

**REDEVELOPMENT AGENCY  
OF THE CITY OF OAKLAND**

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OFFICE OF THE CITY CLERK  
OAKLAND

2010 MAR 11 PM 6:30

**AGENDA REPORT**

TO: Office of the Agency Administrator  
ATTN: Dan Lindheim  
FROM: Community and Economic Development Agency  
DATE: March 23, 2010

RE: **Redevelopment Agency Resolution Authorizing A Construction Loan To Alta City Walk, LLC, In An Amount Not To Exceed \$5,000,000 And For A Term Not To Exceed Five Years, For The City Walk Project At 1307 Jefferson Street**

**SUMMARY**

A resolution has been prepared authorizing the Redevelopment Agency to make a \$5 million market rate construction loan to Alta City Walk, LLC to fund completion of construction on the City Walk Project at 1307 Jefferson Street. Alta City Walk, LLC is the entity that WP West Development Enterprises, LLC ("Wood Partners") set up to develop the City Walk Project. This will be a 5-year loan at market interest rate of the greater of 8% or one percentage point above the interest rate on other construction debt (allowing for adjustments in interest rates to account for differences in loan fees and loan terms between the Agency loan and the other construction financing). The loan is required to decrease the equity and investor profit requirements in order to make the project financially feasible. Without this reduction in equity the investor does not meet its minimum return and is therefore unwilling to finance the project. Providing the loan will help complete the project and transform the blighted site into beautiful new rental housing.

**FISCAL IMPACTS**

The Agency has funds available in Central District Tax Allocation Bonds Series 2009T Fund (9536), Central District Site Acquisition Project (T314430). Providing this loan will limit expenditures on other projects for the 5-year term of the loan, but it will also provide \$350,000 per year in interest revenue. By completing this project the Agency will receive increased tax increment from property taxes, including: \$335,000 per year in net tax increment for redevelopment projects and \$152,000 per year in Low/Mod-Income Housing Set-Aside funds for affordable housing projects. The City will also receive approximately \$93,000 per year in business tax revenue and \$37,000 per year in pass-throughs from the Agency.

The loan to Wood Partners and two other proposed projects (the purchase of land at 2330 Webster and 2315 Valdez Street, and the Scotlan Convention Center), will use most of the 2009 Taxable Bond Funds; less than \$500,000 will remain. The Central District will still ha

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approximately \$32 million in tax exempt bonds. However, these tax exempt bonds are already allocated to façade, tenant improvement, streetscape, public facilities and parking projects, the majority of which is allocated to the Upper Broadway retail strategy.

## **BACKGROUND**

On July 6, 2004, the Agency Board approved a resolution authorizing a Disposition and Development Agreement (“DDA”) with Olson for the sale of the project site for a purchase price of \$8.7 million for its development as a condominium project. The Agency and Olson entered into the DDA on August 6, 2004. Olson then purchased the property on September 22, 2004. Olson diligently pursued the project, receiving a grading permit on January 26, 2005, and a shoring permit on March 4, 2005, and began construction of the project immediately. The project proceeded until it was approximately half completed, with many of the materials for completing the project already purchased and stored on the site, when the general contractor filed for bankruptcy and ceased work in July 2007. Because of the deteriorating housing market conditions, Olson determined that the condominium project was no longer feasible. Olson then started looking for a rental housing developer to purchase the site.

On December 18, 2007, the Agency Board approved Resolution No. 2007-0087 C.M.S. authorizing an amendment to the DDA that extended the date for project completion. The City Council, as conditions for the extension, required that Olson (1) enter into a binding labor harmony agreement with the Building and Construction Trades Council of Alameda County, and (2) commit to local hiring in the project. Olson did not agree to the Council’s conditions, and the amendment was never executed.

Once Agency staff determined that the amendment was not going to be executed, it placed Olson in default under the DDA. The January 18, 2008 default letter listed two issues: (1) failure to diligently prosecute construction; and (2) failure to complete construction by December 31, 2007. Olson could only cure these defaults with an amendment to the DDA.

On February 3, 2009, the Agency Board approved Resolution No. 2009-0005 C.M.S. authorizing an amendment to the DDA that (1) permitted the project to be a rental project, (2) extended the dates for project development and completion until December 31, 2010, (3) authorized transfer of the project and property to DCA City Walk, L.P. (“Simpson”) or to another qualified entity approved by the Agency Administrator without returning to the Agency, (4) added local construction employment requirements, (5) modified the profit-sharing provision to account for a rental project, and (6) rescinded Resolution No. 2007-0087 C.M.S. This amendment was not executed because Simpson pulled out of the project and Olson instead requested approval of Wood Partners. Wood partners also requested additional time.

