

Proposed Menlo Gateway Project Development Agreement Term Sheet



**Presentation to
City Council –
April 6, 2010**

Availability of Final Environmental Impact Report (FEIR) and Fiscal Impact Analysis

More Information.....

Copy Available at Main Library

On the web.....

www.menlopark.org/projects/comdev_iac.htm

Next Public Hearing.....

Planning Commission – Monday, April 19

Presentation Overview

- Meeting Purpose
- Project description
- Development review process and next steps
- Development Agreement Negotiation Process
- Development Agreement Terms
- Independent Financial Analysis
- Staff Recommendations
- Questions

Project Description – Project Proposal

Actions for Future Consideration

- ❖ General Plan Amendment
- ❖ Zoning change to M3 Commercial Business Park
 - ❖ Increases Floor Area Ratio from 45% to 137.5% max
 - ❖ Increases height limit from 25 to 140 feet
 - ❖ Allows hotel, office, retail, and other uses
- ❖ Certification of the Final EIR
- ❖ Approval of a Development Agreement
- ❖ Approval of a Conditional Development Permit

Project Description – Site Plan



Independence Site – Existing Conditions



Project Description – Independence Site



Proposed Land Uses

Hotel – 230 Rooms, 11 Stories

Club Sport – 68,500 Sq.Ft., 2 Stories

Office – 200,000 Sq. Ft., 8 Stories

Parking – 1,230 Spaces, 6 Levels

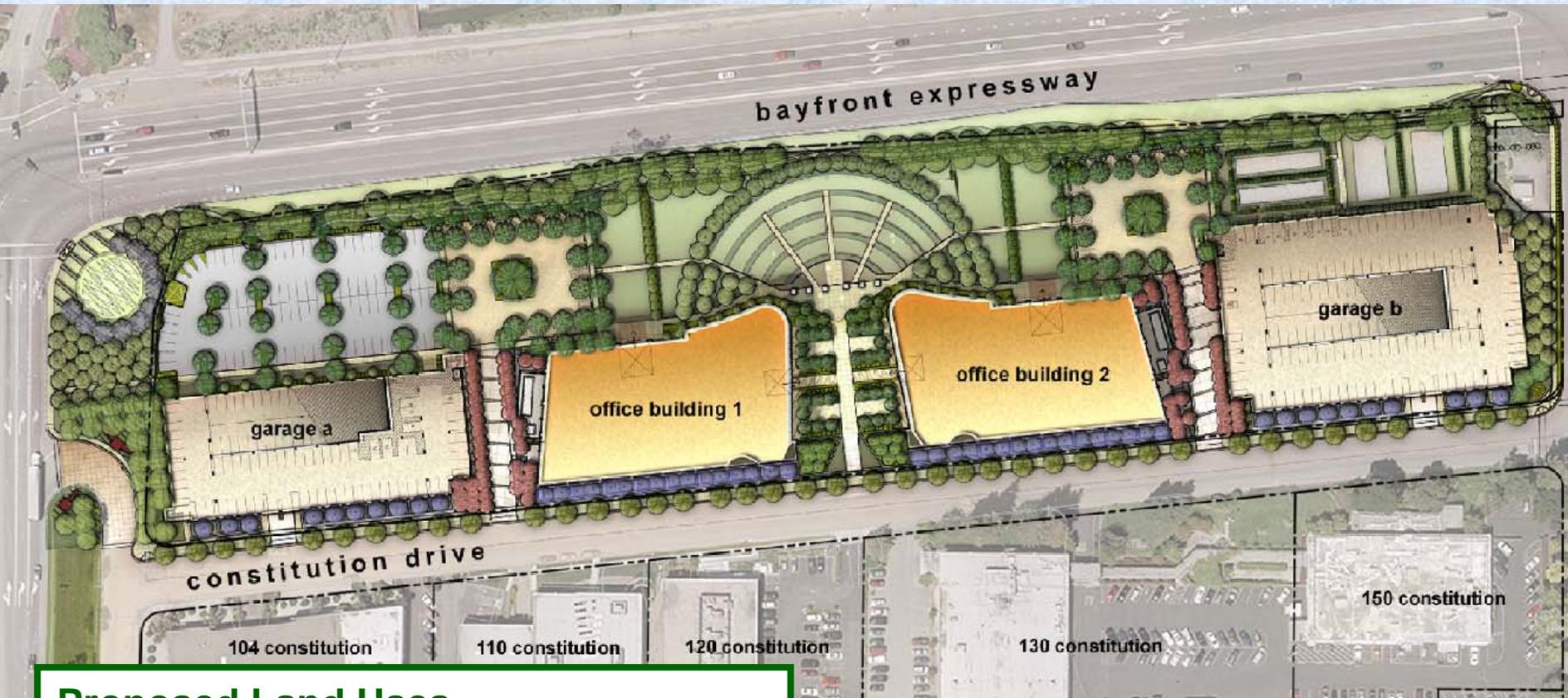
Independence Site - Architecture



Constitution Site – Existing Conditions



Project Description – Constitution Site



Proposed Land Uses

Office 1 - 247,335 Sq. Ft., 8 Stories

Parking A - 701 Spaces, 6 Levels

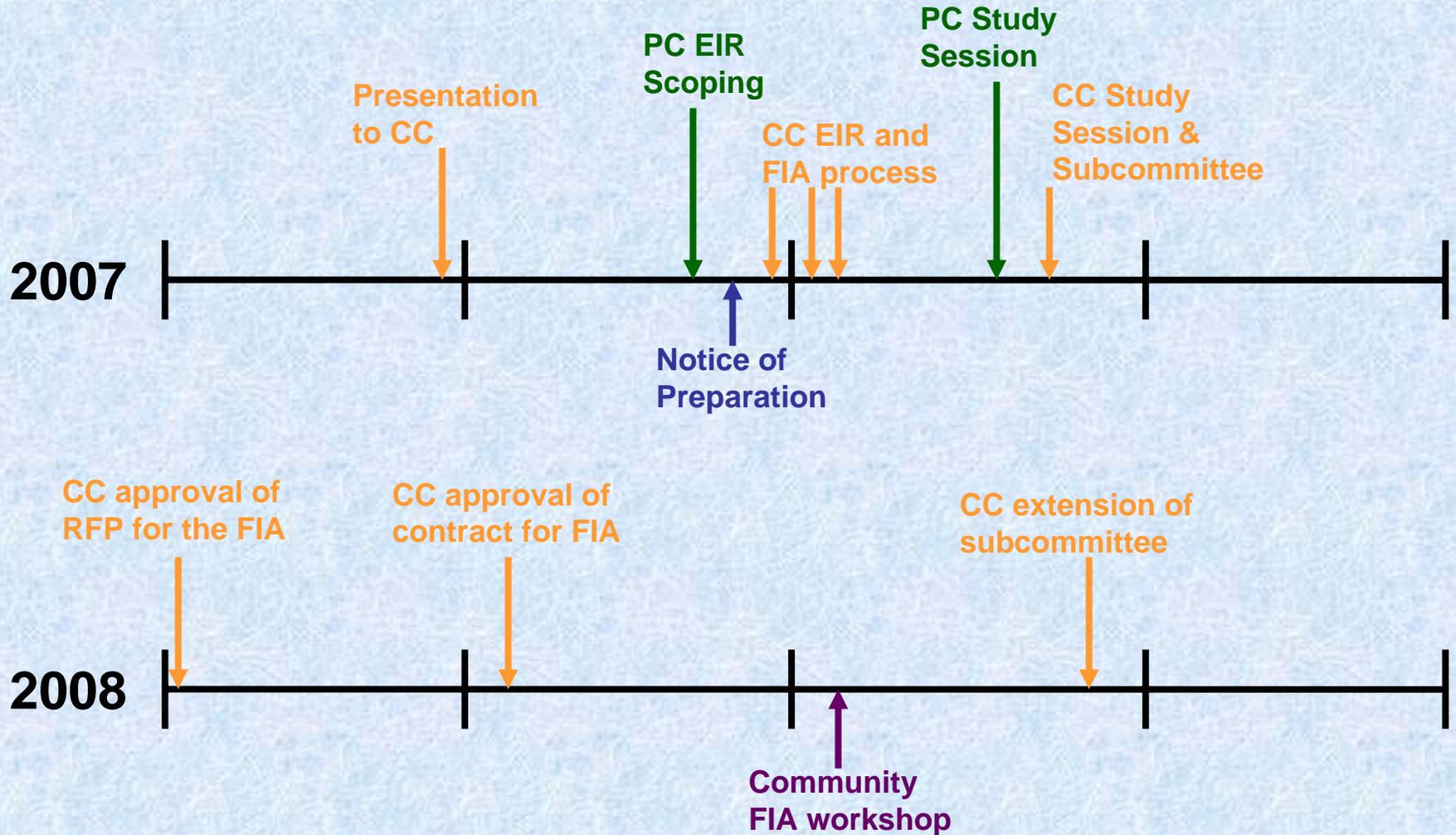
Office 2 - 247,335 Sq. Ft., 8 Stories

Parking B - 803 Spaces, 5 Levels

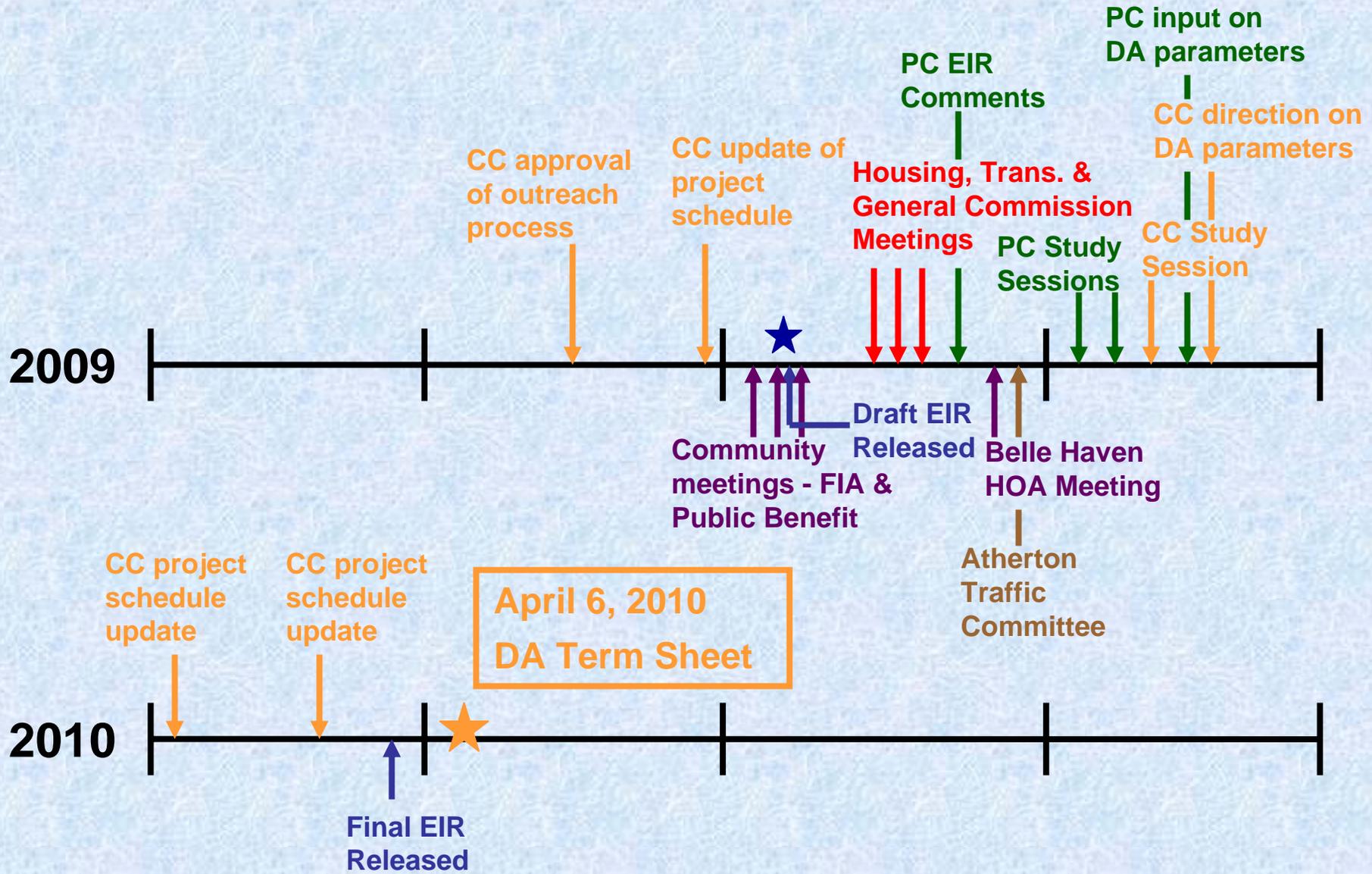
Constitution Site - Architecture



Menlo Gateway Process Timeline

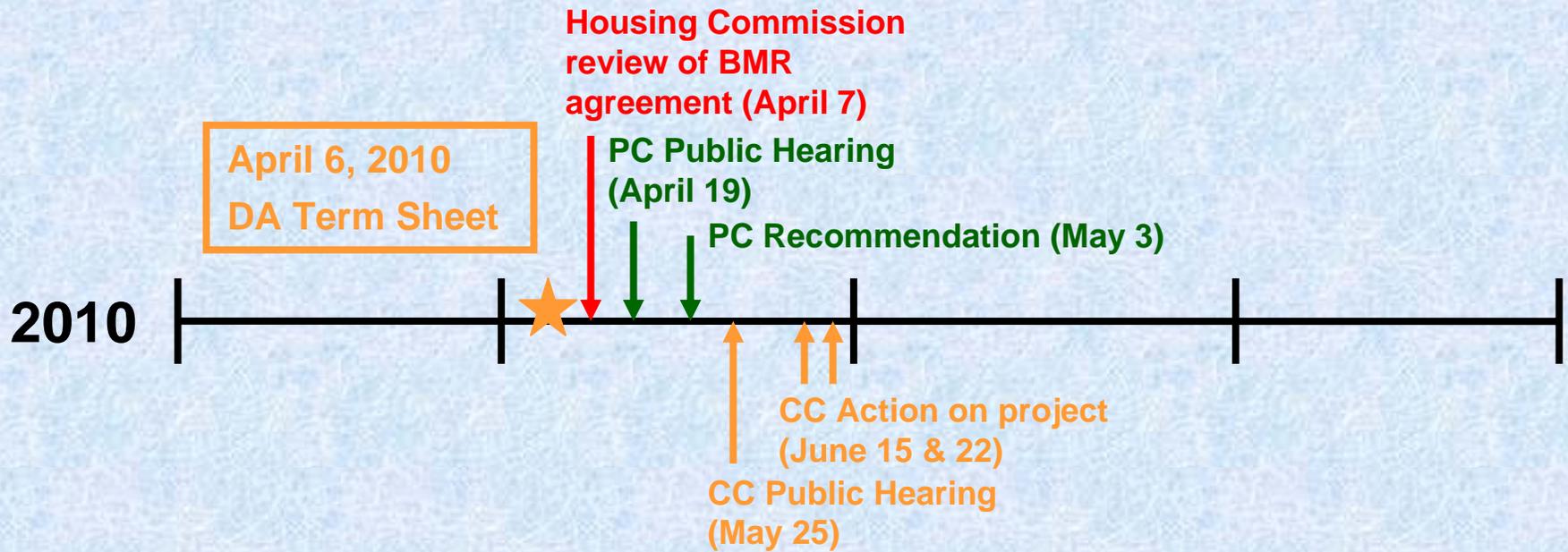


Menlo Gateway Process Timeline (Cont.)



Menlo Gateway Process Timeline (Cont.)

Next Steps....



