CITY OF OAKLAND

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2016 MAY 12 PM 7:35

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Mark Sawicki, Director
Director, EWD

SUBJECT: Foothill Seminary Point $2 million Construction Gap Loan & $1.5 million Line Of Credit

DATE: April 28, 2016

City Administrator Approval [signature] Date: 5/12/16

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing A $2,000,000 Loan And A $1,500,000 Line of Credit To Sunfield Development LLC, Seminary Point LLC, and/or Capital One Community Renewal Fund (COCRF) Seminary Point, LLC, Or Affiliated Entities To Be Used For Development of The Foothill Seminary Point Neighborhood Commercial Retail Center Project.

EXECUTIVE SUMMARY

Approval of this resolution will authorize the City Administrator or her designee to negotiate and execute a Development Loan Agreement between the City of Oakland and Sunfield Development, Seminary Point, LLC and/or COCRF Seminary Point, LLC, or entities affiliated with any of these entities, to provide a $2,000,000 subordinated loan for construction of the Foothill Seminary Point Neighborhood Commercial Retail Center project (the "Project") and a $1,500,000 line of credit to satisfy a leasehold guaranty requirement to Boston Private, the first lender to the Project. The Project includes development of four new buildings at the corner of Foothill Boulevard and Seminary Avenue totaling 26,950 square feet of new commercial space and 73 off-street parking stalls, with Walgreens as the anchor tenant (***Attachment A***).

Increased costs of construction in the Bay Area have led to a $2 million increase in estimated Project costs. The developer, Sunfield Development, LLC ("Sunfield"), had already secured financing for the Project based on a $12 million total development cost. To increase the size of the primary loan, the lender would impose terms that would make the Project infeasible. To support this project the City proposes to lend $2 million to be repaid with interest at one percent (1%) greater than the first loan terms. In addition, Boston Private is requiring a $1,500,000 leasehold guaranty to the project in order to finance the construction of the Project. The City is recommending a $1,500,000 line of credit to serve as a commitment to Boston Private for the loan. The developer will pay the City a one percent (1%) fee for the line of credit and six percent (6%) interest if/when the line of credit is drawn.

Funds for the loan and the line of credit are available from remaining tax allocation bond proceeds for the Central City East redevelopment project area, which were transferred to the

City from the Oakland Redevelopment Successor Agency (ORSA). The loan will not be secured by the property but rather by the developer's leasehold improvements which will remain City-owned and leased under a Lease Disposition and Development Agreement (LDDA).

BACKGROUND / LEGISLATIVE HISTORY

The Property

The Project is on a City-owned 1.69-acre site approximately six blocks south of Mills College with primary frontage on the southwest corner of Foothill Boulevard, Seminary Avenue, and Bancroft Avenue (the "Property"). The Property is zoned Neighborhood Center Three (CN-3). The site was assembled by the former Oakland Redevelopment Agency (the "ORA") from 11 contiguous vacant parcels of land over a two and a half year period, and was collectively designated as Assessor Parcel Number 038-3182-020 (***Attachment A***). In January 2012, all redevelopment agencies in the State of California were dissolved, and ORSA became the successor to the Agency. Pursuant to the Long Range Property Management Plan approved by the California Department of Finance in May 2014, ORSA transferred the Property to the City.

The former Oakland Redevelopment Agency not only acquired the parcels, but also demolished the existing buildings and completed hazardous material abatement so the Property can be delivered vacant and completely remediated for development. In early March 2016, the City received its remediation clearance.

Developer Selection and Agreements to Develop the Project

In September 2009, the former Oakland Redevelopment Agency ("ORA") issued a Notice of Development Opportunities ("NODO") to solicit development proposals for the property. The ORA received three proposals and formed a selection committee for the purpose of reviewing the proposals and to conduct in-depth interviews with all three respondents. The committee evaluated the overall feasibility for each proposed project, which was based on multiple categories and ranked them accordingly. Sunfield ranked first in the initial round of evaluations and its submittal of additional information further solidified its ranking in the selection process.

Sunfield is a relatively new company located at 562 14th Street in downtown Oakland. The company grew out of a team of real estate professionals, including its president, Sid Afshar, who has over 30 years of experience in real estate development and architectural design in California. The developer has assembled a strong team with substantial experience and an excellent reputation for developing parking and retail projects including International Parking Design and Gallup Architects, the architectural firm completing the design and construction documents for Walgreens and the site.

The former ORA entered into an Exclusive Negotiating Agreement (ENA) with Sunfield which allowed the developer to demonstrate financial capacity and financial feasibility, finalize project design, solidify cost estimates, solicit statements of interest from retail operators, and conduct applicable market feasibility studies for the retail components. In addition to performing these tasks, Sunfield utilized the ENA period to complete the California Environmental Quality Act (CEQA) review, which was approved by the Planning Commission on October 19, 2011.

On May 15, 2012, Ordinance No. 13114 C.M.S. authorized City staff to enter into a Development and Disposition Agreement (DDA) with Sunfield to sell the Property for the development of the proposed Seminary Point project, a neighborhood commercial retail shopping center. This Ordinance also allocated a $150,000 allowance for environmental remediation work to the developer. This work has since been completed. On June 2, 2015, City Council approved Ordinance No. 13312 C.M.S., which changed the disposition of the site from a sale under a DDA to a long-term ground lease under an LDDA. The LDDA will allow the developer to enter into lease agreements with tenants and pursue the development of the property in a timely manner, once the preconveyance conditions are satisfied and the property is ground leased to the developer. The LDDA was executed on September 23, 2015.

The Project

The Project includes development of four new separate buildings, with two buildings fronting Foothill Boulevard with a surface parking lot, one building pad in the middle of the site, and one rear building fronting on Bancroft Avenue. The four buildings total 26,950 square feet of new commercial space and 73 off-street parking stalls. The anchor tenant's (Walgreens') building will face Foothill Boulevard and will feature a pharmacy/drug store and offer a mix of retail, food, and a drive-thru pharmacy window. The anchor tenant will provide much needed entry level jobs and local goods and services in the Foothill/Seminary area. It is anticipated that the retail project will provide approximately 125 jobs with 71 construction jobs and 54 permanent jobs.

It is important to note that the Foothill/Seminary retail corridor has not seen major outside investment for over 20 years and this node was also identified in the City of Oakland's Retail Strategy. The Retail Strategy identified the need for "another convenience anchor store such as a drug store to create a stronger customer draw for local residents." This section of East Oakland lacks the basic goods and services needed by residents. This neighborhood commercial retail shopping center is intended to establish a strong sense of place for the community, provide for a much needed pharmacy, wellness services center, and other neighborhood retail services.

City Participation to Date in Financing for the Project

In anticipation of this Project, the City invested in major public streetscape infrastructure improvements in the area along Foothill Boulevard and Seminary Avenue as well as façade and tenant improvements, all of which have helped to revitalize this very important neighborhood retail node.

