

**SUMMARY REPORT PURSUANT TO  
SECTIONS 52201 OF THE GOVERNMENT CODE  
ON THE DISPOSITION AND DEVELOPMENT AGREEMENT  
BY AND BETWEEN THE CITY OF OAKLAND AND  
STRADA T5 LLC (OR A RELATED ENTITY OR AFFILIATE)  
FOR THE CITY CENTER T-5/6 PROJECT ON THE BLOCK BOUNDED BY  
BROADWAY, 11TH STREET, 12TH STREET AND CLAY STREET  
(INCORPORATING INFORMATION REGARDING ECONOMIC DEVELOPMENT  
SUBSIDY REQUIRED BY GOVERNMENT CODE SECTION 53083)**

**I. INTRODUCTION**

The California Government Code (Section 52201) requires that a city wishing to sell or lease property previously transferred to the city for economic development purposes under a long-range property management plan prepared and approved pursuant to Section 34191.5 of the Health and Safety Code, must first secure approval of the proposed sale or lease from its city council after a public hearing. A copy of the proposed sale and a summary report that describes and contains the following information must be available for public inspection prior to the public hearing:

1. The cost of the agreement to the city, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the city, plus the expected interest on any loans or bonds to finance the agreements.
2. The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the general plan or zoning.
3. The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease; the purchase price or present value of the lease payments which the lessee will be required to make during the term of the lease; if the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use, then an explanation of the reasons for the difference.
4. An explanation of why the sale or lease of the property will assist in the creation of economic opportunity, with reference to all supporting facts and materials relied upon in making this explanation.

In addition, the resolution approving the lease or sale shall be adopted by a majority vote unless the legislative body has provided by ordinance for a two-thirds vote for that purpose and shall contain a finding that the sale or lease of the property will assist in the creation of economic opportunity. The resolution shall also contain one of the following findings:

1. The consideration is not less than the fair market value at its highest and best use.
2. The consideration is not less than the fair reuse value at the use and with the covenants and conditions and development costs authorized by the sale or lease.

Section 53083 of the California Government Code requires that prior to approving an economic development subsidy within its jurisdiction, a local agency must provide all of the following information in written form and on its website:

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.
2. The start and end dates and schedule, if applicable, for the economic development subsidy.
3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.
4. A statement of the public purposes for the economic development subsidy.
5. Projected tax revenue to the local agency as a result of the economic development subsidy.
6. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

This report provides the information required by Government Code Sections 52201 and 53083 regarding the proposed Disposition and Development Agreement (“Agreement”) by and between the City of Oakland (“City”) and Strada T5 LLC, a California limited liability company (“Developer”) for the proposed City Center T- 5/6 hotel and residential project. Under this Agreement, the Developer will purchase City-owned property (the “Sites”), located on the block bounded by Broadway, 11th Street, 12th Street and Clay Street, known as the City Center T-5/6 Block, in the Central District Urban Renewal Area (“Central District”) of downtown Oakland, from the City. The Sites includes two parcels: Site A, an approximately 29,901 square foot parcel, and

Site B, an approximately 24,538 square foot parcel. The Developer will develop between 165 and 262 residential units and between 3,000 and 8,000 square feet of retail space, with associated parking garage, on Site A, and a 200 to 300 key hotel on Site B (collectively, the “Project”). In the event that a hotel on Site B does not prove financially feasible (i.e., able to secure the requisite equity and debt sources necessary to build) on current market terms within two years of the date of the Agreement the Developer may seek the Council’s approval, which the Council may grant or deny in its sole discretion, to proceed with an alternative development of either a 205,000 square foot office building or between 165 and 262 residential units and between and between 3,000 and 8,000 square feet of retail space on Site B. In the event that the Developer has not demonstrated the financial feasibility of the hotel, or secured City approval of an alternative project proposal, within three years of the effective date of the Agreement, the City may terminate the Agreement with respect to Site B.

This report is based upon information in the attached term sheet for the proposed Agreement dated August 18, 2015 (unless otherwise noted) and is organized into the following six sections:

- II. Summary of the Proposed Agreement** - This section includes a description of the site, the proposed development, and the major responsibilities of the City and the Developer.
- III. Cost of the Agreement to the Agency** - This section outlines the cost of the Agreement to the City. It presents the terms of the land conveyance to the Developer by the City, and sets forth the net cost of the Agreement to the City.
- IV. Estimated Value of the Interest to be Conveyed at Its Highest and Best Use** - This section summarizes the value of the Sites to be conveyed to the Developer.
- V. Estimated Value of the Interest to be Conveyed with Disposition and Development Agreement Restrictions** - This section describes the purchase price. As the sale price for Site B is less than the fair market value of the interest to be conveyed, determined at the highest and best use, this section also provides an explanation of the reasons for the difference.
- VI. Economic Opportunity Analysis** – This section explains why the sale of the property will assist in the creation of economic opportunity.
- VII. Government Code Section 53083** – This section provides the information regarding the economic development subsidy to the Project in the form of the reduced purchase price for Site B required pursuant to Government Code Section 53083.

## II. SUMMARY OF THE PROPOSED AGREEMENT

The term sheet for the proposed Disposition and Development Agreement is attached (see Exhibit A, DDA Term Sheet for T-5/T-6 Development Project). Please note that the term sheet for the proposed Agreement is being attached to this report only to illustrate in general terms the proposed transaction, and is subject to further negotiation between the parties and possible modification prior to City Council action. A summary of the proposed Agreement as reflected in the attached term sheet is provided below.

### A. *Description of the Sites and the Proposed Development*

#### *Sites*

- The Sites for the proposed Project are cumulatively 54,439 square feet, or approximately 1.25 acres total. The Sites are located on the block bounded by Broadway, 11th Street, 12th Street and Clay Street, known as the City Center T-5/6 Block, in the Central District. They are comprised of parcel numbers 002-0097-038, 002-0097-039 and 002-0097-040 (see Exhibit B, Parcel Map).
- Site A is an approximately 29,901 square foot parcel, of which approximately 12,916 square feet is encumbered by easements for the City Center Garage and has nominal value.
- Site B is an approximately 24,538 square foot parcel.

#### *Developer - Strada T5 LLC*

The development entity for this project is Strada T5 LLC, a California limited liability corporation, an affiliate of Strada Investment Group, LLC (“Strada”).

Strada is a real estate investment and development company focused on the San Francisco Bay Area. Strada has closed on almost two million square feet of institutional office product in the past five years and is currently developing over four million square feet of office, residential, retail, and hotel product in the Bay Area.

#### *Project Description*

Strada’s proposal is for two mid-rise projects, one along Clay Street (Site A) and the second along 11<sup>th</sup> Street (Site B). The proposal includes:

- **Site A** – Sales price of \$3.35 million based on a 14-story residential condominium project with between 165 and 262 units and between 3,000 and 8,000 square feet

of retail space, including a public plaza above the City Center Garage on 12<sup>th</sup> Street with retail in shipping containers. The project approved by the Planning Commission includes 225 residential units, 4,500 square feet of retail in the building and 1,500 square feet of retail in the plaza.

- **Site B** – Sales price of \$3.1 million based on a 14-story, 200 to 300 key hotel with ground floor retail. If the hotel is determined to be financially infeasible, Strada has the ability to request that it be allowed to develop a residential or office project, such request to be considered by the City Council in its sole discretion. The latest feasibility analysis was for a 225-key hotel with 8,000 square feet of retail.

*(See Exhibit C: Schematic Design )*

### **B. City Responsibilities**

The City has no significant pre-conveyance obligations, other than to deliver the Sites as set forth in the Agreement and to review and approve Developer submissions as provided under the Agreement.

Subject to the specific terms and conditions stated in the Agreement, the City shall:

1. Sell the Sites to the Developer for the total purchase price of \$6,450,000, consisting of \$3,350,000 for Site A and \$3,100,000 for Site B.
2. Be responsible for up to \$500,000 in hazardous materials abatement costs for Site A, to be paid on a matching dollar-for-dollar basis to reimburse the Developer for 50% of such costs up to a combined total (City and Developer obligation) of \$1,000,000. Although the Developer is currently requesting that the City be financial responsible for the first \$1,000,000 in hazardous materials abatement costs.
3. Reserve up to 200 spaces within City Center Garage West for hotel and/or residential occupants. The spaces will be provided at the Garage's full market price as adjusted annually.

### **C. Developer Responsibilities**

Subject to the specific terms and conditions stated in the Agreement, the Developer shall: among other things:

1. Purchase the Site "as is" from the City for \$6,450,000:\$3,350,000 for Site A and \$3,100,000 for Site B.

2. Commence and complete construction of the Project by the dates specified in the Agreement. The Developer is required to submit plans for Site A permits no later than 18 months after City approval of the Agreement; construction is required to begin within 24 months following City approval of the Agreement; and construction is to be completed no later 30 months after conveyance. Developer is to submit notice of determination of financial feasibility of the hotel on Site B within 24 months following approval of the Agreement; plans are required to be submitted for permits no later than 18 months after delivery of hotel feasibility notice; construction is required to begin no event later than 24 months after delivery of hotel feasibility notice; and construction is to be completed no later 30 months after conveyance.
3. Provide the following community benefits: 1) making an \$1,800,000 contribution to the City's Affordable Housing Trust Fund; 2) restricting condo conversion credits that the project would normally be entitled to under the current Condo Conversion Ordinance; 3) executing a Project Labor Agreement ("PLA") and local hire commitment for construction; 4) developing, owning and maintaining a publicly-accessible plaza along 12th Street.

