

February 17, 2021

Nell Selander  
Deputy Director  
Economic & Community Development Department  
South San Francisco  
650.829.6620

Re: SSF PUC Housing Partners Project Update for February 24, 2021 City Council Meeting

Dear Ms. Selander,

The following is an update from L37-KASA and BRIDGE Housing as to the progress made and to the hurdles faced over the past year advancing the SSF PUC development pursuant to our Development Agreement and Purchase and Sale Agreement (“DA/PSA”). We look forward to attending the February 24, 2021 City Council meeting and answering any questions that the City Council may have regarding our progress and forward outlook.

### **Summary**

On December 11, 2019, the City Council of South San Francisco approved the entitlements and the DA/PSA, which incorporates the final project consisting of three buildings housing 800 residential units (13 market rate flex live-work units, 158 below market rate units affordable to 30-80% AMI households (20% of the residential units excluding the flex units) and 629 market rate apartment units), improved parks and landscaping, an Oak Avenue vehicular and pedestrian extension and active ground floor uses throughout the two sites, including a childcare facility, and retail and residential spaces (collectively, the “Project”) (see Exhibit A for site plan and renderings). The Flex Units are designed to have flexibility between residential or commercial uses in order to support a more active commercial and small business enterprise opportunity in the Project. The Project is anticipated to be approximately 1.1 million sf.

On February 10, 2020, the San Mateo County Oversight Board approved the terms and conditions set forth in the DA/PSA. With entitlements secured, L37-KASA and BRIDGE Housing opened escrow and commenced the next phase of developing the SSF PUC parcels. Soon thereafter, the spread of the SARS-CoV-2 virus reached the US and led to severe impacts to the local and global economies, with lockdowns and remote working dramatically altering the Bay Area office and housing industries, as well as negatively impacting local and state government budgets and economies. Despite these impacts, we have continued to make progress this past year, as detailed below. Even so, the SSF PUC development has not escaped impacts caused by the pandemic, as also explained herein. Though it has been a challenging year for all parties, BRIDGE Housing, L37-KASA and its equity partners at Brookfield remain committed to completing this development and look forward to further progress in 2021.

## Ongoing Activities and Tasks

Despite the broader economic setbacks from the pandemic as noted below, L37-KASA and BRIDGE Housing have made steady progress on the Project. After opening escrow in February 2020, we have held bi-weekly meetings with SSF staff and worked closely with staff to make progress on the milestones set out in the DA/PSA as well as to coordinate our designs with the Civic Campus team to provide them a clear path for the Civic Campus project to move forward. This coordination effort has included settling grading elevations between sites, determining parcel map alignment, locating Centennial Trail connection points and parking lot driveway locations, coordinating access easements for BART and SFPUC across the Civic Campus and Oak Avenue parcels, and most importantly, working closely with our FEMA consultants to update its flood maps to today's reality that also remove both the SSF PUC parcels and the Civic Campus Police Station parcel from the FEMA floodplain.

In addition to coordinating with the Civic Campus team, our civil engineering team has been busy the past year working to design the horizontal portions of our projects. This includes:

- locating existing underground utilities, designing rerouting plans and, where necessary, amending existing easements that both CalWater and San Mateo County Colma Creek have across our parcels;
- developing joint trench designs for utility connections along Mission Road;
- developing powerline undergrounding plans and engaging PG&E in the same;
- surveying the BART tunnel;
- providing SSF staff with surveys and plat maps to parcels owned by Kaiser, BART, and other 3<sup>rd</sup> parties in relation to the Oak Avenue improvements;
- advancing Oak Avenue bridge designs to comply with county flood control requirements; and
- developing Mission Road sidewalk and underground designs.

Our legal team has also been active this past year ensuring progress on our development. We have signed off on SSF's agreement with BART for the expansion of rights to use and improve BART lands running along our parcels and Oak Avenue. We have also signed off on the access easements for BART and SFPUC. In 2021 we expect to make further progress on the completion of our maintenance agreements with SSF for the improvements to be made on both the Oak Avenue parcel and the BART parcel.