In July 2013, Council adopted Resolution No. 84521 C.M.S., which approved an allocation of up to $6 million of New Markets Tax Credits (NMTC) by Oakland Renaissance NMTC, Inc., A California Nonprofit Public Benefit Corporation ("ORNMTC), an affiliate of the City, to a sub-community development entity affiliated with ORNMTC for investment in the Project. In May 2015, the City Council authorized Resolution No. 85604 C.M.S. to increase the allocation of the New Markets Tax Credits for the Seminary Point Project from $6 million to $14 million.

The NMTC program was established by Congress in 2000 to encourage investments into operating businesses and real estate projects in low-income communities. The NMTC program is administered by the Community Development Financial Institutions (CDFI) Fund. The NMTC program attracts private financing by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). In turn, the CDEs invest or loan these funds into qualified businesses that are located in low-income communities.

In essence, the NMTC program allows its investors to forego the usual direct return of all or a substantial portion of their investment, because they will receive tax credits that more than offset the lower amount of return on investment.

ORNMTC received CDE certification from the CDFI Fund in 2005. In September 2012, ORNMTC applied for tax credit authority under the NMTC program primarily to provide real estate financing necessary to support retail business attraction and retention in Oakland. In April 2013, ORNMTC was notified by the CDFI Fund that it received an allocation for $20 million in tax credit authority. ORNMTC has three years to use its NMTC allocation after entering into an allocation agreement with the U.S. Treasury. ORNMTC has approved $14 million of the $20 million tax credit allocation to the Seminary Point project.

In anticipation of the NMTC financing, the City's sub-CDE closed on a $14 million equity funding with Capital One, N.A. ("Capital One") on September 24, 2015, which would lead to the eventual financing of the Seminary Point project with a NMTC-related low-interest loan. The City agreed to have its Sub-CDE close on the NMTC loan within 9 months of this September 24, 2015 date. Capital One has expressed its willingness to extend this 9 month deadline as long as it does not go past 12 months and progress is being made on the eventual NMTC-related loan closing.

ANALYSIS AND POLICY ALTERNATIVES

In the last year, Sunfield Development received approval from ORNMTC of an increase up to $14 million of New Markets Tax Credits. With the additional allocation of NMTC funds, Sunfield was able to obtain an $8 million loan from the lender, Boston Private, and also obtained an equity funding commitment from Capital One. Boston Private is a commercial lending bank based in Boston, Massachusetts that is expanding to the west coast and is working with the New Markets Tax Credits to lend funds in low-income communities. Once Sunfield secured its project financing, the developer put the project out to bid to construction contractors to get updated costs for the Project. Sunfield received a total of six bids ranging from $9.5 to $13.3 million, which was $2 million to $4 million over the original estimate they received in early 2015. The increases are attributed to overall increases in construction costs due to market demand, increases in prevailing wages, and local business enterprise and small business enterprise requirements.

Staff has reviewed the developer's pro forma and existing financial package and has determined that the gap will be difficult to close unless additional City financing is made available. Economic & Planning Systems Inc., a real estate economic consulting firm, was contracted to provide an independent review of the Developer's pro forma and to verify the financial gap (***Attachment B***). Based on this review, staff is recommending that the City make a $2 million loan and provide a $1.5 million line of credit to the project on the following terms.

$2 million loan terms:

- The loan would alternatively be made to either Sunfield Development, Seminary Point LLC (the single-project entity created by Sunfield), or COCRF Seminary Point LLC (the investment fund set up by Capital One National Association to provide New Markets Tax Credit financing to the project). This determination will be made by the City Attorney's Office working with Project Implementation staff.
- The loan will have an interest rate of one percentage point above the rate of the first loan from Boston Private.
- The term will be up to 30 years, to be negotiated with the developer.
- The loan payments will be deferred and accrued for seven years and payments will begin after the un-winding and refinancing of the NMTC structure financing.
- The City's loan repayment will be subordinated to the first loan from Boston Private.
- Loan repayments, including interest, will be paid back to Central City East Project Area funds.
- The loan will not be secured by the Property, which remains City-owned, but will be secured by the developer's leasehold improvements on the Property.

$1.5 million line of credit terms:

- The line of credit will serve as a liquidity requirement imposed by Boston Private for the $8M loan.
- The line of credit will also serve as a guaranty to Boston Private for meeting certain leasing thresholds for the project.
- The City will charge a one percent (1%) interest rate for the line of credit annually.
- If the line of credit is drawn, the City will charge a six percent (6%) interest rate on the amount drawn.

The Boston Private loan currently requires leases with national credit tenants acceptable to Boston Private. This effectively prevents Sunfield from renting to small and local businesses who cannot meet Boston Private's credit standards. It also prevents Sunfield from starting construction until most of the space has been pre-leased. Although Sunfield has been marketing the site for years, prospective tenants are not willing to commit until the project becomes more tangible, demonstrated at a minimum by the start of construction.

Alternatives to the loan and line of credit that were considered but not recommended are discussed below:

- Boston Private has offered to make the additional $2 million loan to Sunfield but with conditions that require Sunfield to lease 90 percent of the space to credit national tenants before the loan is released. This requirement makes it impossible to move forward with the project until credit tenants sign leases. The timeframe required to lease to credit tenants will not allow the project to meet the requirements of the NMTC timeframe to close by September 2016.

- A private lender has agreed to provide an $8 million loan with an interest rate of 10 percent. This option is not possible since these terms will make the project infeasible.

- Other NMTC lending entities have made offers to fund the project with similar leasing requirements for credit tenants but at a higher interest rate, thereby reducing the anticipated revenue to the project and the size of the loan required for the project. These loans make the project infeasible.

If the City Council does not approve the $2 million loan and the $1.5 million line of credit, the project will not move forward in the timeframe needed to meet the NMTC closing deadline of September 2016.

FISCAL IMPACT

In addition to the interest from the loan and the line of credit, the City will benefit from the reuse of a vacant underutilized property to long-term economic use. The following is a list of some of the financial benefits of the Project to the community and City:

1. *Ground Lease*- Starting in year eight the developer will pay the City a monthly rent of $1,000 with increases every 10 years to year 66 for a total of $5,400,000.

2. *City Sales Tax*- Sales tax is imposed upon every retailer for the privilege of selling tangible personal property at retail. The City receives .0095 of each taxable dollar generated by retailers. The estimated sales tax in the first stabilized year is $38,539.

3. *Jobs Generated*- An estimated 125 total jobs with approximately 71 construction jobs and 54 permanent full-time equivalent jobs.

4. *Permit Fees*- The cost of permitting the project is a single one-time payment of approximately $466,978.

5. *Business License Tax*- The business license tax in the first year is estimated to be $9,163.

6. *Utility Tax*- The utility tax is estimated in the first year to be $3,342.

7. *Property Tax*- The property tax estimated in the first year is $124,000 and will increase by approximately 2% per year. The property tax will be based on the improvements to the property and the appraised value of the property. A recent appraisal projected the future value of the Property to be $12,300,000 with the proposed improvements from the Project.

The former agency originally acquired the 11 parcels, conducted hazardous materials abatement, and demolished the existing buildings with $4.5 million of Central City East taxable bond funds. Therefore, the lease revenue and repayment of the loan proceeds are considered restricted funds for the Central City East project area.

