



DATE: January 12, 2016

CATEGORY: New Business

DEPT.: Community Development, Public Works, and Finance and Administrative Services

TITLE: **Hope Street Lots – Exclusive Right to Negotiate Agreement**

RECOMMENDATION

1. Approve The Robert Green Company as the best-qualified developer to develop the Hope Street Lots.
2. Authorize the City Manager or his designee to execute an Exclusive Right to Negotiate (ERN) Agreement with The Robert Green Company and commence the negotiation process for development of the Hope Street Lots.
3. Authorize the City Manager or his designee to execute an amendment to the ERN Agreement to extend the term for an additional 60 days if negotiations are not complete, but are progressing.

BACKGROUND

At the January 20, 2015 Study Session, staff presented property information on four downtown surface parking lots (4, 8, 11, and 12), including size, number of parking spaces, and permitted uses for potential development. At this meeting, Council expressed support for a mixed-use development on Lots 4 and 8, to include a hotel and modest retail and office uses along with the goals of increasing the amount of public parking downtown and revenue generation (Attachment 1). Council agreed that current economic conditions make this an opportune time to develop Lots 4 and 8. In addition, Council asked staff to explore housing on Lot 12 after Lots 4 and 8.

On March 31, 2015, Council directed staff to focus initially on development of the Hope Street Lots and market the long-term ground lease opportunity through a Request for Qualifications (RFQ) and a Request for Proposals (RFP) process with a preference for a unique hotel of at least three-diamond quality, modest retail and office component, net increase in the number of public parking spaces, and agreement by the hotel operator to

allow enhanced access to hotel employees for labor organizing activities and expedited union voting process (Attachment 2).

On October 6, 2015, Council directed staff to continue discussions with The Robert Green Company (TRGC) focused on exploring mixed-use development options on Lot 8, including some type of residential use, and developing a revised project financing strategy (Attachment 3).

The Council received an update on price and terms in a Closed Session on December 8, 2015.

ANALYSIS

The goals of this project are to add a hotel in the downtown near transit; increase public parking; and generate long-term, ongoing revenue for City services.

The results of staff's discussions with TRGC based on Council direction are explained in detail below:

1. Explore mixed-use development options on Lot 8, including some type of residential use on Lot 8:

On November 18, 2015, TRGC submitted revised concept plans for Lot 8 which introduced a residential use to the Hope Street Lots development project. The revised Lot 8 residential project consists of 72 market-rate units with the following breakdown: 16 studio units, 40 one-bedroom units, and 16 two-bedroom units. The revision also includes ground-floor retail and residential amenities. The building area is approximately 73,000 gross square feet with a height of five stories and 190 parking spaces.

However, TRGC's analysis of multi-family residential on Lot 8 indicates it is not financially viable for various reasons:

- Lot 8 is a small site for an apartment development and does not yield enough units for a favorable return;
- Total development of the residential project is estimated at \$45.7 million versus office development estimated at \$32.6 million; and
- An office development on Lot 8 generates substantially higher rental revenues (\$86 per square foot triple net) than a residential development (\$53 per square foot triple net).

Aside from the financial implications stated above, the residential use hinders shared parking opportunities during the evenings and weekends. Adding a residential use to Lot 8 does not produce ground rent to the City, even though the analysis was comprised of 100 percent market-rate housing units. TRGC believes the residential project is not feasible from a development and private financing standpoint, and for these reasons is not willing to build a residential project.

2. Develop a revised project financing strategy:

Staff and TRGC explored various alternative financing strategies and established the following financial provisions as a potential path forward:

- Use \$5.7 million of Parking In-Lieu Fund (PILF) fees currently available to pay for some of the new public parking;
- Issuance of Certificates of Participation (COPs);
- Transient Occupancy Tax (TOT) rebate time frame of 10 years;
 - 100 percent TOT rebate for Years 1 through 5
 - 90 percent TOT rebate for Years 6 through 10
- A 2.0 percent hotel room surcharge applied to this project.

The breakdown of the total City participation estimate of \$26.4 million equals \$14.7 million for public parking and \$11.7 million for prevailing wage linked to the project. A combination of the PILF, COPs, TOT rebate, and hotel room surcharge will offset all costs associated with public parking and prevailing wage. The projected annual debt service of the COPs is proposed to be offset by minimum annual ground lease rent, so there would be no financial outlay by the City other than the PILF balance.

On December 8, 2015, Council convened in a Closed Session to discuss price and terms of payment for a ground lease with the preferred developer, TRGC, and directed staff to prepare this agenda item. In order to move forward on the Hope Street Lots project, the next step is to execute an ERN Agreement with TRGC.

Exclusive Right to Negotiate (ERN) Agreement

The purpose of the ERN Agreement 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 Disposition and Development Agreement (DDA) and long-term ground lease. This is the City acting in its role as property owner not as land use authority. Should the project move forward, the Council will review development plans through the normal entitlement process. The initial ERN period is 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 periodically with updates and to receive further direction on DDA and ground lease terms in late spring 2016.

FISCAL IMPACT

Part of completing the ERN Agreement will require a \$150,000 nonrefundable payment from TRGC for the initial 90 days of negotiations. The payment will be utilized to fund costs associated with negotiating and developing the DDA and ground lease, including specialized consulting assistance for the City. If an ERN Agreement extension is required, a subsequent 60-day period will be added to the negotiations time frame and an additional \$50,000 nonrefundable payment from TRGC will be submitted at that time for further staff and consultants costs. The City has an existing CIP for this project with a current balance of approximately \$230,000. The nonrefundable deposit will be added to the CIP.

Should the Council wish to proceed, it is anticipated the City's participation in development of the Hope Street Lots based on the future DDA and ground lease would be financed with revenues generated from the project and provide a substantial additional long-term, annual revenue stream for the City's General Operating Fund. The revenues may be a combination of ground lease, percentage rent, sales tax, participation rent, possessory interest tax, and TOT. The amount of the revenues will depend upon the economy (for TOT revenues) and estimates will be refined as part of the DDA and ground lease negotiation process.

The out-of-pocket contribution by the City is expected to be the \$5.7 million PILF available to provide public parking. The additional participation for the public parking and incremental prevailing wage would be financed from a rebate of TOT from the hotel for Years 1 through 10 and the issuance of COPs that would be repaid from minimum ground rent generated by the lease of the sites.

ALTERNATIVES

1. Pursue discussions with other development teams that participated in the RFQ and RFP processes.
2. Do not develop the Hope Street Lots at this time.
3. Provide other direction.

PUBLIC NOTICING

Development of the Hope Street Lots may impact residents and businesses downtown during construction. Staff has begun outreach and communication efforts regarding the development project. A page on the City website is dedicated to the project at <http://goo.gl/B90onr>. Interested individuals can receive notifications and updates about the project via MyMV (<http://mountainview.gov/mymv/>). Staff has sent electronic notices and/or postcards to downtown property owners, business owners, Chamber of Commerce, Central Business Association, and Old Mountain View Neighborhood Association. Social media will be used to communicate key steps in this process as well. The meeting agenda and Council report have been posted on the City's website and announced on Channel 26 cable television.

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- Attachments:
1. January 20, 2015 – Study Session
 2. March 31, 2015 – Council Meeting
 3. October 6, 2015 – Council Meeting