BRIDGE Housing has also made steady progress on its efforts, despite the state funding setbacks noted below. BRIDGE and L37-KASA have prepared what it believes will be a successful IIG application package and await CA's release of the NOFA for IIG. To advance this IIG preparation, BRIDGE has engaged an expert consultant and together we have:

- prepared a detailed scoring analysis of our project for the IIG program;
- adjusted the unit mix of our two market rate buildings to add more family supportive 2-bedroom units which increase our IIG scoring and potential funds available (see Exhibit B for floorplan changes)<sup>1</sup> and;

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<sup>1</sup> Specifically, L37-KASA has identified 82 larger 1-Bedroom units that can instead be built as 2-bedroom units. These interior changes will have no impact on the exterior look and elevations approved by the City Council, and SSF Planning has preliminarily approved making these interior adjustments to 82 of our 629 units. In addition to increasing our IIG scoring and funding, L37-KASA's

- regularly updated our construction pricing projections for the portions of our project eligible for IIG funding as the market has shifted.

Beyond IIG preparations, BRIDGE has made additional progress on developing the affordable housing units. BRIDGE and SSF staff have completed a loan agreement from SSF and drafted the Affordable Housing Agreement. Excitingly, BRIDGE secured a commitment from BART to partners on an HCD Affordable Housing & Sustainable Communities (AHSC) funding application for the affordable project. BRIDGE anticipates this application to be submitted Q1-Q2 of 2022 with BART. Finally, BRIDGE staff has engaged in conversations with Housing Choices about dedicating a portion of the Project's affordable housing units for developmentally disabled residents. Housing Choices has indicated a desire for BRIDGE to dedicate approximately 10% of units to this population. An MOU memorializing this shared goal will be developed in 2021.

### **Pandemic Impacts**

The economic impacts from the current pandemic have been severe and broadly felt by both public and private entities.<sup>2</sup> With many businesses shuttered, and employers shifting staff to remote working – many of these companies now envision a long term trend toward broader acceptance of working from home after the pandemic – many residents in the Bay Area have temporarily (or permanently) relocated out of the Bay Area to more affordable parts of the state and country.

Market rate housing and office development in the Bay Area has slowed significantly in 2020 as equity groups have sought to preserve capital during this period of uncertainty. Residential market rate rents have dropped 20-25% across the Bay Area, with higher density housing in parts of San Francisco and Silicon Valley seeing even steeper rent reductions and vacancy rates north of 15-20%. Office rents in the Bay Area have also seen dramatic drops as companies have raced to downsize their office footprints and exposure to historically high commercial rents. These steep rent declines have impacted and slowed the CMBS market which provides a great deal of liquidity to larger commercial real estate transactions and financing. While these impacts have dramatically slowed the commencement of new groundbreakings on market rate residential and office/hotel developments, construction costs have been slower to experience price declines due to existing pipelines still being worked on by general contractors and subcontractors. Current construction pricing has only declined approximately 5-8% from pre-pandemic levels. With current market rents out of alignment with current construction pricing, new Bay Area developments have slowed dramatically and equity groups continue to tread cautiously until economic uncertainty from the pandemic dissipates.

State and local government budgets have also been greatly impacted by the pandemic and this has slowed progress on funding affordable housing developments. In May 2020, a significant revision to Governor Newsom's state budget was made that resulted in a substantial reduction in funding for the IIG program in 2020 and postponement of IIG applications until Fall 2020. A further postponement occurred eliminating the IIG application from 2020 entirely after a State Auditor report found high levels of dysfunction and lack of

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property management team believes these new 2-bedroom units are better suited to our post-pandemic world where more people are working from home and need more space/rooms from which to effectively work remotely.

<sup>2</sup> The National Bureau of Economic Research determined that the US entered a recession beginning in February 2020, with a drop in economic activity steeper than any period during the Great Depression due to drastic lockdowns. Economic activity began to pick up again in late Q3 2020 as lockdowns have been softened, but economists differ regarding projections for recovery, with many seeing a slow drawn out recovery over the next several years and uncertainty as to how quickly a full recovery can be expected.

coordination between the various agencies that administer the state's affordable housing funding programs. State funding for new affordable developments and applications for these funds effectively disappeared in the latter half of 2020. The state agencies involved in funding affordable housing are all now working collaboratively to adopt new scoring and fund allocation procedures that should be better aligned with the state's funding priorities, while the Governor's 2021 budget is targeting refilling affordable housing funds and then some to jumpstart housing development and economic recovery post pandemic. We now anticipate IIG applications will once again be accepted in June 2021, about a year later from our original targets.<sup>3</sup>