There are funds available for the loan from remaining tax allocation (redevelopment) bond proceeds for the Central City East redevelopment project area. In 2013, all "excess" tax allocation bond proceeds (i.e. bond proceeds that were not needed to satisfy an enforceable obligation of ORSA) were transferred to the City by ORSA pursuant to a Bond Expenditure Agreement, and the City Council adopted a Bond Spending Plan governing the use of those funds for each project area. The Bond Spending Plan allocated Central City East bond proceeds to major projects (P356910 CCE Public and Private Project) and (P233289 CCE Facilities Infrastructure).

The $3.5 million in funds will come from Central City East Tax Allocation Bond Series 2006A Taxable Bond Fund (5643), CIP Central City East Organization (94899) Professional Services and Architectural/Engineering Accounts (54930 & 54411), Central City East Public Private Development (P356910) and CCE Facilities Infrastructure (P233289), and Central City East Program (SC18) as indicated in the following table:

Fund	Organization	Account	Project	Program	Amount
5643	94899	54930	P356910	SC18	$1,700,000
5643	94899	54411	P356910	SC18	$ 300,000
5656	94899	54930	P233289	SC18	$1,500,000
Total					**$3,500,000**

The $3.5 million in funds will be re-allocated to a new project to be determined for a construction loan and the line of credit for the Foothill Seminary Point retail development located on Foothill Boulevard and Seminary Avenue (APN 038-3182-020).

PUBLIC OUTREACH / INTEREST

The property is located in the former Central City East Redevelopment Project Area. The former project area was established in 2003 after neighborhood groups, including merchants, requested that the City Council include the area in a redevelopment district. Residents were frustrated with deteriorating conditions along the commercial corridors in the central and eastern portions of the City and the impact on the adjacent residential areas. Residents cited deteriorated and vacant buildings, prostitution, and drug trafficking as specific problems impacting the Foothill/Seminary area. Residents in this area have expressed strong interest in supporting neighborhood commercial uses. The project has previously received letters of support from many of the outside taxing agencies.

The proposed development was presented and approved for entitlements by the Planning Commission on October 19, 2011 and the entitlements have been successfully extended through the end of 2016.

COORDINATION

Staff from Economic and Workforce Development and the Planning and Building Department worked with Sunfield on the proposed new commercial center. Public Works staff coordinated the environmental testing on the site, minor soil remediation, and has also coordinated the off-site streetscape improvements with the proposed project. Finally, staff coordinated with the City's Real Estate Division to acquire and assemble the 11 separate parcels.

SUSTAINABLE OPPORTUNITIES

Economic: The project will replace an underutilized vacant and blighted property with a new commercial neighborhood retail center, which will act as a commercial catalyst for this district. The project will create approximately 54 new permanent retail employment opportunities as well as approximately 71 temporary construction-related jobs. The project will generate sales tax, property taxes, utility taxes, and business license tax.

Environmental: The project will remove a blighted property from this commercial node and will create an infill neighborhood commercial retail development. The developer will use its good faith efforts to design, develop, and construct the project to be environmentally sustainable in conformance with the Build it Green commercial checklist.

Social Equity: The project will provide much needed access to retail services for daily goods and services in the Central East Oakland neighborhood and community. The project will bring a pharmacy and health and wellness services and retail to a neighborhood that is in need of these services. The project will also provide spaces for local small businesses to sell their goods and services.

CEQA

The project was approved by the Planning Commission on October 19, 2011 with a Notice of Exemption (NOE) based on an in-fill exemption (Section 15332 on the California Environmental Quality Act).

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends approval of a resolution to provide a $2,000,000 loan and a $1,500,000 line of credit as a guaranty to Boston Private for the Foothill Seminary Point Project to Sunfield Development, Seminary Point, LLC and/or COCRF Seminary Point, LLC or affiliated entities for the Foothill Seminary Point project to meet the financial gap for the construction of the project.

For questions regarding this report, please contact Theresa Lopez, Urban Economic Analyst IV at (510) 238-6250.

Respectfully submitted,

Mark Sawicki, Director
Economic and Workforce Development

Reviewed by:
Patrick Lane, Acting Manager Project Implementation
Larry Gallegos, Area Manager

Prepared by:
Theresa Lopez, Urban Economic Analyst IV
Project Implementation

Attachments (2):
Attachment A. Site Plan of Seminary Foothill Project & Parcel Map
Attachment B. Memorandum Economic & Planning Systems, Inc. (EPS)

