CITY OF OAKLAND

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Office of the City Administrator

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February 26, 2015

Gene Hazzard
282 Adams Street, Unit #6
Oakland, CA 94610

RE: Report Regarding The $12 Million Dollar Loan Provided To Rotunda Partners I/II (AKA: Phil Tagami) On The Rotunda Building In 1998

Dear Mr. Hazzard,

This letter is in response to your request for a report on the $12 million Rotunda Loan. The loan was part of a Disposition and Development Agreement for the Rotunda Building ("DDA"), which was supplied to you in a prior public records request. The main terms for the DDA were 1) purchase price of Rotunda Building from the Redevelopment Agency was $99; 2) the Redevelopment Agency to provide a $12 million loan for 20 years, no interest until start of 15th year, 3% interest only payments starting in 15th year and full principal repaid after 20 years; and 3) the Agency to receive 50% of the future sales proceeds over $38 million.

These details and financial analysis supporting the deal structure were presented to the Council in the May 26, 1998 report and legislation for the project. This report and the 33433 report clearly demonstrate the subsidy, both the below market land price and below market loan, was required to make the Rotunda project financially feasible. These reports and the legislation are all attached to this letter. The 33433 Report included the June 1998 Reuse Appraisal by Keyser Marston Associates, Inc., which concluded that 'the fair reuse value of the Property under the restrictions and conditions under which the land is being conveyed is nominal (page 16).' That is to say that with the terms of the DDA, including the below market loan, the property had no value. Furthermore, the report determined this based on the projected development costs by the developer and 'Should the actual cost exceed those estimated by the Developer, the returns would be substantially lower' (page 12).

The development costs were in fact higher and the developer assumed the risks of these cost increases. In addition the Redevelopment Agency will be entitled to half of the sates proceeds over $38 million when the project is sold. The loan subsidy and nominal sale price of the property were considered to be the fair reuse value under the DDA. The terms of the DDA were approved by the Oakland Redevelopment Agency Board. Therefore your argument that the Agency or City lost out in loan payments, while correct, does not mean that the Agency or City is in anyway entitled to the payments. The Redevelopment Agency knew it was forgoing these payments when the DDA and Loan were approved.

Rotunda Partners started making interest only payments on the $12 million Loan in 2013 as required and is current on payments due to the Oakland Redevelopment Successor Agency for the loan. I hope this satisfies you questions about the Rotunda Loan.

With regards to the Rotunda Garage DDA, we agree with the assessment that the developer is out of compliance with the development schedule but disagree that the developer should be placed in default. Staff will instead be preparing a DDA amendment that will extend the development schedule. This amendment will require approval from the Oakland Redevelopment Successor Agency, the Oakland Oversight Board and the California Department of Finance. This process will take four to six months. You will be informed when this is completed.

Sincerely,
Henry Garner

Attachments
May 26, 1998 Council Report
ORA Resolution No. 98-32 C.M.S. Authorizing DDA
ORA Resolution No. 98-33 C.M.S. Authorizing $12M Loan
33433 Report, including June 1998 Reuse Appraisal

CITY OF OAKLAND

Agenda Report

TO: Office of the City Manager
ATTN: Robert C. Bobb
FROM: Community & Economic Development Agency
DATE: May 26, 1998

RE:

1. **A RESOLUTION APPROVING THE SALE OF REAL PROPERTY LOCATED AT 300 FRANK H. OGAWA PLAZA IN THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA BY THE REDEVELOPMENT AGENCY TO ROTUNDA PARTNERS I FOR THE DEVELOPMENT OF THE ROTUNDA BUILDING FOR COMMERCIAL USE**

2. **A RESOLUTION AUTHORIZING THE AGENCY ADMINISTRATOR TO ENTER INTO A DISPOSITION AND DEVELOPMENT AGREEMENT WITH ROTUNDA PARTNERS I FOR THE SALE AND RENOVATION OF THE ROTUNDA BUILDING LOCATED AT 300 FRANK H. OGAWA PLAZA IN THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA**

3. **RESOLUTION AUTHORIZING A DEFERRED LOAN NOT TO EXCEED $12,000,000 TO ROTUNDA PARTNERS I TO FUND PREDEVELOPMENT AND CONSTRUCTION COSTS OF THE ROTUNDA BUILDING RENOVATION PROJECT**

TITLE

The purpose of this report is to recommend the adoption of two Redevelopment Agency resolutions and one City Council resolution related to the financing and property disposition for the Rotunda Building Project (the "Project")

In conjunction with this agenda item, a joint Public Hearing of the Oakland City Council and the Redevelopment Agency of the City of Oakland is scheduled which recommends the sale of the Agency owned property to Rotunda Partners I for the development of the Project.

The following resolutions have been prepared:

1. A resolution approving the sale of real property located at 300 Frank H. Ogawa Plaza in the Central District Redevelopment Project Area by the Redevelopment Agency to Rotunda Partners I for the development of the Rotunda Building for commercial use; and

2. a resolution authorizing the Agency Administrator to enter into a disposition and development agreement with Rotunda Partners I for the sale and renovation of the Rotunda Building located at 300 Frank H. Ogawa Plaza in the Central District Redevelopment Project Area; and

3. a resolution authorizing a deferred loan not to exceed $12,000,000 to Rotunda Partners I to fund predevelopment and construction costs of the Rotunda building renovation project.

EXECUTIVE SUMMARY

Three resolutions have been prepared providing City Council approval to sell the Agency-owned Rotunda Building, authorizing the Agency Administrator to enter into a Disposition and Development Agreement ("DDA") with Rotunda Partners I ("RPI") for the sale and renovation of the Agency-owned Rotunda building located at 300 Frank H. Ogawa Plaza, and authorizing a deferred loan not to exceed $12,000,000 to RPI to fund predevelopment and construction costs of the Rotunda building renovation project.

RPI proposes to rehabilitate the historic Rotunda building into a mixed-use commercial retail and office project. RPI has estimated total project costs to be $32 million and requests that the Oakland Redevelopment Agency ("Agency") provide a deferred loan of $12,000,000 to cover predevelopment and construction costs. The DDA between the Agency and RPI incorporates the terms and conditions under which the Agency will transfer the property and fund the loan (see Attachment A for details). The property would be sold for a purchase price of ninety-nine dollars. The Agency loan will be for a term of 20 years and require no principal or interest payments until the year 2013. Interest from 2013 to 2017 will be paid at 3 percent annually. Upon sale of the building RPI will repay the Agency loan, plus 50 percent of net sales proceeds above $38 million.

FISCAL IMPACT ANALYSIS

The proposed Agency budget for the Rotunda commits a total of $14,205,000 million to the project through Fiscal Year 2000/01, as shown in Attachment B. Budgeted funds consist of a loan of $12.0 million to RPI (an $11.0 basic loan, plus a $1.0 million project contingency), plus an additional $2.2 million that would fund ancillary project costs which the Agency would be expected to undertake. Ancillary expenses include:

1. DDA preparation costs (consulting fees to firms advising the Agency on the transaction);

2. DDA administration costs (the Agency's expenses for overseeing DDA implementation, as well as a contribution to the marketing costs for the project);

3. Public improvements (ancillary construction projects in and around the site, including the stabilization of the north and south walls of the building; parking, sidewalks, and related engineering and construction management); and

4. Ongoing CEDA staff costs.

The approved budget for the Rotunda project during Fiscal Years 1997-99 is $9,112,000, compared with the currently proposed project budget of $14,205,000. Staff proposes that the additional $5,093,000 be funded as follows: $1,600,000 million from the City Center West Garage Reserve; and $3,493,000 million from the Uptown project budget. It is not certain at this time when the Agency will be able to restore funding for the Uptown Project; however, a continued strong economy should produce sufficient tax increment funds to cover existing Agency debt service obligations and provide additional funds for all projects, including replenishing the Uptown Project. Within the next three months, the Agency will work with the Budget and Finance Agency to prepare an up-to-date projection of Agency revenues, and at that time a schedule will be established for reappropriating the funds for the Uptown project.

BACKGROUND AND DISCUSSION

History

Since the Agency purchased the Rotunda Building in November of 1991, there have been numerous efforts to renovate and develop this nationally recognized historic project. Proposed uses have included office space for the City of Oakland, expansion of the Bay Area Rapid Transit District's program, a retail shopping center with an international theme, an office building, a hotel, a High Technology Commercial Center, and the Rotunda Higher Learning and Innovative Technology Center.

In August 1997, a Request for Proposals was published in the Wall Street Journal, and in September three responses were received. On October 28, 1997, pursuant to Agency Resolution No. 97-64 C.M.S., the Agency approved an Exclusive Negotiation Agreement ("ENA") with RPI, a local developer. The ENA specified that the Agency and RPI would work diligently for 120 days to prepare conceptual and schematic design plans for the project; investigate project development costs; secure preliminary leasing commitments from office and retail tenants; evaluate project economics; and negotiate a DDA detailing the terms and conditions for sale and development of the project.