Negotiating Development Agreement Terms

- Council developed a list of caveats in November to frame the City's negotiating position
- Staff developed list of terms to be negotiated based on Council input
- Regular consultation with Council Subcommittee
- Independent financial analysis
 - Hotel – Suzanne Mellen, HVS Consulting
 - Office – Robby Perrino, Cushman & Wakefield
- Negotiation Process - Development Agreement is limited to what's acceptable to both parties

Development Agreement Parameters

(Based on Council Input)

Highest Priority Items (not in order of priority)

- ❖ **Timely guaranteed revenue**
- ❖ **Substantial vehicle trip reduction**
- ❖ **Substantial reduction in greenhouse gas emissions**
- ❖ **Limits on transferability without City approval**
- ❖ **Reasonable limits on the time for construction - Hotel in 1st phase**
- ❖ **Improvement to the footprint & aesthetics of the parking structures**
- ❖ **Priority hiring program for Menlo Park residents**
- ❖ **Commitment to pursue LEED gold for office and silver for hotel**

DA Parameters Continued.....

Other Priority Items

- ❖ Improving bike and pedestrian connection to and from the Belle Haven neighborhood and in the Marsh Road corridor
- ❖ Land for housing
- ❖ Increased revenue beyond FIA projections
- ❖ Undergrounding of transmission lines
- ❖ Developing a vision for the Menlo Park waterfront area
- ❖ Enhancing Bayfront Park
- ❖ Providing retail services or child care on-site or nearby
- ❖ Additional public benefits such as bus shelters and youth programs

Proposed Development Agreement Terms

1) Quality Hotel

- Intent to construct Marriott Renaissance ClubSport
- If Marriott infeasible - four star, full service, hotel quality or higher with comparable TOT revenues
- Hotel must be built before or concurrent with office

Important Considerations

- Assures City of TOT revenue potential based on the quality of the proposed hotel

Proposed Development Agreement Terms

2) Revenue Guarantee

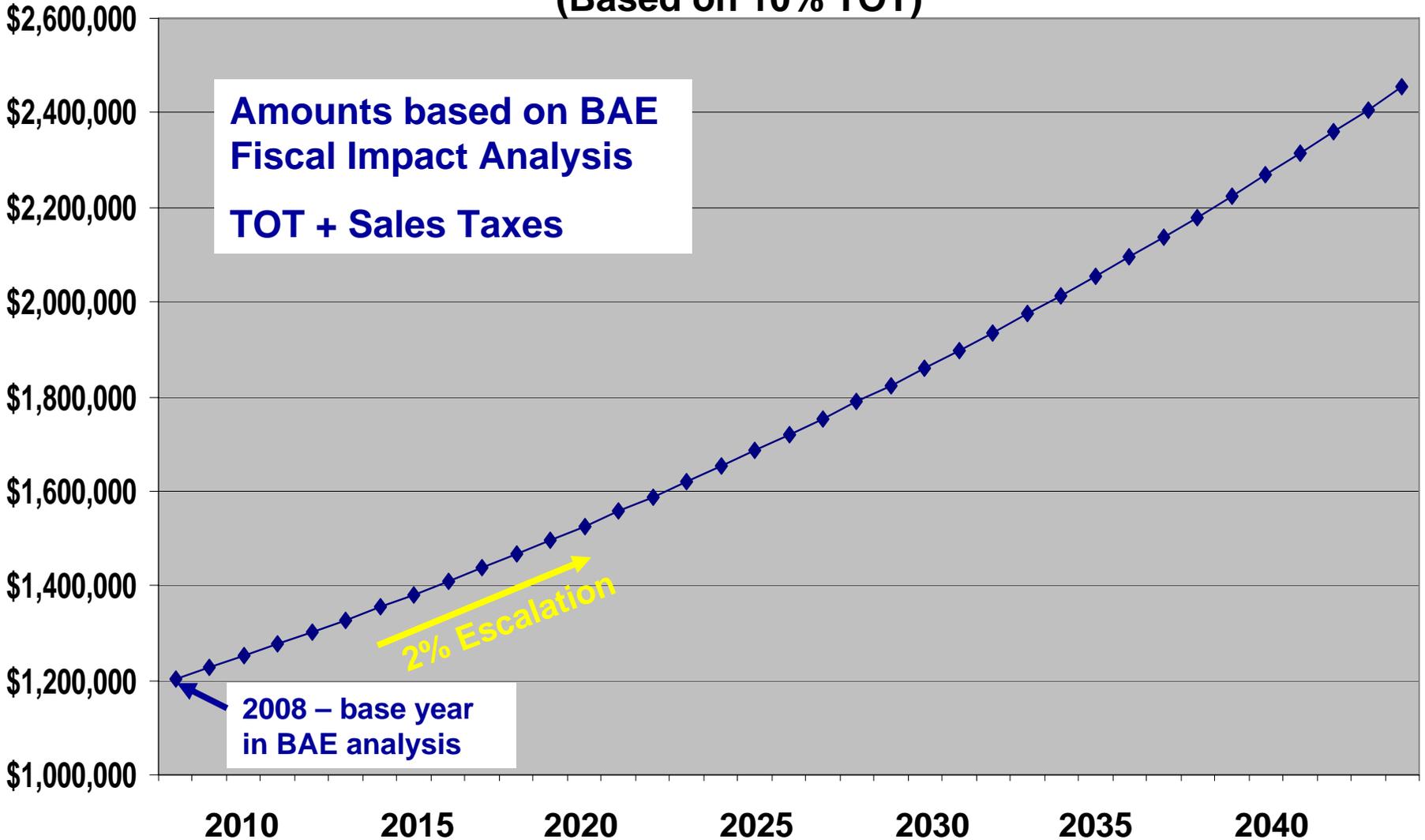
- Revenue target for TOT and sales taxes based on \$1.2 Million in 2008 and escalating 2% per year
- Guaranteed revenue starts three years after hotel opens
- Annual payments required up to \$225,000 per year if actual revenue falls below targets – continues for 20 years
- Revenue guarantee ends early if development rights to Constitution site offices expire

Important Considerations

- Encourages sales tax producing tenants in office space
- Protects City against poor performance of hotel

