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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Mark Sawicki
Director, EWD

SUBJECT: 1911 Telegraph Avenue Selection Process

DATE: November 9, 2015

City Administrator Approval

Date:

11/18/15

RECOMMENDATION

Staff Recommends That The City Council Accept This Informational Report Regarding the Developer Selection Process for the City-Owned Site at 1911 Telegraph and Receive Presentations from Three of the Development Teams.

EXECUTIVE SUMMARY

Staff distributed a Request for Proposals ("RFP") with respect to the 1911 Telegraph Avenue development site (the "Property"). A selection committee reviewed proposals and conducted interviews for the purpose of selecting a development team to recommend to City Council to enter into an Exclusive Negotiating Agreement ("ENA") with the City for development of the Property. The selection committee and staff recommend that the team of Lowe Enterprises/Eden Housing be considered for an ENA. However, as part of the selection process, both the recommended team and two potential alternates (Bridge Housing/Robert Green Company and Oliver MacMillan/Strategic Urban Development Alliance/Lane Partners) are being provided an opportunity to present their proposals for the Property to the Community and Economic Development ("CED") Committee and the public.

BACKGROUND / HISTORY

The Request for Proposals

On October 8, 2014, City staff released an RFP for the development of a mixed-use project on the Property, a 1.06-acre vacant parcel located next to the Fox Theater in the Uptown area, also known as "Parcel 4". Generally, staff was seeking proposals from qualified and experienced development teams to design and develop a project that would:

- combine ground-floor retail, high-density housing, and an optional hotel component;
- consist of high-quality building architecture and urban design;
- deliver maximum fiscal and economic benefits to the City; and
- provide community benefits, such as affordable housing, local business and employment participation, and labor peace agreements, to the extent feasible.

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On December 8, 2014, staff received eight submittals in response to the RFP. Three proposals combined housing and retail uses, while the other five added a hotel component to this project mix. The Committee subsequently reviewed and ranked the proposals based on the objectives outlined above.

Revised Proposal Requirements

In May 2015, staff sought and received City Council's further guidance on the preferred project type and threshold community benefits to be provided by the selected developer. Specifically, the responding development teams were asked to revise their proposals as necessary to include a hotel component and the following community benefits:

- *Affordable Housing* – Ten percent (10%) of all new housing units in the project must be affordable to a range of households, with a third available to households earning at or below 80 percent of the area's median income (AMI), another third for those earning no more than 100 percent of AMI and the last third for those earning at or below 120 percent of AMI. (See additional information on affordable housing request under Analysis section.)
- *Neutrality Agreement* - The selected developer and/or the hotel operator must be party to a Neutrality Agreement with each labor union that has informed the developer/hotel operator that it will seek to represent operations employees at the hotel.
- *Project Labor Agreement (PLA)* – The developer must enter into a PLA for the project with one or more labor organizations.
- *City Employment and Local Business Participation* - The selected developer must comply with the City of Oakland's Employment and Local Business Participation Requirements.

In addition, all respondents were asked to provide an alternative business proposal based on a ground lease versus sale of the property.

Development Team Selection Process

In response to the revised proposal requests, two of the eight developers that originally responded declined to proceed because they were unwilling to include a hotel component.

The other development teams either affirmed their commitment to develop a hotel or added a hotel to their proposal. The remaining six teams included (in alphabetical order):

- BRIDGE Housing Corporation/Robert Green Company
- City Core Development/Palmer City Core Hotel
- Encore Housing/Curtis Development/Piazza Hospitality Group/Metrovation
- Lowe Enterprises/Eden Housing
- Mill Creek Residential
- Oliver McMillan/Strategic Urban Development Alliance(SUDA)/Lane Partners/Commune

Regarding the requested community benefits, all of the developers incorporated the requested affordable housing component into the project, and agreed to comply with the City's local business participation and employment programs, although some expressed concern about the effects of Project Labor and Neutrality Agreements on project economics, they were willing to negotiate with the appropriate labor unions.

With the exception of Bridge Housing, none of the developers were willing to make an affirmative commitment to a long-term lease of the land because they consider a ground lease to be difficult to finance. Bridge Housing is the only developer that submitted a business proposal based on a ground lease.

