divided into three components: (1) the residential units, which were entirely privately financed, (2) the Commercial Air Rights Parcel, which was financed with both private and public funds, and (3) the Garage Parcel, which was entirely publicly financed. Each of these components is discussed in more detail below.

- **Residential Units.** The Fillmore Heritage Center includes 80 condominiums, including 12 affordable condominiums. The construction of these units was completely privately financed with about \$35 million from a pension fund. No public dollars went into the residential component of the Fillmore Heritage Center. All the units have been sold to individual homeowners, and the proceeds were used to pay back the private construction lender and the SFRA for a portion (\$3.5 million) of the \$6.6 million land value. The condo owners operate a homeowners' association, which manages the residential space, a separate residential garage, and the common areas within the Fillmore Heritage Center (the "HOA"). All the condo owners pay common area maintenance fees to the HOA.
- **Commercial Air Rights Parcel.** The Fillmore Heritage Center also includes about 50,000 square feet of commercial space on the ground floor of the building (the "Commercial Air Rights Parcel"). The City financed the construction of the commercial space. To do this, the City, acting through the Mayor's Office of Housing ("MOH"), borrowed \$5.5 million from HUD in the form of a securitized Section 108 loan, which is backed by the City's federal CDBG fund allocation (the "HUD Loan"). The City then gave these federal dollars to FDC, an affiliate of the developer, Fillmore Development Associates ("FDA"), in the form of a construction loan, so that FDC could build the commercial space (the "FDC Loan"). The SFRA also contributed about \$10.4 million in loan funds for the tenant improvements.

The Successor Agency owns the Commercial Air Rights Parcel and master leases the entire 50,000 square feet under a ground lease to FDC. The ground lease structure was

used as a financing mechanism to allow the developer to pay the \$6.6 million purchase price for the land over time instead of in one lump sum upfront. FDC, as master tenant, subleases the commercial space to two tenants: (1) Yoshi's San Francisco, a jazz club/restaurant, and (2) Food for Soul, which operates another restaurant called "1300 on Fillmore". These subtenants pay rent and common area maintenance fees to FDC, who is supposed to (a) pass the rent through to the City as a debt service payment on the FDC Loan, and (b) pass the common area maintenance payments through to the HOA. FDC, however, has not recently made payments on a regular basis to the City and the HOA. FDC is about \$1.4 million in arrears on the FDC Loan with the City and about \$120,000 behind on its common area maintenance payments to the HOA.

FDC is required to pay the common area maintenance charges under its ground lease with the Successor Agency; however, the Successor Agency is ultimately liable for these charges, as owner of the Commercial Air Rights Parcel, under a separate project document. The Successor Agency has paid the outstanding amount to the HOA with reserve balances authorized under the Successor Agency's Recognized Obligations Payment Schedule III and 13-14A, both approved by the Oversight Board and the State Department of Finance ("DOF"). Staff has asked for new property tax funds to cover some common area maintenance payments going forward (in the event the space currently occupied by Yoshi's San Francisco doesn't generate enough income to pay them) on the Successor Agency's Recognized Obligations Payment Schedule 13-14B, which still needs approval from the Oversight Board and DOF.

- **Garage Parcel.** The Fillmore Heritage Center also includes a 112-space public parking garage (the "Garage Parcel"). The SFRA financed the construction of this garage using \$5.6 million in tax exempt bond proceeds. The SFRA also used about \$860,000 in federal grant funds for site preparation/environmental remediation. The Successor Agency still owns the Garage Parcel and operates it through a garage management agreement with a private garage operator. The garage also pays common area maintenance fees to the HOA.

In sum, the public investment went into the land, site preparation, and building the Garage Parcel and the Commercial Air Rights Parcel. The SFRA contributed the land, which was valued at about \$6.6 million, and accepted a payback plan on the purchase price of the land over time (\$3.5 million has been paid to date). The SFRA contributed an additional \$5.6 million in grant funds for construction of the Garage Parcel. And about \$16 million in SFRA/City loan funds went into building the Commercial Air Rights Parcel.