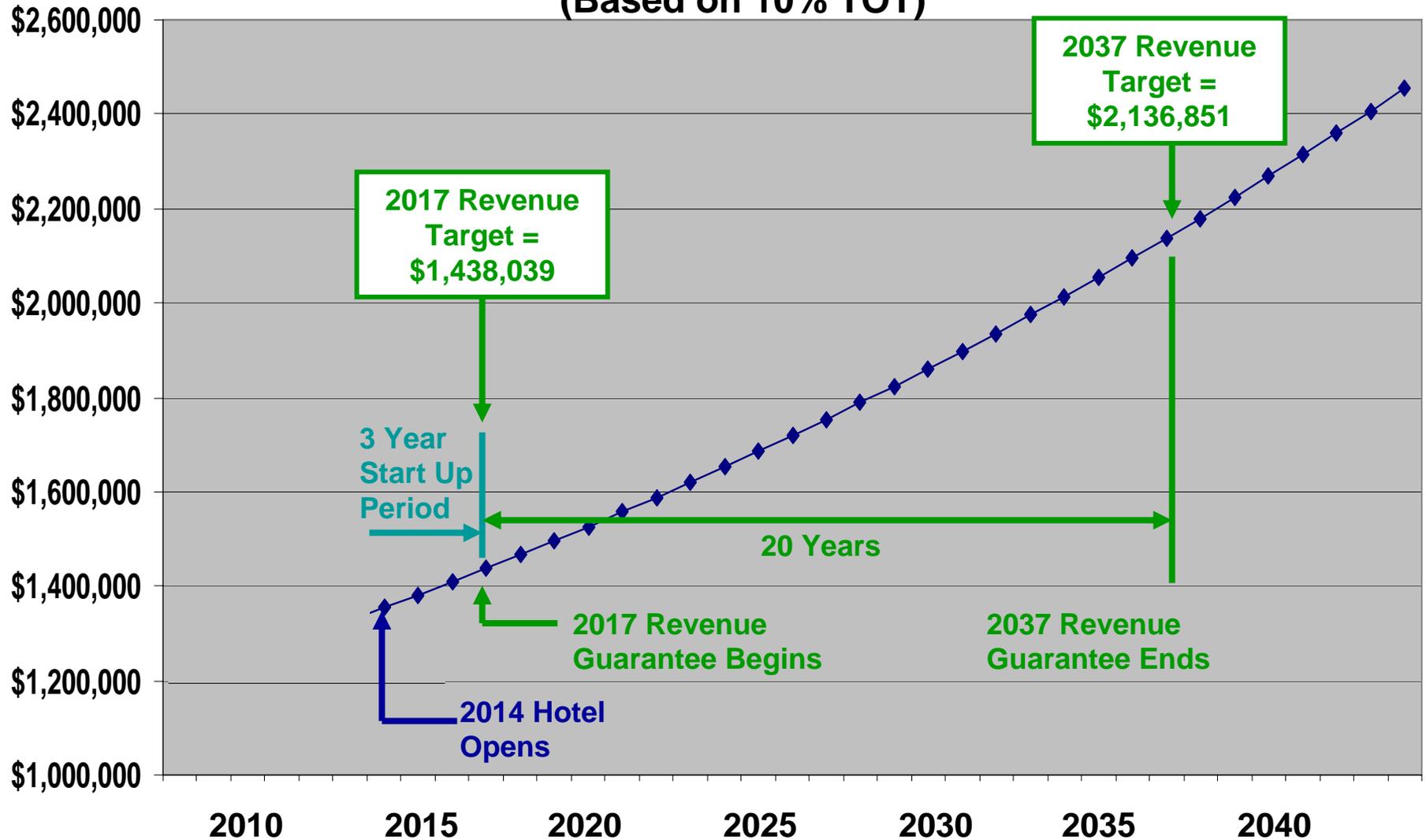
Revenue Target for Revenue Guarantee

(Based on 10% TOT)



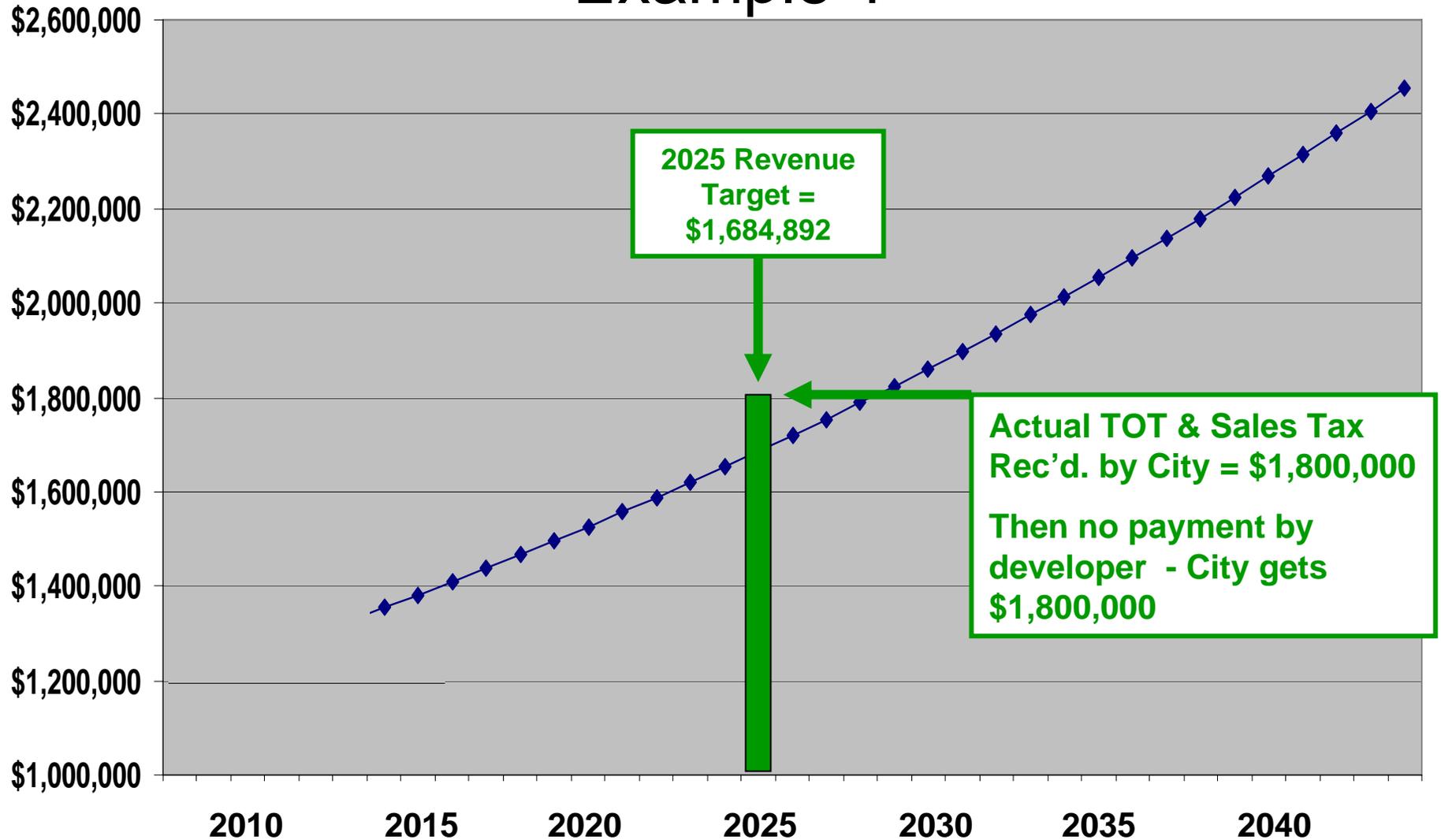
Revenue Target for Revenue Guarantee

(Based on 10% TOT)