## **Conclusion**

Going forward, L37-KASA and BRIDGE Housing believe 2021 will be an even more productive year and we should be able to meet our obligations under the DA/PSA and close on the PUC parcels in 2022. Our designs for Mission Road utilities and sidewalks and other horizontal portions of our project should advance in 2021 and receive any necessary approvals from the county and state. We have held several meetings with SSF Building, SSF Planning, Engineering and Water Quality Departments to map out the necessary permits needed and the timing for filing for these permits necessary for meeting our schedule. We will remain in close contact with our general contractor partners to monitor changes in construction pricing and their projected schedules for getting involved on the design-build portions of the Project. BRIDGE and L37-KASA will also be actively applying for state funding throughout 2021 and 2022 as programs get refunded by the state and come back online this year. As this funding gets secured, full designs for the vertical portions of our buildings and public spaces will advance during the second half of 2021. In all, L37-KASA, BRIDGE Housing and Brookfield are eager to advance these projects forward and thrilled that the Civic Campus project was able to recently break ground on its neighborhood creating project. We continue to believe our Project, in conjunction with the Civic Campus project, will be welcome additions to South San Francisco's vibrant communities.

Sincerely,

Brian Baker  
VP of Development for L37 Partners

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<sup>3</sup> Though not an impact to our progress, L37-KASA and SSF staff have mutually held off certain tasks we need to complete so as to not stretch distressed SSF budgets during the pandemic. For example, we have mutually agreed to not commence acquisition of nearby parcels for Oak Avenue or spend funds on legal fees related to these acquisitions and correlated maintenance agreements between the parties until 2021.

