

CITY OF OAKLAND
REDEVELOPMENT AGENCY
SUPPLEMENTAL AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND
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TO: Office of the City Manager / Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: June 21, 2005

RE: **A SUPPLEMENTAL REPORT ON:**

A TOTAL OF FOUR CITY AND AGENCY RESOLUTIONS REGARDING REDEVELOPMENT ACTIVITIES IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA:

AGENCY AND CITY RESOLUTIONS APPROVING AND AUTHORIZING EXECUTION OF: (1) AMENDMENTS TO A LEASE DISPOSITION AND DEVELOPMENT AGREEMENT, GROUND LEASE, AND RELATED DOCUMENTS BETWEEN THE REDEVELOPMENT AGENCY, THE CITY OF OAKLAND, AND FC OAKLAND, INC. (SUCCESSOR TO UPTOWN PARTNERS, LLC), FOR THE DEVELOPMENT OF A MIXED-USE RESIDENTIAL RENTAL AND RETAIL DEVELOPMENT PROJECT IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA INCREASING THE PROPERTY ACQUISITION CEILING FROM \$14,195,000 TO \$16,995,000, AND INCREASING THE AGENCY CONTRIBUTION TOWARD HAZARDOUS MATERIALS ABATEMENT FROM \$2,585,600 TO \$4,085,600; AND (2)(A) A PURCHASE AND SALE AGREEMENT BETWEEN THE CITY, THE AGENCY AND SEARS DEVELOPMENT COMPANY FOR THE AGENCY'S ACQUISITION OF PROPERTY LOCATED AT 1911 TELEGRAPH AVENUE FOR PURCHASE CONSIDERATION EQUAL TO AN AMOUNT NOT TO EXCEED \$12.5 MILLION; AND (B) A LEASE DISPOSITION AND DEVELOPMENT AGREEMENT, GROUND LEASE AND RELATED DOCUMENTS BETWEEN THE AGENCY AND SEARS, DEVELOPMENT COMPANY FOR THE CONSTRUCTION OF A SEARS AUTO CENTER ON TWO PROPERTIES LOCATED AT 2000-2016 TELEGRAPH AVENUE AND 490 THOMAS L. BERKLEY WAY

On May 24, 2005, the Community and Economic Development Committee (CEDC) considered certain amendments to a Lease Disposition and Development Agreement (LDDA) between the Agency, City of Oakland and Uptown Partners LLC (UP) to develop the Uptown Project, as well as a proposed Purchase and Sales Agreement (the "Purchase Agreement") with Sears Development Co. ("Sears") for the acquisition of the Sears-owned property 1911 Telegraph Avenue (the "Property") for purchase consideration equal to an amount not to exceed \$12.5 million, and a disposition and development agreement (the "DDA"), ground lease and related

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documents between the Agency and Sears for the construction of a Sears Auto Center on two properties located at 2000-2016 Telegraph Avenue and 490 Thomas L. Berkley Way (the "Hahn Properties"). The Committee asked staff to respond to the following questions.

1. What is the Agency's current funding contribution to the Uptown Project?

On July 20, 2004, the Agency approved Resolution No. 2004-38 C.M.S. and the City approved Resolution No. 78728 C.M.S. providing the following funding for the Uptown Project:

Table 1

Use of Funding	Amount	CITY	ORA	Project Generated
Agency Gap Financing	\$8,335,749		\$8,335,749	
City Gap Financing	\$5,300,000	\$5,300,000		
Net Available Increment + Net Business Tax Reimbursement 2007- 2020	\$12,114,708			\$12,114,708
Hazardous Materials Abatement (Reimbursement to Uptown Partners)	\$2,585,600		\$2,585,600	
Off-site Improvements	\$5,700,000		\$5,700,000	
Public Park	\$1,000,000	\$1,000,000		
Prior Land Acquisition	\$6,500,000		\$6,500,000	
Site Acquisition	\$14,195,000		\$14,195,000	
TOTAL	\$55,731,057	\$6,300,000	\$37,316,349	\$12,114,708

Table 1 above reflects the decision to remove some land area and subsidy from the Forest City project and allocate it to another developer of a 100% affordable housing site behind the Fox Theater. As shown in Table 2, the proposed amendments to the LDDA would increase total funding to the project by \$4.3 million, from \$55,731,057 to \$60,031,057 as follows:

- The Agency will increase the site assembly cost acquisition ceiling by \$2.8 million, from \$14,195,000 to \$16,995,000, to allow for the Agency's acquisition of the Sears-owned Property.
- The Agency will increase its contribution to the hazardous materials cleanup costs of the Project site by \$1.5 million, from \$2,585,600 to \$4,085,600.