On July 21, 2009 the Agency Board approved Resolution No. 2009-0079 C.M.S. authorizing an amendment to the DDA that (1) authorized an assignment of the DDA and the transfer of the property to WP West Development Enterprises, LLC, or an affiliated entity (“Wood Partners”)

and (2) extended the completion date to December 31, 2011. Wood Partners now has requested that the Agency provide a construction loan to facilitate the completion of the project.

## **PROJECT DESCRIPTION**

### **Loan Terms**

The loan terms will be at least as favorable as the other debt financing Wood Partners obtains for the project. The interest rate will be set after negotiations are completed with the other construction lender. The negotiations were under way at the time this report was being written. The interest rate will be at least 8%, but no less than one percentage point higher than the interest rate on other debt; the higher rate on the Agency loan is appropriate given that the loan will be in second priority position. Wood Partners' latest offer from a construction lender is a loan at 7.5% interest, with a term of up to 7 years, a 1% origination fee and a 1% early termination fee, which would set the Agency loan interest rate at 8.5% assuming similar fees. The Agency loan would be interest-only until stabilized occupancy and then converted to a 25 year amortization schedule with a balloon payment (i.e. loan due in full) in 2015, five years from execution of the loan documents. The Agency could be repaid sooner if conditions are favorable for refinancing with a long term permanent loan. There will not be a prepayment penalty. Given 1) that this is a market rate loan, and 2) the troubled status of the housing market, no additional project development conditions are being proposed in return for the loan. Please note that the Agency already has negotiated two community benefits with this market rate project:

1. Wood Partners has assumed Olson's legally binding agreement with Carpenters 46 Northern California Counties Conference Board requiring the use of union labor for work covered by the Carpenters Union;
2. Wood Partners has assumed Olson's local hiring provisions in the DDA. The DDA requires that 15% of the total work hours to be performed by Oakland residents. The 15% goal is based on the aggregate hours generated by the contractor, not on a craft-by-craft basis.

### **Project Scope**

The project, now known as "City Walk", was originally scheduled to provide 252 units of market rate for-sale housing and approximately 3,000 square feet of retail space. The current proposal is to rent the units, with no plans for selling individual units as condominiums. 12 of the ground floor units along 14<sup>th</sup> Street were 2 story townhomes that are now proposed to be divided in two, increasing the unit count to 264 apartments. The ground floor residential units will have individual entries to activate the street level. The retail will further activate the street at the corner of 13<sup>th</sup> and Jefferson Streets. In addition, there will be 252 structured parking spaces accessible from Martin Luther King Jr. Way, and the project will have up to 200 spaces available

in the City Center West Garage. The total project cost, including the purchase from Olson, is approximately \$54.6 million.

### **Project Schedule**

The tentative schedule of dates includes: (1) obtain building permits by January 31, 2010, which has been accomplished; (2) execute a construction contract by March 30, 2010; (3) recommence construction by May 31, 2010; (2) complete the first phase of the project by August 31, 2011; and (4) complete the entire project by December 31, 2011. There may be some slight delays waiting for the Agency loan and other financing to be secured.

### **KEY ISSUES AND IMPACTS**

#### **Construction Financing**

Current economic circumstances have made it extremely difficult to obtain construction financing for large development projects. After seven months of pursuing financial institution, including contacting over 80 national and regional banks, life insurance companies and private debt sources, the best offer Wood Partners has is for \$26.7 million in debt. Banks have been only willing to lend \$15 million, or 27.5% of the \$54.6 million development cost, and life insurance companies have been willing to lend approximately \$27 million, or 50% of the development costs. With the lender providing \$26.7 million and the Agency providing \$5 million, less than 60% of the development costs will be leveraged. Projects typically require 25% to 30% equity from high cost investor funds, and leverage 70% to 75% with construction debt. Without the Agency loan, the project would require additional investor equity. Because of the return required by investors, typically 18% to 22%, this increase in equity would drop the project return below the investor's criteria and make the project infeasible since spreading the profits over a larger investment will bring the rate of return below the investor's underwriting requirement. The Agency loan combined with the other debt will be limited to no more than 65% of the cost of development or 65% of the value of the completed project in order to protect the Agency's financing.