Project Scope and Schedule

RPI has proposed that the project be developed as a mixed-use retail and office complex with approximately 106,000 square feet of retail space, and 130,000 square feet of office use on the upper floors of the building. Project scope will include a complete structural upgrade; retrofit of the building's mechanical, electrical, plumbing, and conveying systems; architectural finishes to all interior and exterior spaces, including the seven-story atrium; and outfitting of tenant spaces for the retail & office uses. The proposed project development schedule is as follows:

• Start Design Development	May 1998
• Complete Construction Documents	September 1998
• Issue Permits, Start Construction	November 1998
• Complete Demolition, Structural, Rough-ins	May 1999
• Complete Core/Shell, incl. Utilities & Finishes	November 1999
• Complete Retail Tenant Improvements; Grand Opening	April 2000
• Complete Office Tenant Improvements & Lease-up	December 2002

Increased Project Cost

Construction Cost. In 1995 and 1996 the Agency contracted with Carey & Co., an architectural firm specializing in historic renovation projects, to prepare a comprehensive analysis of the Rotunda Building, including a Historic Structure Report, an Existing Conditions Report, a Cost Estimate, and other studies related to the development potential of the building. The Carey & Co. Cost Study showed an estimated $16.6 million in construction cost, and a total project cost of $26 million.

During the ENA period, RPI conducted a due diligence review of the building with a team consisting of Architectural Dimensions (architect), Alan Dreyfuss (historic architect), KPa Engineers (structural engineer), and Charles Pankow Builders (construction contractor). The team was charged with preparing schematic designs and cost projections for architectural, structural, electrical, mechanical and plumbing improvements, and an assessment of tenant requirements for outfitting the completed shell space.

Table 1 compares the Carey & Co estimate (July 1996) with the recent RPI estimate (March 1998). The $4.2 million increase derives mainly from increased costs for the structural upgrade, demolition, and architectural core and shell improvements. The current project introduces a new structural design concept with a stiffer frame, consistent with retail requirements. There has also been a more extensive evaluation of the electrical and mechanical requirements, including re-use of existing equipment and systems. By including on the team a general contractor with extensive experience in this type of project, RPI has produced estimates that are more accurate estimates and based on current market costs. It is important to note in this context that construction material and labor costs in the Bay Area have increased significantly since Carey & Company completed their cost evaluation.

Table 1
Construction Cost Estimate Reconciliation ($ thousands)

	Carey & Company July 1996	RPI March 1998	Cost Difference
Structural	3,413	4,759	1,346
Demolition	50	1,567	1,517
General Core & Shell	2,758	6,296	3,538
Mechanical/Plumbing	2,194	1,921	(273)
Electrical	1,753	2,492	739
General Conditions	998	2,237	1,239
Contingency	4,416	1,000	(3,416)
Escalation	456	0	(456)
Total	**16,038**	**20,272**	**4,234**

Table 2 shows RPI's total estimated project development costs. Nearly $700,000 in value engineering items have been identified which can be eliminated, phased, or altered to save cost.

Table 2
Rotunda Project: Summary Capital Budget ($ thousands)

Item	**Amount**
Construction Costs	20,272
Value Engineering	(672)
Softs Costs	
A&E, Insurance, Legal fees	2,500
Developer Fee	300
Leasing Commissions	1,000
Financing Fees	2,593
Operating Reserves	100
Subtotal	6,500
Tenant Improvements	5,900
Total Project Capital Costs	**32,000**

The current $32 million estimated project cost represents an increase of $6 million over the $26 million estimate supplied by Carey & Co. This increase is proposed to be funded by raising the Agency long term loan from $7.5 million to $11.0 million; by increasing initial developer equity from $3.5 to $4.2 million; and by increasing borrowing from private sources by another $1.8 million.

Table 3 shows the proposed financing structure for the project. During the construction period, the $32 million project cost will be funded through a combination of Developer Equity, Agency Loan, and Construction Loan, plus Cash Flow derived from early retail and office tenancies. Permanent financing will be put in place three years into the project: Historic tax credits of approximately $4.0 million and a conventional take-out loan of $12.0 million will provide new funding, which will be applied to repay the construction loan and reimburse a portion of developer's equity/cash flow contribution. The Agency Long Term Loan will remain in place.

Table 3
Construction and Permanent Financing ($ millions)

	Construction Financing	**Permanent Financing**
Developer Equity	4.2	1.2
Agency Long Term Loan	11.0	11.0
Cash Flow	3.8	3.8
Construction Loan	13.0	0
Historic Tax Credits	0	4.0
Permanent Loan	0	12.0
Total	**32.0**	**32.0**

To evaluate the reasonableness of the proposed deal, the Agency retained Keyser Marston Associates ("KMA"), to test RPI's economic projections and project proforma. KMA has determined that the projected rents ($11/sf for retail and $17/sf for office tenants) are reasonable in the current marketplace, and that a low-interest Agency loan is required because the projected rents are not sufficient to cover the estimated project cost. KMA is also preparing a summary report of the project which is required pursuant to Section 33433 of the California Community Redevelopment Law.

Tenant Issues

During RPI's discussions with prospective retail tenants, the key issues that have emerged are parking, signage, and safety/maintenance.

Parking. The estimated parking requirement is 170 spaces for retail and 180 spaces for office tenants. Although office parking can be at a remove of several blocks from the building, retail parking must be close to the stores. RPI reports that in their discussions with retailers the need for ample parking adjacent to the project has been the retailers' single most critical issue, and may determine the long term success of retail operations in this location. Staff proposes to handle the parking in two phases. Initially, tenants and retail patrons would make use of 117 spaces in the Dalziel Building and 90 spaces on the Agency-owned portions of the surface lot at 16th & San Pablo. Preferential parking rates would be given to Rotunda patrons through a validation program for Rotunda merchants. The validation program would be funded by the revenues from the 16th & San Pablo lot. Within 3-5 years the City would make a good faith effort to develop a 400+ space garage in close proximity to the site, preferably with retail in the ground floor. Development of this garage may be done through a public/private partnership.

Signage. Staff and RPI will work together to accommodate the signage requirements of the tenants, including signage in the vicinity identifying the Rotunda Building. Staff will also coordinate Landmarks Preservation Board review of any signage that is to be attached to the building.

Area Safety/Maintenance. The City has agreed to improve lighting in the area, and has included funding for ancillary public improvements in the Agency budget. City Hall Plaza will be maintained in accordance with a plan under development by Public Works. Policing of the area will receive increased emphasis when the new Administration buildings are online.

Assessment of the Proposed Deal: Risk Analysis

There are several significant risks associated with the proposed development agreement. Staff has worked with RPI to address these risks in a constructive manner so as to protect the Agency's interest in the project, and to enhance the prospects for successful completion and opening.

Potential for cost increases

The Agency retained Advanced Resources for Construction Services (ARCS) to evaluate the construction cost estimate prepared by the RPI team. ARCS identified four key areas of potential cost increases: the upgrade to the building structural system; the reliance on re-use of existing mechanical, electrical and plumbing systems and equipment; construction escalation; and construction contingency. The Agency also asked Keyser Marston Associates (KMA) to evaluate RPI's soft costs; KMA found that architectural and engineering fees, as well as costs for legal service, taxes and insurance were lower than is typical for the industry, and that construction interest costs may have been understated given RPI's assumption that cash flow would be available to fund the later tenant improvement construction. Taken together, ARCS and KMA have advised the Agency that there is a risk that actual cost of this project may be understated by as much as \$4 to \$6 million which could result in total project development costs of \$38 million.

To address the risk of cost overrun, the Agency has incorporated specific provisions in the DDA that:

1. Establish a $1.0 million Agency contingency that can be drawn down for specific purposes (i.e., structural upgrade; Agency-requested change-orders; key tenant inducements; or unforeseen conditions);
2. Require the developer to seek a larger construction loan commitment to allow additional construction contingency funds;
3. Encourage the developer to arrange a potential $2.0 million advance against the Historic Rehabilitation Tax Credits; and
4. Augment the Developer's management team to provide additional administrative and construction management support, to enhance the management of the project.

Need for Funding Commitments

Completion of the construction phase of the project depends on the availability of adequate financing to fund improvements to the building. The DDA stipulates that a fully executed Construction Loan Agreement must be in place, before the Agency will convey the property to the Developer and fund the Agency Loan. Funding of the Agency Loan is also dependent on the Developer establishing an acceptable mechanism for receiving Historic Tax Credits.

Leasing

RPI has attracted significant interest from major retail and office tenants, but has not yet received firm commitments from either retail or office tenants. At this stage of development this is not unusual--however, to ensure that long-term take-out financing will be available when construction is complete, the DDA specifies that signed leases should be in place for one-half of the retail and office spaces, prior to conveyance. If necessary, the Agency is prepared to assist the Developer in attracting tenants, both through the marketing funds established in the project budget, and also, potentially, through selective use of some portion of the Agency's contingency funds.