Among the Developer's post-construction obligations are the following:

- a. Operate the Project and Sites in conformance with the requirement of the Central District Urban Renewal Plan.
- b. Restrict the use of Site A to residential and retail uses and restrict the use of Site Be to hotel uses as permitted under the Agreement.
- c. Agree not to engage in discriminatory practices with reference to the Project.
- d. Execute a card check agreement for the hotel operation.

### **III. COST OF THE AGREEMENT TO THE CITY**

This section presents the total potential cost of the Agreement to the City, 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 City***

The site was acquired from numerous property owners in the 1970's and was reconfigured and excavated to accommodate surrounding development. A portion of the area was transferred to the developer of the City Center Garage and City Center Super Dock. The rest of the block was

retained as a development site. The Redevelopment Agency did not maintain a value for this property on its books. In reviewing the City and Redevelopment Agency records (many of which for the period in question were destroyed in the Loma Prieta earthquake) and searches for recorded documents, it was not possible to determine the acquisition costs for these parcels. The property consists of two development parcels wrapping around the entry driveway for the City Center Garage and Super Dock located on the city block bounded by Broadway, 11th Street, 12th Street and Clay Street, known as the City Center T-5/6 Block. The City acquired the property from the Oakland Redevelopment Successor Agency in 2015 under the terms of the Long Range Property Management Plan and the Compensation Agreement with the taxing entities. The City has some third party planning costs that have been reimbursed by Developer; a \$25,000 Project Expense Payment (“PEP”) was made by Strada as part of the Exclusive Negotiating Agreement for this Project entered into on February 21, 2014; costs covered by the PEP were therefore not considered City costs. There are also staff costs that are part of the City’s operations for the Central District.

**B. Revenues to the City**

Per the terms of the Compensation Agreement, the City will receive an approximate \$2.5 million share of the \$6.45 million in sale proceeds that will be distributed to the property tax entities. The City will also generate permit fees on an estimated \$182.7 million development cost. The project will produce temporary and permanent jobs, and ongoing tax revenue as follows:

**Table 1: Estimated Benefits from Project**

	Site A Residential	Site B Hotel	Total
Construction Jobs	249	156	405
Permanent Jobs	22	113	135
Annual Property Tax (1%)	\$315,887	\$214,676	\$530,563
Annual Property Tax (Other)	\$181,145	\$123,106	\$304,251
Annual Sales Tax	\$29,700	\$39,600	\$69,300
Annual Business Tax	\$123,304		\$123,304
Annual Transient Occupancy Tax		\$1,829,918	\$1,829,918
Total Annual Tax Revenue	\$650,036	\$2,207,300	\$2,857,336

With the residential project anticipated to start paying full taxes in 2019 and the hotel project anticipated to start paying full taxes in 2021, the estimated tax revenues to the City in the next fifty years for these projects, with a two percent annual increase, are over \$200.0 million with a net present value of \$42.4 million. (See *Exhibit D: Tax Increment Analysis*)

### C. Net Cost to the City

Without the historic costs for site acquisition, maintenance and remediation it is impossible to estimate the net cost to the City. But given the large estimated tax generation of the proposed project, over \$200.0 million in the first 50 years with a net present value of \$42.4 million, plus the sales proceeds, there will be no net costs. In fact there should be significant net benefit to the City. Given the historic costs of property when the sites were acquired and the fact that many of the costs, including the land under the City Center Garage and the Super Dock Driveway, are not attributable to the project, the sales proceeds may even cover the costs in nominal dollars.

### **IV. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT ITS HIGHEST AND BEST USE**

A recent appraisal estimated the value of the 1.25-acre Site at \$7,450,000 (\$118 per square foot or \$155 per usable square foot), if the Site were developed to its highest and best use (a residential project). The appraised value needs to be discounted by up to \$1,000,000 for the remediation of contaminated soil during construction. The “as is” value of the site is therefore at least \$5,950,000 (see Exhibit E, Appraisal). The appraisal also included a valuation of Site B as a hotel for \$3,100,000, \$1,000,000 less than the highest and best use value for the property. The City also had a reuse appraisal prepared for the property (see Exhibit F, Reuse Appraisal), which concluded that a high-density market rate residential project is the highest value concept for the Sites. This report further concluded that the offer by Strada represented both the reuse value and the highest and best use value for Site A and the value of Site B restricted as a hotel.

### **V. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED WITH DISPOSITION AND DEVELOPMENT AGREEMENT RESTRICTIONS**

The purchase price for Site A is the full fair market price of the land at its highest and best use. For Site B the purchase price is \$1,000,000 less than the full fair market price of the land at its highest and best use, but based on the appraisal and reuse appraisal the \$3,100,000 price is the value of the site restricted for use as a hotel. The analysis indicates that the project will also require public financing programs, including New Markets Tax Credits (“NMTC”) and EB5 (Visa) real estate financing in order to make the project feasible. The City has also negotiated for the Developer to provide a number of community benefits, such as 1) providing a \$1,800,000 contribution to the City’s Affordable Housing Trust Fund; 2) restricting condo conversion credits that the project would normally be entitled to under the current Condo Conversion Ordinance; 3) executing a Project Labor Agreement (“PLA”) and local hire commitment for construction; 4) executing a card check agreement for the hotel operation; and 5) developing, owning and maintaining a publicly-accessible plaza along 12th Street.

## **VI. HOW PROJECT WILL ASSIST IN THE CREATION OF ECONOMIC OPPORTUNITY**

The Project will provide numerous economic opportunities, including short term and long term jobs, contracting opportunities for Oakland businesses, and significant tax revenue for the City and other taxing entities. The Project will provide good high paying construction jobs under the Project Labor Agreement (“PLA”) and target Oakland workers with a local hire commitment for construction. The hotel project will also be subject to all City Programs, including: prevailing wages, living wages, local and small local business participation requirements, equal benefits requirements, disabled access, and apprenticeship/job training/first source hiring programs. In addition, the Developer has committed to card check agreement with the local hotel workers union for the hotel operation. The Project is estimated to produce 405 man years of temporary construction jobs and 135 FTE in permanent jobs. The Project is also estimated to provide \$200 million in taxes to the City over the next 50 years.

## **VII. GOVERNMENT CODE SECTION 53083**

The information required by Government Code Section 53083 is provided below:

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.

The sale price for the hotel parcel, Site B, is \$1,000,000 less than the less than the full fair market price of the land at its highest and best use. Section 53083 defines “economic development subsidy” to include land price subsidies. Per the Agreement, the beneficiary of this subsidy is Strada T5 LLC, a company located at 100 Spear Street, Suite 420, San Francisco, CA 94105. However, a related affiliate entity may be created for this phase of the project.

2. The start and end dates and schedule, if applicable, for the economic development subsidy.

The land price subsidy will be provided at sale of Site B which is scheduled in the Agreement to be no later than four years after the approval of the Agreement, or approximately the summer of 2019.

3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.

The land price subsidy will be a \$1,000,000 reduction in the purchase price paid by the Developer for Site B.

4. A statement of the public purposes for the economic development subsidy.

Although the use of Site B for a hotel is not highest and best use for the site, the hotel project provides numerous economic benefits to the City that far outweigh the reduction in sales price. In just one year the transient occupancy tax is estimated to be greater than the subsidy, \$1.8 million versus \$1.0 million. In the next 50 years anticipated City tax revenues generated by the hotel project are in excess of \$153.4 million. The hotel project is also estimated to generate 156 man years of temporary construction jobs and 113 FTE of permanent hotel and retail jobs. Although at present it is not possible to estimate how many permanent jobs created by the hotel's operations will be full-time as opposed to part-time since such a calculation would require a determination, which has not yet been made, of the exact type of hotel to be developed, jobs created by the economic development subsidy for the hotel will be good union jobs as required by the Project Labor Agreement ("PLA") and local hire commitment for construction and the Card Check Agreement for the hotel operation.

5. Projected tax revenue to the local agency as a result of the economic development subsidy.

See # 4 above.

6. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

See # 4 above.

## **LIST OF EXHIBITS**

- Exhibit A – DDA Term Sheet for T-5/T-6 Development Project
- Exhibit B – Parcel Map
- Exhibit C – Schematic Design
- Exhibit D – Tax Increment Analysis
- Exhibit E – Appraisal
- Exhibit F – Reuse Appraisal

**EXHIBIT A**

**DDA TERM SHEET FOR T-5/T-6 DEVELOPMENT PROJECT**

**EXHIBIT A**  
**DDA TERM SHEET**  
**T-5/T-6 DEVELOPMENT PROJECT**  
**(AUGUST 18, 2015)**

<b>1</b>	<b>OWNER</b>	City of Oakland
<b>2A</b>	<b>DEVELOPER</b>	Strada T5, LLC a California limited liability company, (“Developer”)
<b>2B</b>	<b>GUARANTY</b>	At close of escrow, Developer to provide City a Completion Guaranty for the Project, substantially in the form attached to the DDA. Guarantor must be a financially strong entity with significant assets, pursuant to criteria set forth in the DDA and acceptable to the City in its sole and absolute discretion.
<b>3</b>	<b>PROPERTY</b>	Approximately 1.25 acres of property in downtown Oakland that is within the block bounded by Broadway, 11th Street, 12th Street, and Clay Street, referred to as Site A and Site B inclusively (Developer to provide legal descriptions).
<b>4</b>	<b>PROJECT DESCRIPTION</b>	<p>Phase 1 shall be developed on Site A as a mixed use residential development of between 165 and 262 residential units and between 3,000 and 8,000 square feet of retail space.</p> <p>Phase 2 shall be developed on Site B as a 200 to 300 key hotel. If a hotel is not Financially Feasible (able to secure the requisite equity and debt sources necessary to build) on current market terms within two years of the date of the Agreement and with sufficient demonstration of lack of Financial Feasibility, Developer may seek the Council’s approval to proceed with an alternative development of either (a) a 205,000 square foot office building or (b) between 165 and 262 residential units and between and between 3,000 and 8,000 square feet of retail space. Such approval shall be granted or denied in the Council’s sole discretion. In the event that Developer has not demonstrated Financial Feasibility of the hotel, or secured City approval of an alternative project proposal, within three years of the Effective Date, the City may terminate the DDA with respect to Phase 2.</p>