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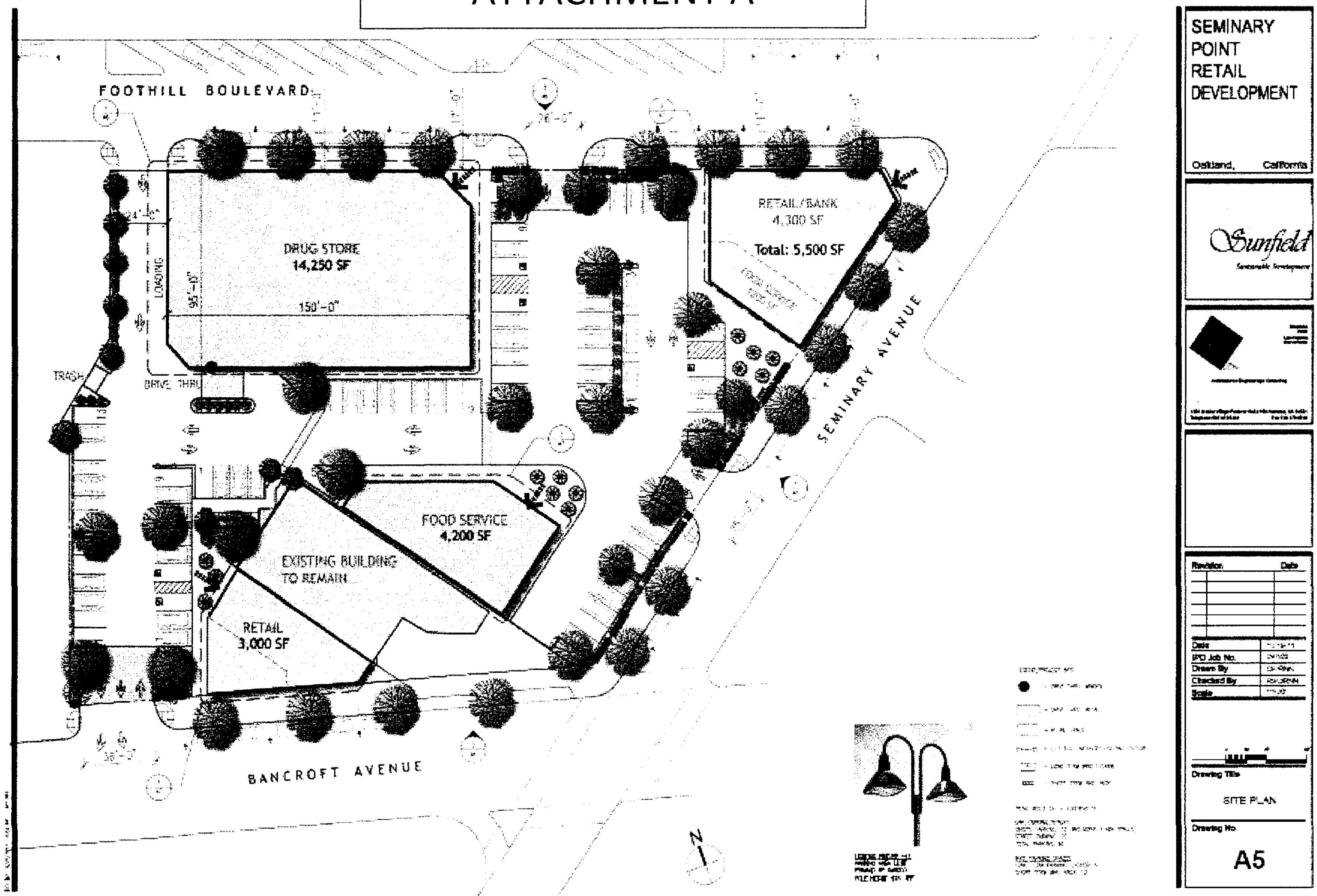
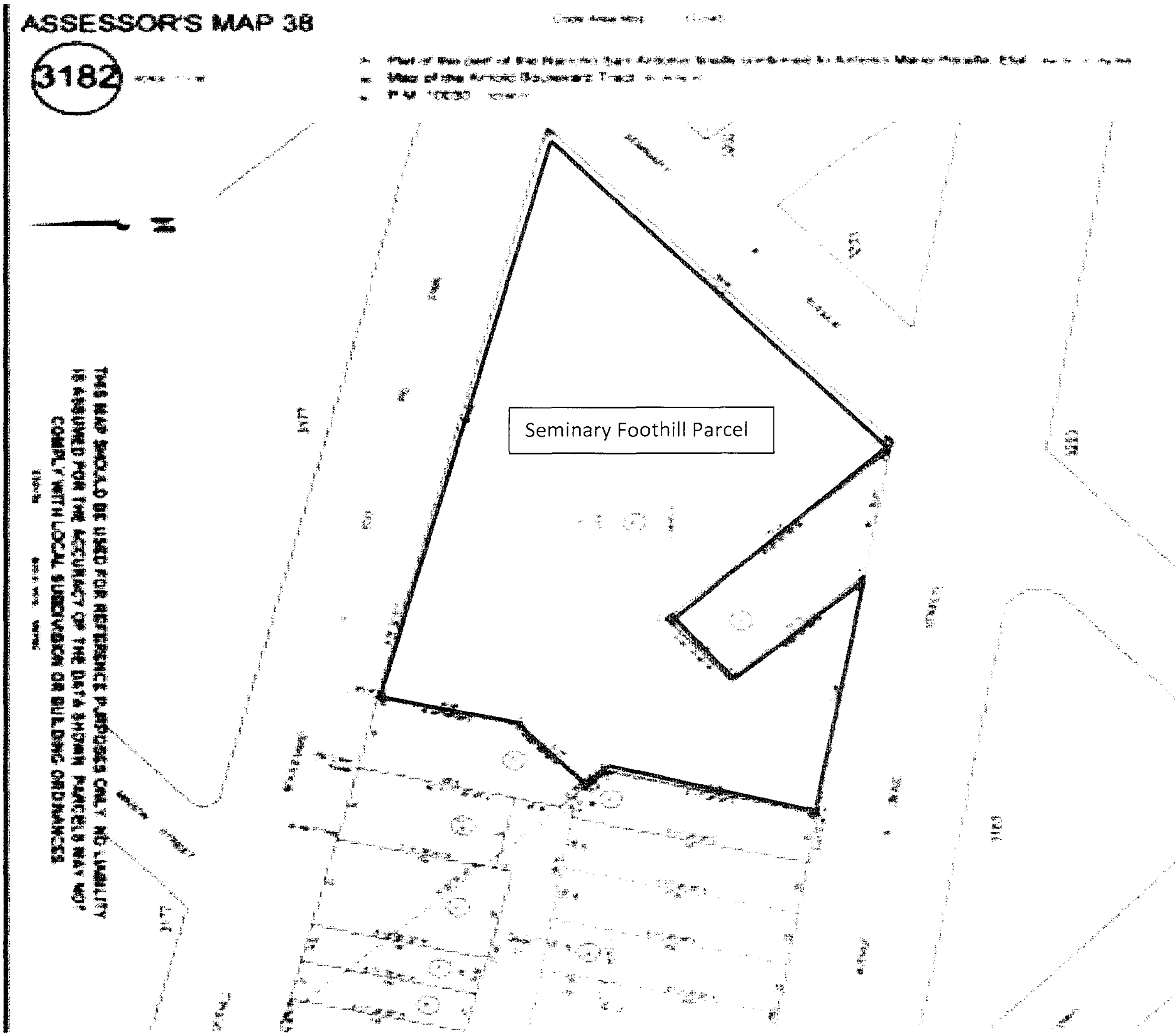
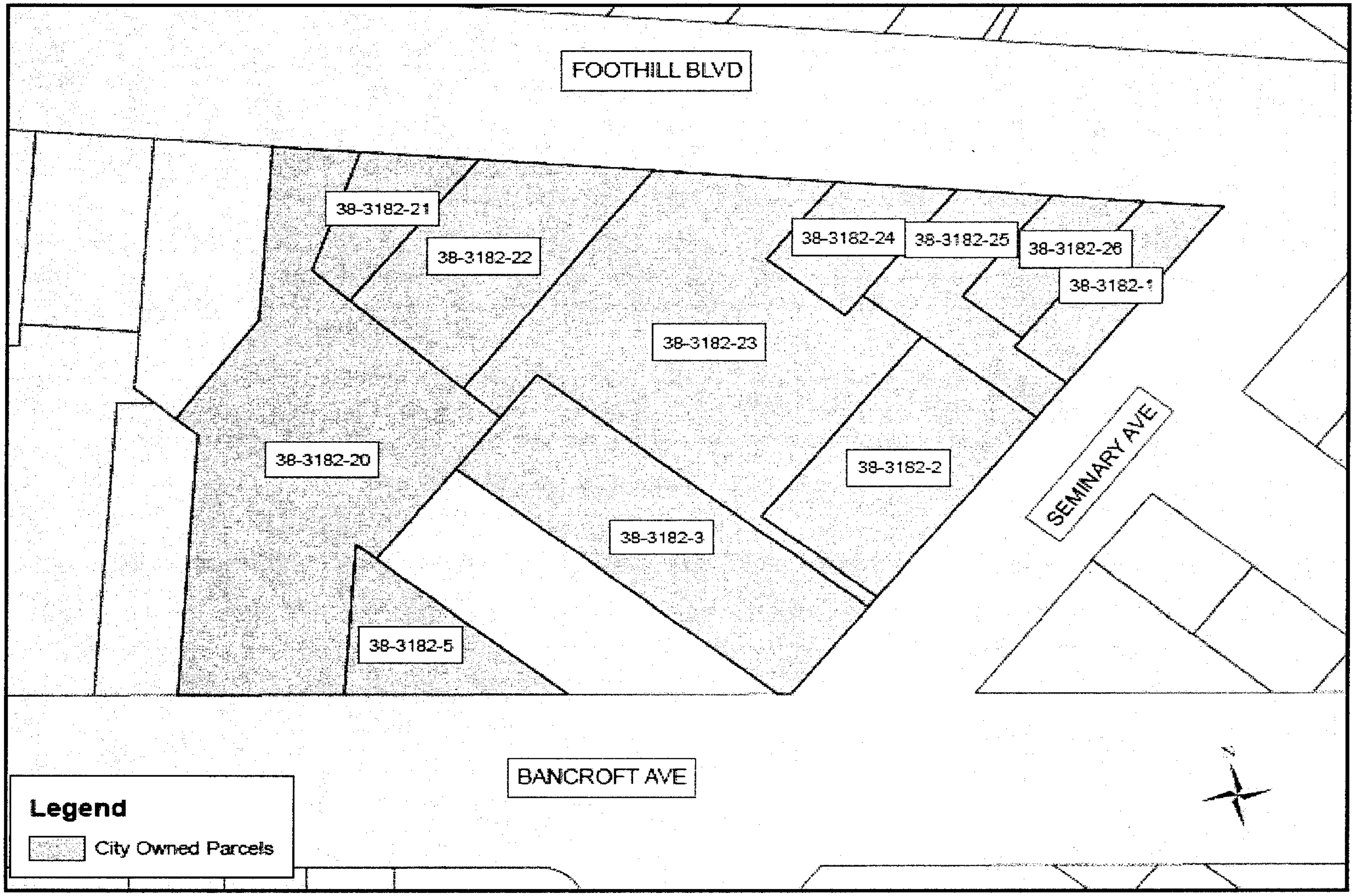
ATTACHMENT A