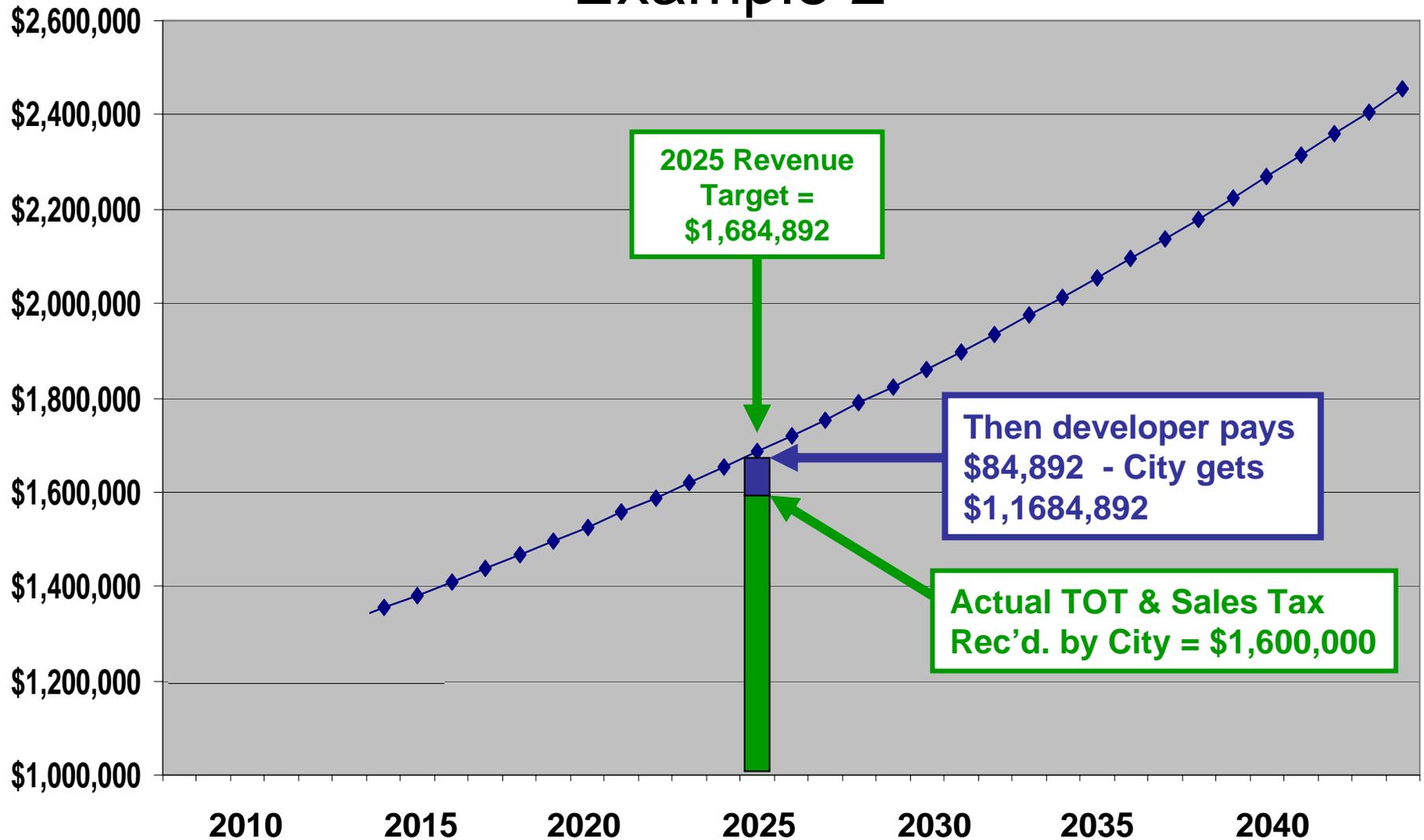
Revenue Target for Revenue Guarantee

Example 1



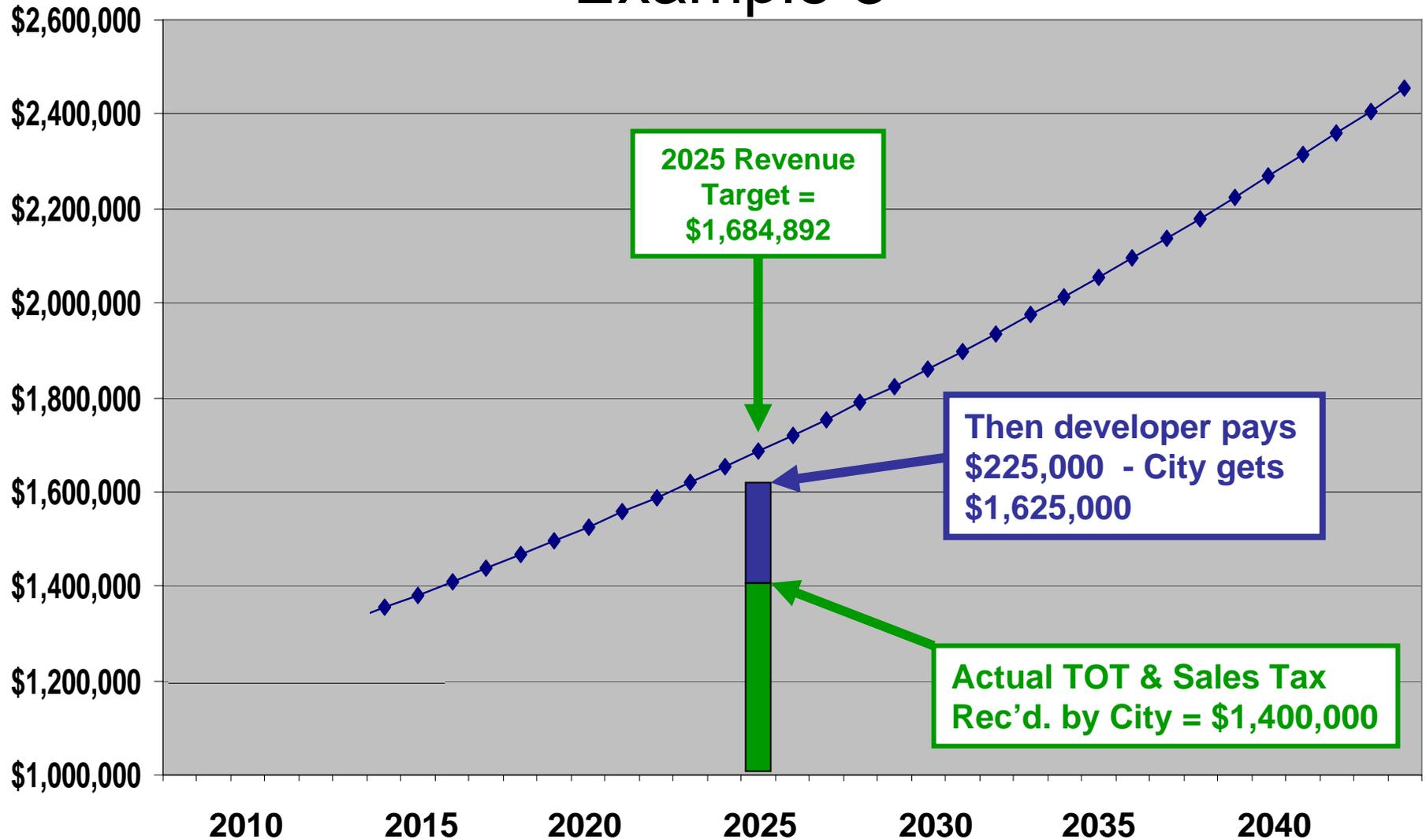
Revenue Target for Revenue Guarantee

Example 2



Revenue Target for Revenue Guarantee

Example 3



Proposed Development Agreement Terms

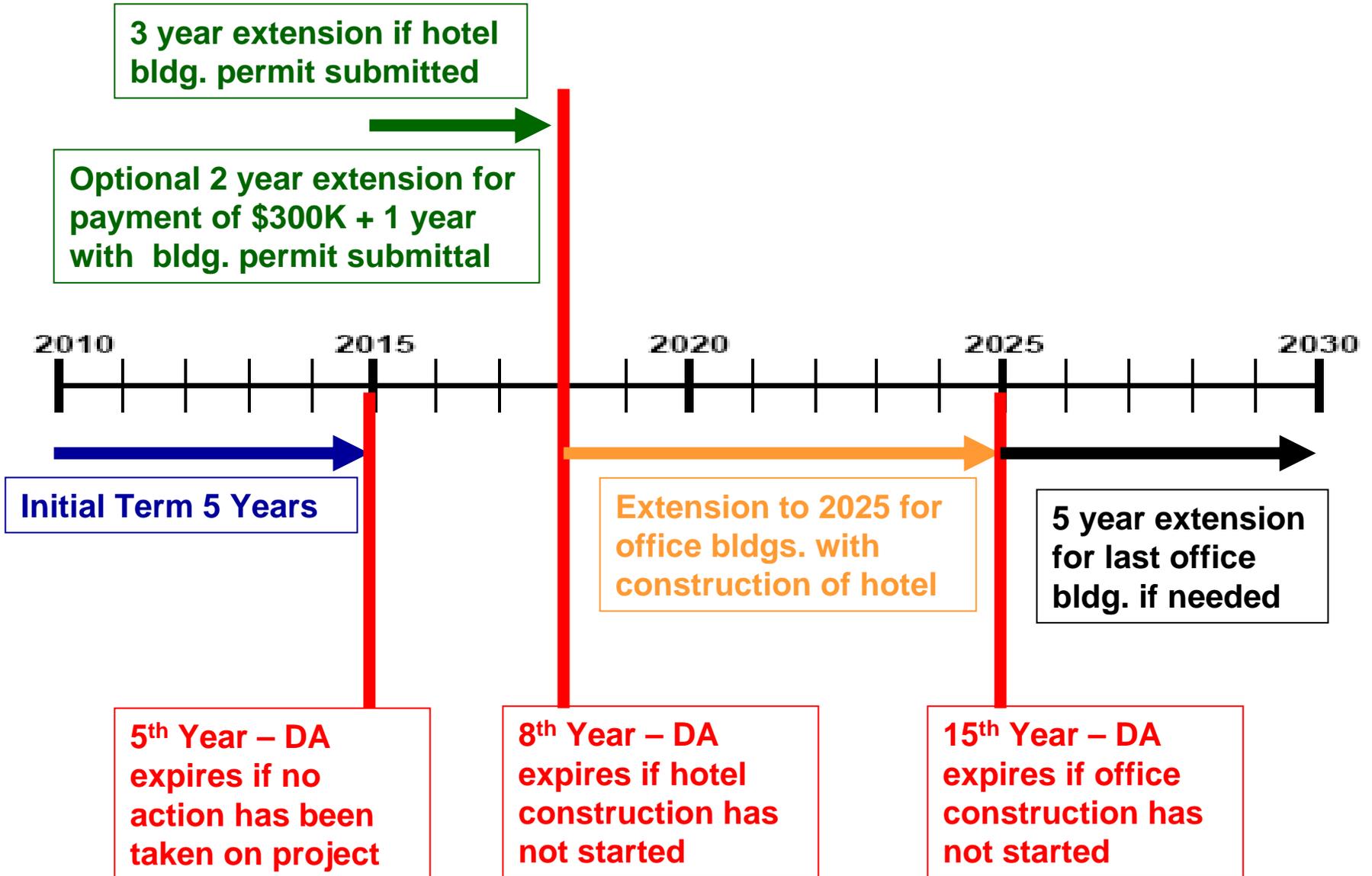
3) Term of the Agreement

- Initial 5-year term with 3-year extension upon complete building permit application for hotel portion of project; or
- 2-year extension available for payment of \$300,000 with an additional 1-year upon complete building permit application for hotel portion of project
- Hotel construction must start within 8 years or Development Agreement terminates
- Construction of hotel extends rights to build offices to 15 years
- Offices may be phased with last office phase within 20 years

Important Considerations

- Allows a reasonable amount of time for economic recovery
- Creates incentives to proceed with the hotel portion of the project
- Office development cannot proceed in advance of hotel construction

Development Rights Timeline



Proposed Development Agreement Terms

4) Public Benefit Funding

- A. • **\$1 Million Public Benefit funding for capital improvements to be implemented by Bohannon**
 - **Indexed for inflation starting in 2010**
 - **Public benefit projects to be selected by City Council and allocated approximately:**
 - **50% to improvements in Belle Haven**
 - **50% to Bayfront Park or other recreation / trail projects**
 - **Projects to be completed prior to occupancy of the first office building on Constitution**

Important Considerations

- **Focuses public benefit funding on areas near the project site**
- **Maintains flexibility for City Council to make final decisions about how and where public benefit funding is spent**

Proposed Development Agreement Terms

- B. • Bohannon shall voluntarily increase the TOT from 10% to 11% for the life of the hotel (ends if citywide rates increase > 11%)
- Funds used as determined by the City Council for trip reduction, GHG reduction or other purposes

Important Considerations

- Provides funds for public benefits with first phase of construction
- Allows City to share in the upside potential of a successful hotel
- Generates revenue above the BAE fiscal projections for the life of the project

- C. • Bohannon shall provide a priority hiring program with JobTrain for Menlo Park residents

Proposed Development Agreement Terms

5) LEED Building Standards

- Office buildings designed to meet LEED Gold standards at time of registration
- Hotel designed to meet LEED Silver standards at time of registration
- Good faith efforts must be used to obtain final LEED certificates

Important Considerations

- Recognizes developer's commitment to exceed current environmental standards and reduces environmental impacts

Proposed Development Agreement Terms

6) Vehicle Trip Reduction

- Net new trips shall be reduced from 11,113 average daily trips to 9,242 (17% reduction)
- Annual monitoring by City after occupancy of the first Constitution office building