5	<b>PURCHASE PRICE</b>	<p>The Purchase Price for Site A of the Property shall be \$3,350,000.</p> <p>The Purchase Price for Site B shall be 3,100,000 if used for a hotel and City’s public subsidy programs and requirements shall apply. If, after determining that a hotel is not feasible on the Site B, the Developer requests amending DDA to allow a residential or office project on Site B and the City approves the change in use, the price will be set based on the then current fair market value.</p>
6	<b>TERMS OF PAYMENT</b>	<p>Purchase Price for each site to be due and payable in cash submitted into escrow 3 days before close of escrow. Escrow to close 30 days after all contingencies, including evidence of financial feasibility, building permits, and construction financing, have been met.</p>
7	<b>DEPOSIT</b>	<p>Upon executing the DDA, Developer will provide a \$50,000 good faith deposit. If Developer fails to fulfill the conditions or meet the obligations set forth in the DDA, City may retain the Good Faith Deposit as liquidated damages. Prior to close of escrow, City’s sole remedy shall be to terminate the DDA and retain the good faith Deposit.</p>

<p><b>8</b></p>	<p><b>REPURCHASE OPTION</b></p>	<p>In addition to all other City remedies for Developer default, and subject to the notice and cure rights described below, if construction of a Phase does not start within 30 days after close of escrow or does not diligently continue construction thereafter, or the Developer does not complete construction within the time period required under the DDA (subject in each case to extension for force majeure), the City will have the option to repurchase the applicable Site for the original sale price and the then current fair market value of any physical improvements (the "Option"). Appraisal process to determine Fair Market Value will be set forth in the DDA. Prior to close of escrow, if force majeure individually or cumulatively exceeds twelve (12) months, either party shall have the right to terminate the agreement.</p> <p>City's Option is assignable or transferable in its sole and absolute discretion.</p> <p>There will be a 30-day notice and cure process for any such default, and the cure period will be extended if the default cannot reasonably be cured within such 30-day period and the Developer has commenced and is proceeding diligently with efforts to cure the default; subject, however, to an maximum cure date deadline to be negotiated by the parties.</p> <p>The City will execute and record such instruments as Developer may reasonably request to terminate the Option, at such time as the Option is no longer exercisable in accordance with its terms.</p>
<p><b>9</b></p>	<p><b>SCHEDULE OF PERFORMANCE</b></p>	<p style="text-align: center;"><u><b>PHASE 1 SCHEDULE</b></u></p> <ol style="list-style-type: none"> <li>1. Developer submits Final Schematic Designs – 4 months after City approval of DDA.</li> <li>2. Developer submits Design Development Plans – 10 months after City approval of DDA.</li> <li>3. Developer submits Construction Drawings and Complete Applications for Building Permits – 18 months after City approval of DDA.</li> <li>4. Developer submits Financial Plan (including evidence of construction financing and copy of construction contract) - 21 months after City approval of DDA.</li> <li>5. Developer submits approved Building Permits – 23 months after City approval of DDA.</li> <li>6. Conveyance/Close of Escrow/Commence Construction – Within 30 days following satisfaction of all City</li> </ol>

		<p>conditions to closing but in no event later than 24 months following City approval of DDA.</p> <p>7. Complete Construction – 30 months after conveyance (Developer may request a six-month extension of this date, to be approved by the City Administrator, which approval shall not be unreasonably withheld if Developer has demonstrated good faith efforts to Commence and Complete Construction in accordance the Schedule).</p> <p><u>PHASE 2 SCHEDULE</u></p> <ol style="list-style-type: none"> <li>1. Developer submits updated pro forma for development of the hotel – no later than 4 months after City approval of DDA.</li> <li>2. Developer submits notice of determination of financial feasibility of hotel (“Hotel Feasibility Notice”), or seeks Council approval of alternative development – within 24 months following City approval of DDA.</li> <li>3. Developer submits Final Schematic Designs – no later than 4 months following delivery of Hotel Feasibility Notice.</li> <li>4. Developer submits Design Development Plans – 10 months after delivery of Hotel Feasibility Notice.</li> <li>5. Developer submits Construction Drawings and Complete Applications for Building Permits – 18 months after delivery of Hotel Feasibility Notice.</li> <li>6. Developer submits Financial Plan (including evidence of construction financing and copy of construction contract) - 21 months after delivery of Hotel Feasibility notice.</li> <li>7. Developer submits approved Building Permits – 23 months after delivery of Hotel Feasibility Notice.</li> <li>8. Conveyance/Close of Escrow/Commence Construction – Within 30 days following satisfaction of all City conditions to closing but in no event later than 24 months following delivery of Hotel Feasibility Notice.</li> <li>9. Complete Construction – 30 months after conveyance (Developer may request a six-month extension of this date, to be approved by the City Administrator, which</li> </ol>
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		<p>shall not be unreasonably withheld if Developer has demonstrated good faith efforts to Commence and Complete Construction in accordance with the Schedule)</p> <p>(All Phase 1 and 2 dates subject to events of force majeure, up to an aggregate maximum delay of one year.)</p> <p>Developer may request a two-month extension of these dates, to be approved by the City Administrator in his or her reasonable discretion. Such approval shall not be unreasonably withheld if Developer demonstrates good faith efforts to meet conditions precedent to closing pursuant to the Schedule.</p>
<b>10</b>	<b>OFF-SITE IMPROVEMENTS</b>	Developer to be responsible for the cost of required off-site improvements in connection with the Project.
<b>11</b>	<b>TITLE INSURANCE</b>	Developer to secure title insurance policy, if desired, at its own cost and expense.
<b>12</b>	<b>CLOSING COSTS</b>	Developer to pay all escrow fees and closing costs including, without limitation, city and any other county taxes.
<b>13</b>	<b>LIMITATIONS ON PROPERTY RIGHTS</b>	Developers accept and acknowledge the Property is subject to: 1) deed restrictions and a recorded covenant to restrict use of property. Developer to comply with provisions of the Central District Redevelopment Plan and nondiscrimination provisions of redevelopment law. As a condition to closing, the City shall use commercially reasonable efforts, which shall be limited to reasonable amounts of staff time with no out-of-pocket expenditures, to secure certain easements necessary for the Project pursuant to the City Center Third Amended and Restated Easement Agreement (“3 <sup>rd</sup> AREA”) and any amendments thereto related, including but not limited to the easements described in Subparagraphs 5.2(c), (d), (e), (f), (g) and (i) and Paragraph 3.4 of the 3 <sup>rd</sup> AREA, and a right to use or a shared exclusive easement as described in Subparagraph 5.2(a) of the 3 <sup>rd</sup> AREA; all of such easement rights to be in recordable form .
<b>14</b>	<b>CONDITION OF PROPERTY AT DELIVERY</b>	Developer to take the Property in its “as-is” condition.

15	<b>ENVIRONMENTAL REMEDIATION</b>	Environmental Notice. The City hereby gives notice to the Developer that, to the best of its knowledge and relying on analysis performed by its environmental consultants, there are no Hazardous Materials present on or beneath the Property other than those set forth in those environmental assessments and reports attached as Exhibit A. Developer agrees to accept the Property “as is” in its current condition without warranty express or implied by the City with respect to the presence of hazardous materials known or unknown on or near the Property. Notwithstanding the foregoing, the City shall hold in escrow for Developer up to \$500,000 of the Purchase Price to be credited back to Developer on a dollar-for-dollar matching basis for the first \$500,000 of Developer’s actual Environmental Remediation expenditures, if any. The amount of these funds and the terms of their use are still under negotiations.
16	<b>INDEMNIFICATION</b>	Developer shall agree to provide standard commercial hold harmless and defend provisions to the City of Oakland and its employees, officers, directors, shareholders, partners and agents. City and Developer to negotiate the various levels of indemnification as part of the DDA.
17	<b>CITY MAINTENANCE</b>	Upon Close of Escrow, Developer is responsible for all maintenance within the Property.
18	<b>NO COMMISSION</b>	City shall not pay or be liable for any commissions or brokerage fees. City/Developer shall hold harmless and defend City/Developer against any claims for commissions or brokerage fees.
19	<b>SIGNAGE</b>	Developers may not install or place signage on any existing City street on the Property or the public corridor. Developer may install and place signage on the remaining Property in compliance with City codes and any other applicable codes or regulations.
20	<b>STANDARD OF PROPERTY</b>	Developer to maintain the Property and Project in first-class condition and will ensure at no time does the Property violate the City Blight Ordinance.