ASSESSOR'S MAP 38
3182
Seminary Foothill Parcel
THIS MAP SHOULD BE USED FOR REFERENCE PURPOSES ONLY. NO LIABILITY
IS ASSUMED FOR THE ACCURACY OF THE DATA SHOWN. PARCELS MAY NOT
COMPLY WITH LOCAL SUBDIVISION OR BUILDING ORDINANCES

Foothill Seminary Development Project Parcels



ATTACHMENT B

ECONOMIC & PLANNING SYSTEMS, INC.

Seminary Point Development Feasibility Review and Findings:

Pursuant to Government Code Section 52201

MEMORANDUM

To: Theresa Lopez, City of Oakland

From: Jason Moody and Michael Nimon

Subject: Seminary Point Development Feasibility Review and Findings Pursuant to Government Code Section 52201; EPS #151039

Date: May 4, 2016

The Economics of Land Use

This memorandum provides analysis required under Government Code (GC) Section 52201 for disposition of Seminary Point, a 1.7-acre site at Seminary Avenue and Foothill Boulevard in Oakland (the Project). The Project site is owned by the Oakland Redevelopment Successor Agency (housed within the Office of Economic and Workforce Development Department and referenced hereafter as Agency) which is contemplating a long-term ground lease to Sunfield Development, LLC (the Developer) with an option to buy for development of a 26,950-square foot retail center. The Project will be anchored by Walgreens.

The Agency has retained Economic & Planning Systems (EPS) to provide an independent financial assessment of development economics based on the most recent Project assumptions. EPS has previously completed similar analysis of the Project, including a memorandum dated September 19, 2014 pursuant to Government Section 33433 of the California Health and Safety Code and another dated April 20, 2015 pursuant to GC 52201. This memorandum builds on the earlier analysis, as well as a January 24, 2012 Seminary Point Development Analysis completed by Keyser Marston and Associates (Original Analysis). The most recent changes to the project that affect its economic performance include updated development costs, City loan and letter of credit terms, tenant lease rate assumptions, and a ground lease rather than sale of the property.

Scope and Methodology Overview

This memorandum addresses specific Government Code Section 52201 requirements including:

1. The cost of the agreement to the City, including land acquisition, clearance, relocation of any improvements provided by the City, and the expected interest on any loans or bonds to finance the agreements (52201.2B.i).

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2. The estimated value of the property to be conveyed or leased, determined at the highest and best use permitted under the general plan or zoning (52201.2B.ii).

3. The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments which the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use, then the City shall provide as part of the summary and explanation of the reasons for the difference (52201.2B.iii).

4. An explanation of why the sale or lease of the property will assist in the creation of economic opportunity, with reference to all supporting facts and materials relied upon in marking this explanation (52201.2B.iv).

The current update to the prior work relies upon industry standards, interviews, EPS's experience with similar projects, and a review of market conditions and trends in Oakland and the Bay Area. Specifically, EPS has reviewed the updated calculations and assumptions embodied in the financial pro forma model of the Project submitted by the developer. In addition, EPS has reviewed the construction costs as well as other changes since the last draft of the analysis.

EPS has not conducted a detailed market analysis associated with this Project. In addition, the new market tax credits (NMTC) estimates are based on the calculations by Equity Community Builders (NMTC consultants), including overhead and administration cost or related fees and were not independently verified as part of this analysis. Actual financial outcomes may differ from those projected in the developer pro forma to the extent that future economic cycles, market, and development trends change.

Summary of Findings

1. ***EPS finds the Developer's financial pro forma is generally consistent with industry standards and the corresponding assumptions fall within a reasonable range for comparable projects.*** EPS has reviewed a detailed financial pro forma model submitted by the Developer (in excel format) and has confirmed that the overall methodology and key assumptions are consistent with prevailing market trends and industry standards. EPS made several revisions to the pro forma and calculations of the Project's return, though these changes do not significantly alter the fundamental economics of the Project.

   The key factor affecting the Project's financial performance include assumed retail lease rates (for both anchor and in-line tenants) as well as total construction costs. The lease rate for Walgreens, the anchor tenant that will occupy 53 percent of the leasable space, is based on the signed lease. While Subway and T Mobile have also been identified as tenants, the remaining 37 percent of space is uncommitted and assumed lease rates reflect prevailing market conditions. While local and regional retail market trends have continued to improve in recent years, average rents have not increased proportionately to off-set increases in construction costs. Cost increases in the Project are partially attributed to prevailing labor across every trade and partially due to the overall cost escalation associated with the increase in construction activity. At the same time, the net equity from new market tax credits available to the Project only cover a small share of the potential development cost.

2. ***Other than prior site acquisition and general overhead expenses, the City is expected to incur implicit costs through subsidies under the current deal structure with Sunfield Development.*** The City's participation consists of the below market rate ground lease, a $14 million new market tax credit allocation, and a $2 million "participation" loan with payment forgiveness during the first 7 years. These terms are designed to leverage private sector investment and are required given the current economics of the Project. The ground lease is based on a 66-year term with gradual annual payment increases from $1 during the first 7 years to $174,000 during the last 6 years of the lease. This is an equivalent of an average annual payment of $81,800 or a net present value of $695,000 to the City under a 5 percent discount rate. The City's participation loan is expected to yield an average annual return of 3.6 percent based on the agreed upon 50-50 split of the net cash flow starting in year 8 and assumed payoff in year 30. This falls short of the City's 6 percent preferred return and equates to an implicit subsidy value of $784,000 (i.e., the difference between the preferred and expected return rates). The City's return on the loan will vary significantly on the timing of the payoff as well as the annual performance of the Project after the first 7 years. The City is also providing a letter of credit of up to $1.5 million to ensure the Developer is able to secure $8 million in private debt.