LONG-RANGE PROPERTY MANAGEMENT PLAN ("PMP")

The following presents the information requested pursuant to Section 34191.5 of the California Health and Safety Code for the Garage Parcel and the Commercial Air Rights Parcel. These properties are also shown on Attachment A (Photo of Fillmore Heritage Center) and Attachment B (DOF Tracking Sheet for Other Properties) as Nos. 1 and 2.

Date of Acquisition

The SFRA purchased the 52,938-square-foot lot on which the Fillmore Heritage Center now sits (which was an assemblage of 12 different lots) between April 1967 and April 1969 with urban renewal grant funds from the federal government (explained in more detail below).

Value of Property at Time of Acquisition

The sum the SFRA paid to purchase the 12 different lots was \$939,450.

Current Value of the Property

The estimated current value for the Garage Parcel is \$4.0 million and the estimated current value for the Commercial Air Rights Parcel is \$7.8 million. More information about these values, and restrictions on sales proceeds, is described in sections below.

Purpose for which the Property was Acquired

During the 1960s and 1970s, redevelopment agencies across the country were buying up huge tracts of land for the purposes of implementing redevelopment programs, using urban renewal grant funds from the federal government. This program was generally referred to as the “Urban Renewal Program” authorized by the U.S. Congress, which set federal standards for urban renewal under Title I of the Housing Act of 1949. This program, which displaced thousands of people from their homes and businesses, also occurred in San Francisco, most dramatically in the former Western Addition A-2 Redevelopment Project Area.

The SFRA originally acquired the land on which the Fillmore Heritage Center now sits with urban renewal funds provided through a federal Loan and Grant Contract dated December 27, 1956 (Contract No. Calif. 2-2 (LG)), which was approved by the U.S. Department of Housing and Urban Renewal (the “HUD Contract”). Under the HUD Contract, the SFRA was required to use the federal funds to carry out redevelopment activities in accordance with the local redevelopment plan and the federal urban renewal standards.

In 1982, the City and the SFRA executed, with HUD concurrence, a Closeout Agreement for the Western Addition Area Two Redevelopment Project (Calif. R-54) in which the land that was developed for the Property is identified as Parcel 732-A. (See the Closeout Agreement, Exhibit A at page 3.) The Closeout Agreement states: “All remaining undisposed properties acquired by the Agency in the redevelopment area are shown in Exhibit A hereto. All the proceeds from the sale or lease of such property after financial settlement of the Program shall be treated as program income to the Community Development Block Grant Program under the provisions of 24 C.F.R. 570.506.” (See the Closeout Agreement at p. 2.)

Address/Location

The Garage Parcel and the Commercial Air Rights Parcel are both located at the Fillmore Heritage Center at 1310 Fillmore Street.

Lot Size

The Garage Parcel (0732-32) is approximately 50,000 square feet, and includes 112 parking stalls and miscellaneous parking equipment. The Commercial Parcel (0732-33) is also 50,000 square feet, and includes (1) a 28,000-square-foot jazz club/restaurant (“Yoshi’s San Francisco”) (2) a 6,300-square-foot restaurant/music lounge (“1300 on Fillmore”), and (3) a gallery, screening room, and common areas.

Current Zoning

Both the Garage Parcel and the Commercial Parcel are zoned under the San Francisco Planning Code as NC-3, a moderate-scale neighborhood commercial district. This designation is intended in most cases to offer a wide variety of comparison and specialty goods and services to a population greater than the immediate neighborhood, additionally providing convenience goods and services to the surrounding neighborhoods. These districts are linear districts located along heavily trafficked thoroughfares which also serve as major transit routes. They include some of the longest linear commercial streets in the City, some of which have continuous retail development for many blocks. Large-scale lots and buildings and wide streets distinguish these districts from smaller-scaled commercial streets, although NC-3 districts may include small as well as moderately scaled lots. Buildings typically range in height from two to four stories with occasional taller structures. Moderately large commercial uses and buildings are permitted.

A wide variety of uses are permitted with special emphasis on neighborhood-serving businesses. Eating and drinking, entertainment, financial service and certain auto uses generally are permitted with certain limitations at the first and second stories. Other retail businesses, personal services and offices are permitted at all stories of new buildings. Limited storage and administrative service activities are permitted with some restrictions.

