



DATE: June 22, 2021

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Assignment of 750 Moffett Boulevard Office Ground Lease with MV 101 Development, LLC**

RECOMMENDATION

1. Approve the assignment of the 750 Moffett Boulevard Office Ground Lease with MV 101 Development, LLC, by equity transfer from Broadreach Capital Partners, LLC, or affiliate thereof (Broadreach), to JRUS 101, LP, a Delaware limited liability partnership (JRUS 101), and waive the Ground Lease requirement to have completed the office building prior to assignment, subject to receipt of \$50,000 as a consent fee.
2. Authorize the City Manager to execute a consent to assign.
3. Approve receipt of the participation rent proceeds of approximately \$5.66 million from Broadreach and transfer the funds into the Strategic Property Acquisition Reserve.

BACKGROUND

In September 2009, the City acquired 750 Moffett Boulevard consisting of 6.69 acres.

On November 12, 2013, Council directed staff to market the 750 Moffett Boulevard property for a long-term ground lease for hotel and office use.

On [November 17, 2014](#), the City Council approved negotiated business terms by and between the City and developer MV 101 Development, LLC (Broadreach), for the development of 750 Moffett Boulevard. Council also authorized the City Manager to execute the Disposition and Development Agreement and Ground Lease with Broadreach for the development of the site consistent with the business terms negotiated during the Exclusive Right to Negotiate Period.

On April 1, 2015, the City entered into a long-term ground lease with Broadreach (as MV 101 Development, LLC) for an initial term of 55 years, with four 10-year extensions under a set of specified terms, which included completing development of a LEED Platinum® office development and parking garage on the City-owned property. Broadreach is also in the final stages of construction for a 255-room upscale hotel called The Ameswell on an adjoining property that Broadreach purchased from Caltrans.

In May 2021, Broadreach notified the City of Broadreach's desire to assign the interest in the ground lease to JRUS 101, LP (JRUS 101), a wholly owned subsidiary of JR AMC Co. Ltd. (JR AMC) based in Seoul, Korea, with more than \$6.2 billion in real estate assets under management, with Class A office buildings comprising half that total. The assignment would occur by an equity sale transfer of the owner of the tenant entity MV 101 Development, LLC, with a Broadreach-related entity as the seller/assignor and JRUS 101 as the buyer/assignee. The City retained the consultant team of Seifel Consulting, Inc., and Maurice Robinson & Associates LLC to assist the City in performing due-diligence review of the proposed lease assignment and TWT Law as outside counsel.

ANALYSIS

Section 11.1.1 of the ground lease requires Broadreach to submit to the City the financial statements of JRUS 101, the proposed assignee to evaluate the requested assignment. The City has thirty (30) business days after the date of Broadreach's submittal of such financial statements to reasonably approve or disapprove, in writing, the proposed assignment and the proposed release of Broadreach. In addition, Section 11.1.2 requires Broadreach to pay the amount of the City's reasonable third-party out-of-pocket costs of processing the proposed assignment. Broadreach has provided an initial payment estimated to cover the cost of the City's consultants.

Based on the due-diligence review performed by the consultant team in collaboration with City staff and outside counsel, Broadreach and JRUS 101 are committed to this transaction, and Broadreach and JRUS 101 have provided all of the information that was requested during the due-diligence review process. JRUS 101 has sufficient access to capital through Hana Financial Group to fund the \$283 million acquisition of the leasehold. The proposed team of real estate professionals that comprise JRUS 101's team has sufficient experience and expertise to manage the property and meet the ground lease obligations of the 750 Moffett Boulevard site.

Staff recommends approving the ground lease assignment. The ground lease includes a requirement that the project be completed prior to assignment; however, in recognition of the project's status and the strength of the proposed assignee, staff also recommends a

waiver of this requirement as part of this approval. The office building has a completed warm shell and core, but a Certificate of Occupancy for project completion has not been issued because tenant improvements must first be completed by the office tenant. MV 101 Development, LLC, has secured a tenant for the entire office building that is already paying rent prior to occupancy. Tenant improvements are anticipated to take approximately 18 months to complete. Although the City is already receiving a percentage of the rent paid to MV 101 Development, LLC, as provided for in the ground lease, annual increases in percentage rent payable to the City do not commence until after the project is complete and a Certificate of Occupancy is issued. Given the additional time before the City will receive increases in percentage rent, the parties have negotiated a consent fee of \$50,000 as part of the City's consent to assign prior to issuance of a Certificate of Occupancy.

FISCAL IMPACT

Participation Rent – According to the ground lease terms, the City is to receive additional revenues in the amount of 2% of gross sale proceeds as a one-time payment of each sale/transfer of the ground lease. The participation rent for this assignment is approximately \$5.66 million and would be wired to the City at the close of escrow. Staff recommends that this one-time payment, which is generated by a transaction related to City-owned property, be allocated to the Strategic Property Acquisition Reserve.

Transfer Tax – The City will receive approximately \$466,000 in transfer tax funds.

Percentage Rent – The building is 100% leased, and percentage rent started in April 2021. The percentage rate is 5% of gross receipts, and the current monthly percentage rent is \$58,219.

Base Rent – The City is receiving a monthly base rent of \$116,667, which remains unchanged with the lease assignment.

Consent Fee – In addition to paying the City's third-party out-of-pocket costs, Broadreach will pay the City \$50,000 to waive the requirement that the project be complete prior to assignment.

ALTERNATIVES

1. Do not approve the assignment of the 750 Moffett Boulevard office ground lease from Broadreach to JRUS 101.
2. If the assignment is approved, utilize the one-time participation rent of approximately \$5.66 million for a different purpose.
3. Provide other direction.

PUBLIC NOTICING – Agenda posting.

Prepared by:

Angela LaMonica
Real Property Program Administrator

Reviewed by:

Sandra Lee
Senior Assistant City Attorney

Jesse Takahashi
Finance and Administrative
Services Director

ALM/EP/1/CAM
930-06-22-21CR
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cc: RPPA

Approved by:

Dawn S. Cameron
Public Works Director

Audrey Seymour Ramberg
Assistant City Manager/
Chief Operating Officer