21	<b>CITY PROGRAMS &amp; COMMUNITY BENEFITS</b>	<p>If the Developer decides to pursue a project that requires less than full market price for the land or includes some other City subsidy – below market loan, tax credits, etc. - then the following City benefits are required, including: labor peace agreement, prevailing wages, living wages, local and small local business, equal benefits, disabled access, and apprenticeship/job training/first source hiring programs.</p> <p>Other community benefits are described under Item 29 [Public Benefits] below.</p>
22	<b>PAYMENT &amp; PERFORMANCE BONDS</b>	<p>Developer shall obtain payment bond in an amount not less than 100% of the cost of construction of the Project pursuant to the Construction Contract to be executed by Developer, only if it is a requirement of the Developer’s lender or investor. Developer shall obtain performance bond in an amount not less than 100% of the cost of construction of the Project pursuant to the Construction Contract to be executed by Developer, only if it is a requirement of the Developer’s lender or investor.</p>
23	<b>RIGHT OF ENTRY</b>	<p>Developer to have the right to enter onto the property prior to transfer to conduct any investigation, testing, appraisals and other studies, at Developers cost, required as part of its due diligence. Developer shall be required to provide City with indemnity and evidence of insurance and meet other standard City conditions to entry.</p>
24	<b>FINANCING</b>	<p>DDA will include an objective standard (experience, size, etc.) of what an “Approved Lender” is, subject to administrative approval. The DDA will be subject to customary mortgagee protections for any construction financing.</p>
25	<b>PERMITTED TRANSFERS</b>	<p>Prior to project completion, Developer shall not have the right to assign or transfer all or any portion of its rights and obligations under the Agreement, other than an Affiliate Transfer, without the prior written consent of the City, in the City’s sole and absolute discretion. An Affiliate Transfer shall not require consent and shall mean a transfer to an entity or entities for which Strada maintains development management responsibilities and control.</p>

26	<b>PARKING</b>	The City to reserve UP TO 200 parking spaces at the prevailing market rate in City Center Garage West for Project occupants as negotiated by the City Administrator and Developer. Upon the date the Project is first occupied by tenants and for five years thereafter, the option to license parking spaces herein shall be limited to a maximum of 200 parking spaces. Thereafter, the option to license parking spaces shall be limited to the highest number of parking spaces, but not to exceed 200, actually licensed to tenants, residents and/or the homeowners association at any given time during the initial five year period for both Site A and B. The City Center Garage West parking spaces shall be counted towards any minimum parking requirements for the Project.
		"Prevailing Market Rate" means the monthly fee for the same type of Parking Space in the same parking facility being used in a similar manner, excluding city employee parking. If there are no other similar Parking Spaces or no Parking Spaces used in the same manner in the parking facility, the Prevailing Market Rate means the monthly fee for such a Parking Space in other nearby parking garages.
27	<b>PROJECT COMPLETION</b>	Following issuance of final certificate of occupancy and certificate of completion for Phase 1 of the Project, the City shall have no rights of repurchase of Phase 1 under the Agreement or any approval rights over the subsequent transfers, assignments, or financings. Following issuance of final certificate of occupancy and certificate of completion for Phase 2 of the Project, the City shall have no rights of repurchase of Phase 2 under the Agreement or any approval rights over the subsequent transfers, assignments, or financings.
28	<b>STANDARD CONDITIONS</b>	DDA to include standard City conditions, including without limitation, provision of labor and completion bonds, executed completion guaranty, approval of financing plan, copies of all required regulatory approvals, and insurance policies.
29	<b>PUBLIC BENEFITS</b>	<p>Developer has agreed to provide the following public benefits, :</p> <ol style="list-style-type: none"> <li>1. Developer shall pay \$1,800,000 to the Oakland Affordable Housing Trust Fund, which funds may be used by the City, in its sole discretion, to fund the predevelopment and entitlement work – including architecture, engineering, environmental review and tax credit consultants– needed to develop 100% affordable projects in District 3.</li> <li>2. Developer shall design and construct a 12,850-square-</li> </ol>

		<p>foot (privately owned and maintained by Developer) public plaza on the 12<sup>th</sup> Street side of the Property that includes landscaping and pedestrian-oriented hardscape, repurposed shipping containers, interactive public art and outdoor café seating at a cost of more than \$900,000. Developer shall work with the Planning Department on an Operations Plan to ensure the Plaza is maintained as a lively, clean and safe public amenity, and Developer’s continuing obligations with respect to maintenance of and public access to the plaza will be memorialized in a recorded agreement with the City substantially in the form attached to the DDA. Developer will provide funding to the Downtown Oakland Community Benefit District (CBD) for such services and to support the downtown neighborhood at a cost of approximately \$54,000 per year. This contribution of annual project income equates to a loss in future sales value of \$1,200,000 (using a 4.5% capitalization rate).</p> <ol style="list-style-type: none"> <li>3. Developer has entered into a Project Labor Agreement (PLA) with the Alameda County Building Trades to ensure the Project is completed with union labor.</li> <li>4. Developer has entered into a Card Check Neutrality Agreement with Unite Here Local 2850 to ensure any hotel built on the Property is operated with Union Labor.</li> <li>5. As set forth in the PLA, Developer shall comply with a local hire program that commits to filling at least 25% of all apprentice jobs on the Property through a certified apprenticeship program, such as Cypress Mandela, and to fund \$70,000 for the training of up to 10 new local apprentices.</li> <li>6. Developer shall enter into a construction services agreement with Oakland-based Turner Group Construction related to concrete, general site services and assistance in maximizing small and local business opportunities related to the Project.</li> </ol> <p>Developer shall fund at least \$30,000 for outreach and local hire resource services (including multilingual outreach) to maximize opportunities for small and local businesses. The PLA for the Project incorporates these</p>
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		opportunities as well.
<b>30</b>	<b>PROHIBITION ON GENERATION OF CONDOMINIUM CONVERSION RIGHTS</b>	The DDA shall include an acknowledgment and agreement by Developer that the Project shall not generate, and the Developer shall not assert, condominium “conversion rights” under Chapter 16.36 of the Oakland Municipal Code.

**Exhibit A**  
**Environmental Assessments**

1. Environmental Site Assessment and Fill Characterization Report, City Center Parcels T5 and T6, Oakland, California; Woodward-Clyde Consultants; June 7, 1993
2. Soil & Groundwater Sampling, City Center Parcel T-5/6, Oakland, California; Subsurface Consultants, Inc.; August 21, 2001
3. Soil & Water Sampling, City Center Parcel T-5 and T-6, Oakland, California; Subsurface Consultants, Inc.; September 19, 2001
4. Supplemental Soil & Groundwater Investigation, City Center Parcel T-5 and T-6, Oakland, California; Subsurface Consultants, Inc.; July 16, 2002



**EXHIBIT B**

**PARCEL MAP**

# Exhibit B Parcel Map

## ASSESSOR'S MAP 2

Code Area Nos: 17-016 17-020 17-021 17-022

2 W.P.

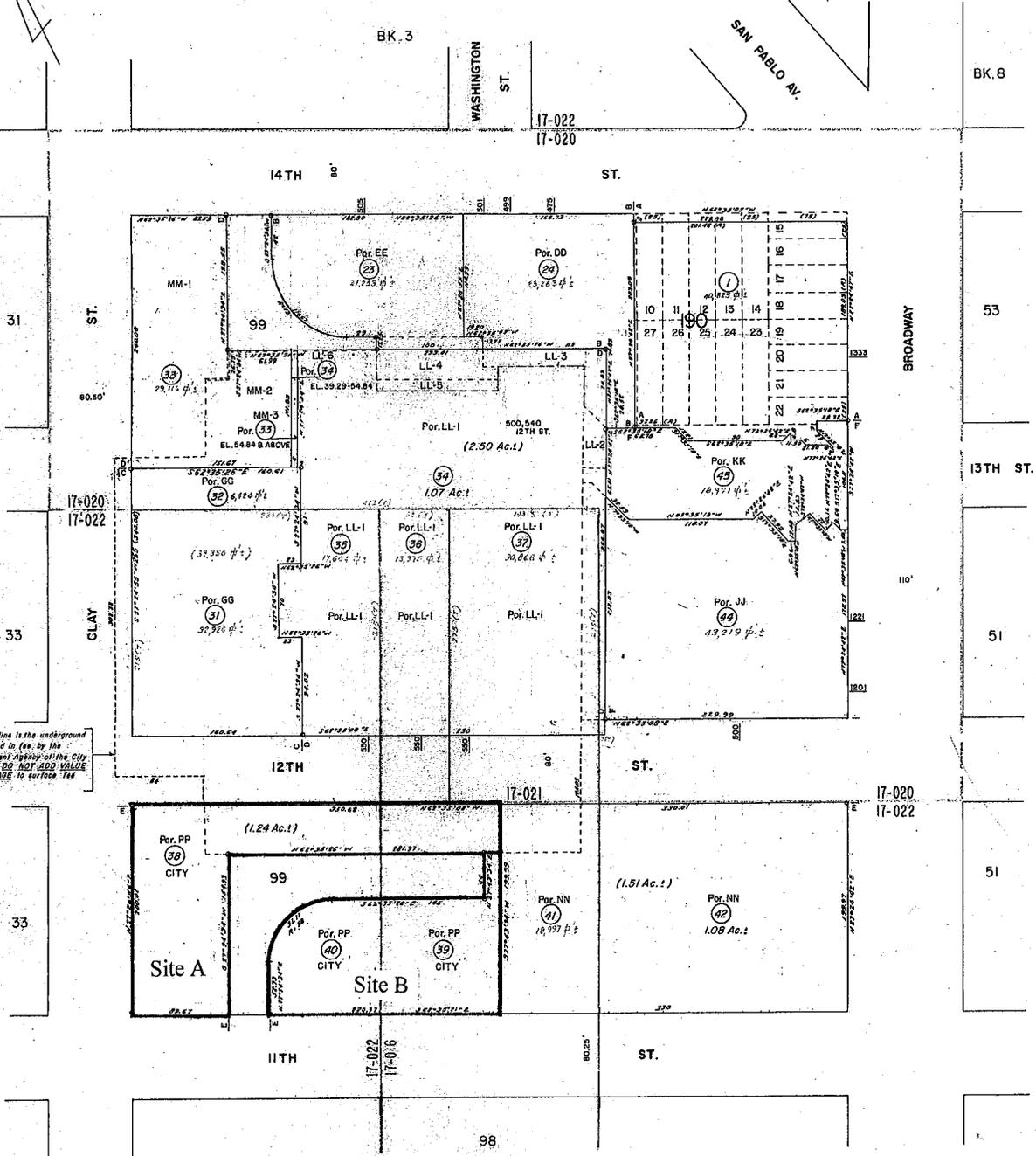
97

SCALE: 1" = 80'