**Exhibit A**  
**Project Site Plan and Renderings**



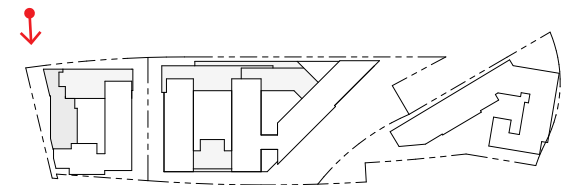
← - - - → CENTENNIAL TRAIL



# SSF PUC OVERALL SITE PLAN

## SSF PUC SITE | CITY COUNCIL PRESENTATION

November 13, 2019

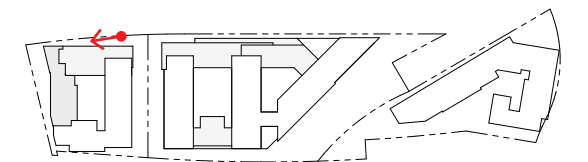


VIEW OF BUILDING C2 FROM GRAND AVE  
SSF PUC SITE | CITY COUNCIL PRESENTATION

November 13, 2019

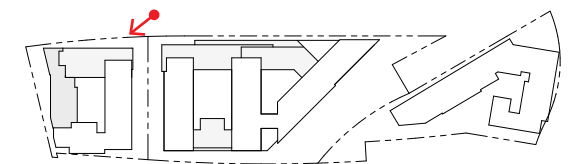


VIEW OF BUILDING C2 STOOPS ON MISSION RD  
SSF PUC SITE | CITY COUNCIL PRESENTATION



November 13, 2019



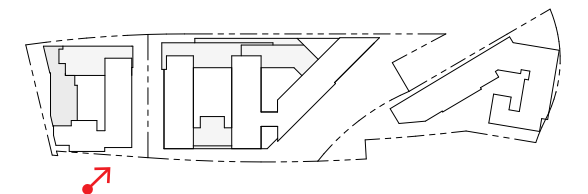


