



**DATE:** June 24, 2014

**CATEGORY:** New Business

**DEPT.:** Community Development

**TITLE:** **Moffett Gateway**

### **RECOMMENDATION**

1. Approve Broadreach Capital Partners as the best-qualified developer to develop the Moffett Gateway property.
2. Authorize the City Manager to execute an Exclusive Right to Negotiate (ERN) Agreement with Broadreach Capital Partners and commence the negotiation process for the development of Moffett Gateway.
3. Authorize the City Manager to execute an amendment to the ERN to extend the term for an additional 60 days if negotiations are not complete, but are progressing.

### **BACKGROUND**

The City's Economic Development Strategy supports the strategic use of public land to help strengthen the local economic base. In September 2009, the City acquired title to the former Santa Clara County Vector Control property, also known as Moffett Gateway (750 Moffett Boulevard; APN 153-19-007). The City purchased the property with the intent to utilize the site for revenue generation.

The Moffett Gateway property is a relatively large, undeveloped parcel totaling 6.69 acres, located at the southwest quadrant of Highway 101 and Moffett Boulevard. It is an irregular-shaped parcel bounded by Moffett Boulevard and a PG&E substation to the south, Stevens Creek to the west, and a 3.03-acre Caltrans parcel to the north and east (Attachment 1). The 2030 General Plan land use designation for the Moffett Gateway property is Mixed-Use Corridor. Permitted land uses include multi-family residential, office, commercial, and lodging. The property is not ideally suited for multi-family residential due to the existence of trichloroethylene (TCE). In addition, the presence of two highways and a PG&E substation adjacent to the property prevents a cohesive

neighborhood or connected feel. The allowable floor area ratio (FAR) is 1.85, of which up to 0.50 FAR can be office use.

The purpose of this item is to summarize the results of the Request for Qualifications (RFQ) and Request for Proposals (RFP) processes, and for Council to select a development team for the ground lease and development of the Moffett Gateway site.

## ANALYSIS

### Request for Qualifications (RFQ)

On November 12, 2013, Council directed staff to market the Moffett Gateway site for a long-term ground lease with a preference for development proposals containing hotel and office uses through an open and competitive process (Attachment 2). Staff proceeded with a two-step process and issued an RFQ and then an RFP to ensure that development proposals were of the highest quality, the development teams invited to proceed to the RFP had successful track records on similar developments projects, and the financial capability to complete the proposed development.

On January 17, 2014, staff issued the RFQ to approximately 450 individual office and hotel development representatives (Attachment 3). On February 24, 2014, staff received 12 RFQ responses. The RFQ required that the site be used for a hotel/office project or an all-hotel project. The qualification statements were evaluated using a set of criteria, including the City's financial return, willingness to execute an ERN Agreement with specific business terms that would be incorporated into a Disposition and Development Agreement (DDA) and ground lease, and an aggressive development schedule. Five development teams were determined to be most highly qualified and invited to participate in the RFP process, listed in alphabetical order:

1. Broadreach Capital Partners
2. Hines/Starwood Capital Partners
3. Huntington Hotels
4. RD Olson
5. T2 Hospitality

### Request for Proposals (RFP)

On March 17, 2014, the five development teams were formally invited to submit proposals in response to the RFP (Attachment 4). On April 28, 2014, staff received four proposals. Huntington Hotels elected to withdraw from the RFP process due to the ground lease structure. This requirement had been identified in the RFQ and, subsequently, in the RFP.

Primary objectives of the RFP included:

- High-quality mixed-use development projects comprised of either:
  - Hotel and office uses; or
  - All-hotel proposals
- City's financial return.
- Execution of an ERN Agreement, DDA, and ground lease.
- Aggressive development schedule.

Key Business Terms included in the RFP, but were not limited to, the following:

- Sufficient quality and scale of development.
- Financial return to the City.
- Proposed financing plan.
- Project funding.
- Traffic demand management program.
- Adhere to allowed FAR.
- Environmental sensitivity and sustainability.

Proposals were reviewed and evaluated based on the following criteria outlined in the RFP:

- Minimum bid requirements.
- Development concept (Moffett Gateway parcel only; not Caltrans site).
- Development team expertise and experience.
- Development costs, revenues, and financial capacity.
- Proposed business terms.

### **Results of the RFP Evaluation Process**

Each of the RFP submittals was analyzed and compared on the basis of the evaluation criteria outlined above. The Evaluation Committee determined that all development teams have strong qualifications and could develop the Moffett Gateway site in accordance with the RFP. One team distinguished itself as having greater potential for developing a remarkable project with the lowest risk to the City. The Evaluations Committee unanimously concluded Broadreach Capital Partners as the best-qualified development team in both the RFQ and RFP phases. The Evaluation Committee believes that Broadreach Capital Partners is the best development team due to its demonstrated experience, financial and technical capability, and capacity to develop the property consistent with City goals for a high-quality, mixed-use hotel and office project, providing a blend of stability and a diversified revenue stream.

The proposals varied in terms of development experience, development concepts, City revenues, and completion schedule among other characteristics. Below is a summary and analysis of Broadreach Capital Partners' proposal.

### **Broadreach Capital Partners**

*Development Concept*—Broadreach Capital Partners is proposing a mixed-use development, including a premium select-service hotel (three diamonds) with 182 rooms along with 3,000 to 5,000 square feet of meeting space, and a four-story, Class A office building measuring 146,000 square feet (Attachment 5). While the hotel brand has yet to be determined, Broadreach Capital Partners has indicated that an Aloft, Joie de Vivre, or Hilton Lifestyle brand would be developed.

The development approach is well conceived, including a mixed-use concept with a parking structure that screens the PG&E substation, allows for shared parking between the hotel and office uses, and minimizes surface parking. The project consists of 624 parking spaces.