A selection committee (the "Committee") reviewed and ranked the proposals and interviewed the development teams. The Committee included City staff members Jens Hillmer, Darin Ranelletti, and Esther Chan, plus Steve Snider, Executive Director of the Uptown/Downtown Business Improvement Districts, and Kathy Kleinbaum, Economic Development Manager in City of San Mateo. Generally, each of the six development teams is capable of delivering the specified mixed-use project at the Property, although there are significant differences in the proposals that present inherent trade-offs, such as purchase price, fiscal benefits, project design or the amount of affordable housing to be provided. These key differences and negotiating terms are the subject of confidential real property negotiations, which have been presented and are being considered by the City Council as part of the selection process.

Lowe's proposal was ranked as the overall first choice of the Committee and staff has recommended that Council authorize the City Administrator to enter into an ENA. However, as part of the selection process, both the recommended team and two alternates have been asked to present their proposals for the Property to the CED Committee and the public, in order to generate additional input before a final selection is made.

ANALYSIS AND POLICY ALTERNATIVES

Brief Summary of Development Teams Presenting to CED

Lowe Enterprises/Eden Housing

Lowe and its hospitality subsidiary, Lowe Hospitality Group, have a 43-year history of developing and managing commercial, residential and hospitality properties. The firm, with

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headquarters in Los Angeles and an office in San Mateo, operates through three divisions: Lowe Enterprises Real Estate Group, Lowe Hospitality Group, and Lowe Enterprises Investors. Since its inception, Lowe has been responsible for developing, acquiring, or managing over \$21 billion in real estate assets nationwide.

Lowe is proposing two development scenarios. The first is a base case option consisting of 259 market-rate units and another 28 units that would be affordable to households with income levels conforming to the City Council's requirements. Lowe's alternative option consists of forming a partnership with Hayward-based Eden Housing, an experienced non-profit housing developer, to create a separate parcel within the project that will be owned and managed by Eden Housing as a stand-alone housing project providing 38 units or 13 percent affordable to households earning no more than 60 percent of Area Median Income ("AMI"). Under this scenario, which is preferred by Lowe, the team would also develop 251 market rate units. Lowe's project also includes a 115-room hotel, 16,000 square feet of retail and 297 off-street parking spaces. The residential and hotel components are located in one 23-story tower facing Telegraph Avenue.

Bridge Housing/Robert Green Company

BRIDGE Housing, a non-profit corporation based in San Francisco, is the largest developer of affordable and workforce housing in California. Since 1983, BRIDGE Housing has participated in the development of over 13,000 housing units and 350,000 square feet of retail/commercial space. The Robert Green Company, which was founded 15 years ago, is a commercial development company headquartered in Encinitas, California, which specializes in hospitality and mixed-use hospitality, residential, and retail projects.

Bridge Housing and Robert Green Company are proposing to develop a mixed-use project consisting of an eight-story residential building with 148 units, a 15-story hotel including 250 rooms, no retail and 236 parking spaces. BRIDGE will incorporate 60 units of housing affordable to households earning between 50 and 120 percent of AMI. Bridge Housing has not previously developed a mixed-project that includes a hotel.

Oliver McMillan/SUDA/Lane Partners/Commune

Oliver McMillan was founded in 1978 and is based in San Diego. The firm specializes in mixed-use development and has developed and managed over eight million square feet of projects. Formed in 2011, Commune Hotels & Resorts is an international multi-brand lifestyle hotel group comprising Thompson Hotels, Joie de Vivre, and Tommie. The San Francisco-based company manages more than 40 hotels and resorts across the US, Canada, and Europe. Lane Partners was formed in January of 2006 for the purposes of acquiring, developing, and managing institutional-quality real estate throughout Northern California. The company specializes in physical rehabilitations, lease up and re-structuring, entitlements, and general repositioning of real estate assets. Currently, Lane Partners owns approximately two million square feet of mostly office space in Silicon Valley. Lane Partners recently acquired and sold the Sears Building in downtown Oakland to Uber. SUDA was formed in 2001 as a fully integrated general engineering, construction, real estate, and finance firm. As a developer, SUDA is involved in land acquisition, construction and sale of residential, industrial, and commercial projects

throughout the United States. In March 2015, SUDA entered into an Exclusive Negotiation Agreement with the City to develop City-owned property located at 2100 Telegraph Avenue.