**VIEW OF BUILDING C2 FROM MISSION ROAD**  
**SSF PUC SITE | CITY COUNCIL PRESENTATION**

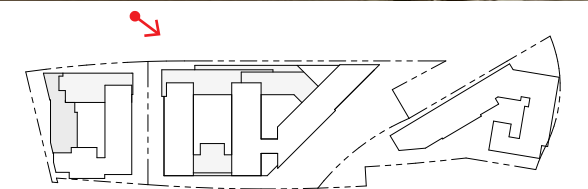
November 13, 2019



VIEW OF BUILDING C2 FROM COMMUNITY PARK  
SSF PUC SITE | CITY COUNCIL PRESENTATION

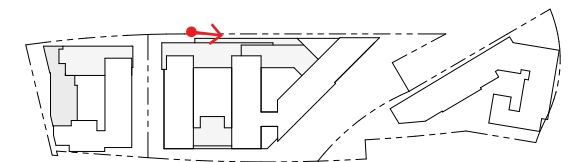


November 13, 2019



**VIEW OF BUILDING C1 FROM MISSION ROAD**  
**SSF PUC SITE | CITY COUNCIL PRESENTATION**

November 13, 2019

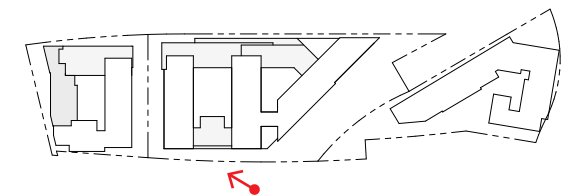


VIEW OF BUILDING C1 LOBBY AND STOOPS  
SSF PUC SITE | CITY COUNCIL PRESENTATION

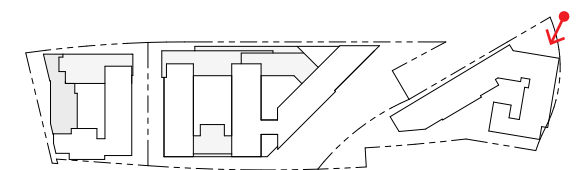
November 13, 2019