The Agency loan will be secured by a deed of trust on the project site that will be subordinated to other construction financing. The equity investor's funds will be spent first (covering approximately 35% of the costs), the Agency's funds will be spent second (covering approximately 10% of the costs) and the other construction lender's funds will be spent last (covering approximately 55% of the costs). These funds will be paid back in the reverse order – construction lender, Agency and investor. If the value of the project goes down and there is not enough value in the property to repay the construction lender and the Agency at refinancing or sale, the Agency may lose part or its entire loan principal. Because of the Agency's greater risk, the Agency is receiving an interest rate at least 1% higher than the other construction lender.

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The project had a low purchase price (Olson sold the project for less than 10% of its costs) and is partially built, which makes the development costs \$23.8 million less than Olson estimated six years ago. However, even with the low purchase price and low cost to complete, Wood Partners' current project is much less profitable than the condominium project initially proposed by Olson. Condominium projects generally are more profitable development opportunities. Even when the economy was strong, the Agency needed to provide substantial financial assistance for the Uptown Rental Project. Once the Uptown Project was completed, it ran into problems leasing units after the housing market crashed. The Uptown project has reached 85% occupancy after 14 months, but only at prices 10% lower than the initial proforma and with substantial move-in bonuses.

### **Building Permit Fees**

The Olson Company paid approximately \$500,000 in outstanding building permit fees for the project during escrow for the sale to Wood Partners. The majority of these fees are for Obstruction Permits for occupying the sidewalk and metered parking spaces on Jefferson Street, 14<sup>th</sup> Street and Martin Luther King, Jr. Way, which are primarily revenue for the General Fund. Wood Partners has also paid the building permit fees for the remainder of the project and is ready to start construction as soon as the full financing for the project is obtained.

## **SUSTAINABLE OPPORTUNITIES**

### ***Economic***

The proposed project will take an underutilized site and convert it to better economic use. The project will generate approximately \$93,000 per year in business tax revenue and \$37,000 per year in additional property tax revenue for the City's General Fund beginning in FY 20012-13 and will increase the Redevelopment Agency's general tax increment by \$335,000 per year.

### ***Environmental***

Developing this type of "infill" high-density residential project in the urban core reduces suburban sprawl by reducing development pressures on communities at the Bay Area's periphery and preserves open space. Moreover, the project's location next to mass transit will reduce the reliance on automobiles and decrease pollution from cars.

### ***Social Equity***

The project will generate approximately \$152,000 per year for the Housing Set-aside, which will fund approximately 1.5 new affordable housing units per year or over 20 units by the end of Central District Redevelopment Area's period to collect tax increment in 2022. The project will also require at least 15% of the total work hours to be performed by Oakland residents.

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## **DISABILITY AND SENIOR CITIZEN ACCESS**

All housing development projects are required to construct and set aside units to be occupied by persons with disabilities as required by Federal ADA Accessibility Guidelines, the Fair Housing Act and the State of California's Title 24 accessibility regulations. This means that at least 5 percent of the newly constructed units will be available to people with disabilities. Also the use of "green building" materials may reduce any incidence of environmental illness disabilities.

## **RECOMMENDATION(S) AND RATIONALE**

It is recommended that the Agency authorize the loan to Wood Partners. The City Walk site at 14<sup>th</sup> and Jefferson Streets is currently one of the most visibly distressed properties in Downtown Oakland. Completing the project will eliminate blight and dramatically improve the neighborhood. Providing the short-term market-rate loan will help finish the project swiftly and provide good construction jobs at a time when the industry is experiencing a severe slow down. The housing will bring more people to Downtown Oakland to support the expanding retail and improve conditions in the Central District. The project will also provide business tax and property tax revenue to the City and Redevelopment Agency.

## **ALTERNATIVE RECOMMENDATION(S)**

The Agency can decide to keep the funds available for other immediate uses and not approve the loan. Taxable funds are most appropriate for land purchases, when the Agency plans to resell the land for development, and loans or other income generating activities. If the Agency does not provide the loan there are two possible consequences:

1. The project could be delayed months or years while Wood Partners pursues various financing options that would meet the investor requirements, or
2. The current project could be cancelled and Wood Partners could mothball the site by demolishing the housing and keeping the concrete garage structure. When the economy improves the project would be redesigned and the new design would be constructed

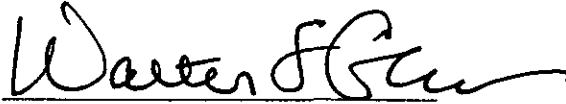
Given that Wood Partners has been diligently pursuing financing for eight months already, it is unlikely that they will be able to find significantly better financing quickly. If the project is significantly delayed, Wood Partners would need an amendment to the DDA extending the completion date past December 31, 2011. If the Agency wants to quickly remove the blight caused by this half-built project, any delay is not recommended.