Table 2

Use of Funding	Amount	CITY	ORA	Project Generated
Agency Gap Financing	\$8,335,749		\$8,335,749	
City Gap Financing	\$5,300,000	\$5,300,000		
Net Available Increment + Net Business Tax Reimbursement 2007- 2020	\$12,114,708			\$12,114,708
Hazardous Materials Abatement (Reimbursement to Uptown Partners)	\$4,085,600		\$4,085,600	
Off-site Improvements	\$5,700,000		\$5,700,000	
Public Park	\$1,000,000	\$1,000,000		
Prior Land Acquisition	\$6,500,000		\$6,500,000	
Site Acquisition	\$16,995,000		\$16,995,000	
TOTAL	\$60,031,057	\$6,300,000	\$41,616,349	\$12,114,708

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As illustrated in Table 2, the Agency and the City are not only responsible for site assembly, providing direct gap funding assistance in the amount of \$13,635,749 and rebating the project-generated tax increment, but also for the cost of constructing public improvements and amenities, such as streets, curbs, gutters, sidewalks, open space, etc. In addition, the reuse of the previously developed site will involve remediation of hazardous materials to protect the health and safety of future residential occupants. The Agency and the City are providing a total of \$10,785,600 toward the construction of 1) off-site improvements (\$5,700,000), 2) a public park (\$1,000,000), and 3) for environmental clean-up (\$4,085,600). The Agency would likely provide similar funding assistance to any residential development project, rental or for-sale that would be developed in the Uptown Project area.

The Agency is not providing the land to FC Oakland free of charge but has structured a business deal that returns either the land or compensation to the Agency. FC Oakland has the option to purchase the property, or it will revert back to the Agency after expiration of the ground lease term. If the developer exercises the purchase option during the initial 66-year lease term, the purchase price will equal the lesser of: (1) FMV of the Agency's interest in the land, or (2) the Agency's cost of acquiring the land, including Agency's relocation costs, legal fees, settlement costs and demolition costs, subject to an annual CPI increase to the date of purchase by the developer with a minimum and maximum annual increase of 2% and 5%, respectively. If FC Oakland exercises the purchase option after it extends the initial term by another 33 years, the purchase price will be the FMV of the Agency's interest in the land.

2) What type of financial assistance would the Agency have to provide to a for-sale development on the Project site?

In the case of a 100 percent market rate for-sale project, the Agency would likely contribute the same level of funding assistance toward the construction of off-site improvements, a public park, and for environmental cleanup (a total of \$10,785,600). There would not be any gap financing, tax increment rebates or land write-downs required, as these types of projects are economically feasible in today's market.

However, if the for-sale project were to include the same level of affordability for homebuyers as FC Oakland's Uptown Project, 20 percent of the units affordable to households earning no more than 50 percent of the AMI, and 5 percent of the units being affordable to households earning 120 percent of AMI, then a much larger subsidy would be required. Based on an affordability model that assumes an average housing price of \$425,000 and conventional mortgage financing with a 3 percent down payment, the Agency would have to provide \$46.3 million to make 140 for-sale units affordable to households earning 50 percent or less, and \$4.4 million to make 35 for-sale units affordable to households earning 120 percent of AMI. Once combined with the funds required for off-site improvements, the public park and hazardous materials abatement, the Agency would likely have to offer total financial assistance in the amount of \$61.5 million. If housing prices continue to increase at the current pace, financing assistance would have to increase as shown in Tables 3 and 4 below:

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Table 3**For-Sale Condominiums Selling At \$425,000 With 25% Affordability**

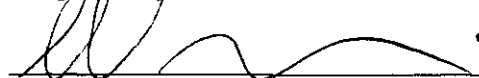
Subsidy Item	Amount
Off-Site Improvements	\$5,700,000
Public Park	\$1,000,000
Environmental Clean-Up	\$4,085,600
Subsidy for 20% of units affordable at 50% AMI	\$46,300,000
Subsidy for 5% of units affordable at 120% AMI	\$4,400,000
Total Subsidy	\$61,485,600

Table 4**For-Sale Condominiums Selling At \$500,000 With 25% Affordability**

Subsidy Item	Amount
Off-Site Improvements	\$5,700,000
Public Park	\$1,000,000
Environmental Clean-Up	\$4,085,600
Subsidy for 20% of units affordable at 50% AMI	\$56,800,000
Subsidy for 5% of units affordable at 120% AMI	\$7,025,000
Total Subsidy	\$74,610,600

Unlike a rental project with the affordability subsidy being calculated prior to construction, a for-sale project is likely to have a subsidy based on unit prices at the time of sale. For-sale condominium prices are already between \$450 and \$500 per square foot in the downtown area. The affordability subsidy component for a for-sale project would be determined based on sale price per square foot and size of unit, and is likely to fall somewhere between the amounts shown in Tables 3 and 4 above.

Respectfully submitted,




Daniel Vanderpriem,
Director of Redevelopment, Economic
Development, and Housing and
Community Development

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APPROVED AND FORWARDED TO
THE CITY COUNCIL/REDEVELOPMENT
AGENCY



Deborah Edgerly
City/Agency Administrator

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