- (A) OAKLAND (KELLERSBERGER'S) (BK. 7 PG. 3)
- (B) P.M. 4976 169/76 (ELEV. 34.20 & ABOVE)
- (C) P.M. 5372 179/64 (ELEV. 39.29 & ABOVE)
- (D) P.M. 5410 176/62 (ELEV. 34.20 & ABOVE)
- (E) P.M. 5533 180/44 (ELEV. 39.29 & ABOVE)
- (F) P.M. 5456 182/71 (ELEV. 34.20 & ABOVE)

REVISED: 3-12-84 PB 12-6-88 PB 7-11-90 PB  
 10-9-85 PB 3-20-89 PB 1-07-12 LL  
 6-9-87 PB 6-22-89 SV  
 10-12-88 UT 1-19-90 PR  
 10-26-88 RB 4-25-90 JT

DRAWN: 5-3-83 PB

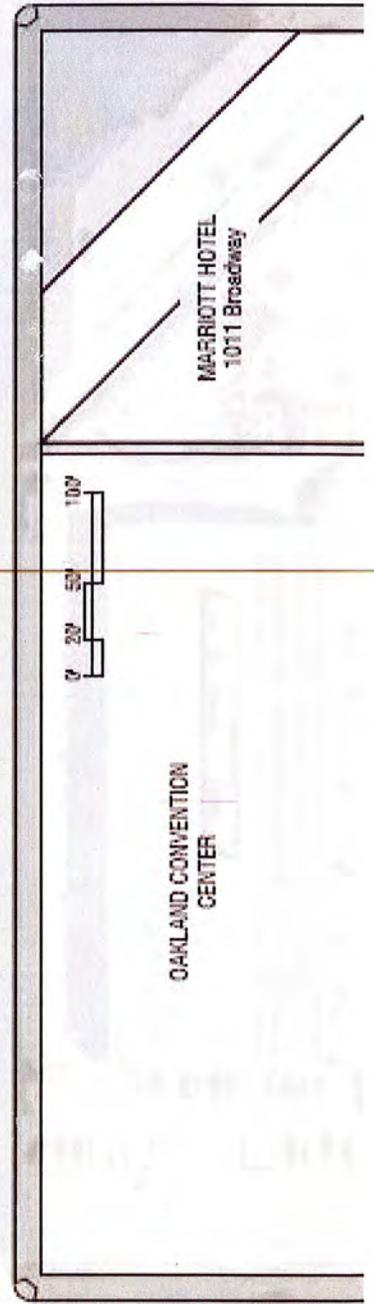
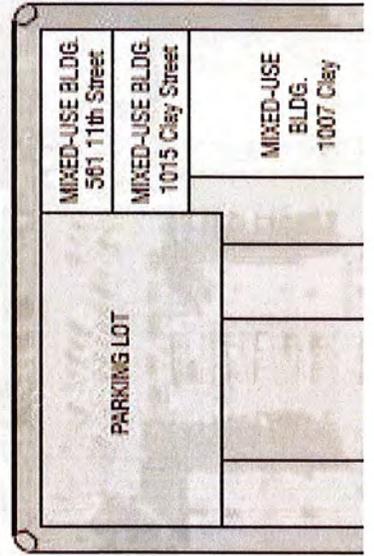
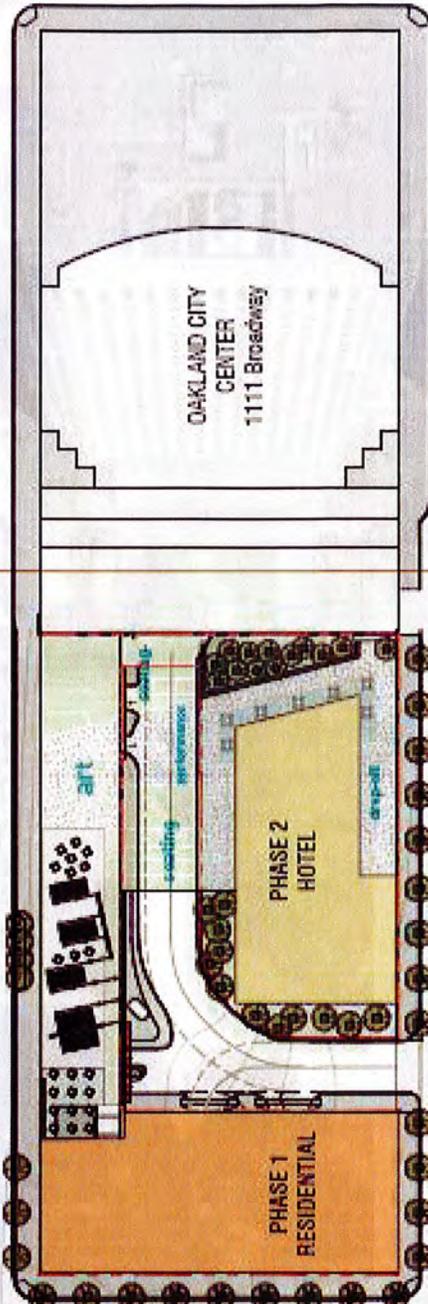
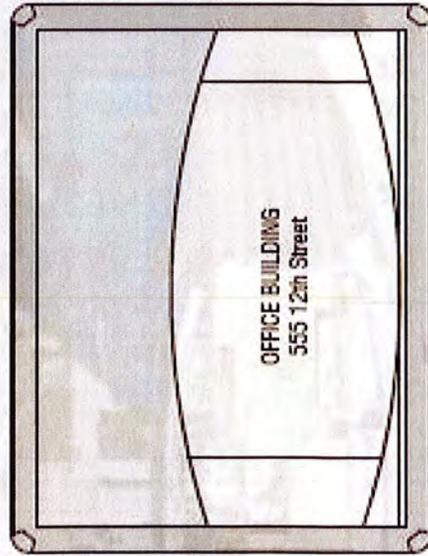
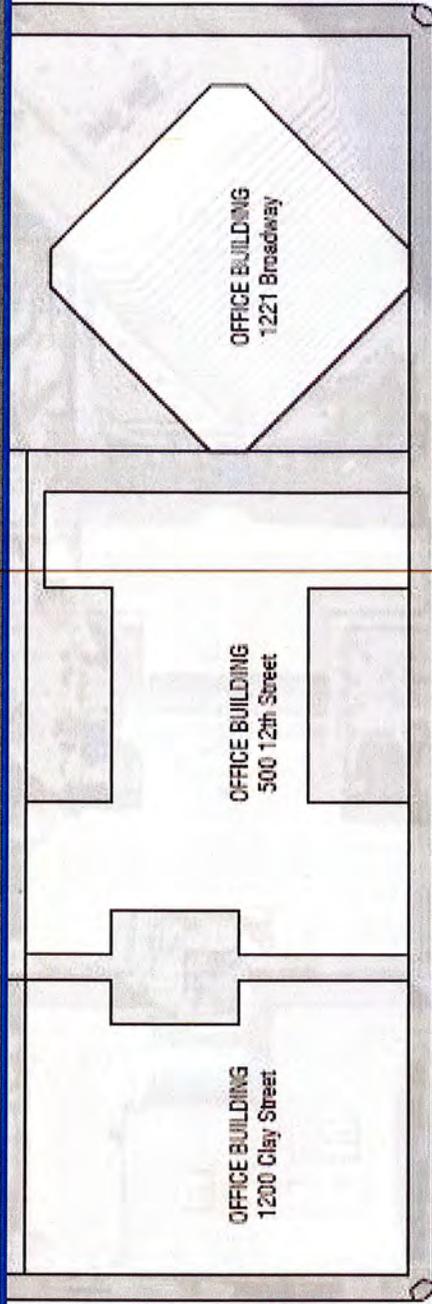
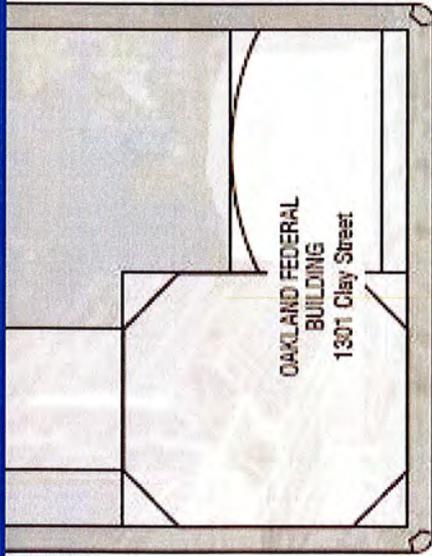