- Applicant shall pay an annual fee of \$100 (indexed to inflation) per daily trip for excess average daily trips after initial improvement plan

Important Considerations

- Allows project to meet current draft standards for GHG emissions from the Bay Area Air Quality Management District
- Stays in place for the life of the project even though EIR GHG analysis showed that trips could increase over time
- Reduces noise and air quality impacts

Proposed Development Agreement Terms

7) Greenhouse Gas Emission Reduction

- GHG emissions from the energy use of all building shall be reduced to carbon neutral by participating in PG&E Climate Smart Program or a similar offset program subject to City approval

Important Considerations

- Reduces emissions beyond current draft standards from the Bay Area Air Quality Management District
- Required for the life of the project

Proposed Development Agreement Terms

8) Permit Processing

- City will expeditiously process permits and future approvals for the project
- If the applicant is proceeding expeditiously, the City Manager may extend performance times up to a maximum of 180 days

Important Considerations

- Allows the project to move forward with some schedule flexibility if there are unforeseen delays

Proposed Development Agreement Terms

9) Land Use Vesting Rights

- Restricts the City from passing new laws that would restrict development rights under the Development Agreement

Important Considerations

- Standard term in development agreements to limit property owner / investor risk

Proposed Development Agreement Terms

10) City Fees

- City fees are fixed at current levels except those scheduled to rise based on indices, or new city-wide fees or taxes

Important Considerations

- Highest impact fees are currently Below Market Rate Housing and Traffic Impact Fees which are both indexed
- Utility Users Tax is not fixed and the project will pay the same rates as other Menlo Park properties
- New city-wide fees or taxes are applicable to the project

Proposed Development Agreement Terms

11) Project Modifications

- Improvements to the final appearance of parking structures are required and subject to staff approval
- Minor design changes that are substantially consistent with project approvals may be approved by the City Manager

Important Considerations

- Applicant is committed to improve the exterior appearance of the parking structures
- Concerns about the bulk and mass of parking structures raised by the Planning Commission have been addressed in revised submittals and will be reviewed by the Planning Commission

Proposed Development Agreement Terms

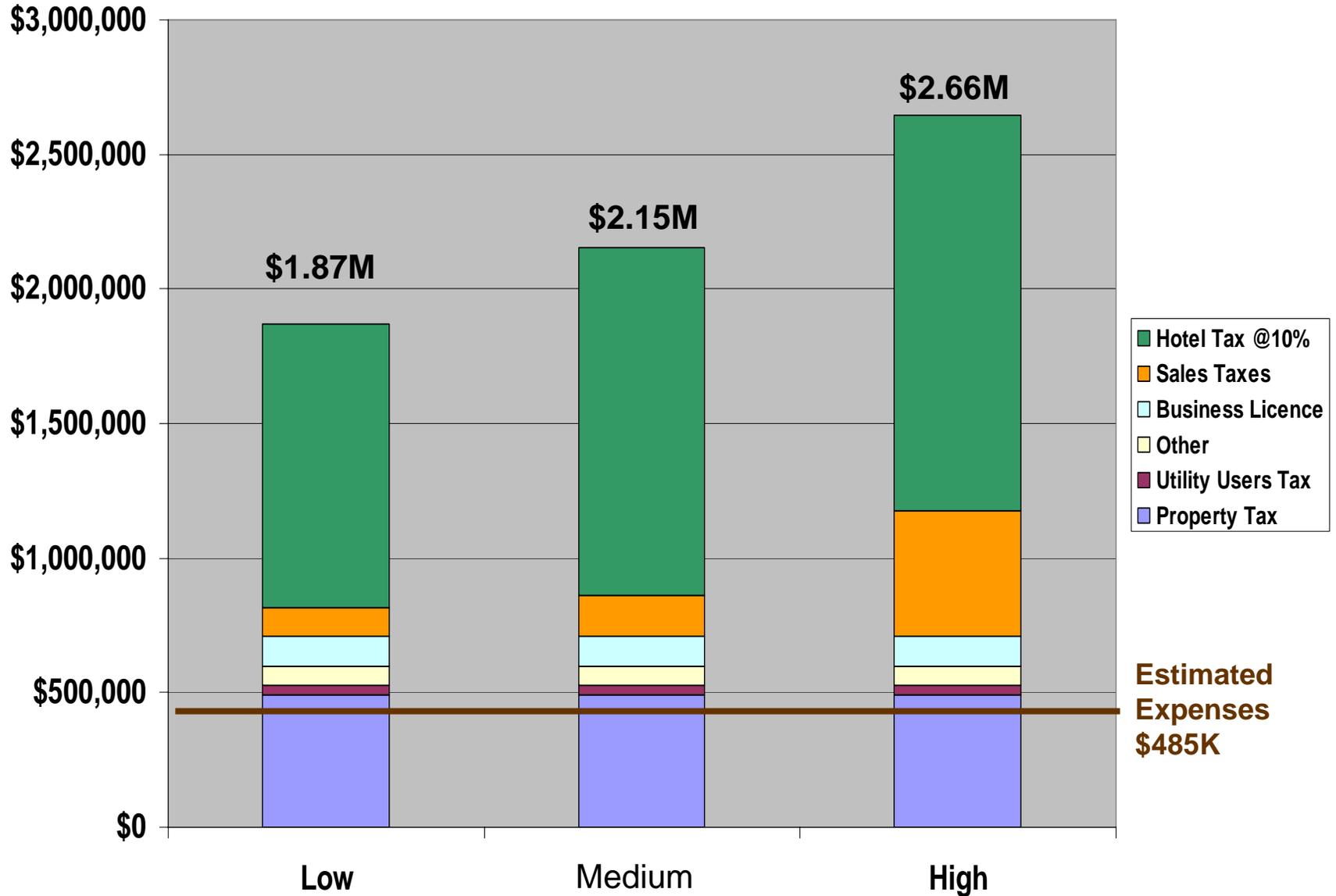
12) Transferability

- Transfer prior to completion of the hotel is limited and subject to City Manager approval based on objective standards in the Development Agreement
- Transfer after completion of the hotel is permitted subject to certain conditions without City approval
- Transfer is not restricted in case of foreclosure