Estimate of the Current Value (Including Appraisal Information)

Garage Parcel. A recent appraisal by Carneghi-Blum dated July 19, 2010, valued the Garage Parcel as of August 2012 at \$4.0 million. In its appraisal, Carneghi-Blum stated that the Garage Parcel “is well positioned within the Lower Fillmore area parking market, and will offer growth opportunities that parallel the area's growth prospects once the regional and national economies resume job creation. Lack of development land, structural limitations on new parking development and municipal policy is restricting new supply.”

Commercial Air Rights Parcel. Another recent appraisal by Carneghi-Blum dated December 3, 2012 valued a smaller but similar jazz club/restaurant just down the street from the Commercial Air Rights Parcel. In that appraisal, the smaller jazz club/restaurant was valued at approximately \$325 per square foot as of November 2012. The comparable properties analyzed in the appraisal ranged from about \$227 to \$331 per square foot of building area. Using the low end of this range to value the revenue-producing square footage in the Commercial Air Rights Parcel, the value would be approximately \$7.8 million.

In its December 3, 2012 appraisal of the smaller jazz club, Carneghi-Blum states, “Like restaurants, the economics of the business are difficult and sometimes the operations are not operated in a business-like manner. However, San Francisco has a strong tradition of nightlife, and the ability to open new nightclubs and bars in most areas of the City is difficult. Therefore, areas which allow these uses and buildings which currently house them do have an advantage in terms of leasing or selling the facilities to new operators. The future outlook for entertainment, bar, and nightclub venues in the subject neighborhood is considered stable.”

Restricted Funds. Any proceeds from the sale of the Garage Parcel (which includes the land) is restricted and must be used as CDBG program income because the land was purchased with federal urban renewal grant funds and is subject to the Closeout Agreement described above. Any proceeds from the sale of the Commercial Air Rights Parcel must first go to the City to pay off the City’s \$5.5 million HUD Loan.

Estimate of Revenues Generated (Including Contractual Requirements for Use of Funds)

Garage Parcel. The Garage Parcel generates on average between \$25,000 and \$27,000 a month, after parking taxes. That revenue goes toward reimbursing the garage operator for the expenses incurred in running the garage, per the Garage Management Agreement between the Successor Agency and Pacific Park Management Inc. dated May 1, 2011 (the “Management Agreement”). Per the Management Agreement, the Successor Agency must reimburse the garage operator for any operating deficits every six months. The garage’s performance is very dependent on the performance of the commercial tenants in the Fillmore Heritage Center. Currently, the garage is running a deficit of about \$2,000 a month on average, which is a significant improvement from just three years ago, when the average deficit was about \$8,000 a month. Thus, the Successor Agency requested property tax funds (“RPTTF”) to cover the expected deficit, along with replenishment of the garage’s operating and capital reserve, through the Recognized Obligations Payment Schedule 13-14B lines 120 and 126. .

If surplus revenues are generated, the Management Agreement requires the operator to set aside \$4,000 a month for an operating/capital reserve. The operator is also entitled per the Management Agreement to a modest incentive fee if surplus revenues are generated.

Commercial Air Rights Parcel. As mentioned, the Commercial Air Rights Parcel is ground leased to FDC, who in turn subleases it to two subtenants: Yoshi’s San Francisco and “1300 on Fillmore.” The rent from these two subtenants totals about \$58,000 a month. FDC uses this rental income to make its debt service payment to the City on the FDC Loan, per its loan agreement with the City. The City then uses that money to make its debt service payment on the HUD Loan, per its loan agreement with the federal government.

History of Environmental Contamination, Studies, Remediation Efforts

Baseline Environmental Consulting prepared reports on the land on which the Fillmore Heritage Center sits in May 1996 and July 2000. These reports concluded that the property contains lead- and petroleum-contaminated soils to a depth of approximately four feet. Historical land uses include a storage company, upholstery shop, furniture store, printing shop, sign painter, paved

and unpaved parking areas, and construction staging area, all of which may have contributed to the contamination. The report recommended that the contaminated soil be excavated and properly disposed of in a hazardous waste facility. The consultants estimated the cost of excavation to be between \$600,000 and \$840,000. As a result, the SFRA applied for and received a grant from the California Environmental Protection Agency of \$860,000 to remediate the site when construction began on the Fillmore Heritage Center in 2005.