FORMERLY: BLKS. 39, 41, 43 & 45

**EXHIBIT C**

**SCHEMATIC DESIGN**

# T-5/6 Site Plan



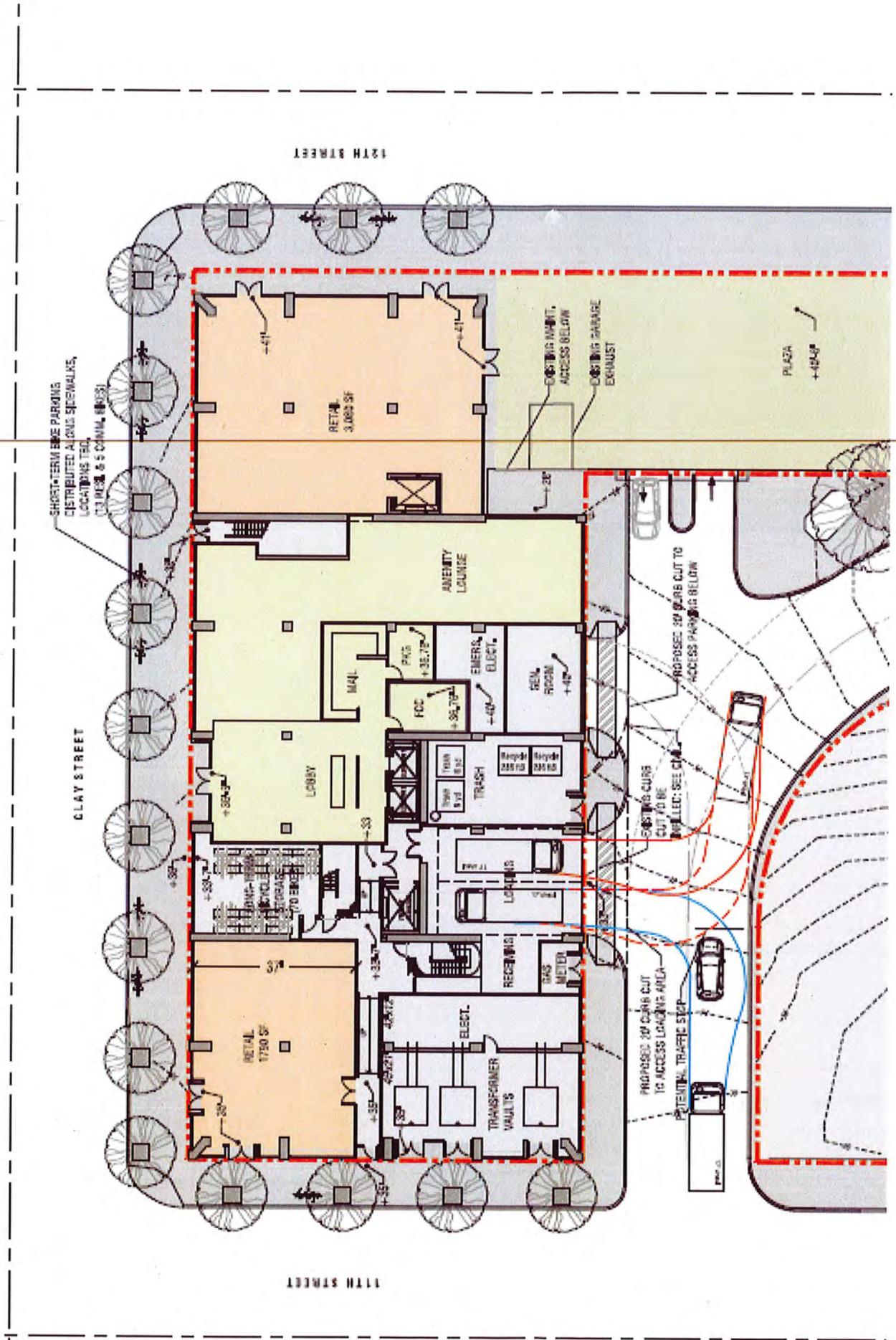
CLAY STREET

12TH STREET

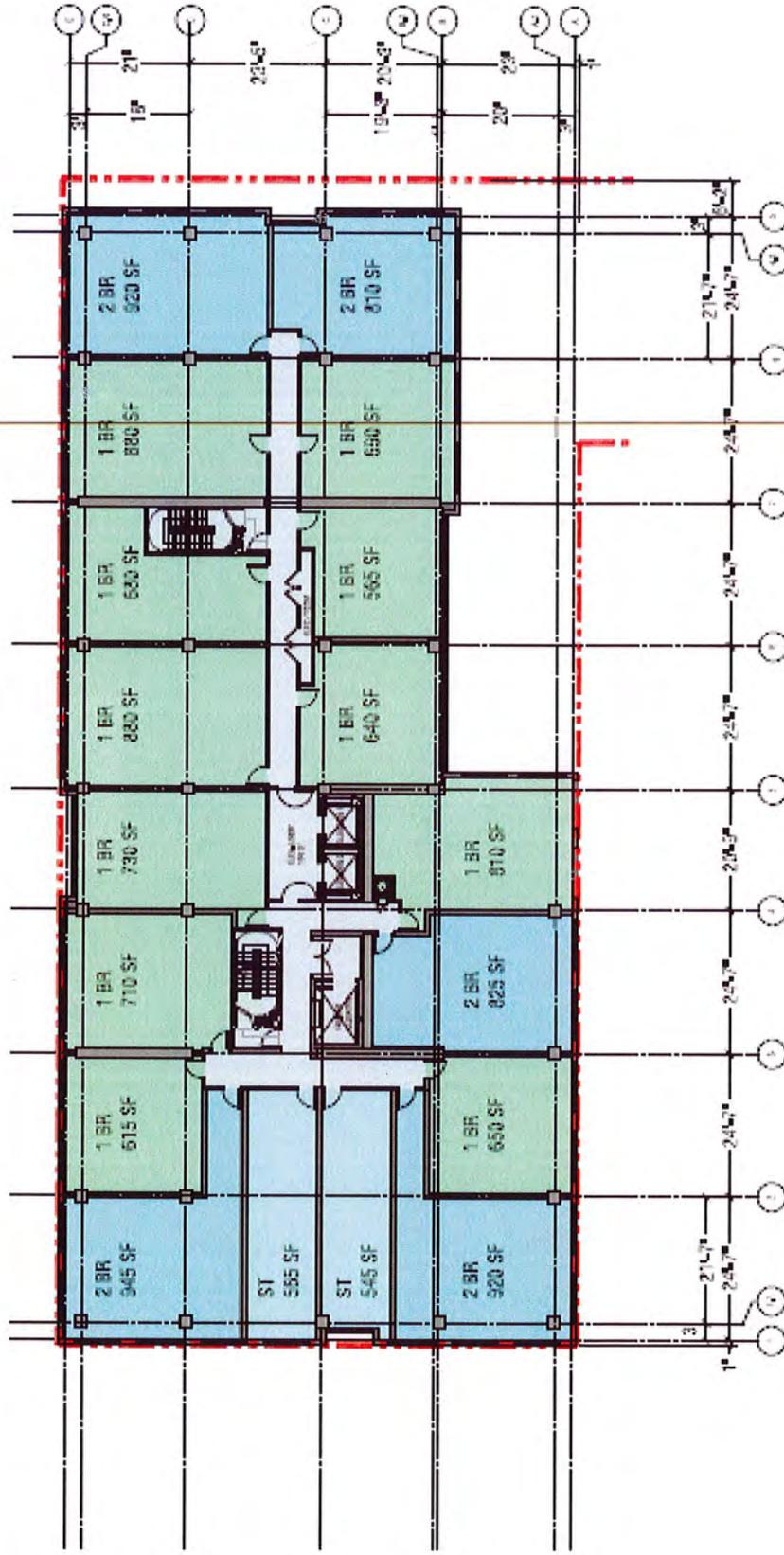
11TH STREET

BROADWAY

# T-5/6 Phase I Ground Floor Plan



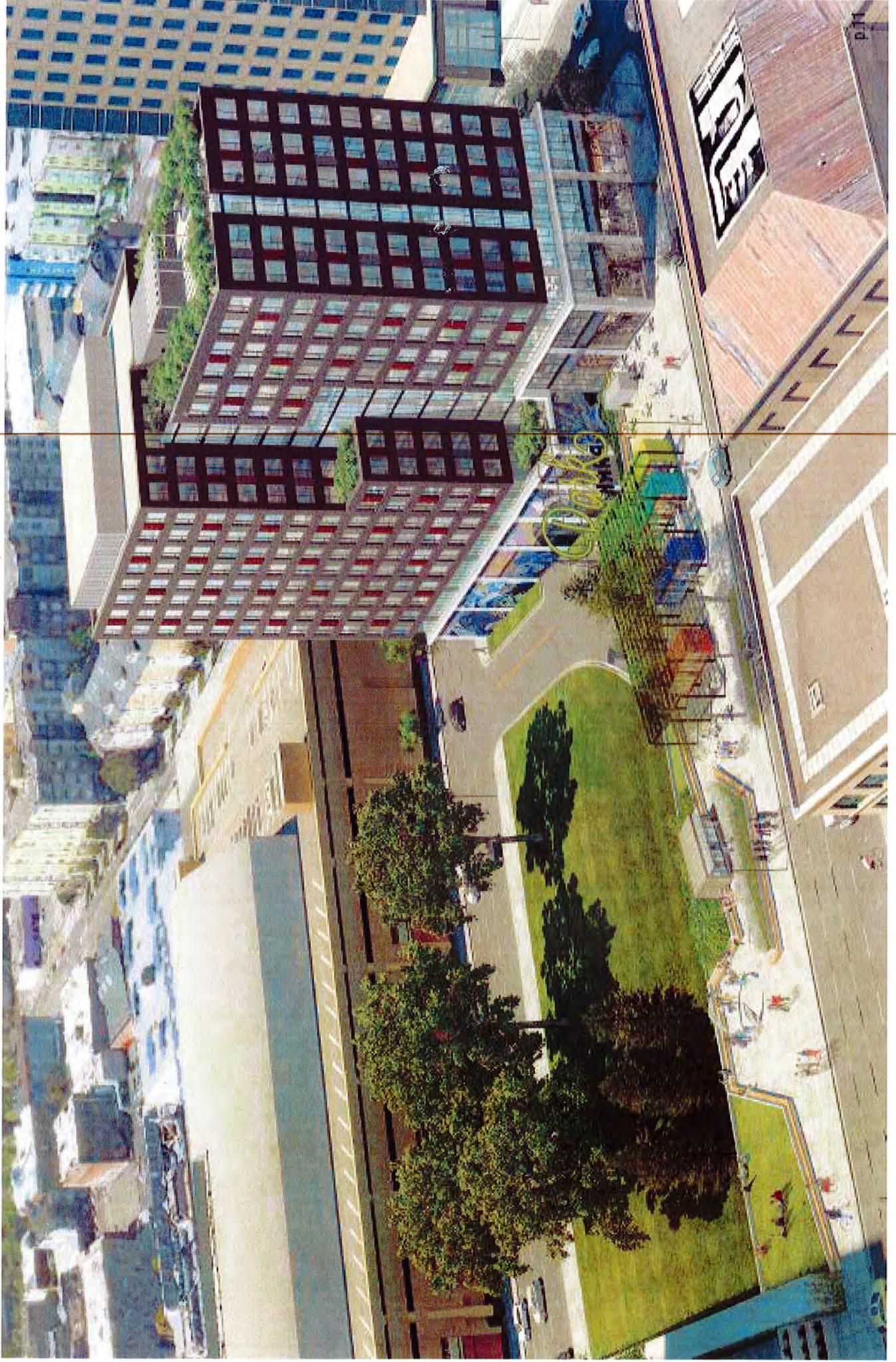
# T-5/6 Phase I Typical Unit Floor Plan



16% Studio  
 56% 1 Bedroom  
 28% 2 Bedroom

736 SF  
 Average Unit Size

T-5/6 Phase I Residential Development



T-5/6 Phase II Development – Residential + Hotel

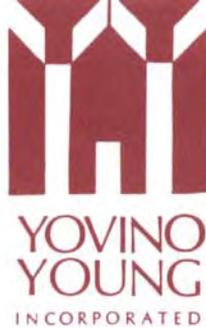


**EXHIBIT D**

**TAX ANALYSIS**

Benefit Analysis	Site A Residential	Site B Hotel	Total
Construction Jobs	249	156	405
Permanent Jobs	22	113	135
Annual Property Tax (1%)	\$315,887	\$214,676	\$530,563
Annual Property Tax (Other)	\$181,145	\$123,106	\$304,251
Annual Sales Tax	\$29,700	\$39,600	\$69,300
Annual Business Tax	\$123,304		\$123,304
Annual Transient Occupancy Tax		\$1,829,918	\$1,829,918
Total Annual Tax Revenue	\$650,036	\$2,207,300	\$2,857,336
Long Term Tax Benefits			
Year	Site A Residential	Site B Hotel	Total
1 2015	\$0	\$0	\$0
2 2016	\$0	\$0	\$0
3 2017	\$0	\$0	\$0
4 2018	\$0	\$0	\$0
5 2019	\$650,036	\$0	\$650,036
6 2020	\$663,037	\$0	\$663,037
7 2021	\$676,297	\$2,207,300	\$2,883,597
8 2022	\$689,823	\$2,251,446	\$2,941,269
9 2023	\$703,620	\$2,296,475	\$3,000,095
10 2024	\$717,692	\$2,342,404	\$3,060,097
20 2034	\$874,863	\$2,855,378	\$3,730,241
30 2044	\$1,066,453	\$3,480,690	\$4,547,143
40 2054	\$1,300,000	\$4,242,941	\$5,542,942
50 2064	\$1,584,693	\$5,172,122	\$6,756,815
Total over 50 Years	\$48,317,543	\$153,413,215	\$201,730,758
Net Present Value (Discounted at 6%)			\$42,419,901

**EXHIBIT E**  
**APPRAISAL**



**APPRAISAL REPORT**  
**City Center Parcel T-5/6**  
**11<sup>th</sup> Street**  
**Oakland, California**  
**Assessor's Parcels:**  
**002-0097-038**  
**002-0097-039**  
**020-0097-040**  
**July 8, 2015**

G. MICHAEL YOVINO YOUNG  
MAI, SRA, ASA, FSVA  
PRESIDENT



ALISON J. F. TEEMAN  
LLB  
VICE-PRESIDENT

July 8, 2015

**James Golde**

Manager of Real Estate Services  
Project Implementation  
City of Oakland  
250 Frank H. Ogawa Plaza  
Oakland, California 94612 - 2033

**APPRAISAL REPORT**

Re: Oakland Parcel T-5/6  
11<sup>th</sup> Street  
Oakland, California

Our Reference No. 150387

**Dear Mr. Golde:**

At your request and authorization, we have completed appraisals of the above referenced properties (under the ownership of the City of Oakland) which consist of three legal parcels, referred to below, and further described herein:

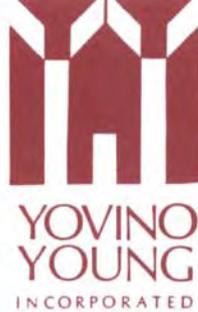
- 1) Site A; APN 002-0097-0038 - Gross Area: ±29,901 [ ]<sup>2</sup>; fronting on 11<sup>th</sup> Street, Clay Street, and 12<sup>th</sup> Street. Net buildable [ ] = ±16,985 [ ]<sup>2</sup>
- 2) Site B; APN 002-0097-0039, APN 002-0097-0040; ±24,538 [ ]<sup>2</sup>; fronting on 11<sup>th</sup> Street.

This appraisal report updates our prior appraisal, dated effective August 1, 2014, and contains by reference all descriptive and factual data (updated as necessary), along with additional market data and analysis, limiting conditions, and definition of market value. Therefore, it is assumed that the reader will have a copy of the prior report, without which this appraisal report cannot be properly understood.

The purpose of the appraisals is to form an opinion of each property's market value and fair market rental value (assuming specific land lease terms) as of a current date, assuming "as is" condition, and subject to various extraordinary assumptions enumerated herein. The function of this appraisal is to assist the intended user, the City of Oakland, in negotiating the proposed purchase of the property by Strada Investment Group. **(continued)**

To: James Golde  
Re: 11<sup>th</sup> Street, Oakland