Important Considerations

➤ All obligations of the Development Agreement such as environmental mitigations, public benefit payments, revenue guarantees, and conditions of approval would be assumed by a new owner

Annual General Fund Revenue Projection from FIA



(1) From BAE Consultants Fiscal Impact Analysis Dated July 1, 2009 (in 2008 \$)

Key Findings from HVS/Cushman & Wakefield Financial Analysis

- **Feasibility of the project depends on an improving economy**
- **A stand alone full-service hotel project could not be financed and is therefore infeasible**
- **Hotel, health club, office and restaurant uses all help support each other**
- **Total investment of capital to complete the project is approximately \$430 million**

Key Findings from HVS/Cushman & Wakefield Financial Analysis Continued....

- **Investment returns on the project are marginal when the value of the existing land is included**
 - **Typical internal rates of return on similar projects are 15%**
 - **City's expert analysis estimated approximately a 12.7% internal rate of return**
- **Long-term ownership of the project by Bohannon increases the chances that the project is financially feasible**
- **Granting land use entitlements is projected to increase the residual value of the property by up to \$23.8 million**

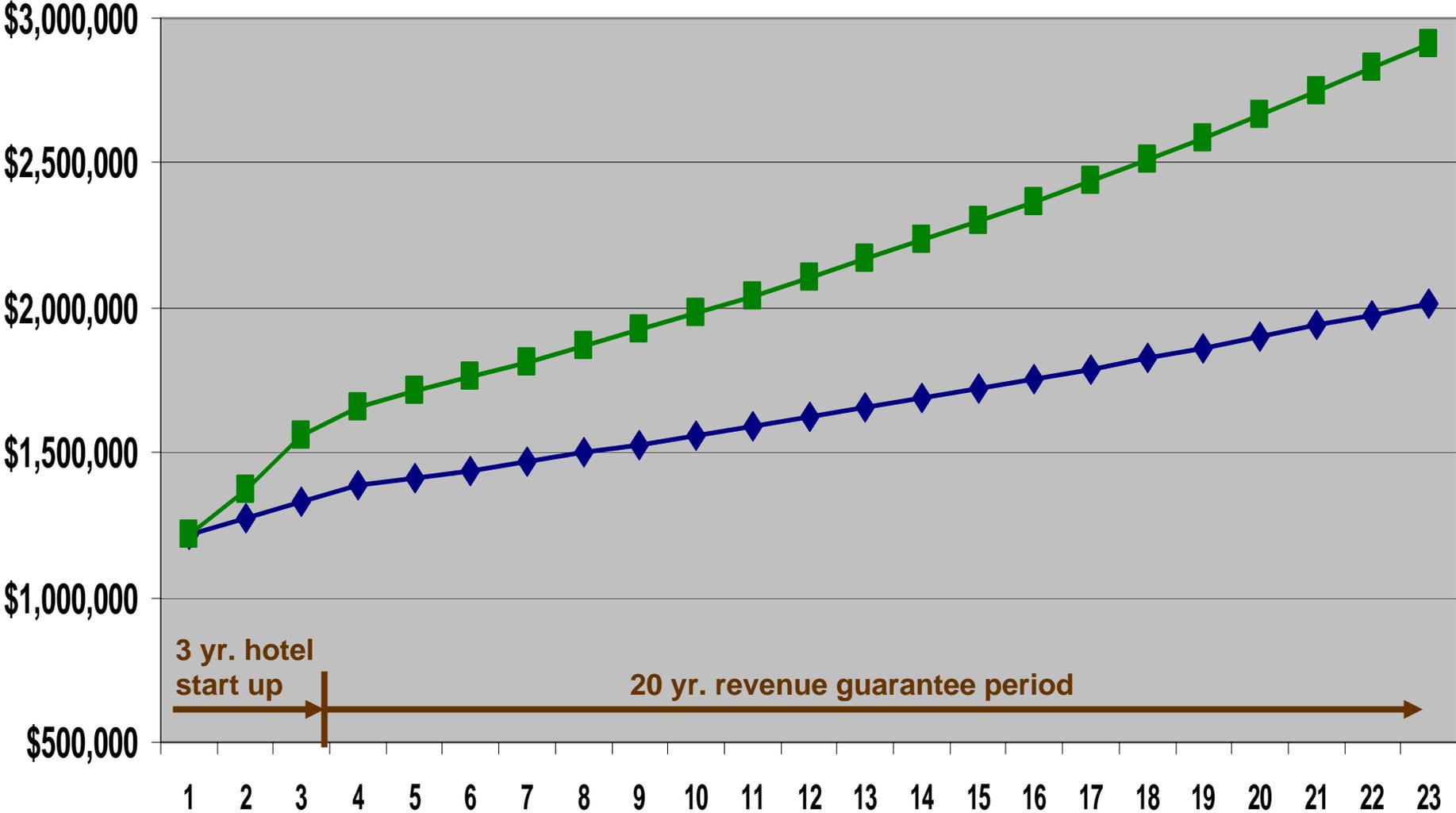
Residual Land Value Analysis

Used to estimate value of entitlements

- Estimates land value built-out under current zoning (45% FAR)
- Estimates land value of the proposed project (137.5% FAR)
- Uses development costs and projected revenues and discounts values back to 2010

	Residual Land Value (in \$ Millions)	
	<u>Best Case</u>	<u>Worst Case</u>
Office	\$51.2	\$15.8
Hotel & Fitness Center	<u>\$9.3</u>	<u>\$0</u>
Total for Proposed Project	\$60.5	\$15.8
Less Value of Current Zoning	<u>-\$36.7</u>	<u>-\$18.7</u>
Estimated Value of Entitlements	\$23.8	\$0