Quality and Sustainability Features—Broadreach’s proposed development and sustainability features, include the following:

- Parking structure with solar panels.
- LEED Gold certification for office building (but will attempt to reach Platinum), and LEED certified for the hotel, including solar thermal water heating system on the roof.
- Alternative transportation uses, including on-site shuttle service, bike-sharing program, electric vehicles, and joining the Transportation Management Association.
- Development team will work with the City on the feasibility of installing a pedestrian/bicycle bridge over Stevens Creek Trail.

Financial Capacity—Broadreach Capital Partners is well capitalized. Aside from Broadreach Capital Partners’ principals having a personal and financial interest in the project, Ned Spieker (Spieker Properties) and Willet Advisors (manage Bloomberg’s philanthropic assets) are identified as investors in the project.

Overall RFP Result—Broadreach Capital Partners is a Palo Alto-based firm with extensive development experience in Mountain View and surrounding communities. The Evaluation Committee felt Broadreach Capital Partners was the most thorough and best organized development team. Due to their financial statements and pro forma indicating significant financial strength, shared success approach to ground rent, most diversified revenue offer to the City, strongest relevant local experience, and tight team organization, the Evaluation Committee recommends that Council proceed with Broadreach Capital Partners as the preferred developer for the Moffett Gateway development.

## **Summary of Other Proposals**

### **Hines/Starwood Capital Partners**

*Development Concept*—Hines is offering a mixed-use development concept comprised of a 145,000 square foot, Class A office building with 3,000 square feet of retail and a 136-room boutique hotel (three diamonds) on the Moffett Gateway site only. Potential brands include boutique hotel and lifestyle hotels such as Element, Aloft, Hotel Indigo, TRYP, or AC Hotels. They would develop a combination of a shared-parking structure and surface parking stalls for 500 spaces.

### **RD Olson**

*Development Concept*—RD Olson is proposing to develop the Moffett Gateway site with two hotels, including a 135-room Residence Inn (three diamonds), a 120-room Courtyard (three diamond), and 5,000 square feet of restaurant space on the Moffett Gateway site only. A surface parking lot containing 255 spaces is part of the development plan.

### **T2 Hospitality**

*Development Concept*—T2 Hospitality is offering to develop three hotels totaling 483 rooms. The first hotel concept includes an extended-stay (three diamonds) Hilton, Marriott, or Hyatt brand with 124 rooms and 2,000 square feet of meeting space. The second hotel concept is a business class (three diamonds) Hilton, Marriott, or Hyatt brand with 169 rooms and 2,000 square feet of meeting space. The third hotel concept consists of a lifestyle (three diamonds) Hilton, Marriott, or Starwood brand with 190 rooms and 4,000 square feet of meeting space. The proposal includes 386 surface parking lot stalls.

### **Labor Neutrality**

As discussed by Council at the November 12, 2013 meeting, development firms were asked to provide information about their experience, if any, with labor neutrality in response to the RFQ and RFP. Prior to developer interviews, each proposer was asked to submit details about how they would alter their financial proposals if the City Council were to require labor neutrality on the project. This resulted in each proposer reducing potential City revenues through the ground rent structure. If labor neutrality is required, it will not affect sales tax, Transient Occupancy Tax (TOT), or possessory interest tax as it relates to hotel operations only. Council has not made a final decision on labor neutrality, nor does it need to prior to entering into an ERN Agreement.

### **Exclusive Right to Negotiate (ERN) Agreement**

The purpose of the ERN is to proceed with good-faith negotiations on the scope of the proposed development as well as key business terms that can lead to a DDA and ground lease. The ERN period typically lasts 90 days. If the negotiating parties have not finalized an agreement, but negotiations are progressing, staff is requesting the ability to extend the ERN period for an additional 60 days. The initial lease term will be 55 years, with extension options (up to four 10-year options). If Council authorizes staff to enter into an ERN Agreement, staff anticipates returning to Council with an update and to get further direction on DDA and ground lease terms in fall 2014.

On June 10, 2014, Council heard presentations from the four developers during the open portion of the Closed Session. Council then convened in Closed Session to discuss price and terms of payment for a ground lease with their preferred developer.

### **FISCAL IMPACT**

The development of the Moffett Gateway site based on a DDA and ground lease is anticipated to provide the City with a substantial annual revenue stream. The revenues may be a combination of ground lease, percentage rent, sales tax, participation rent, possessory interest tax, and TOT.

The amount of revenues will depend upon negotiations and the economy (for TOT revenues).

### **CONCLUSION**

Staff believes Broadreach Capital Partners is the best-qualified developer to achieve the City's goal of developing the Moffett Gateway property. Broadreach has proven to be the most thorough and best organized development team, and tailored their development approach to meet market demand. They possess significant financial strength, strong relevant local experience, and are offering the most diversified revenue offer to the City. For these reasons, staff recommends that Council proceed with Broadreach Capital Partners as the preferred developer for the Moffett Gateway development.

### **ALTERNATIVES**

1. Select a developer other than Broadreach Capital Partners as the preferred developer to enter into an ERN Agreement with the City.

- 2 Do not select any of the four development teams that submitted RFP proposals and reissue another RFP.
- 3 Do not develop the Moffett Gateway site at this time.

### **PUBLIC NOTICING**

The meeting agenda and Council report have been posted on the City's website and announced on Channel 26 cable television. Interested parties, including the Moffett Boulevard Neighborhood Group and the North Whisman Neighborhood Association, have also been sent a copy of the agenda and Council report.

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- Attachments:
1. Aerial of Moffett Gateway
  2. City Council Report – November 12, 2013
  3. Request for Qualifications (RFQ)
  4. Request for Proposals (RFP)
  5. Development Site Plan – Broadreach Capital Partners