Page 2  
7/8/2015



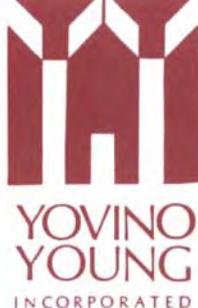
These appraisals are communicated in an Appraisal Report, as defined and regulated in Standard Rule 2-2 of the Uniform Standards of Professional Appraisal Practice (USPAP), effective January 1, 2014. It has been performed in accordance with standards and requirements of USPAP, and with the Code of Professional Ethics of the Appraisal Institute.

The appraisals are subject to the following extraordinary assumptions:

1. The property is assumed to consist of two sites potentially suitable for development: Site A; 1114 Clay Street (APN 002-0097-038), and Site B; 498 11<sup>th</sup> Street (APNs 002-0097-039, 002-0097-040)
2. Development of both sites is limited by prior encumbrances to improvements with a maximum height of 150 feet.
3. Parcel 002-0097-038 (aka Site A) is assumed to consist of that portion of the parcel exclusive of those areas lying above the City Center Garage, though may be included when calculating the number of residential units on the buildable area of this parcel.
4. Parcels 002-0097-039 & 002-0097-0040 (aka Site B) are assumed to be developable with improvements which can be oriented toward (and have a main entrance facing) 12th Street, while retaining frontage on 11th Street.
5. Those aforementioned areas of Parcel 002-0097-038 above the Garage structure, and fronting on 12th Street, are assumed to have the capacity to support surface uses such as parks and/or other open space, as well as vehicular access off of 12th Street to Site B. It is further assumed that these areas will effectively be subject to non-exclusive public access easements for open space and/or access to Site B.
6. It is assumed that Parcel 002-0099-01-1, which encompasses the driveway entrance ramp to the City Center Garage, can be bridged in order to provide vehicular and pedestrian access from 12th Street to Site B. It is further assumed that neither the costs of bridging the driveway, nor the costs of acquisition of the necessary air rights to do so, will be considered in the appraisal. However, the appraisal will assume that these rights can be acquired, and that the bridging can feasibly be accomplished, as part of an otherwise normal development of Site B to its highest and best use.
7. It is assumed that the current driveway access across Site A between the garage entrance/exit ramp and Clay Street will be closed.

To: James Golde  
Re: 11<sup>th</sup> Street, Oakland

Page 3  
7/8/2015



8. It is assumed that in the course of development of both Site A and Site B to their respective highest and best use(s), that all existing trees on the property(s) will be removed.

9. It is assumed that both Site A and Site B will have access rights over the intervening underground garage driveway to subterranean parking facilities on each Site.

Based on this investigation and analyses, it is our opinion that the market value of the Fee Simple Interest in the properties, and their respective market rental values assuming encumbrance with 66 year lease contracts, in "As Is" condition, as of June 1, 2015, and subject to the aforementioned Extraordinary Assumptions and the General Assumptions and Limiting Conditions contained in Section 4 of this report, is as follows:

Premise	Property Rights	Value
1a) Site A Market Value	Fee Simple	\$3,350,000
1b) Site A Rental Value	Leasehold	\$ 251,250
2a) Site B Market Value:	Fee Simple	\$4,100,000
2b) Site B Rental Value:	Leasehold	\$ 361,500
3a) Site B Market Value (assuming hotel):	Fee Simple	\$3,100,000
3b) Site B Rental Value (assuming hotel):	Leasehold	\$ 232,500

Thank you for providing us this opportunity to be of service. We will retain all relevant data and research material in file should you require further appraisal services concerning this property.