Projected TOT Revenue at 11%

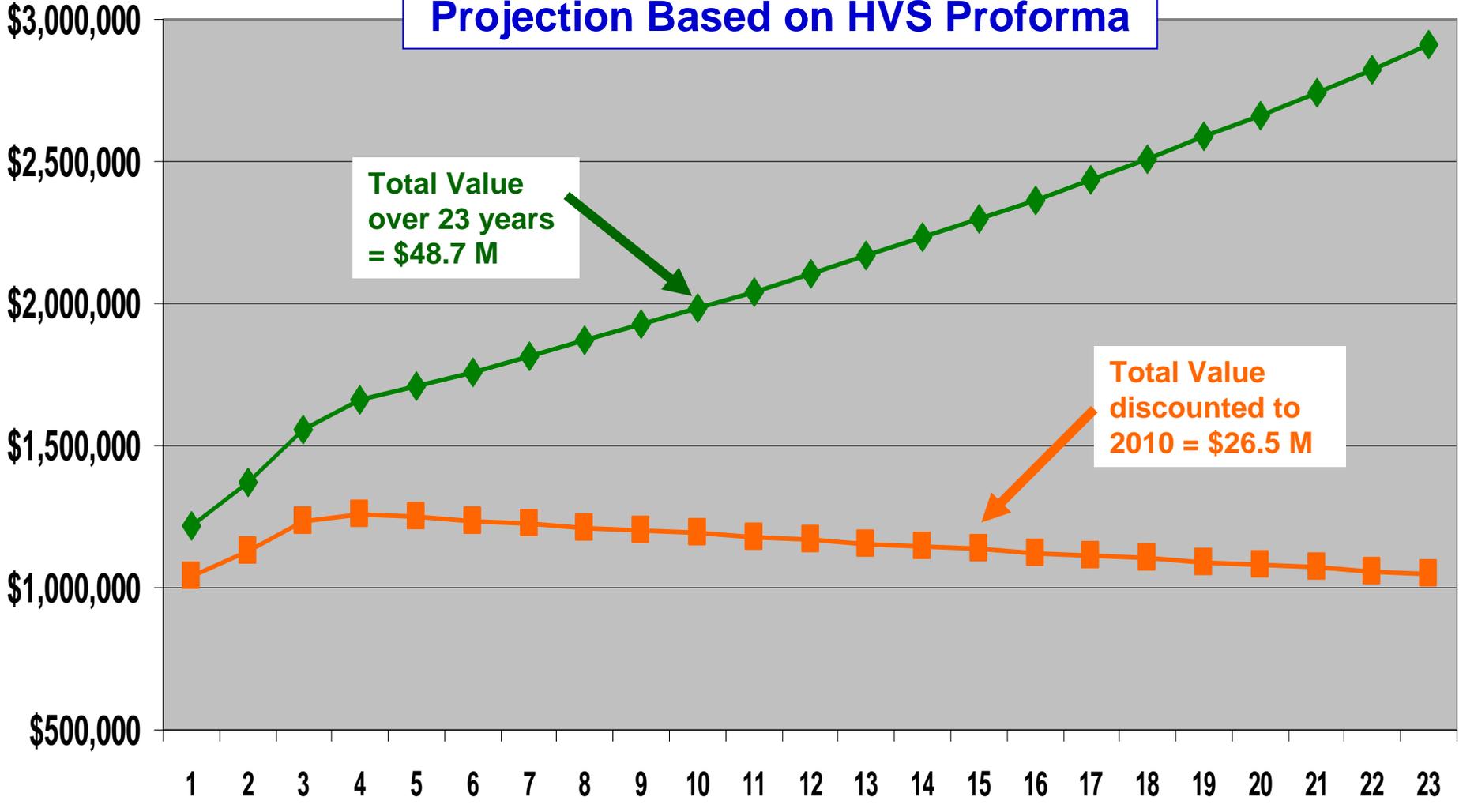


Years from Hotel Opening

Hotel opening assumed in 2014

◆ Rev. Guarantee ■ HVS Proforma

Present Worth of TOT @ 11%
Projection Based on HVS Proforma



Total Value over 23 years = \$48.7 M

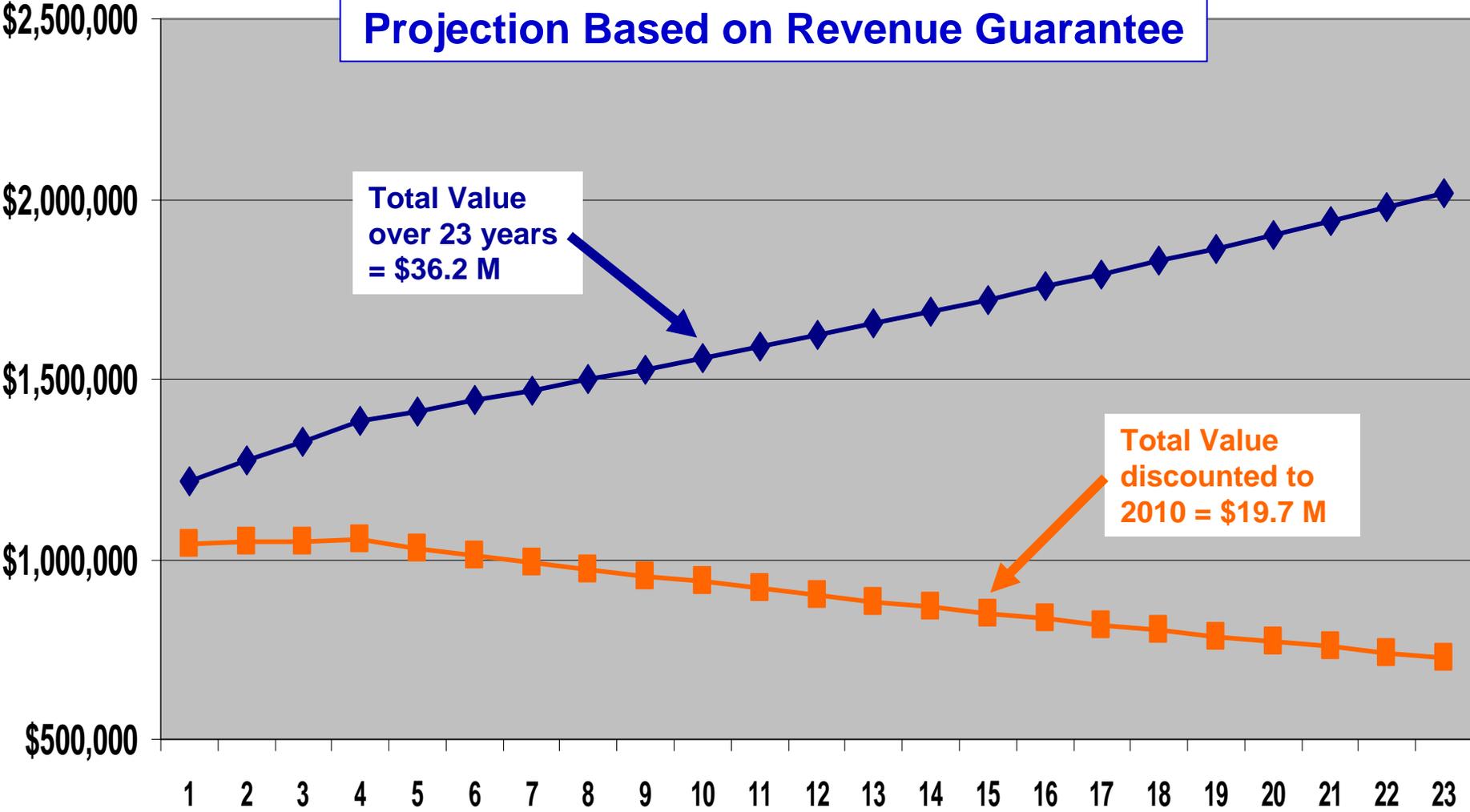
Total Value discounted to 2010 = \$26.5 M

Hotel opening assumed in 2014

Years from Hotel Start Up

◆ HVS Proforma ■ Value in 2010 (4% discount rate)

Present Worth of TOT @ 11%
Projection Based on Revenue Guarantee



Total Value over 23 years = \$36.2 M

Total Value discounted to 2010 = \$19.7 M

Hotel opening assumed in 2014

◆ Rev. Guarantee ■ Value in 2010 (4% discount rate)

Years from Hotel Start Up

Development Agreement Parameters

(Based on Council Input)

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Development Agreement Parameters Cont.....

Other Priority Items

- ✓ Improving bike and pedestrian connection to and from the Belle Haven neighborhood and in the Marsh Road corridor
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- ✓ Additional public benefits such as bus shelters and youth programs

Council Direction Required

Ultimately whether to approve the project is a policy decision for the City Council.

This decision will not be made until the Council considers public input through a public hearing process and recommendations from the Planning and Housing Commissions.

Council Direction Required

Question Tonight.....

Should the project move forward for further consideration with this set of Development Agreement Terms?

Given:

Fiscal impact analysis performed

Financial proforma prepared by independent experts

Potential for significant long-term revenue with guarantees

Environmental mitigation measures included

Other DA terms e.g. hotel first, public benefit funding

Staff Recommends moving forward with the proposed DA terms and considering the proposed project further.

Next Steps....

Future Question: (June 15th)

Given all of the benefits and impacts of the proposed project, is it in the City's best interest to approve the project?

- **Comments from applicant**
- **Public comment**
- **Questions and discussion by Council**