3. ***The estimated acquisition and assembly cost of the Project site to the Agency was previously estimated at $4.5 million and has not changed.*** The original analysis conducted by KMA in 2012 found that the Agency had spent about $4.5 million to assemble site parcels with acquisition costs funded through bond proceeds expected to be repaid by tax increment over a 30-year period. These represent "sunk" costs that will not be affected by the execution of this agreement (although could be partially recouped if the City elected to sell in the open market). However, the City may recoup a portion of these costs through the ground lease revenue stream.

4. ***The appraised value of the interest to be conveyed, determined based on the highest and best use permitted under the redevelopment, was estimated at $3.05 million.*** This value was determined through an appraisal completed by Yovino-Young for a shopping center use in 2014 and has not likely changed significantly since. The appraisal assumed the subject property was vacant, assembled, and fully entitled for development consistent with the proposed use. It is important to note that appraised values often do not reflect economic value (also referred to as "residual land value" as further described below) because of the wide variety of factors embodied in actual market transactions, including land speculation, the unique characteristics of individual sites (e.g., views, access, adjacencies), the financial and negotiating position of various parties involved, and other factors. Differences between appraised values and economic values can be especially pronounced in cases where development costs exceed the revenue generating potential of proposed uses under existing market conditions (i.e., when economic values are negative).

5. ***Given current market conditions and the assumed lease rate of the anchor tenant (Walgreens), the development of the proposed retail Project is not likely to be financially feasible without public subsidies.*** Based on the assumed revenue that could be supported by the Project relative to the Project's development cost and additional operating cost, an adequate private sector return cannot be achieved under the current set of market conditions. Specifically, the EPS review of the Developer pro forma model assumptions suggests that the Project as currently proposed would generate a negative residual land value of approximately $3.3 million. This calculation is based on

a "stabilized-year" pro-forma model that does not assume any growth in revenues or operating costs through time. The residual land value estimate is reduced from negative $1.2 million established by EPS in 2015 primarily due to the increase in development costs associated with local labor requirements.

6. ***Despite the estimated negative residual land value generated by the Project based on "stabilized-year" analysis, there may be an opportunity for the City to capture future revenue growth attributable to better than expected market outcomes through loan participation.*** A separate analysis of an annualized cash-flow of the Project that reflects the currently proposed loan payment structure based on a 50-50 split of the net annual cash flow results in relatively modest developer return. Over a 30-year operational period, the Project is estimated to achieve a leveraged internal rate of return of 6.0 percent. This level of return is below a typical range sought by most institutional developers given the capital investments, risks, and complexity inherent in the Project. Among other things, this analysis assumes an average nominal growth in lease rates for inline tenants of 2 percent per year. Additional upside for ground rent is likely to the City to the extent that the annual growth in lease rates rent exceeds the 2 percent forecasted in the pro forma. Although the City is estimated to receive an average annual return of 3.6 percent on its loan under current market conditions, growth in retail lease rates after the first 7 years (at which point the City starts to participate in the net cash flow) could improve this performance.

7. ***Implementation of the Project will contribute to elimination of blight and economic opportunity in the neighborhood as well as other goal and programs stated in the Area Plan.*** While redevelopment has been dissolved in California, the goals and objectives outlined in the City's documents could still be achieved with successful development of the Project. These goals include neighborhood revitalization, infill development, enhanced retail offerings, creation of employment opportunities, and attraction of private investment. The original KMA report concluded that implementation of the proposed agreement can be expected to assist in the alleviation of blighting conditions through achieving high level of urban design features, creating and supporting new job opportunities, and improving safety through enhanced street activity. In EPS's estimation, these conditions have not significantly changed and continue to apply to the Project as it is currently proposed.

Residual Land Value Calculations

This analysis is structured to solve for the difference between revenues and development costs, which results in an estimate of residual land value (also referred to as economic value). Improved land values typically range between 15 and 25 percent of total development value. If the land value does not achieve this range, the Project is not likely to be feasible as values do not support land costs. In the current analysis, the Project results in a negative land value estimate. However, given prospects for rent growth of retail uses over time, development could be supported by private investment with the longer-term investment horizon.

EPS reviewed the developer's pro forma and changes since completion of the EPS GC 52201 Report in 2015. The reuse value is established through a residual land value approach, the difference between capitalized revenues of the Project and development cost. Construction costs have increased, driven largely by local labor requirements in excess of prevailing wage cost across all trades. The resulting land value has decreased as a whole since 2015 despite a modest increase in projected retail rents. The residual land value estimate is shown in **Table 1** with key assumptions described below.

Table 1 Residual Land Value Estimate

Item	Total
Net NMTC Benefit	
NMTC Equity	$ 4,804,800
Transaction Costs	$ (1,045,000)
Capital Gains Tax	$ (1,315,440)
Net NMTC Benefit	$ 2,444,360
Residual Value Analysis	
Net Operating Income	$ 659,420
Return on Cost	7.00%
Value	$ 9,416,917
Project Cost	$ (15,116,116)
NMTC Equity	$ 4,804,800
NMTC Transaction Costs	$ (1,045,000)
Gain on NMTC Cancellation of Debt	$ (1,315,440)
Residual Land Value	**$ (3,254,839)**

Review of Key Assumptions and Methodology

Revenues

Walgreens is envisioned to be the Project's anchor tenant and has signed a lease for an annual rate of $19.32 per square foot, below its prior proposal of $26.32 per square foot. T Mobile is expected to generate rents of $33 per square foot. Subway and other inline tenants that have not been identified are assumed to generate rents in the $31.20 per square foot range. The Project is expected to result in average rent of $25 per square foot, above the 2015 estimate. It is typical for smaller inline retailers to pay higher rates due to smaller square footage and attraction of these tenants will highly depend on Walgreens' operation as a key tenant.

Overall, Project rents exceed the existing average of about $17.50 per square foot in the south Oakland submarket, as reported by Costar. However, some of the current local listings support the higher rents envisioned for the Project while reducing vacancies, currently at 2.2 percent, also suggest strengthening in the local market. For example, retail space at Fruitvale Village is currently listed for about $26 per square foot. It is expected that the Project will generate a rent premium associated with the new space as existing retail inventory in the south Oakland submarket is significantly older. Retail rents are based on triple net leases with revenue estimates for the Project shown in **Table 2.**

Table 2 Annual Revenue Estimate

Item	Total Space	Annual Rent psf	Total Annual Revenue
Walgreens	14,250	$19.30	$275,000
Subway	1,000	$31.20	$31,200
T Mobile	1,750	$33.00	$57,750
TBD 1	2,500	$31.20	$78,000
TBD 2	1,000	$31.20	$31,200
TBD 3	2,450	$31.20	$76,440
TBD 4	2,000	$31.20	$62,400
TBD 5	2,000	$31.20	$62,400
Totals	**26,950**	**$25.02**	**$674,390**

Vacancy and Operating Expenses

This analysis reflects a stabilized vacancy rate of 5 percent applied to inline retail with no tenants only, or a weighted average rate of 2 percent. This is a typical level of stabilized vacancy for retail space and is in line with existing vacancies in the south Oakland submarket.