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**ACTIONS REQUESTED OF THE REDEVELOPMENT AGENCY**

It is recommended that the Agency pass the attached resolutions authorizing a \$5 million construction loan with Alta City Walk, LLC for the T-10 Residential Project, City Walk.

Respectfully submitted

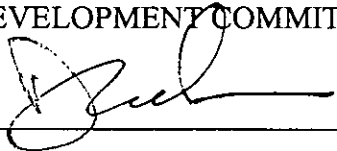


Walter S. Cohen, Director  
Community and Economic Development Agency

Reviewed By: Gregory Hunter, Deputy Director  
Economic Development and Redevelopment

Prepared by: Patrick Lane  
Redevelopment Manager

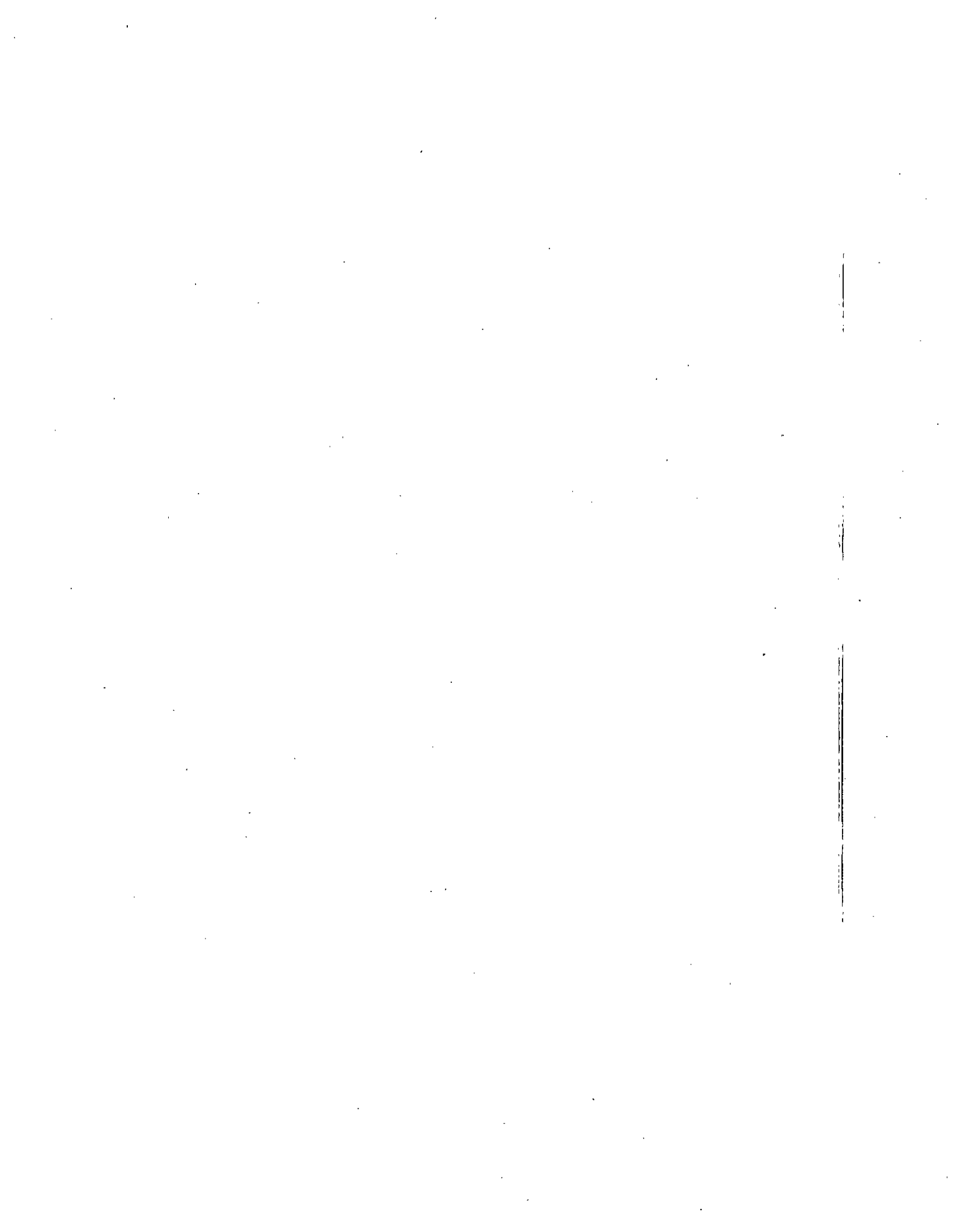
APPROVED AND FORWARDED  
TO THE COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE:



