

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND 2004 JUL -1 PM 2:10

SUPPLEMENTAL AGENCY AGENDA REPORT

TO: Office of the City Administrator /Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: July 6, 2004

RE: **SUPPLEMENTAL REPORT TO CITY AND REDEVELOPMENT AGENCY RESOLUTIONS AUTHORIZING THE SALE OF REAL PROPERTY LOCATED AT 14TH STREET, 13TH STREET PEDESTRIAN WALK, JEFFERSON STREET AND MARTIN LUTHER KING, JR. WAY TO CAMDEN USA, INC., FOR THE CITY CENTER T-10 RESIDENTIAL PROJECT, AND AUTHORIZING A DISPOSITION AND DEVELOPMENT AGREEMENT FOR THE PROJECT**

SUMMARY

The Community and Economic Development Committee asked for additional information regarding the proposed disposition and development agreement with Olson Urban Housing, LLC ("Olson") for the City Center T-10 project, including: (1) define profit from the profit sharing; (2) explain when the profit would be calculated and shared; and (3) provide a proforma which shows the profit sharing. This report provides the requested information.

FISCAL IMPACTS

The previous reports covered the fiscal impacts of the proposed disposition and development agreement with Olson.

BACKGROUND

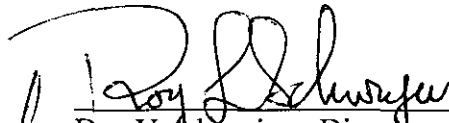
The "Profit Sharing" section of the Disposition and Development Agreement ("DDA") with Olson clearly defines what portion of the profit the Agency receives -- fifty percent (50%) of the Development Profit between 10.85% of the Sales Proceeds and 14% of the Sales Proceeds, plus twenty-five percent (25%) of the Development Profit greater than 14% of the Sales Proceeds. See Attachment A, Profit Sharing, for the actual DDA language on profit sharing. "Development Profit" is defined as the gross sales proceeds minus the "Development Costs." "Development Costs" are specified in detail in the DDA; see Attachment A. The profit sharing will be calculated and the Agency paid its estimated share once 95% of the units are sold. Olson will continue to revise the profit sharing estimate as the last 5% of the units are sold and the sales proceeds from the last unit will stay in escrow until the Agency and Olson are in agreement on

the final amount of the Agency profit sharing. If the Agency disagrees with Olson's accounting for the Sales Proceeds, Development Costs, and/or Development Profit, the Agency can request an audit. If such audit or independent determination exceeds 105% of the amount of the final Agency Profit Share determined by Olson, then Olson will pay for the audit. Otherwise, the Agency shall be responsible for paying the audit costs. Olson's proforma for the project is also attached per Committee request (see Attachment B, Project Proforma). Changes that are being proposed by Olson, including a small increase in the number of units and a change from Type II light metal construction to Type I steel/concrete construction, may have an impact on the proforma and the Agency's estimated profit share.

ACTION REQUESTED OF THE CITY/AGENCY

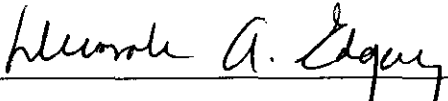
It is recommended that the Agency and the City approve the resolutions authorizing the sale of Agency-owned property located on the block bounded by 14th Street, 13th Street Pedestrian Walk, Jefferson Street and Martin Luther King, Jr. Way in the Central District Redevelopment Project Area for \$8.7 million, plus profit-sharing, to Olson, authorizing seller financing of \$1.7 million, and authorizing the execution of the DDA with Olson for this project.

Respectfully submitted


for Dan Vanderprie, Director of Redevelopment,
Economic Development and Housing

Prepared by:
Patrick Lane
Project Manager

APPROVED AND FORWARDED
TO THE CITY COUNCIL /
REDEVELOPMENT AGENCY


OFFICE OF THE CITY ADMINISTRATOR/
AGENCY ADMINISTRATOR

ATTACHMENT A
PROFIT SHARING EXCERPTS FROM DDA 2004 JUL -1 PM 2: 10

Profit Sharing. As additional consideration for the sale of the Property by the Agency to the Developer, the Developer agrees to pay to the Agency the amount, if any, equal to the sum of (a) fifty percent (50%) of the Development Profit greater than 10.85% of the Sales Proceeds, until the Development Profit equals 14% of the Sales Proceeds, plus (b) twenty-five percent (25%) of the Development Profit greater than 14% of the Sales Proceeds. Such amount is referred to as the "Agency Profit Share."

"Sales Proceeds" means the sum of the gross sales prices for all residential units in the Project, and the gross proceeds, if any, from the sale of retail space in the Project.