The Developer assumes that annual operating expenses will be about $300,000 and include recoverable expenses (common area maintenance, real estate taxes, and insurance), non-recoverable operating expenses, asset management fees, and reserves (for repairs and replacement and for future leasing commissions and tenant improvements). Most of the expenses, about 95 percent, will be passed on to tenants under the terms of the triple net lease.

Development Costs

The cost for new construction generally has been increasing over the past several years due to improvements in the economy, renewed development activity, and corresponding growth in demand for construction services and materials. Development cost is estimated at approximately $430 per square foot for warm shell and tenant improvements reflective of contingencies. The cost increase is associated with the overall construction cost escalation in the Bay Area as well as the addition of local labor requirements above the typical union wage level.

Indirect development costs include predevelopment, interest reserve during construction, accounting and legal, architecture, landscaping, engineering, broker commissions, permit fees and utility connection fees, insurance, developer fee, financing, and project contingency. Indirect costs comprise 32 percent of the direct costs and fall within a typical range. These estimates combine for a total Project development cost of $15.3 million or $566 per square foot, as shown in **Table 3**. While this cost estimate falls within a higher end of a reasonable range of retail projects completed in the Bay Area, the cost is reflective of the prevailing wage requirement and high-quality design consisting of four separate buildings (rather than a more conventional and cost-effective single-building layout); the requirement for architectural distinction also affects development cost.

Table 3 Development Cost Estimate

Item		Total
Direct Cost		
Shell		$10,729,873
Tenant Improvements		$317,500
Construction Cost Contingency	5%	$552,369
Subtotal		$11,599,742
Indirect Cost		
Predevelopment		$500,000
Legal		$65,000
Engineering		$125,500
Architectural & Landscape		$222,900
Permit Fees		$595,000
Broker Commissions		$368,882
Insurance and Taxes		$147,897
Financing		$735,391
Contingency	5%	$138,028
Subtotal		$2,898,598
Developer Fee	5%	$755,806
Total Development Cost		**$15,254,145**

Financial Returns

Expected returns on development investment vary based on a range of factors such as risk, capital and real estate market conditions, building uses, and other trends. Under the current set of market conditions and development cost assumptions, the Project's leveraged internal rate of return is estimated at 6.0 percent, below the typical range of 15 percent and above for private sector funded developments. This return is based on the 30-year operational period with subsequent cash flow between years 31 and 66 discounted by 15 percent.

Risk and return parameters range on a wide range of factors, including the extent of leverage and public participation, location, the extent of pre-identified tenants, construction type and longevity of construction, and other factors. Despite generating a low return, the developer remains interested in the Project due to a long-term commitment to assume potential ownership of the retail center under the contemplated option to buy in the currently negotiated lease terms, strong tenant prospects, and anticipation of future improvements in retail rental rates.

New Market Tax Credit Proceeds

The level of NMTC funding has direct implication on land value of the Project. This analysis assumes that $14 million of NMTC would be allocated with the net proceeds of $2.4 million after loan costs, fees, capital gains taxes, and other expenses as estimated by Equity Community Builders.

Other Section 52201 Documentation

EPS has reviewed other elements of the original KMA report and concludes that the findings are consistent with the current circumstances. Specific sections pursuant to Section 52201 requirements are described below.

Cost of the Redevelopment Agency Land Acquisition

According to the original KMA report, City of Oakland Redevelopment Agency spent $1.8 million to assemble eleven parcels that comprise the Project. The Agency spent approximately $4.5 million for acquisition, demolition, assemblage, and professional services. The cost was funded through bond proceeds envisioned to be repaid over a 30-year period. Based on EPS's understanding, these facts remain unchanged.

Highest and Best Use Interest Value

An appraisal for the proposed shopping center property was completed by Yovino-Young, Inc. in December 2011. The appraisal came up with a land value opinion of $2.8 million. There is a variety of reasons why appraised values vary significantly from the residual land value analysis. They include entitlement assumptions, site specific considerations, and development considerations, such as a number of buildings, architectural features, and prevailing wage requirements. The appraisal focused on comparable land sale transactions which can result in substantially different results from the residual land value approach, as utilized by EPS.

Blight Elimination Effects

The following describes KMA's consideration of blight which remains consistent with the current conditions based on EPS's estimation.

"...The present appearance of Foothill Boulevard gives an overall depressed impression to the entire area. In some areas blight is unchecked. Speeding, reckless drivers and loitering, particularly at liquor stores has created an environment conducive to crime. Local Neighborhood Crime Prevention Councils are vigilant in their efforts to work with law enforcement to maintain a sense of safety on the corridors and in the surrounding residential areas...

Despite these efforts, the present conditions have proven to deter legitimate retailers and developers, and only a few marginal businesses have attempted to open recently. Furthermore, the large number of inadequately sized parcels in multiple ownerships prevents the development of contemporary facilities.

Implementation of the proposed Agreement can be expected to assist in the alleviation of blighting conditions through the following:

- Achievement of an environment reflecting a high level of concern for architectural, landscape, and urban design and land use principles appropriate to attainment of the objectives of the Redevelopment Plan and capable of attracting new retailers to the area. Starbucks, the UPS Store, T Mobile, and Subway are among the retailers who have expressed interest in locating at Seminary Point.
- Provision for increased revenues to the City, including sales, business license, and other fees, taxes, and revenues.

- Provision for tax increment to provide funds necessary to finance rehabilitation and development programs which cannot be accomplished through existing publicly funded programs or by the private sector acting alone to eliminate blighting influences in the Project Area.
- Creation and development of local job opportunities and the preservation of the area's existing employment base.
- Creating a sense of safety in the Area by attracting a constant flow of customers to the area."

Implementation Policy Objectives

The original KMA report discusses the implementation policy objectives of the Redevelopment Plan for the Central City East Redevelopment Area adopted in 2003. Since the completion of the KMA report, the City of Oakland Redevelopment Agency ceased to exist. The new Redevelopment Successor Agency, housed within the Office of Neighborhood Investment, was created to wind down and complete the activities of the former Redevelopment Agency. The new Agency's goals for this plan area remain consistent with those of the former City of Oakland Redevelopment Agency. The goals of the plan include:

"This 'Area Plan' provides the Agency with powers, duties and obligations to implement and further the redevelopment, rehabilitation and revitalization of the Project Area. The goals of the Plan include:

A. Stimulating in-fill development and land assembly opportunities on obsolete, underutilized, and vacant properties in the Project Area that present health and safety hazards.

B. Attracting new businesses and retain existing businesses in the Project Area, providing job training and employment opportunities for Project Area residents.

C. Improving transportation, open space, parking, and other public facilities and infrastructure throughout the Project Area.