RECOMMENDATION

Given the long history of the City's attempts to develop the Rotunda Building, the historical value of the building and its prominent location on Frank Ogawa Plaza, and the desire to catalyze development in Uptown, the proposed DDA represents a viable opportunity to complete this project in time to take advantage of the current active real estate market. The sale and development of the Rotunda will leverage significant private financing to restore a building that has been vacant for many years, generate sales and business taxes for the City and the Agency, provide major retail opportunities currently lacking in the Central District, create approximately 150 new retail job opportunities for Oakland residents, and satisfy the City's obligations with regard to the rehabilitation of this historic resource as required by the Environmental Impact Report for the City Center Administration Complex. Therefore, staff recommends approval of the attached resolutions to authorize:

1. the sale of real property located at 300 Frank H. Ogawa Plaza in the Central District Redevelopment Project Area by the Redevelopment Agency to Rotunda Partners I for the development of the Rotunda Building for commercial use; and

2. authorizing the Agency Administrator to enter into a disposition and development agreement with Rotunda Partners I for the sale and renovation of the Rotunda Building located at 300 Frank H. Ogawa Plaza in the Central District Redevelopment Project Area; and

3. authorizing a deferred loan not to exceed $12,000,000 to Rotunda Partners I to fund predevelopment and construction costs of the Rotunda building renovation project.

Respectfully Submitted,

WILLIAM E. CLAGGETT
Interim Agency Director

Prepared by:

Robert Lyons
Chief Negotiator

Concurred by:

Roy L. Schweyer
Chief of Projects

Attachments

APPROVED FOR FORWARDING TO
THE COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

Robert C. Bobb
Agency Administrator

Attachment A
Rotunda Project
Summary of Business Terms
May 26, 1998

1. Predevelopment. Agency will enter into a DDA with RPI. Beginning upon execution of the DDA, RPI will be entitled to receive reimbursement from the Agency Loan for 50% of actual design costs incurred after November 12, 1997, for the structural upgrade and core/shell (but excluding tenant improvements). All other RPI predevelopment costs, including legal fees, consultant fees, and financing expense, will be funded by RPI.

2. Transfer of Ownership. Agency will transfer title of the property to RPI for ninety-nine dollars ($99.00), after irrevocable commitment of the construction loan; demonstration to the Agency's satisfaction that an investment vehicle is in place for the Historic Tax Credits; and other conditions that are specified in the DDA.

3. Conventional Construction Loan. RPI will secure construction financing in an amount equal to estimated total project cost, less Agency Long-Term Loan, less Developer Equity, less Anticipated Cash Flow during Construction, plus Project Contingency. By way of illustration, based on a $32 million estimated project cost, RPI would apply for a Construction Loan Commitment of $15 million, of which $13 million is carried in the project budget, and an additional $2 million would be available as contingency.

4. Agency Long-Term Loan. Agency will loan RPI $11.0 million for a 20-year term. Agency loan is interest free until 2013 (ten years after stabilized operation). Interest from 2013 to 2017 will be paid at 3% annually. On sale of the building or in any event no later than 2017, RPI will pay to Agency the amount of the Agency loan, plus 50% of net sale price in excess of $38 million.

5. Developer Equity. RPI agrees to provide a $4.2 million cash contribution to the project.

6. Cash Flow. During construction, funds shall be drawn initially from Developer Equity and the Agency long-term loan. Disbursements from the Agency Loan shall be limited to 75% of the construction draw in any given month. At such time as Developer Equity has been fully paid in, draws shall be made from the Construction Loan. Cash Flow from Operations shall be used to fund completion of tenant improvements for the office spaces, to the extent such funds are available.

7. Historic Tax Credits. RPI will attempt to secure historic tax credits for the project by selling to a suitable investor a limited partnership in the project. Any such partnership agreement shall be subject to Agency approval.

8. Permanent Financing. Upon completion of construction RPI will seek permanent financing for the project, estimated at $12 million, or other such amount needed to take out the construction loan. The permanent loan shall be subject to Agency approval.

9. Refinancing. After permanent financing has been put in place, Agency will permit refinancing of the project at any time in the future; subject to Agency's reasonable approval; and subject to a requirement that any refinancing shall not exceed the lesser of a) 70% Loan-to-Value or b) the Project Value less the Agency Long Term Loan. In the event of any refinancing in excess of $21 million, RPI will pay to the Agency an amount equal to 20% of the net proceeds of the refinancing, to be applied to reduce the principal amount of the Agency Loan. Such a refinancing will also trigger initiation of RPI's payment of interest on the Agency Loan, if this has not already commenced.

10. Architect. RPI will take steps to augment the architectural team to enhance the capacity for efficient administration of the project. The proposed team will be subject to Agency approval.

11. Construction Manager. RPI will retain the services of a professional construction management firm, or will otherwise demonstrate to the satisfaction and approval of Agency that all construction management functions will be adequately discharged, including but not limited to: control and reporting of scope, schedule and budget; construction inspection; detailed records and logs of all project activities; timely processing of all requests for information and bulletins; change order processing; and claims management and negotiation.

12. Structural Design. The proposed structural design will be analyzed through dynamic modeling. Agency and RPI and their respective consultants will reach agreement on appropriate design criteria, which may involve cost benefit analysis of alternative approaches to structural design.

13. Construction Staging. During the construction period, Agency will allow RPI and its contractors to use as a staging area the existing Agency-owned surface parking lot bounded by 16th, 17th, and San Pablo Avenue. Certain staging activities will also take place in Kahn's Alley. Such staging shall be at no fee to RPI.

14. Leasing Standard. RPI agrees to lease and operate the building in a manner equal to or better than the quality standard of four other comparable centers. ***Note: RPI will provide a list of comparable centers.***

15. Maintenance of Surrounding Area. City will cause Frank Ogawa Plaza, Kahn's Alley, and Latham Square to be operated and maintained at an agreed level of cleanliness, order, and functionality.

16. Parking. City will allow up to 50 spaces in the Dalziel Garage to be used for long term monthly parking for Rotunda Building office tenants. Agency will construct improvements to the existing Agency-owned surface parking lot at 16th/San Pablo (paving, striping, fencing, lighting, and signage). Short term parking in these two facilities shall be at market rate, provided that Agency and City shall institute a validation program for patrons of Rotunda Building retail establishments. Agency shall lease the 16th/San Pablo lot to RPI on a month-to-month basis. Net revenue from the 16th/San Pablo lot shall be used to fund the validation program; and Agency will fund any validation costs that are not covered by this revenue stream. The City will make a good-faith effort to develop a 400+ space parking garage in close proximity to the site to meet the permanent parking requirements for the project.

17. Kahn's Alley Encroachment. City will grant a long-term encroachment on Kahn's Alley for the construction of one-story retail kiosks, subject to City approval of RPI plans.

18. Kahn's Alley Improvements. City will be responsible for funding any landscaping, paving, lighting, furnishings and drainage improvements to Kahn's Alley that may be deducted from the scope of the City Admin Building project and added to the Rotunda Building project.

19. Saigon Deli. Agency will secure such access to the Saigon Deli property as might be required to demolish and reconstruct the north wall of the Rotunda Building.

20. Ancillary Costs. Agency will separately fund any costs for staff and consultants as might be required to implement the DDA. Agency shall fund project development fees, including permit fees, design review fees, and encroachment fees.

REDEVELOPMENT AGENCY
OF THE CITY OF OAKLAND

RESOLUTION NO. 98 - 32 C. M. S.

INTRODUCED BY AGENCY MEMBER

A RESOLUTION AUTHORIZING THE AGENCY ADMINISTRATOR TO ENTER INTO A DISPOSITION AND DEVELOPMENT AGREEMENT WITH ROTUNDA PARTNERS I FOR THE SALE AND RENOVATION OF THE ROTUNDA BUILDING LOCATED AT 300 FRANK H. OGAWA PLAZA IN THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA

WHEREAS, the Redevelopment Agency of the City of Oakland (the "Agency") owns the Rotunda Building located at 300 Frank H. Ogawa Plaza (the"Property"); and

WHEREAS, the Property is located in the Central District Redevelopment Project Area; and

WHEREAS, Rotunda Partners I ("RPI"), a general partnership, desires to purchase the Property from the Agency and rehabilitate it into approximately 237,000 square feet of mixed-use commercial retail and office space (the "Project"); and

WHEREAS, the Agency has drafted a Disposition and Development Agreement ("DDA") which sets forth terms and conditions of the transfer of the Property to RPI and governs the development of the Project and the use of the Property by RPI and any successors to the Property subsequent to sale through recorded covenants running with the land; and

WHEREAS, the DDA requires that RPI construct and operate the Project consistent with the Central District Urban Renewal Plan adopted on June 12, 1969 as subsequently amended, as well as the Five-Year Implementation Strategy for the Central District (together, the "Central District Redevelopment Plan" or "Redevelopment Plan"), and restricts the use of the Property to commercial uses for the life of the Redevelopment Plan; and

WHEREAS, the DDA and the grant deed that will convey the Property to RPI adequately condition the transfer of the Property on the redevelopment and use of the Property in conformity with the Central District Redevelopment Plan, and such documents prohibit discrimination in any aspect of the Project as required under the Central District Redevelopment Plan and the California Community Redevelopment Law; and

WHEREAS, the California Community Redevelopment Law (Health & Safety Code Section 33430) authorizes a redevelopment agency to dispose of real property for redevelopment purposes, and the Central District Redevelopment Plan authorizes the Agency to sell land in the Central District Redevelopment Area; and