"Development Costs" means the total actual cost to the Developer of planning, designing, financing, constructing, and developing the Project, and the costs of conveying the completed residential units to homebuyers of the Project. Development Costs shall include, but not be limited to, the following:

- The Purchase Price for the Property;
- Developer's entitlement fee, equal to \$2,500 per residential unit;
- Grading and site preparation costs;
- The cost of onsite and offsite improvements paid by Developer;
- Construction costs for the residential units, retail spaces and related common areas and parking improvements, including the cost of purchasing and installing options and upgrades to residential units;
- A construction management fee not to exceed two and one-half percent (2.5%) of the Development Costs exclusive of Developer's entitlement fee, overhead fee, warranty reserve funds, and interest;
- Salaries, auto allowances, and bonus compensation for project specific construction staff, to include a construction project manager, job-site superintendent, project engineer, two assistant job-site superintendents, and an administrative assistant, not to exceed \$1.75 million;
- Performance and completion bond premiums;
- Architectural, engineering, design and reproduction fees;
- Consulting and professional fees paid to third parties with respect to this Agreement and the construction of the Project;
- Development, permit and inspection fees charged by any public agency incurred and paid by the Developer;
- An overhead fee payable to the Developer which shall not exceed three percent (3%) of the gross sales prices of the residential units;
- Construction loan fees and points payable by the Developer;
- Construction loan interest and contingent interest on participating debt payable by the Developer as set forth in financing documents approved by the Agency;
- Permanent loan fees and points payable by the Developer;

- Other fees and costs of construction loans and equity financing, including interest paid pursuant to the Purchase Note;
- Property taxes, insurance costs, security costs, utility costs and maintenance expenses incurred during the construction period;
- Homeowners' association dues payable by the Developer;
- Developer's cost of marketing the residential units for sale to homebuyers, including but not limited to sales office and model design (whether real or virtual), furnishings, fixtures, finishes, security, maintenance, utilities and supplies; sales office rental (including associated parking); signs, flags and billboards; advertising and promotional materials (including design, artwork and production); market research and public relations services provided by third parties; promotional events; and website development and maintenance;
- Sales commissions payable to the Developer's agents and brokers and cooperating buyers' agents and brokers for the sale of the residential units and for the sale of the retail space(s), if any;
- Other reasonable and actual costs of conveying the residential units to homebuyers, including DRE, Fannie Mae, and VA/FHA fees, escrow fees, title insurance fees, taxes and fees imposed with respect to the sale of the residential units;
- Builder's warranty reserve funds not to exceed \$4,000 per residential unit; and
- Any other actual costs to the Developer of planning, designing, financing, constructing and developing the Project which have not been paid by the Agency or other parties.

"Development Profit" means the Sales Proceeds less the Development Costs.

The Developer shall estimate the Agency Profit Share no later than the close of sale of ninety-five percent (95%) of Project residential units, and shall pay to the Agency the estimated Agency Profit Share at such time. Such payment to the Agency shall be accompanied by the Developer's calculation of Sales Proceeds, Development Costs and Development Profit as of such date, the current Project pro forma, and a copy of the escrow closing statement for each of the residential units which have been sold. The Developer and the Agency shall submit mutually acceptable escrow instructions with respect to the escrow for the last residential unit to be sold which provides for the entire amount of the net sales proceeds for such residential unit to be placed in an escrow account until the final Agency Profit Share has been calculated and agreed upon by the Agency and the Developer. The Developer agrees that it shall not convey the last residential unit to a homebuyer until such escrow instructions have been submitted to the appropriate escrow agent.

As soon as possible after the final sale of a residential unit, the Developer shall provide to the Agency in writing its determination of the final Agency Profit Share. Such determination shall be accompanied by copies of the escrow closing statement for each of the last five percent (5%) of the residential units which have been sold, any adjustments to the previous estimated calculation of Sales Proceeds, Development Costs and Development Profit, and any other backup information reasonably requested by the Agency. Within 15 business days of receipt of such determination, the Agency may either (1) give notice to the Developer that it has accepted the

Developer's determination of the final Agency Profit Share, or (2) request an audit of Sales Proceeds, Development Costs, and/or Development Profit. If the Agency requests an audit, the Developer shall cause such an audit to be performed by a certified public accountant. The audit report shall be submitted to the Agency upon completion. If following the audit the parties are unable to agree upon the final Agency Profit Share, the parties shall jointly hire an independent certified public accountant, which has not previously worked for either party, to determine the final Agency Profit Share. The determination of such independent certified public accountant shall be deemed the final Agency Profit Share. Upon mutual agreement on the amount of the final Agency Profit Share, or a determination of the independent certified public accountant of such amount, any additional portion of the Agency Profit Share in addition to the estimated Agency Profit Share previously paid to the Agency shall be released to the Agency from such escrow account, with the remaining amount in the escrow account to be released to the Developer. In the event that the estimated Agency Profit Share paid by the Developer to the Agency exceeds the final Agency Profit Share, the Agency shall promptly refund the overpayment to the Developer, in no event later than thirty days after the date of determination of the final Agency Profit Share.

The Developer shall be responsible for paying the cost of the audit and the independent determination of Agency Profit Share if the final Agency Profit Share determined through such audit or independent determination exceeds 105% of the amount of the final Agency Profit Share determined by Developer. Otherwise, the Agency shall be responsible for paying these costs.