D. Revitalizing neighborhood commercial areas and strengthening retail in the Project Area.

These goals are to be accomplished through the following strategies:

A. Assembling adequate sites for the development and construction of residential, commercial, industrial, or public facilities;

B. Demolishing or removing buildings and improvements, when necessary;

C. Conveying sites to redevelopers for the development and construction of residential, commercial, industrial, or public facilities; and

D. Promoting redevelopment by private redevelopers or other public agencies for uses in accordance with the Plan.

According to the Implementation Plan the Agency will focus its activities in the near-term on eliminating physical and economic blight conditions through the construction of public improvements and utilities, and assisting the private sector in developing vacant and/or underutilized properties. It is hoped that the Implementation Plan as proposed will encourage further private sector investment in both commercial and residential designated areas.

The Implementation Plan specifically identifies Disposition and Development Agreement (DDAs) as a tool for providing land write downs or to grant or loan money to assist new retail, commercial, or housing development or expansion of existing facilities.

The sale of the Property to Seminary Point, LLC conforms to the goals and programs stated in the Area Plan as well as the Implementation Plan as described above."

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2016 MAY 12 PM 7:35

Approved as to Form and Legality:

Deputy City Attorney

OAKLAND CITY COUNCIL

RESOLUTION NO. _______________ C.M.S.

RESOLUTION AUTHORIZING A $2,000,000 LOAN AND A $1,500,000 LINE OF CREDIT TO SUNFIELD DEVELOPMENT LLC, SEMINARY POINT LLC, AND/OR COCRF SEMINARY POINT, LLC, OR AFFILIATED ENTITIES, TO BE USED FOR DEVELOPMENT OF THE FOOTHILL SEMINARY POINT NEIGHBORHOOD COMMERCIAL RETAIL CENTER PROJECT

WHEREAS, the City of Oakland owns 1.69 acres (apx. 73,500 square feet) of land on the corner of Foothill Boulevard and Seminary Avenue (the "Property"); and

WHEREAS, on June 2, 2015, the City Council approved Ordinance No. 13312 C.M.S. authorizing a Lease Disposition and Development Agreement with Sunfield Development, LLC ("Sunfield") for the development of Foothill Seminary Point, a neighborhood commercial retail shopping center on the Property (the "Project"); and

WHEREAS, on July 16, 2013, Council approved Resolution No. 84521 C.M.S. approving the allocation of up to $6 million of New Market Tax Credits ("NMTC") by Oakland Renaissance NMTC, Inc., an affiliate of the City, to a sub-community development entity affiliated with Oakland Renaissance NMTC, Inc., to the Project; and

WHEREAS, on May 19, 2015, the City Council approved Resolution No. 85604 C.M.S. increasing the allocation of the NMTCs to the Project from $6 million to $14 million; and

WHEREAS, the City desires to provide a loan to Sunfield, Seminary Point LLC, and/or COCRF Seminary Point LLC, or affiliated entities in the amount of $2,000,000 and a $1,500,000 line of credit from Central City East bond funds City (1), Central City East Taxable Bonds (5643), Organization 94899 (CIP Central City East), Professional Services and Architectural/Engineering Accounts (54930 & 54411), Central City East Public Private Development (P356910) and CCE Facilities Infrastructure (P233289), and Central City East Program (SC18) to assist the Project; and

WHEREAS, California Government Code Section 53083 requires a city to provide certain information and hold a noticed public hearing before granting an "economic development subsidy", i.e., an expenditure of public funds, such as a loan, exceeding

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$100,000 that is made for the purpose of stimulating economic development; and

WHEREAS, the staff report accompanying this Resolution includes all of the information about the loan and the line of credit required under California Government Code Section 53083; and

WHEREAS, a noticed public hearing of the City Council was held to hear public comments on the loan and line of credit pursuant to California Government Code Section 53083; and

WHEREAS, the City has reviewed the pro forma for the Project and determined that, based on the development costs, rental income, and other revenue, the Project needs the loan and line of credit; and

WHEREAS, on July 16, 2013, the City Council approved Resolution No. 84516 C.M.S. adopting a plan for spending excess tax allocation bond proceeds received from the Oakland Redevelopment Successor Agency (the "Bond Spending Plan"); and

WHEREAS, the Bond Spending Plan designated funds for "Major Projects" in the Central City East Redevelopment Project Area, and such funds are sufficient to fund the loan and line of credit, so therefore the use of Central City East excess tax allocation bond proceeds for the loan and line of credit is consistent with the Bond Spending Plan; now, therefore, be it

RESOLVED: That the City Council hereby authorizes a loan to Sunfield Development, LLC, Seminary Point LLC, and/or COCRF Seminary Point, LLC, or an entity or entities affiliated with any of these entities as approved by the City Administrator, in an amount up to $2,000,000 to be used for development of the Foothill Seminary Point Neighborhood Commercial Retail Center Project; and be it

FURTHER RESOLVED: That the City Council hereby authorizes a line of credit to Sunfield Development, LLC, Seminary Point LLC, and/or COCRF Seminary Point, LLC, or an entity or entities affiliated with any of these entities as approved by the City Administrator, in an amount up to $1,500,000 to be used as a guaranty for the Foothill Seminary Point Neighborhood Commercial Retail Center Project; and be it

FURTHER RESOLVED: That the loan and the line of credit funds will come from Central City East Tax Allocation Bond Series 2006A Taxable Bond Fund (5643), CIP Central City East Organization (94899), Professional Services and Architectural/Engineering Accounts (54930 & 54411), Central City East Public Private Development (P356910) and Facilities Infrastructure (P233289), and Central City East Program (SC18) for a construction loan and a line of credit for the Foothill Seminary Point retail development located on Foothill Boulevard and Seminary Avenue (APN 038-3182-020) from Central City East excess bond funds as follows:

Fund Source	Organization	Account	Project	Program	Amount
5643	94899	54930	P356910	SC18	$1,700,000
5643	94899	54411	P356910	SC18	$ 300,000
5643	94899	54930	P233289	SC18	$1,500,000
Total					$3,500,000

and be it

FURTHER RESOLVED: That the $2 million in funds will be re-allocated to a new project (to be determined) for the loan and $1.5 million will be re-allocated for the line of credit; and be it

FURTHER RESOLVED: That the loan will be for an interest rate of up to one percentage point above the first loan from Boston Private, for a term of up to 30 years to be negotiated with the developer, and will be secured by a deed of trust on the leasehold interest in the Property and the fee interest in the Project improvements subordinate to the first loan with the same terms from Boston Private; and be it

FURTHER RESOLVED: That the loan and line of credit shall be contingent on and subject to such other terms and conditions as the City Administrator or her designee may establish; and be it

FURTHER RESOLVED: That the City Council hereby authorizes the City Administrator or her designee to negotiate and execute a development loan agreement and other loan documents for the loan and an agreement and other documents for the line of credit; and be it

FURTHER RESOLVED: That the development loan agreement, line of credit agreement, and other documents shall be reviewed and approved as to form and legality by the City Attorney's Office prior to execution; and be it

FURTHER RESOLVED: That the City Administrator or designee is further authorized to negotiate and enter into other agreements and take whatever action is necessary with respect to the loan, the line of credit, and the Project, consistent with this Resolution and its basic purposes.

IN COUNCIL, OAKLAND, CALIFORNIA, ____________________________

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL-WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID, and PRESIDENT GIBSON McELHANEY

NOES -

ABSENT -

ABSTENTION -

ATTEST:________________________
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

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