WHEREAS, the Project use is in conformity with the Central District Redevelopment Plan, and the Project will assist in the elimination of blight in the Central District Redevelopment Area, and the Project will help meet the objectives of the Central District Redevelopment Plan; and

WHEREAS, the sales price of $99 is not less than the fair reuse value of the Property at the use and with the covenants and conditions and development costs authorized by the sale under the Central District Redevelopment Plan and the DDA; and

WHEREAS, the California Community Redevelopment Law (Health & Safety Code Section 33433) requires that before any property of a redevelopment agency that is acquired in whole or in part with tax increment moneys is sold for development pursuant to a redevelopment plan, the sale must first be approved by the legislative body, i.e., the city council, by resolution after public hearing; and

WHEREAS, as required by the California Community Redevelopment Law, the Agency has made available to the public for inspection, no later than the first date of publication of the notice for the hearing, a report that contained a copy of the draft DDA and a summary of the cost of the agreement to the Agency, the estimated fair reuse value of the Property, and an explanation of why the sale of the Property and development of the Project will assist in the elimination of blight, with supporting facts and material; and

WHEREAS, a joint public hearing between the Agency and the City Council of the City of Oakland was held to hear public comments on the transfer of the Property for the Project; and

WHEREAS, notice of the transfer of the Property and the public hearing was given by publication at least once a week for not less than two weeks prior to the public hearing in a newspaper of general circulation in Alameda County; and

WHEREAS, the City Council of the City of Oakland has approved the transfer of the Property by resolution after the public hearing; and

WHEREAS, the Redevelopment Agency is the Responsible Agency for this Project for purposes of environmental review under the California Environmental Quality Act of 1970 ("CEQA"); and

WHEREAS, the City of Oakland has found and determined that the requirements of CEQA, the State CEQA Guidelines as prescribed by the Secretary for Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied pursuant to Section 15301 of the State CEQA Guidelines, and based on that, the project is exempt from CEQA; now therefore be it

RESOLVED: that the Redevelopment Agency hereby authorizes the sale of the Property by the Agency to RPI, or to an affiliated entity or entities approved by the Agency Administrator or his designee, subject to the terms and conditions of the DDA, for a price of $99; and be it further

RESOLVED: That the Agency finds and determines that the Project use is in conformance with the Central District Redevelopment Plan, including its Five Year Implementation Plan, which provides for general retail and office uses on the site ; and that the Project will further the purposes and objectives of the Redevelopment Plan, including the Implementation Plan, in at least the following respects: strengthening of the Project's Area's existing role as an important office center for administrative, financial, business service and governmental activities (Redevelopment Plan Section 200.A.); revitalization and strengthening of the Oakland Central District's historical role as the major retail center for the Metropolitan Oakland Area (Redevelopment Plan, Section 200.B.); restoration of historically significant structures within the Project Area (Redevelopment Plan, Section 200.F.); and improvement of environmental design, including creation of a definite sense of place, clear gateways, emphatic focal points, and physical design which expresses and respects the special nature of each subplace (Redevelopment Plan, Section 200.G.); and be it further

RESOLVED: That the Redevelopment Agency finds and determines that the sale of the Property pursuant to the DDA for the Project will assist in the elimination of physical and economic blight, as defined by the California Community Redevelopment Law, in the Central District Redevelopment Project Area in the following respects: (1) the Project will rehabilitate a building that has been vacant and in a deteriorated condition for many years; (2) the Project will preserve and restore a historically significant structure; (3) the Project will provide necessary neighborhood-serving commercial facilities lacking in the Central District; (4) the Project, once developed, will provide employment opportunities and other economic benefits to persons living within or near the Activity Area as well as for merchants and businesses operating within the Activity Area; and (5) the Project, once developed, will enhance depreciated and stagnant residential and commercial property values in the surrounding City Center area, and will encourage efforts to alleviate economic and physical blight conditions in the area, including high business vacancy rates, excessive vacant lots, and abandoned buildings, by enhancing the development potential and overall economic viability of neighboring properties; and be it further

RESOLVED: That the Redevelopment Agency finds and determines that the sales price for the Property is not less than the fair reuse value of the Property, taking into account the conditions and covenants required as part of the sale, as set forth in the Central District Redevelopment Plan and the DDA, the development costs of the Project, including the cost of rehabilitating the Property consistent with historic preservation standards, and the prevailing market conditions in the Central District area for the types of commercial uses contemplated by the Project; and be it further

RESOLVED: That the Agency Administrator or his designee is hereby authorized to execute the Disposition and Development Agreement with RPI, or an affiliated entity or entities approved by the Agency Administrator, for the Project, as well as negotiate and execute other documents necessary to facilitate the sale and development of the Property for the Project; and be it further

RESOLVED: That the Agency Administrator or his designee is hereby authorized to execute and deliver a grant deed or grant deeds to the Property to RPI or an affiliated entity or entities under the terms and conditions set forth in the DDA; and be it further

RESOLVED: That the Agency Administrator or his designee is hereby authorized to take whatever other actions are necessary in his discretion in furtherance of the Project in conformance with this Resolution.

RESOLVED: That all documents associated with this transfer shall be approved as to form and legality by the Agency Counsel.

I certify that the foregoing is a full, true and correct copy of a Resolution passed by the Redevelopment Agency of the City of Oakland, California on June 23, 1998

CEDA FLOYD
City Clerk and Clerk of the Council

Per Catherine Webb *Deputy*

REDEVELOPMENT AGENCY
OF THE CITY OF OAKLAND

RESOLUTION NO. 98 - 33 C. M. S.

INTRODUCED BY AGENCY MEMBER ______

RESOLUTION AUTHORIZING A DEFERRED LOAN NOT TO EXCEED $12,000,000 TO ROTUNDA PARTNERS I TO FUND PREDEVELOPMENT AND CONSTRUCTION COSTS OF THE ROTUNDA BUILDING RENOVATION PROJECT

WHEREAS, the Redevelopment Agency of the City of Oakland (the "Agency") owns the Rotunda Building located at 300 Frank H. Ogawa Plaza (the"Property"); and

WHEREAS, the Property is located in the Central District Redevelopment Project Area; and

WHEREAS, Rotunda Partners I ("RPI"), a general partnership, desires to purchase the Property from the Agency and rehabilitate it into approximately 237,000 square feet of mixed-use commercial retail and office space (the "Project"); and

WHEREAS, the Project will benefit the Central District Redevelopment Area by providing commercial activities within the community that will enhance the economic viability and redevelopment potential of the Project Area, and specifically improve Frank H. Ogawa Plaza; and

WHEREAS, the Agency is entering into a disposition and development agreement ("DDA") with RPI for the sale of the Property; and

WHEREAS, RPI has requested a deferred loan not to exceed $12,000,000 from the Redevelopment Agency to assist development of the Project; and

WHEREAS, funds in the amount of $6,907,000 have been appropriated to address partially the requested loan in the Agency's adopted budget for fiscal year 1997/99 within the Rotunda Project; and

WHEREAS, the City of Oakland is the Lead Agency for this Project for purposes of environmental review under the California Environmental Quality Act of 1970 ("CEQA"); and

WHEREAS, the City of Oakland finds and determines that the requirements of CEQA, the State CEQA Guidelines as prescribed by the Secretary for Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied pursuant to Section 15301 of the State CEQA Guidelines, and based on that, the project is exempt from CEQA; now therefore be it

RESOLVED: That the Agency approves an appropriation of $1.6 million from City Center West Garage and $3,493,000 million from the Uptown project budget, in addition to the previously appropriated $6,907,000 for the Project, to provide the full loan amount of $12,000,000 to RPI for the Project; and be it further

RESOLVED: That the Agency hereby authorizes the Agency Administrator or his designee to provide a deferred loan in an amount not to exceed $12,000,000 to RPI, or to an affiliated entity approved by the Agency Administrator or his designee, to be used for predevelopment and construction of the Project; and be it further

RESOLVED: That all loan documents shall be reviewed and approved by Agency Counsel for form and legality prior to execution, and copies will be placed on file with the Agency Secretary; and be it further

RESOLVED: That the loan shall be secured by a deed of trust on the land, improvements, fixtures and rental income of the Project; and be it further

RESOLVED: That the Agency hereby authorizes the Agency Administrator or his designee in his discretion to subordinate the priority of the Agency's deed of trust and/or recorded restrictions to a lien or encumbrance of another private or governmental entity providing financial assistance to the Project, if the Agency Administrator or his designee determines that (1) an economically feasible alternative method of financing the Project on substantially comparable terms and conditions but without subordination is not reasonably available, (2) the Agency's investment in the Project in the event of default is reasonably protected, and (3) subordination is in the best interests of the Agency; and be it further

RESOLVED: That all loan documents shall be reviewed and approved by Agency Counsel for form and legality prior to execution, and copies will be placed on file with the Agency Secretary; and be it further

RESOLVED: That the Agency hereby appoints the Agency Administrator and his designee as agent of the Redevelopment Agency to conduct negotiations, execute documents, administer the loan, extend or modify the repayment terms, and take any other action with respect to the loan and the Project consistent with this Resolution and its basic purpose.