Office of the City/Agency Administrator

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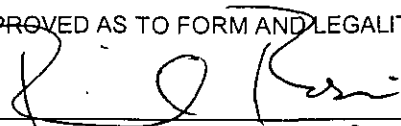
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APPROVED AS TO FORM AND LEGALITY:

  
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Agency Counsel

## REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION No. \_\_\_\_\_ C.M.S.

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### AN AGENCY RESOLUTION AUTHORIZING A CONSTRUCTION LOAN TO ALTA CITY WALK, LLC, IN AN AMOUNT NOT TO EXCEED \$5,000,000 AND FOR A TERM NOT TO EXCEED FIVE YEARS, FOR THE CITY WALK PROJECT AT 1307 JEFFERSON STREET

**WHEREAS**, the Agency entered into a Disposition and Development Agreement ("DDA") with Olson 737 – Oakland I, LLC ("Olson") on August 6, 2004, per Agency Resolution No. 2004-37 C.M.S. adopted on July 6, 2004, which sets forth the terms and conditions of the sale of certain property located in the Central District Redevelopment Project Area on the block bounded by 14<sup>th</sup> Street, the 13<sup>th</sup> Street pedestrian walk, Jefferson Street, and Martin Luther King, Jr., Way (the "Property") to Olson, and governs the development of the City Center T-10 Residential Project, also known as City Walk, 252 residential condominium units, and approximately 3,000 square feet of retail space (the "Project") on the Property; and

**WHEREAS**, on September 26, 2004, Olson purchased the Property from the Agency in order to develop the Project; and

**WHEREAS**, the Project was partially completed by Olson, but construction work on the Project was halted and no construction has occurred for several years; and

**WHEREAS**, Resolution No. 2009-0005 C.M.S. passed on February 3, 2009, authorized an amendment to the DDA that would allow the Project to be rental, extend the Project completion date to December 31, 2010, authorized transfer of the Project to DCA City Walk, L.P., or to another qualified entity approved by the Agency Administrator without returning to the Agency, added local construction employment requirements, and modified the profit-sharing provisions; and

**WHEREAS**, Resolution No. 2009-0079 C.M.S. passed on July 27, 2009, authorized an amendment to the DDA that would authorize the transfer of the Project to WP West Development Enterprises, LLC, or an affiliated entity ("Wood Partners"), and further extend the Project completion date to December 31, 2011, and

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**WHEREAS**, Wood Partners created Alta City Walk, LLC, as a single purpose entity for the development of the City Walk Project, and Alta City Walk, LLC, now holds title to the Property; and

**WHEREAS**, Alta City Walk, LLC has requested a \$5 million market rate construction loan from the Agency in order to make completion of the Project financially feasible; and

**WHEREAS**, the requirements of the California Environmental Quality Act ("CEQA"), the CEQA Guidelines as prescribed by the Secretary for Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied for the Project; and

**WHEREAS**, none of the circumstances necessitating additional CEQA review of the Project are present; and

**WHEREAS**, funds are available from the Central District to help finance the Project; and

**WHEREAS**, construction financing from the Agency is necessary in order to complete redevelopment of the Property per the DDA and eliminate current blight conditions on the Property; now, therefore, be it

**RESOLVED**: That the Agency hereby authorizes the Agency Administrator to provide a construction loan to Alta City Walk, LLC, or to an affiliated entity approved by the Agency Administrator or his or her designee, for the Project in an amount not to exceed \$5 million; and be it

**FURTHER RESOLVED**: That the loan shall have a minimum interest rate equal to the greater of (a) eight percent, or (b) one percentage point above the interest rate on any other construction loan for the Project adjusted for differences in terms and fees for the loans; and be it,

**FURTHER RESOLVED**: That the loan shall have a maximum term of five years, with such repayment terms and schedule as the Agency Administrator or his or her designee determines are in the best interests of the Agency and the Project; and be it

**FURTHER RESOLVED**: That the loan shall be secured by a deed of trust on the Property; and be it

**FURTHER RESOLVED**: That the loan shall be contingent on developer's success in securing commitments for full financing to complete the Project; and be it

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