**ATTACHMENT B
PROJECT PROFORMA**

FILED
OFFICE OF THE CITY CLERK
OAKLAND

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Oakland City Center T-10
May 21, 2004
Detail Pro Forma

REVENUE:

Base House Sales

Plan #/Description	S.F. per Unit	# of Units	Base Value/Unit	Total Value	Value Per S.F.
Plan A Studio Flat	580	32	\$290,000	\$9,280,000	\$500.00
Plan B 1 Bdrm Flat	776	45	\$347,000	\$15,615,000	\$447.16
Plan C 1 Bdrm Flat	757	52	\$338,000	\$17,576,000	\$446.50
Plan D1 2 Bdrm Flat	1,106	27	\$432,000	\$11,664,000	\$390.60
Plan D2 2 Bdrm Flat	1,225	18	\$443,000	\$7,974,000	\$361.63
Plan D3 2 Plus Loft	1,500	6	\$533,000	\$3,198,000	\$355.33
Plan E 1 Bdrm Loft	737	15	\$342,000	\$5,130,000	\$464.04
Plan F 2 Bdrm Loft	985	16	\$407,000	\$6,512,000	\$413.20
Plan G 2 Bdrm Loft	963	24	\$401,000	\$9,624,000	\$416.41
Plan J 1 Plus Flat	930	8	\$394,000	\$3,152,000	\$423.66
Plan K 2 Plus Flat	1,200	3	\$449,000	\$1,347,000	374
Total	214,723	246	\$370,211	\$91,072,000	\$424.14

Agency Assistance	\$0
Options / Upgrades (Net)	\$0
Model Premiums (Gross)	\$0
Lot Premiums	\$1,223,000
Total Revenue	\$92,295,000

COST OF SALES:

	Cost Detail	Cost Summary	As % Total Revenue
LAND Site acres: 1.65	\$130.30 p.s.f. of site	\$9,365,000	10.1%
SITE DEVELOPMENT		9,365,000	6.1%
<i>Government Fees</i>	\$3,383 per unit	\$832,313	
<i>Professional Fees</i>	\$7,848 per unit	\$1,930,500	
<i>On Site Improvements</i>	\$39.41 p.s.f. of site	\$2,832,343	
INDIRECT CONSTRUCTION		5,830,007	6.3%
<i>Supervision</i>	\$22.43 p.s.f. of site	\$1,612,029	
<i>Construction Mgmt Fee</i>	1.7% of sales	\$1,603,057	
<i>Other Indirects</i>	\$2,300 per unit	\$565,800	
<i>Insurance</i>	2.2% of sales	\$2,049,120	
DIRECT CONSTRUCTION		37,729,020	40.9%
<i>Building Permit</i>	\$4,984 per unit	\$1,226,110	
<i>Direct Costs</i>	\$170.00 p.s.f.	\$36,502,910	
FINANCIAL		3,332,726	3.6%
<i>Loan Fees</i>	0.8% of sales	\$692,213	
<i>Property Tax</i>	0.3% of sales	\$257,688	
<i>Financing-Others</i>	0.1% of sales	\$75,000	
<i>Contingency</i>	5.5% of costs	\$2,307,826	
CAPITALIZED INTEREST		5,158,837	5.6%
<i>Interest - Construction</i>	2.8% of sales	\$2,587,703	
<i>Interest - OUH Loans</i>	2.8% of sales	\$2,571,134	
CAPITALIZED MARKETING		846,148	0.9%
<i>Sales Office / Model</i>	0.8% of sales	\$693,998	
<i>DRE/FHA PROCESSING</i>	0.2% of sales	\$152,150	
WARRANTY	\$4,000 per unit	\$984,000	1.1%
MANAGEMENT FEES	3.0% of sales	\$2,768,850	3.0%
TOTAL COST OF SALES		\$71,609,744	77.6%
GROSS PROFIT		\$20,685,256	
GROSS MARGIN		22.41%	
MARKETING - ADVERTISING	1.0% of sales	\$934,715	1.0%
EXPENSED INDIRECTS	0.4% of sales	\$400,210	0.4%
CLOSING COSTS	0.5% of sales	\$461,475	0.5%
COMMISSIONS	2.0% of sales	\$1,845,900	2.0%
TOTAL ALL COSTS		\$75,252,044	81.5%
PROJECT NET INCOME		\$17,042,956	18.5%
NET MARGIN		18.47%	

Profit Participation Analysis

Project Net Income		\$17,042,956
Participating Debt		<u>(\$4,206,896)</u>
Net Income Available for Agency Participation		\$12,836,060
First Net Income Hurdle	10.85%	<u>\$10,014,008</u>
First Profit Share		\$2,822,052
Agency Net Income Share	50.00%	<u>\$1,453,646</u>
Second Net Income Hurdle	14.00%	<u>\$12,921,300</u>
Second Profit Share		\$0
Agency Net Income Share	25.00%	<u>\$0</u>
Total Agency Participation		<u>\$1,453,646</u>

14.5

ORA/COUNCIL

JUL 6 2004