I certify that the foregoing is a full, true and correct copy of a Resolution passed by the Redevelopment Agency of the City of Oakland, California on June 23, 1998

CEDA FLOYD
City Clerk and Clerk of the Council

Per Catherine Webb *Deputy*

SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA COMMUNITY REDEVELOPMENT ACT
ON A
DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN
THE REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND
AND
ROTUNDA PARTNERS INC.

I. INTRODUCTION

The California Health and Safety Code, Section 33433, requires that if a redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the agency must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. A copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transactions shall be available for public inspection prior to the public hearing. As contained in the Code, the following information shall be included in the summary report:

1. The cost of the agreement to the redevelopment agency, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency, plus the expected interest on any loans or bonds to finance the agreement;

2. The estimated value of the interest to be conveyed, determined at the highest and best use permitted under the redevelopment plan;

3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement with the Agency, i.e., the reuse value of the site;

4. An explanation of why the sale of the property will assist in the elimination of blight, as required by Section 33433; and

5. The purchase price of the property. If the sale price is less than the fair market value of the interest to be conveyed, determined at the highest and best use consistent with the redevelopment plan, then the agency shall provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the proposed Disposition and Development Agreement (Agreement) by and between the City of Oakland Redevelopment Agency (Agency) and Rotunda Partners I (Developer) received by KMA on May 22, 1998. The Agreement requires the Developer to rehabilitate the subject Property in downtown Oakland for an historically significant mixed-use commercial retail and office building. The purpose of this analysis is to determine the cost of the Agreement to the Agency.

This report is based upon information in the proposed Agreement and is organized into the following six sections:

1. **Summary of the Proposed Agreement** - This section includes a description of the Property, the proposed development and the major responsibilities of the Agency and the Developer.

2. **Cost of the Agreement to the Agency** - This section outlines the cost of the Agreement to the Agency. It presents the terms of the property conveyance to the Developer by the Agency, and sets forth the net cost of the Agreement to the Agency.

3. **Estimated Value of the Interest to be Conveyed** - This section summarizes the value of the Property to be conveyed to the Developer.

4. **Consideration Received and Reasons Therefore** - This section describes the purchase price to be paid by the Developer to the Agency. It also contains a comparison of the purchase price and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.

5. **Elimination of Blight** - This section includes an explanation of why the sale of the property will assist in the elimination of blight and the supporting facts and materials.

6. **Conformance with AB 1290 Implementation Plan** - This section describes how the Agreement is in conformance with the Agency's Implementation Plan.

II. SUMMARY OF THE PROPOSED AGREEMENT

A. Description of the Property and the Proposed Project

Site

The development project (the "Property") is located within the Central District Redevelopment Area in downtown Oakland. The Property is bounded by San Pablo Avenue to the west, 16th Street to the north, Broadway to the east, and 15th Street (Kahn's Alley) to the south. The Property is improved with a 320,000 gross sq.ft. (or 230,000 rentable sq.ft.) building, known as the Rotunda Building, originally built in 1913 as a department store. The Rotunda Building is listed on the National Register of Historic Places.

Developer

The Developer is Rotunda Partners I (RPI), a California general partnership.

Project Description

The Developer will redevelop the Property for a mixed-use project comprising approximately 72,000 rentable sq.ft. of retail space on the basement, first, and second levels, and approximately 156,000 rentable sq.ft. of office space on floors two through seven. The redevelopment will include life safety improvements as well as interior and exterior structural rehabilitation consistent with historic preservation standards. Parking will be accommodated in off-site parking areas owned by the City/Agency.

B. Agency Responsibilities

The Agency's responsibilities under the Agreement are as follows:

1. The Agency will sell the Property to the Developer for the nominal sum of $99.00 payable in cash on the Closing Date. The Property shall be conveyed in an "as is, where is, and with all faults" physical condition.

2. The Agency will provide the Developer with a loan in the maximum principal amount of $12.0 million. As stated in the Agreement, this loan is comprised of two parts: "(a) an $11.0 million loan for the purpose of paying for the costs of construction of the seismic upgrade, core, and shell of the Project; and (b) a contingency amount of $1.0 million, which will be loaned at the Agency's sole discretion, for the purposes of funding tenant inducements, additional structural costs, costs in connection with reasonably unforeseen and unanticipated

circumstances and conditions, and Agency requirements." The Agency loan is interest free until 2013 (ten years after stabilization). Interest from 2013 to 2017 will be paid at 3% annually. On sale of the building, or in any event no later than 2017, Developer will pay to Agency the amount of the Agency loan plus 50% of net sale price in excess of $38 million.

3. The Agency will construct improvements to the existing Agency-owned surface parking lot at 16th Street and San Pablo, including paving, striping, fencing, lighting and signage. Short-term parking in this lot will be made available at market rates for patrons of the Rotunda Building. The cost of the improvements is estimated at $150,000. In addition, the Agency will make a good faith effort to develop a 400+ space parking garage in close proximity to the Property to meet the permanent parking requirements for the project.

4. City will grant a long-term encroachment on Kahn's Alley for the construction of one-story retail kiosks, subject to City approval of Developer plans. City will be responsible for funding any landscaping, paving, lighting, furnishings, and drainage improvements to Kahn's Alley that may be deducted from the scope of the City Administration Building project and added to the Rotunda Building project. The cost of such improvements is estimated at $145,000.

5. The Agreement provides that during the period of Developer's construction of the Project, Developer and its authorized representatives, contractors, and subcontractors shall have the right, without charge, to use the surface parking lot owned by the City of Oakland bounded by 16th Street, 17th Street and San Pablo Avenue as a staging area for construction materials, supplies, and equipment.

6. City will cause Frank Ogawa Plaza, Kahn's Alley, and Latham Square to be operated and maintained at an agreed level of cleanliness, order, and functionality.

C. Developer Responsibilities

The Developer's responsibilities under the Agreement are as follows:

1. The Developer shall purchase the Property from the Agency for $99.00.

2. The Developer will contribute $4.2 million in equity funds to the project.

3. As a condition to Agency transferring to Developer the Property and funding the Agency loan, Developer shall provide Agency with evidence that Developer shall receive Historic Tax Credits in an amount not less than $3.8 million.

4. The Developer will pay 3% simple interest per annum on the Agency loan of $11.0 million beginning in 2013. On sale of the building or in any event no later than 2017, Developer will pay to Agency the amount of the Agency loan, plus 50% of net sale proceeds in excess of $38 million.

5. The Developer will contribute the initial cash flow to the project up to the sum of $3.8 million.

6. Developer agrees to lease and operate the project in a manner equal to or better than the quality standard of four other comparable retail centers. Developer will provide a list of comparable centers.

III. COST OF THE AGREEMENT TO THE AGENCY

This section presents the total cost of the Agreement to the Agency, as well as the "net cost" of the project after consideration of the project revenues. The net cost can be either an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by implementation of the Agreement exceed expenditures.

A. Estimated Cost to the Agency

Per the Agreement, the net costs that the Agency will incur are estimated to be:

	Estimated
Site Acquisition	$680,000 [1]
Agency Construction Loan	$11,000,000
Agency Contingency Loan	$1,000,000
Parking Lot Improvements	$150,000
Kahn's Alley Improvements	$145,000
Agency Construction and Off-Sites	$805,000
Agency Administration and Consultant Fees	$1,105,000
Total	$14,885,000

It should be noted here that if the Agency does not dispose of the Property, the Agency would remain liable for curing certain seismic faults that pose a threat to adjacent structures and general public safety. Therefore, even without a development agreement, the Agency would need to invest money in the Property. A no-cost "mothballing" of the structure is not an option.

B. Revenues to the Agency

The Agency will receive repayment of the $11.0 million loan at the time of sale of the Property, or in any event no later than 2017. The loan is interest free until 2013 (ten years after stabilized operation). Interest from 2013 to 2017 will be paid at 3% annually. In the event of refinance, the Developer will pay to the Agency 20% of net proceeds in excess of $21 million, as a reduction of the outstanding loan balance. If interest payments on the Agency loan have not yet commenced,

[1] The site acquisition cost is calculated based upon a pro rata share of the total acquisition costs for the Rotunda Building property and two adjacent parking lots. The Rotunda site is 51,800 sq. ft. This equals approximately 37% of the total land area acquired in the transaction. Assuming that at the time the City acquired the property, the Rotunda Building itself had no value given the extensive renovation costs required and the historic value of the structure, the acquisition cost of the Rotunda property is assumed to be for land only. The total acquisition cost of $1.85 million is multiplied by 37% to arrive at the imputed land value of the Rotunda property, or $680,000.

payment becomes due upon refinance. In addition, at the time the Property is sold or transferred, Developer will pay to the Agency 50% of the net sales price in excess of $38 million.

It is projected that sales proceeds will not reach $38.0 million by year 20. Therefore, the Agency will not receive any revenue participation from the sales proceeds.

Table 1 calculates the present value of the interest payments and loan repayment over a 20 year period. Assuming a 5.5% discount rate, the present value of the repayment of the Agency loan is $4.4 million.