**VIEW OF BUILDING C2 FROM COMMUNITY PARK**  
**SSF PUC SITE | CITY COUNCIL PRESENTATION**



November 13, 2019



**VIEW OF BUILDING B MARKET HALL PLAZA**  
**SSF PUC SITE | CITY COUNCIL PRESENTATION**

November 13, 2019

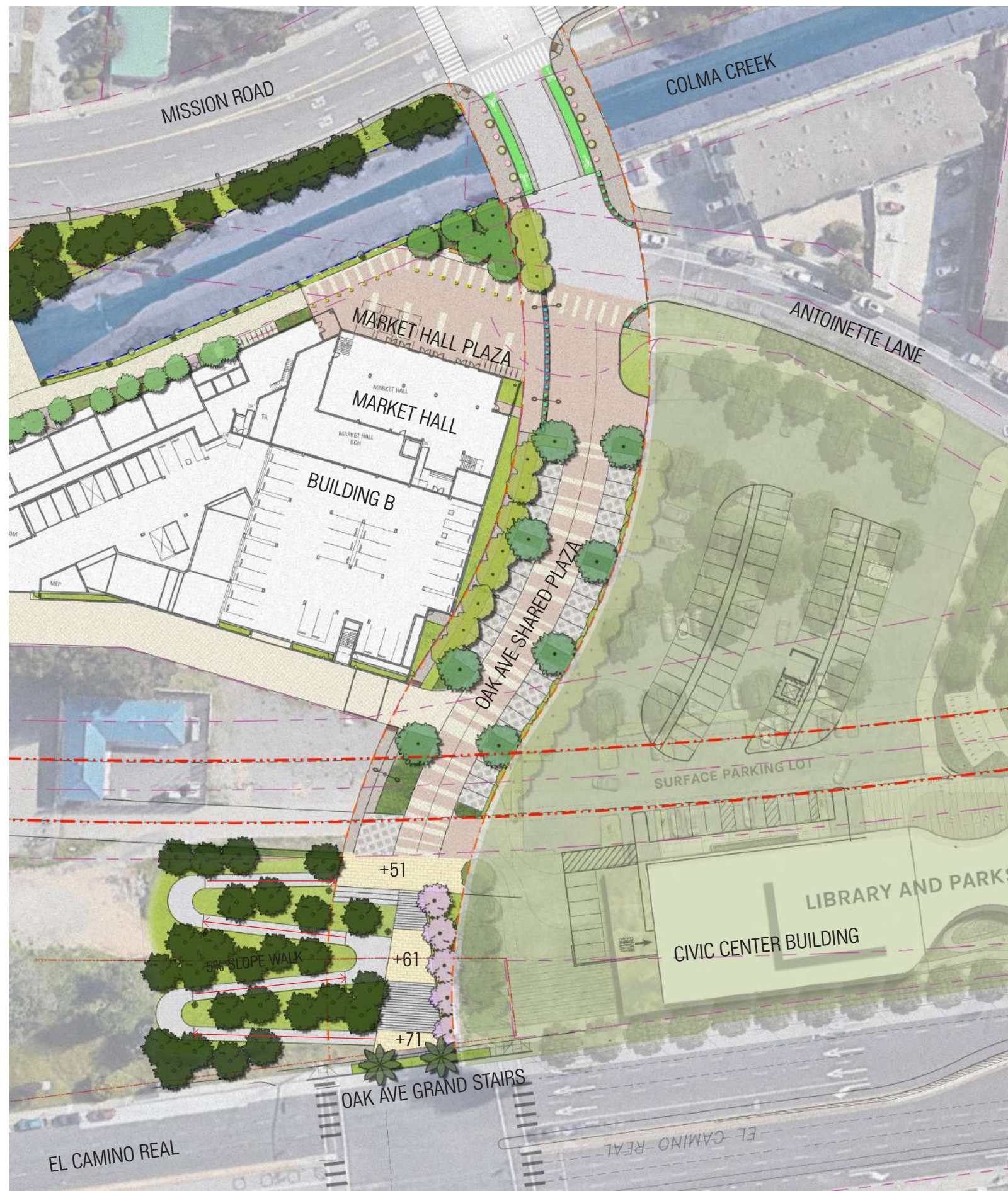


# 5-12 YEARS OLD PLAYGROUND



# IMPROVED CENTENNIAL TRAIL





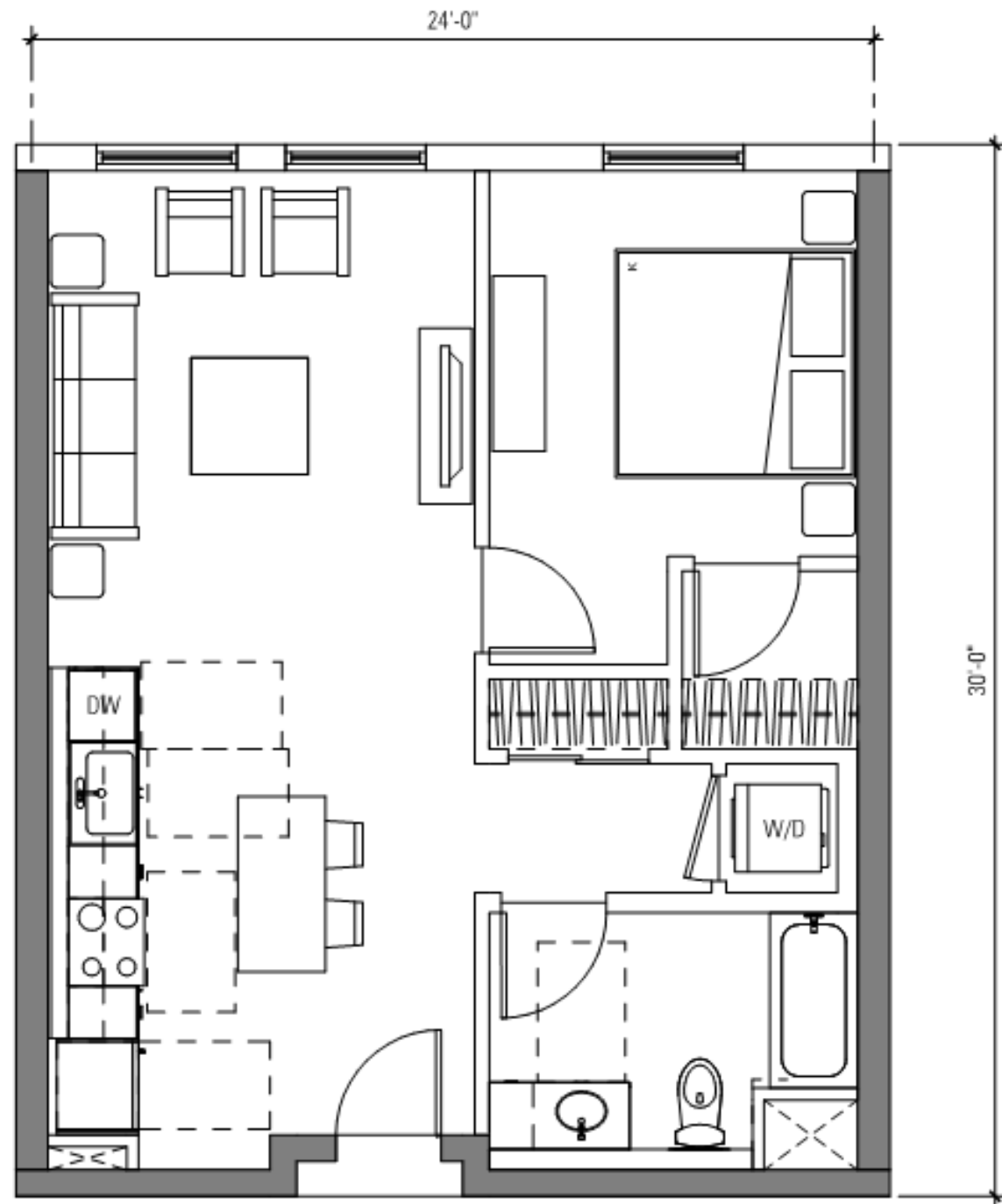
# OAK AVE SHARED STREET AND GRAND STAIRS



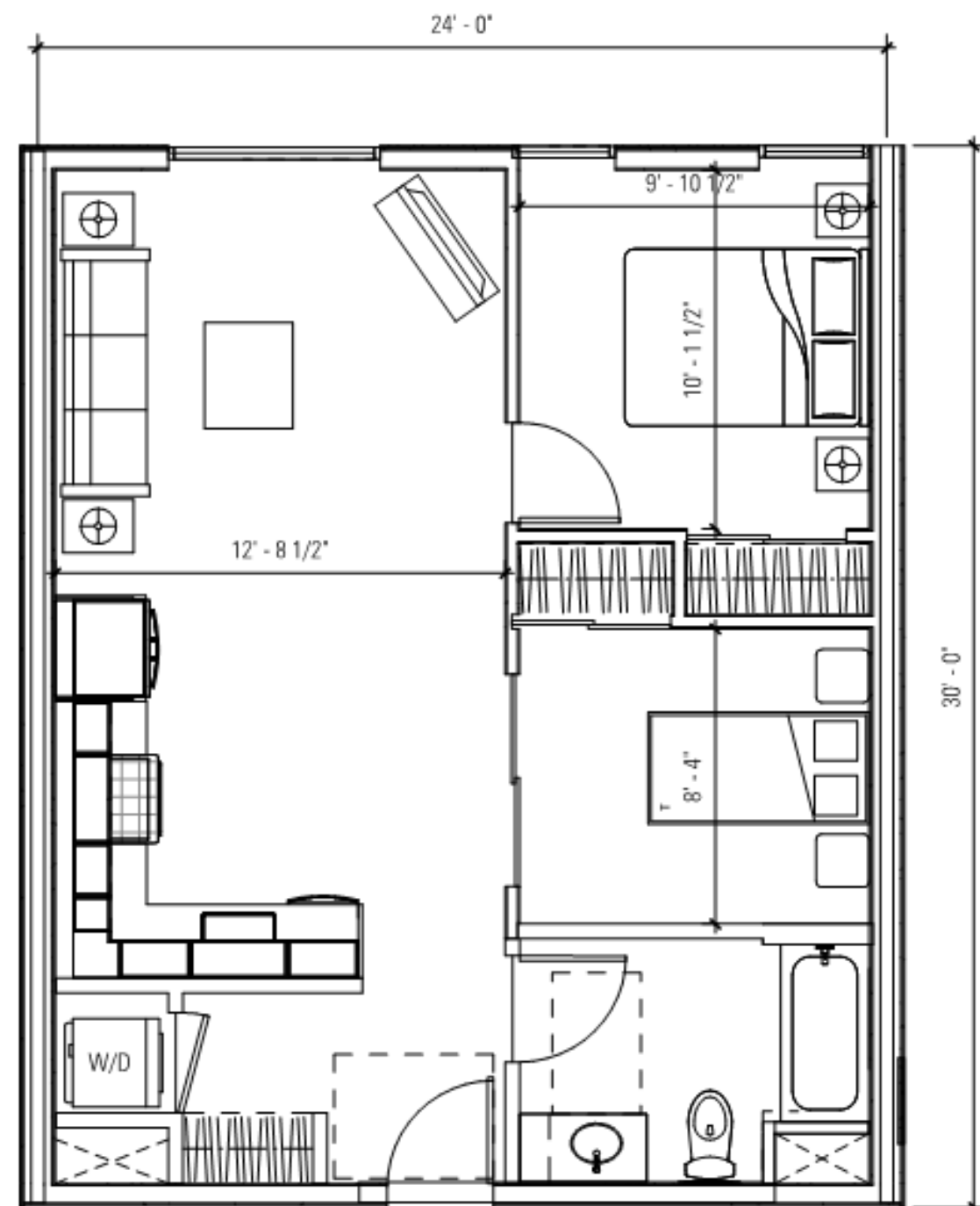
# OAK AVE SHARED STREET AND GRAND STAIRS

# Exhibit B

## Updated Floorplan Comparison



EXISTING 1 BED RM UNIT - 715 SF



PROPOSED 2 BED RM REPLACEMENT UNIT - 715 SF