Potential for Transit-Oriented Development; Advancement of Planning Objectives

As mentioned, both the Garage Parcel and the Commercial Parcel are zoned under the San Francisco Planning Code as NC-3, a moderate-scale neighborhood commercial district. These districts are linear districts located along heavily trafficked thoroughfares which also serve as major transit routes. Due to its centralized location within San Francisco, the lower Fillmore Street commercial corridor is served by several municipal bus routes.

In the RFQ that sought a developer for the land on which the Fillmore Heritage Center now sits, the SFRA emphasized that development of the property was “pivotal to the successful revitalization of the lower Fillmore (Street) commercial corridor,” which is the center of the Fillmore Jazz Preservation District (the “Jazz District”). The Jazz District was established by the SFRA Commission to focus resources on reestablishing a vibrant commercial district along lower Fillmore Street that reflects the historical and cultural heritage of the area. A key component of this economic development strategy was to develop catalyst sites to draw people from a wide geographic area, so that existing businesses would benefit from the increased customer base and new businesses would be created. The land on which the Fillmore Heritage Center sits was such a catalyst site, given its location, size and development potential. Developing it with destination entertainment/retail uses fulfilled these planning objectives.

History of Previous Development and Leasing Proposals

The land on which the Fillmore Heritage Center now sits sat vacant for more than 30 years. Various development proposals were floated over the years but nothing ever materialized into a development agreement. Finally, in 1989, the SFRA entered into an Agreement for Disposition of Land for Private Development (the “LDA”) with Fillmore Renaissance Associates, L.P. (“Renaissance Associates”). Due to unfavorable market conditions and other factors, Renaissance Associates was not able to proceed with the residential development originally planned for the land. Years later, in 1995, the LDA was amended to permit a multi-screen cinema complex, a jazz and supper club, and a parking garage. For the next six years, Renaissance Associates attempted to sign leases with tenants and put the financing together to build the project, but was ultimately unsuccessful.

In June 2001, the SFRA began the solicitation process for a new developer. This solicitation resulted in the selection of Fillmore Development Associates, or FDA, which built the Fillmore Heritage Center (An affiliate of FDA, Fillmore Development Commercial, or FDC, built the Commercial Air Rights Parcel). The Fillmore Heritage Center opened in 2007.

Disposition of the Property

Based on the foregoing, the Successor Agency proposes the following disposition plan for the Garage Parcel and the Commercial Air Rights Parcel.

The disposition plan for the Garage Parcel is a sale at market value. Because the land is part of the Garage Parcel, any proceeds from a sale will be considered CDBG program income because the land was purchased with federal urban renewal grant funds.²

The disposition plan for the Commercial Air Rights Parcel is a transfer to the City to continue enforcing the Ground Lease with FDC. The Ground Lease has a 35-year term, and allows FDC to pay the remaining balance of the purchase price for the land (about \$3.0 million) to the Successor Agency over the term of the Ground Lease, after FDC pays off the FDC Loan to the City. Any payments the Successor Agency receives pursuant to the Ground Lease would be available for purposes consistent with Redevelopment Dissolution Law. The Successor Agency believes a governmental purpose exists in this case because of the significant investment of federal funds in the Property and the obligation to repay the City's HUD Loan.

In the likely event that the City forecloses on its leasehold interest in the Commercial Air Rights Parcel, the Successor Agency will sell the Commercial Air Rights Parcel at market value with the proceeds distributed first to the City to repay the HUD Loan and second to the Successor Agency for purposes consistent with Redevelopment Dissolution Law.

Properties Dedicated to Governmental Use Purposes and Properties Retained for Purposes of Fulfilling an Enforceable Obligation

See above section.

Attachment A: Photo of Fillmore Heritage Center
Attachment B: DOF Tracking Sheet --Other Properties

² See Closeout Agreement by and between the Redevelopment Agency and the City Relating to Western Addition Area Two Redevelopment Project (June 16, 2982) which requires that all "proceeds from the sale or lease of such property after financial settlement . . . shall be treated as program income to the Community Development Block Grant Program" (the "Closeout Agreement").

Attachment A
Photo of Fillmore Heritage Center



Attachment B
DOF Tracking Sheet – Other Properties

(See Tab L)