C. *Net Cost to the Agency*

The present value of the Agency's costs are estimated at $14.89 million. The present value of Agency revenues is estimated at $4.4 million. As a result, the net cost of the Agreement to the Agency is estimated to be $10.49 million, as summarized below:

Present Value of Revenues to Agency		$4,400,000
(Less) Agency's Cost		($14,890,000)
Net Cost to Agency		($10,490,000)
	or say	($10,500,000)

IV. VALUE OF THE INTEREST TO BE CONVEYED

Reuse Value

The reuse value for the Property is directly a function of the development economics for the specific development required to be constructed under the terms and conditions of the Agreement. The covenants and conditions of the Agreement require the Developer to redevelop for the near-term design and renovation of a mixed-use commercial retail and office building consisting of approximately 72,000 rentable sq.ft. of retail and 156,000 rentable sq.ft. of office space.

In the reuse appraisal report, prepared by KMA, it is concluded that given the development economics of the proposed project, the building's historical significance, and the covenants and conditions contained in the Agreement, the Property only has a nominal value. Therefore, the Agreement specified purchase price of $99 represents a fair reuse compensation to purchase the property.

The KMA reuse valuation is attached to this report and incorporated herein by this reference.

Estimated Value at Highest and Best Use

Given the historical significance of the Rotunda Building, it cannot be demolished and replaced with another structure. Therefore, it is concluded that the rehabilitation of this historical structure represents the highest and best use of the Property.

Under current market conditions, including the cost to rehabilitate the building, the achievable rents, and the investment supported, the value of the Property is nominal. Therefore, the highest and best use value is equivalent to the reuse value under the conditions of the Agreement.

V. CONSIDERATION RECEIVED AND REASONS THEREFOR

Under the terms of the Agreement, the Developer will purchase the Property from the Agency for a nominal fee. Given the historical significance of the Building, it cannot be demolished. Therefore, the proposed use outlined in the Agreement represents the highest and best use of the Property.

The Agency is entering into this Agreement for an amount equal to the highest and best use. Additionally, the Agency is achieving the objectives set forth in the Central District Redevelopment Plan, adopted by the Oakland City Council and the Agency, to develop retail and office space in the Downtown Core.

VI. ELIMINATION OF BLIGHT

The subject Property is located in the Central District Redevelopment Area in Downtown Oakland. The Property is improved with a historic building listed on the National Register of Historic Places. The building is comprised of 230,000 rentable sq. ft. and requires extensive seismic, structural, and interior improvements to bring it to market condition. Given the high cost of renovating and rehabilitating this historic structure, the building is assumed to have negative value.

The Agency's purchase and subsequent sale of the Property to the Developer will assist in the remediation of blight within the downtown Redevelopment Project Area by the creation of a high quality, historically significant mixed-use retail and office building, supporting the Agency's goal by strengthening the City's downtown and providing a catalyst for additional private investment in the Downtown area. In addition, the City's General fund should show increased sales taxes, business taxes, utility user fees, and ultimately an increase in property tax payments.

Thus, the Agency is entering into an agreement in order to achieve its objective to rehabilitate a historic structure, stimulate further development, and remove blight in the Downtown area.

VII. CONFORMANCE WITH AB 1290 IMPLEMENTATION PLAN

The primary AB 1290 Implementation Plan program objective for the Central District Redevelopment Area is to eliminate conditions which negatively impact economic development of the community. To that end, the Agency is selling the Property for development of a high quality, historically significant retail and office building.

Furthermore, the Implementation Plan also establishes a priority objective of increasing the community's economic base by encouraging investment in the redevelopment project area. The proposed project, which will provide new sales tax, business license tax, and utility users tax within the Central District Redevelopment Area, conforms to the Implementation Plan and will achieve the goals specifically defined in the Implementation Plan.

TABLE 1

PRESENT VALUE OF AGENCY REPAYMENT
THE ROTUNDA BUILDING
OAKLAND, CA

	Year	Loan Balance	Interest @ 3%	Repayment of Agency Loan	Capitalized Value of Property *(at 9%)*	Agency Share of Sale Proceeds (50% over $38 M)	Total Agency Proceeds
$1	$1,998	$ 11,000,000	$ -				$ -
$2	$1,999	$ 11,000,000	-				$ -
$3	$2,000	$ 11,000,000	-				$ -
$4	$2,001	$ 11,000,000	-				$ -
$5	$2,002	$ 11,000,000	-				$ -
$6	$2,003	$ 11,000,000	-				$ -
$7	$2,004	$ 11,000,000	-				$ -
$8	$2,005	$ 11,000,000	-				$ -
$9	$2,006	$ 11,000,000	-				$ -
$10	$2,007	$ 11,000,000	-				$ -
$11	$2,008	$ 11,000,000	-				$ -
$12	$2,009	$ 11,000,000	-				$ -
$13	$2,010	$ 11,000,000	-				$ -
$14	$2,011	$ 11,000,000	-				$ -
$15	$2,012	$ 11,000,000	-				$ -
$16	$2,013	$ 11,000,000	$ 330,000				$ 330,000
$17	$2,014	$ 11,000,000	$ 330,000				$ 330,000
$18	$2,015	$ 11,000,000	$ 330,000				$ 330,000
$19	$2,016	$ 11,000,000	$ 330,000				$ 330,000
$20	$2,017	$ 11,000,000	$ 330,000	$ 11,000,000	$ 33,463,000	$0	$ 11,330,000

TOTAL AGENCY PROCEEDS (non-discounted) $ 12,650,000

PRESENT VALUE OF AGENCY PROCEEDS (discounted at) ***5.50%*** $ 4,401,243
rounded $ 4,400,000

Prepared by: Keyser Marston Associates, Inc.
Filename: Rotunda Reuse&33433; 06/08/98; dhb

Reuse Appraisal
The Rotunda Building
Oakland, California

Prepared for:

Redevelopment Agency of the City of Oakland

June 1998

Keyser Marston Associates, Inc.

Golden Gateway Commons
55 Pacific Avenue Mall
San Francisco, California 94111

500 South Grand Avenue, Suite 1480
Los Angeles, California 90071

1660 Hotel Circle North, Suite 716
San Diego, California 92108

REUSE APPRAISAL
THE ROTUNDA BUILDING
OAKLAND, CALIFORNIA

PREPARED FOR:

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

PREPARED BY:

KEYSER MARSTON ASSOCIATES, INC.

JUNE 1998

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I. SUMMARY OF SALIENT FACTORS AND CONDITIONS

A. Assignment

Determine the fair reuse value for the subject property being conveyed by the Agency to the Developer, given the specific development proposed in the Disposition and Development Agreement (DDA) by and between the Redevelopment Agency of the City of Oakland (Agency) and Rotunda Partners I (Developer).

B. Project Description

The Rotunda Building (the "Property") will be redeveloped for a mixed use commercial retail and office building. The building, which is comprised of 320,000 gross sq.ft. and 230,000 rentable sq.ft., is seven stories tall with a full basement on a 51,800 sq. ft. site. The rehabilitated building will include 72,000 rentable sq. ft. of retail in the basement, first, and second floors, and 156,000 rentable sq. ft. of office space on floors two through seven. The rehabilitation will be consistent with historic preservation standards and the provisions set forth in the Central District Area (as defined below).

C. Land Area

The subject of this reuse appraisal is a 51,800 sq. ft., or approximately 1.2 acre, site to be conveyed from the Agency to the Developer.

D. Location

The Rotunda Building is located west of Broadway between 15th (Kahn's Alley) and 16th Streets in the Downtown Oakland Central District Redevelopment Area.

E. Zoning

This analysis presumes that zoning will permit the development of the proposed project, in accordance with the provisions of the DDA.

F. Condition of Property

The Agency will convey the Property in "as is" condition pursuant to terms and conditions in the DDA.

G. Reuse Conditions

The Property is subject to specified development standards and restrictions set forth in the DDA. The DDA includes covenants and reuse conditions that impact the development economics and hence the value of the subject Property. If the reuse conditions are changed, then the reuse value is subject to change. This reuse analysis is based upon the covenants and conditions contained in the DDA received by KMA on May 22, 1998. Four of the more important are listed below:

1. That the Property be rehabilitated for reuse as a mixed use office and retail building.

2. That the rehabilitation will be of high quality consistent with historic preservation standards.

3. That the development program and physical design remain fundamentally the same as described in this analysis.

4. That the construction begins in a timely manner, i.e., speculation is not allowed.

H. Date of Valuation

June 8, 1998

I. Fair Reuse Value

The value determined as being fair compensation for the land and improvements being conveyed to the Developer is based on the specific requirement to rehabilitate this historical building. The analysis of the proposed project economics leads KMA to conclude that the land has a nominal value under the restrictions and conditions under which the Property is being conveyed. The reason is that the costs associated with structural, life safety, and historical preservation improvements required to bring the Rotunda Building to a leaseable standard exceed the warranted investment supported by the achievable income.