Oliver McMillan is proposing to build a 27-story residential tower with 312 units, a seven-floor boutique hotel with 168 rooms, 9,365 square feet of retail and 307 parking spaces. Ten percent of the units would be affordable to households with income levels conforming to the City Council's requirements.

Request to Include Affordable Housing in Development Project

The City's request that development teams include 10 percent of the units as affordable housing in the project serving a range of low- to moderate-income households (80 percent to 120 percent of AMI) was based on several considerations. First, providing affordable housing at deeper affordability levels would require significant gap funding assistance by the City, which currently has only a limited amount of funding available for projects all across Oakland. Second, projects completed since 2008 in the vicinity of 1911 Telegraph Avenue have provided 311 units affordable to households between 30 percent and 60 percent of AMI for a period of 55 years. They include:

- Fox Courts (555 19th Street) with 80 units affordable to households between 30 and 60 percent of AMI;
- The Uptown Project (500, 600, 601 Williams Street) with 20 percent (131 units) of 655 units affordable to households earning 50 percent or less of AMI for a period of 55 years; and 5 percent (33 units) of the 655 units affordable to households earning incomes not exceeding 120 percent of AMI; and
- Cathedral Gardens (688 21st Street) with 100 units affordable to households between 30 percent and 60 percent of AMI.

Lastly, given that the City has already invested significantly in housing affordable to households between 30 percent and 60 percent of AMI, there was a strong desire to use this development opportunity to provide affordable housing to households earning between 80 percent to 120 percent of AMI, which are unable to afford market rate units and are ineligible for very low-to low-income housing. The Surplus Lands Act is inapplicable to this project.

FISCAL IMPACT

There is no fiscal impact related to this report or receiving presentations from development teams. The eventual development of the Property would yield one-time sales proceeds to the City, or sixty-six (66) years of lease payment revenues and the eventual return of the Property to the City, plus ongoing property tax, transient occupancy (hotel) tax, sales tax, parking taxes, business license tax, as well as further contributing to the growth of the downtown economy.

The level of fiscal impact is dependent on the size and scope of the approved and built project, as well as the terms of the disposition and development agreement negotiated with the City.

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PUBLIC OUTREACH / INTEREST

The Request for Proposals was publicly issued in October 2014. The intent of this report, and the developer presentations at the CED Committee meeting, is to provide the community with information on the selection process and an opportunity to view the development teams and the proposals under consideration by the Council. Although negotiations with the development teams, and later, exclusively with one team, will be conducted confidentially, any final agreement between the City and a developer will be presented and reviewed in a public hearing before it can be approved.

COORDINATION

The Economic & Workforce Development Department has coordinated on this matter with the City Administrator's Office, the Building and Planning Department, and the Office of the City Attorney.

SUSTAINABLE OPPORTUNITIES

Economic: The 1911 Telegraph Avenue site presents a unique opportunity for development of a distinctive high-density mixed-use project, including much-needed additional hotel rooms that can further catalyze what has become one of the most vibrant destinations in Oakland. Development of the site could produce several hundred construction jobs and a hundred or more permanent jobs.

Environmental: Development of the site is expected to maximize the potential use of the land while being environmentally-sensitive with its design, use of materials and operations.

Social Equity: Development teams will be expected to provide a minimum of 10 percent of the units at an affordable rent or price, meet the City's local business and employment participation requirements, and enter into project labor agreements and labor harmony agreements.

CEQA

This is an informational report to the City Council that does not require review pursuant to the California Environmental Quality Act (CEQA).

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Accept This Informational Report Regarding the Developer Selection Process for the City-Owned Site at 1911 Telegraph and Receive Presentations from Three of the Development Teams.

For questions regarding this report, please contact Jens Hillmer, Urban Economic Coordinator, Project Implementation at (510) 238-3317.

Respectfully submitted,



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