II. NATURE OF THE ASSIGNMENT

A. Purpose of the Appraisal

The purpose of this reuse appraisal is to estimate the fair reuse value for the Property being conveyed to the Developer, Rotunda Partners I (RPI), based upon the covenants and the conditions included in the DDA. The covenants and conditions strongly affect the development economics of the project and hence the value of the Property, as described in this report.

The reuse value specifically requires compliance with the limiting conditions and assumptions of this report as stated in Section VI.

B. Definition of Value

Fair reuse value is the fair market value in accordance with covenants, conditions, and easements governing the sale of the Property as contained in the DDA. (The key provisions of the DDA, related to quality of development, timing and non-speculation, that affect the reuse value are highlighted throughout this report.) It is the highest price in dollar terms which the Property would be expected to bring for the specified purpose in a competitive and open market under the reuse conditions established by the Agency, with the buyer (Developer) and seller (Redevelopment Agency) each acting prudently and knowledgeably, assuming the price is not affected by undue stimulus. Also essential to an estimate of a fair reuse value is the notion that the conveyance of the Property will result in near-term development, not speculation, with strict limitations on resale prior to completion of development in accordance with the DDA.

Implicit in this definition is the consummation of a sale or lease as of a specified date under conditions whereby:

1. Both parties are well informed and well advised, and each acting prudently in what it considers its own best interest.

2. Financing, if any, is on terms generally available to this Developer for the use proposed at the date the Property is ready for development. The reuse value represents a normal consideration for the Property sold, unaffected by special financing amounts and/or terms, services, fees, costs, or credits incurred in the financing transaction.

3. The definition of reuse value is further augmented due to certain conditions imposed by the Agency, and assumptions as follows:

    a. The seller is a public agency having definite controls over the development. Due to the complexity of the overall plan of development, the developer of the land parcel must contend with a series of regulations and controls which are not common in the conventional real estate market.

b. The Developer, like the Agency, is unique in the real estate market. Due to the various development requirements and time restrictions imposed by the development program, the potential developers are limited to individuals or organizations with adequate financial and productive resources. In order to appeal to the limited market of potential buyers, market value must be equated to the maximum price a restricted and limited market is warranted in paying based upon risk and investment return factors.

c. The development plan can impose development restrictions and/or requirements, including that development must commence shortly after conveyance. Accordingly, the market value must reflect the advantages created by the project as well as the requirements and limitations on land uses to be imposed on the developer by the public agency.

4. The Agency will convey the Property to the Developer based upon the specific terms and conditions agreed to in the DDA.

5. Development will proceed in a timely manner as agreed to in the DDA, i.e., speculation is not allowed.

C. Rights Appraised

The rights appraised assume that the Property is free and clear of all encumbrances except those covenants, conditions, and easements specified in the DDA.

D. Function of this Report

It is understood that this report will be used to establish a fair reuse value for the Property subject to the covenants and conditions in the DDA, specifically the reuse conditions stated in this report.

III. DESCRIPTION OF EXISTING ENVIRONS

The Rotunda Building is located within the Central District Redevelopment Area in Downtown Oakland. The Property is bounded by San Pablo Avenue to the west, 16th Street to the north, Broadway to the east, and 15th Street (Kahn's Alley) to the south. The Oakland City Center Development, bounded by 14th Street, Broadway, 11th Street, and Castro Street, lies to the south and west of the Property. Office uses predominate in the immediate vicinity of the Property and include, in addition to the City Center Development, the 21-story Tribune Tower, the 18-story First Interstate Bank Building, and the 15-story Central Bank Building. The frontage along Broadway includes a variety of ground floor retail uses and services, such as clothing stores, cafes, and financial institutions.

The proposed use is in conformance with the Central District Redevelopment Plan, which provides for general retail and office uses on the site. The proposed project will further the purposes and objectives of the Redevelopment Plan in the following respects:

- Strengthening of the area's existing role as an important office center for administrative, financial, business service, and governmental activities;

- Revitalization and strengthening of the Oakland Central District's historical role as the major retail center for the metropolitan Oakland Area.

- Restoration of historically significant structures within the Project Area;

- Improvement of environmental design.

In addition, it is also anticipated that the project will provide a catalyst for additional private investment in the downtown core.

IV. DESCRIPTION OF THE PROPERTY AND PROPOSED DEVELOPMENT

A. *Description of the Subject Property*

1. Ownership

The Property is currently owned by the Agency.

2. Property Description

The Property is flat, irregular in shape, and has frontage on Broadway, 16th Street, San Pablo Avenue, and 15th Street (Kahn's Alley). The existing improvements will be rehabilitated in a manner consistent with historic preservation standards. The land area is approximately 1.2 acres or 51,800 sq. ft.

3. Access

Access is excellent with direct access to the Property provided from San Pablo Avenue, Broadway, and 16th Streets.

4. Soil and Hazardous Materials

This analysis presumes that the soils conditions are adequate for the proposed project.

5. Public Utilities

For the purpose of this analysis, it is presumed that existing water, storm drain, and sewer services are adequate to serve the proposed project or will be improved by the Developer or Agency, as applicable, in accordance with the allocation of improvement costs established in the DDA.

6. Zoning

The current zoning for the Propoerty permits the proposed project.

7. Condition of Property

The Agency will convey the Property in "as is" condition pursuant to the terms and conditions of the DDA.

B. Proposed Development

As required by the DDA, the proposed development is a high quality rehabilitation of a former department store, originally built in 1913 and expanded in 1934, into a mixed use commercial retail and office building. The renovation of this historic building will include approximately 156,000 rentable sq. ft. of office space and 72,000 rentable sq. ft. of retail space.

No parking can be accommodated on-site. Parking will therefore be located at adjacent parking lots owned by the City as follows:

- The City will allow up to 50 spaces in the Dalziel Garage to be used for long-term monthly parking for Rotunda Building office tenants.
- The Agency will construct improvements to the existing Agency–owned surface parking lot at 16th Street and San Pablo, including paving, striping, fencing, lighting, and signage.

Short term parking in these two facilities shall be at market rate, provided that the Agency and City shall institute a validation program for patrons of Rotunda Building retail establishments. The Agency shall lease the 16th/San Pablo lot to RPI on a month-to-month basis. Net revenue from the 16th/San Pablo lot shall be used to fund the validation program and the Agency will fund any validation costs that are not covered by this revenue stream.

In the future, the City will make a good-faith effort to develop a 400+ space parking garage in close proximity to the site to meet the permanent parking requirements for the project.

V. VALUATION

The purpose of this analysis is to establish the reuse value of the Property being conveyed to the Developer, subject to the specific development program identified. The fair reuse value is the fair market value for a developable site subject to the specific terms and conditions of the Disposition and Development Agreement ("DDA") that control the reuse of the Property.

The valuation of real estate is derived principally through three approaches to market value: the cost approach, the market data comparison approach, and the income approach. From the indications of these separate analyses and the weight accorded each, an opinion of value is reached, based on the quantity and quality of the factual data considered, tempered by the judgment and experience of the appraiser who is utilizing commonly accepted methods and techniques within the framework of the appraisal process. The cost approach is not applicable due to the fact that this appraisal is a valuation of an undeveloped parcel of land.

The market data comparison approach to value is based upon the principle of substitution; that is, when a property is replaceable in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming no costly delay in making the substitution. The typical appraisal technique used to estimate value through substitution involves the collection and analysis of sales and listings data on various properties having as many similar characteristics as the property being appraised.

For this analysis, the use of sales comparables is limited by the fact that although there have been a number of recent sales of historic buildings in downtown Oakland, few if any of these sales are truly comparable. Based upon information made available to KMA by the Agency and Developer, the costs to perform the necessary code requirements and the costs to rehabilitate this historic building are very high. Therefore, the high costs, the size of the building, and the requirement to preserve the historical integrity of the structure causes the Rotunda building to be unique in the marketplace. It is therefore difficult to adjust existing sales to make them truly comparable. Consequently, primary reliance in establishing the reuse value has been placed on the use of the income approach to value.

The income approach is based on the income and cost characteristics of the proposed project. For the purpose of determining the reuse value, the reuse value is defined as the difference between the cost to rehabilitate the project, excluding land, and the total amount the Developer (or investor) can afford to invest. The amount the Developer can afford is based upon the projected net operating income revenue generated by the project, the present and anticipated cost to finance debt, and the required rate of return on equity.

This section of the report presents the estimates of the development costs and revenues and the assumptions made to determine these estimates.

A. Development Costs

Overall, it is important to note that the Developer is responsible for the historic preservation of a landmark building. A range of estimated development costs have been produced to reflect the costs to meet these requirements. The range of construction cost projections is based upon cost data submitted by the Developer and ARCS, both of which have been reviewed by the Agency for reasonableness. The cost estimates are presented in Table 1. The ARCS estimate includes indirect and financing costs provided by KMA. It should be noted that KMA has not performed a detailed review of the two estimates of direct costs and can make no claim as to their reasonableness.

As shown in Table 1, development costs, excluding parking and land, are estimated at between \$32.0 million and \$38.2 million. The major inputs behind the development cost estimates, excluding parking and land, are as follows:

- The range of direct construction costs is estimated at between \$19.6 million to \$23.2 million and can be broken down as follows:

    1. Demolition and seismic improvement costs are estimated at \$6.3 to \$7.3 million.

    2. Core and shell costs, including architectural, mechanical, and electrical improvements, are estimated to be \$10.0 to \$11.5 million.

    3. Tenant improvements have been calculated by both sources at \$5.9 million.

    4. An allowance for general conditions has been included at \$2.2 to \$2.4 million.

    5. A construction contingency has been included at \$1.0 to \$2.0 million.

- Indirect costs (exclusive of financing costs) are estimated by RPI at approximately \$3.79 million, and include architecture and engineering, legal/accounting, development management, and leasing fees. This equates to ± 15% of total direct costs. Based on the direct cost estimate submitted by ARCS, KMA projected indirect costs, exclusive of financing, at \$6.63 million, or 23% of direct costs.

- The financing cost estimates are based on construction financing at 9% for 24 months plus financing fees of 2 points. Financing costs, including fees and an allowance for negative cash flow during lease-up, are estimated at \$2.7 million by RPI and \$2.4 million by ARCS/KMA.

The range of total project costs for the Rotunda Building can be summarized as follows:

	RPI	ARCS/KMA
Direct Costs	$25.50 million	$29.12 million
Indirect Costs	$3.79 million	$6.63 million
Financing Costs	$2.59 million	$1.43 million
Negative Cash Flow During Lease-up	$0.15 million	$1.00 million
Total (Rounded)	$32.00 million	$38.18 million

B. Net Operating Income

The revenue and expense projections applied in the KMA analysis are based market comparable data for office and retail space. The projections reflect stabilization in Year 6 of the Project.

The stabilized net operating income (NOI) for the Project, including retail rent revenues, is calculated in Table 2. The NOI calculation is based on the following:

1. Gross potential income (GPI) is based on a range of rental values determined by the timing of lease-up and escalated 2.5% per year, as follows:

   a. The pre-leased portion of office space, estimated by RPI at 57,750 sq. ft., generates slightly sub-market rents of $17.00 per sq. ft. per year. This initial rent discount is given as an incentive to tenants to sign leases prior to completion of the Project. Subsequent lease-up following completion of building renovation generates office rents of $20.00 to $21.00 per sq. ft.

   b. Major retail tenants, or anchor tenants, are assumed to pay rents slightly lower than the market comparable retail rent of $11.00 per sq. ft. per year. This rent discount is used to entice desirable retailers to occupy space and thereby catalyze additional retail tenancies.

   c. Restaurant space of 10,350 sq. ft. has been included at rents of $15.80 per sq. ft. per year. This rent has been escalated 2.5% per year to reflect a later lease-up schedule (e.g., beginning in Year 4).

   d. Shop space rents are also slightly higher than anchor tenant rents and reflect a 2.5% per year escalation to account for lease-up in later years (e.g., Year 4). Approximately 11,500 sq. ft. has been designated as shop space in this analysis at a stabilized year rent of $14.50 per sq. ft. per year.

2. Total GPI in Year 6 equals $3.9 million, or an average of $17.04 per sq. ft.

3. An allowance for vacancy and collection has been included at 5% of GPI, or $200,000. Deducting this allowance from GPI results in a gross effective income (GEI) of $3.7 million.

4. Operating expenses include operations and maintenance, property taxes, insurance, and a reserve contingency. Given the historic character of the Rotunda and the inefficiency of the floor plan (i.e., rentable vs. gross square footage), we have assumed that operating expenses will run at the high end of the range for typical mid-rise office buildings in downtown Oakland, if not higher. Therefore, the analysis includes an operating expense estimate of $9.65 per sq. ft. per year in the first year of stabilization. This analysis further assumes that retail tenants will be responsible for operating expenses up to a cap of $9.50 per sq. ft. Any additional expense will be absorbed by the Landlord.

5. Deducting operating costs of $1.47 million from GEI results in a net operating income of $2.23 million in the first stabilized year, as shown in Table 2.

C. Residual Land Value

Based on the previous estimate of project costs (excluding land) and stabilized revenues, the residual land value was calculated using two approaches, as presented in Table 3.

The first approach used to determine the appropriate property value is based on the project's value upon completion of construction. Given the risks associated with both the extensive structural and seismic rehabilitation and the proposed mix of tenants, a 9.0% market capitalization rate is used to determine the value of the project upon completion. Applying a 9.0% capitalization rate to the stabilized income results in a value upon completion of approximately $24.72 million. When this value is reduced by (1) the estimated development costs (as estimated by the Developer, net of $4.0 million of historical tax credits and the Agency $11.0 million loan) of $17.0 million, (2) the present value of the Developer's repayment of the Agency loan (presumes sale price is discounted to reflect future obligation to repay Agency loan), (3) an imputed cost of sale at 3% of value equal to $740,000, and (4) a 12% development profit of $2,970,000, the result is negative, i.e., the land and structure have no value. If the actual costs exceed those provided by the Developer, the negative value upon completion would be even greater.

The second approach is based on the assumption that the Developer maintains long-term ownership of the project. To determine the investment warranted, this approach considers the Developer's required return on total investment based on today's real estate investment environment. Given current market conditions and the nature of this development, it is assumed that the stabilized cash-on-cash requirement would not be less than 12%.

Assuming a 12% cash-on-cash rate of return and net income of approximately $2.23 million, the second valuation approach generates a supportable investment of $18.54 million as shown in Table 3. Inasmuch as this supportable (or warranted) investment of $18.54 million is less than (1) $17 million of required investment (net cost) plus (2) the present value of the Developer's repayment of the Agency loan, the land and structure have no value for the proposed project. Should the actual cost exceed those estimated by the Developer, the returns would be substantially lower.

D. Reuse Value

The analysis of the development economics of the proposed project would lead KMA to conclude that, under the conditions and assumptions that this analysis was conducted, the subject Property only has a nominal value. In addition, KMA's analysis would clearly suggest that the project economics would have to improve substantially before the property would have any value.

This conclusion is based on the costly structural and life safety improvements and the incentives (low rent and tenant improvements) required to attract the retail and office tenants. Thus, even with the $11.0 million Agency loan, and the nominal acquisition price of the property, the project economics remain difficult.

TABLE 1

TABLE 2

TABLE 3

VI. CONCLUSIONS AND LIMITING CONDITIONS

A. Opinion of Value/Conclusion

The analysis summarized herein is based on the scope of development and restrictions/conditions contained in the DDA. California State Redevelopment Law allows the Agency to establish a land value for specific development that takes into account the numerous requirements imposed on the development and the Developer. Thus, the estimate of the reuse value by KMA is valid only if the scope of development, type of use, quality standards, timing of development, and other Agency requirements, as set forth in the proposed agreement, are met. In the event significant modifications are made to any of the conditions affecting the development of the Property, KMA's conclusion as to the fair reuse value would no longer be valid.

The value determined as being fair compensation for the land being sold to the Developer is based on the estimated project costs and income, anticipated financing, and the requirements imposed by the Agency. Based on the analysis discussed in the previous section of this report, it is our opinion that as of June 8, 1998, the fair reuse value of the Property under the restrictions and conditions under which the land is being conveyed is nominal.

B. Statement of Limiting Conditions and Assumptions

The conduct of any appraisal is necessarily guided, and its results influenced, by the terms of the assignment and the assumptions which together form the basis of the study. The following conditions and assumptions, together with lesser assumptions embodied in this report, constitute the framework of our analysis and conclusions.

The reuse value presumes compliance with the following reuse conditions and requirements of the DDA received by KMA on May 22, 1998. If the reuse conditions are changed, then the reuse value is subject to change. Four of the more important conditions are listed below

1. That the Property be rehabilitated for reuse as a mixed use office and retail building.

2. That the rehabilitation will be of high quality consistent with historic preservation standards and the intent of the Development Agreements.

3. That the development program and physical design remain fundamentally the same as described in this analysis.

4. That the construction begins in a timely manner, i.e., speculation is not allowed.

It is assumed that the title of the Property is good and marketable. No title search has been made by KMA, nor have we attempted to determine the ownership of the land. The value estimates are given without regard to any questions of title, boundaries, encumbrances or encroachments. It is assumed that all assessments, if any, are paid.

We assume that the subject Property will be in conformance with the applicable zoning, building, and redevelopment ordinances over the economic life of the Property.

Information provided by such informed local sources as the Redevelopment Agency, governmental agencies, financial institutions, realtors, buyers, sellers, and others was weighed in the light in which it was supplied and checked by secondary means; however, no responsibility is assumed for possible misinformation.

The appraiser is not required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been previously made therefor.

No one other than the undersigned prepared the analysis, conclusions and opinions concerning real estate that are set forth in the appraisal report.

VII. CERTIFICATION

We hereby certify that neither Keyser Marston Associates, Inc. nor any of its officers have present or prospective interests in the property appraised; that our employment is not contingent in any way upon the value reported; that we personally inspected the property and the environment; that the statements made and the information contained in this appraisal report are true, to the best of our knowledge and belief.

Respectfully submitted,

KEYSER MARSTON ASSOCIATES, INC.

Denise E. Conley