Very truly yours,  
YOVINO-YOUNG, INCORPORATED

  
Peter D. Overton, MAI  
Principal Appraiser  
Certified General RE Appraiser  
California State License No. AG002631

  
Michael Yovino-Young, MAI, ASA, FRICS  
Supervisory Appraiser  
Certified General Real RE Appraiser  
California State License No. AG002841

Attachments  
PO:po

**EXHIBIT F**  
**REUSE APPRAISAL**



**KEYSER MARSTON ASSOCIATES™**  
 ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

**ADVISORS IN:**  
 REAL ESTATE  
 AFFORDABLE HOUSING  
 ECONOMIC DEVELOPMENT

**To:** Patrick Lane  
 City of Oakland

**SAN FRANCISCO**  
 A. JERRY KEYSER  
 TIMOTHY C. KELLY  
 KATE EARLE FUNK  
 DEBBIE M. KERN  
 REED T. KAWAHARA  
 DAVID DOEZEMA

**From:** Tim Kelly

**Date:** June 23, 2015

**Subject:** City Center Parcel T 5/6 Site B

**LOS ANGELES**  
 KATHLEEN H. HEAD  
 JAMES A. RABE  
 GREGORY D. SOO-HOO  
 KEVIN E. ENGSTROM  
 JULIE L. ROMEO

In accordance with your request, Keyser Marston Associates, Inc. (KMA) has evaluated the ability of a proposed hotel on City Center Parcel T 5/6 Site B to support the appraised value of \$3.1 million as determined by Yovino Young in August 2014. The developer of the proposed hotel is Strada. The preliminary findings of our analysis and recommendations are summarized in this memorandum.

**SAN DIEGO**  
 PAUL C. MARRA

**A. Hotel Proposal**

The hotel proposal is anticipated to be a 225 key property with an upper upscale national affiliation. Strada retained PKF to prepare a market demand analysis and revenue projections. PKF is a nationally recognized hotel consulting firm. Its reports on market demand and revenue projections are frequently used in assessing demand and revenue projections. The following summarizes PKF recommendations.

PKF was given the parameters of 150 foot height limit, parking and access rights, and union labor requirements.

	<b>Stories</b>	<b>Keys</b>	<b>Hotel Investment</b>	<b>Prospective Brand</b>
Strada Proposal	>10	225	\$75 million	AC Hotel or Moxy by Marriott Canopy or Embassy Suites by Hilton Hyatt Centric by Hyatt

1. *Hotel Market Conditions*

PKF states in its April 2015 draft report, "We are of the opinion that the addition of the opening of the proposed hotel will not have any material impact on the overall market's performance; in fact, the City of Oakland is under-served with regard to hotel supply and generates a significant amount of unsatisfied demand that is displaced to other markets throughout the Bay Area." (Page 6) As Strada states, PKF ranks the T-5/6 site as "excellent" in terms of accessibility, proximity to demand, and long-term strategic potential. Proposed hotel will be served by BART and freeways and is expected to have identity from surrounding thoroughfares given its height.

2. *Hotel Anticipated ADR, Occupancy Level and RevPar*

PKF projected the following for ADR, occupancy level, and RevPar.

<b>Proposed Hotel</b>	<b>ADR</b>	<b>Occupancy</b>	<b>RevPar</b>
<i>PKF Projection</i>			
2018	\$214	74%	\$157.91
2019	\$220	80%	\$176.80
2020: Stabilized year	\$227	80%	\$182.43
2021	\$234	80%	\$188.05
2022	\$241	80%	\$193.68

3. *Hotel Anticipated Operating Performance*

The following summarizes the PKF revenue and EBITDA (earnings before interest taxes, depreciation and amortization) projections per key and operating profit margin. An important point is the projection anticipates a union operation.

	<b>Revenue Per Key</b>	<b>EBITDA Per Key</b>	<b>EBITDA / Revenue</b>
2020	\$80,781	\$25,455	31.5%

Deducted from the EBITDA is a 3% FF&E reserve. The resultant net cash flow is 28.5% of revenue. Per key, the net cash flow is \$23,032.

In conclusion, the revenue projection has been prepared by a highly reputable third-party consultant. Based on KMA review of other recent hotel proposals in downtown Oakland, the PKF projections are reasonable.

4. *Land Payment to City*

Yovino Young appraised the parcel in August 2014 with a value of \$3.1 million with a hotel land use.

5. *Hotel Anticipated Investment*

As proposed, the hotel will be an upper upscale, limited service hotel with 225 keys. Parking in the existing garage will be used and, therefore, there is no parking cost,

Strada has estimated that hotel development costs will total approximately \$75 million, which translates into \$333,333 per key. In preparing this budget estimate, Strada consulted with Pankow Construction to provide preliminary conceptual costs. Pankow is well known construction firm and is experienced in the Bay Area.

As detailed in the table attached to this memorandum and summarized in the table below, hard construction costs (including retail, escalation and contingencies) are estimated to total \$52.86 million or \$234,948 per key based on the construction cost budget prepared by Pankow. Soft costs and financing costs are estimated to account for approximately 25% of hard total development costs. These costs are not atypical for hotel developments.

In conclusion, the hotel will be expensive to build due to site constraints, the hotel's design, and rapidly escalating construction costs. The cost estimates have been prepared by a highly reputable third-party contractor. Additionally, the soft cost estimates are not unreasonable.

The following table summarizes the total hotel investment, including land and excluding parking:

	<b>Anticipated Investment</b>	<b>Investment Per Key</b>
Proposed Hotel		
Land + Closing	\$3,300,000	\$14,667
Hard Cost (approximate)	\$52,863,223	\$234,948
FFE + OS&E (approximate)	\$5,625,000	\$25,000
Soft Cost (approximate)	\$11,106,503	\$49,362
Financing Cost (approximate)	<u>\$2,097,155</u>	<u>\$9,321</u>
	\$74,991,878	\$333,298
Rounded:	\$75,000,000	\$333,333

*6. Feasibility of Hotel*

Financial feasibility has been measured based on a comparison of the anticipated financial returns to be generated by the hotel to current market investment requirements. Anticipated financial returns have been evaluated based on an assessment of anticipated development costs, operating projections, return on cost, and market capitalization rates. Current market return requirements reflect published investor surveys and KMA's current experience with other mixed-use projects.

A stabilized return on cost in the range of not less than 7.5% to 8.5% would be required by investors and some investors seek higher returns. Analysis of the anticipated hotel results in a return on cost of 6.9%. This return is below the targeted return requirement. Therefore, alternative financing sources needs to be evaluated.

	<b>Estimated Cash Flow</b>	<b>Estimated Investment</b>	<b>Return on Cost</b>
Proposed Hotel	\$5,198,286	\$74,991,885	6.9%

*7. Alternative Sources of Financing*

To enhance feasibility, other sources of financing are necessary. The following are the possibilities but these sources and the amounts of money from the sources are not guaranteed and require further research.

- a. New Market Tax Credits (NMTC): Since the City is a CDE, this source of financing is well understood. Possible funding from this source (net) might be \$2 million.
- b. "Key money", as explained by the developer, is common in extremely competitive hotel submarket.
- c. EB 5 Financing Program for Qualified Job Creation Project:
  1. The program produces a \$1.0 million contribution for each 10 full-time jobs, unless the project is in a "targeted employment area", then the contribution is \$500,000. If the investor invests their capital through a "Regional Center", then the number of jobs can include both direct and indirect (multiplier) employment.
  2. Evaluation of the potential EB-5 funding for the project requires preparation of material for an Offering Package, including:
    - a. Pro forma cash flow model
    - b. Proposed sources and uses of funds
    - c. Development timeline
    - d. Business plan

- e. Market information
- f. Relevant risk factors to the project's timing, funding, and feasibility

*8. Reduced Number of Keys*

Another approach to bring funding into balance is to reduce costs. In this regard, consideration might be given to reducing the number of keys and reducing the construction costs. Recent hotel proposals in downtown Oakland are summarized in the table below and demonstrate interest in developing hotels with less than 200 keys.

	<b>Keys</b>	<b>Prospective Brand</b>
Proposal A	168	Charlie Palmer Hotels
Proposal B	136	"Art Hotel"
Proposal C	115	Corporately Owned
Proposal D	168	Joie de Vivre, Thompson, Tommie

**B. Residential Tower as Alternative Land Use**

A residential project as an alternative land use is being considered. It is anticipated to be approximately 225 units in a 150 foot, 13 story tower. Based on KMA's review of recent residential development proposals in downtown Oakland and given the strength of the residential market in general, KMA believes at this early conceptual stage that an apartment project could be conventionally financed without requiring alternative sources of financing as discussed with the hotel project.

The residential project may need to be an all market rate project to support the appraised land value by Yovino Young, which we understand to be approximately \$3.35 million. At this time, there is not sufficient information available to determine what the financial contributions might be for affordable housing and community benefits.

**HOTEL PROPOSAL: CITY CENTER PARCEL T-5/6 SITE B**

<b>Program</b>		<b>GSF</b>					
Hotel		123,750					
Retail		8,000					
Building Total		131,750					
Hotel		225	Keys				
		586	GSF Per Key				
Parking		0	Spaces				
<b>Development Costs</b>							
<u>Hard Costs</u>				<u>Per GSF</u>	<u>Per Key</u>	<u>Total</u>	
Hotel Construction (incl Site Work)	\$345	Per Hotel GSF		\$324	\$190 K	\$42,728,750	
Retail Construction	\$150	Per Retail GSF		\$9	\$5 K	\$1,200,000	
Retail TI+LC	\$81	Per Retail GSF		\$5	\$3 K	\$648,000	
Parking Construction	\$0	Per Space		\$0	\$0	\$0	
12th St Podium Improvements	\$6	Per Bldg GSF		\$6	\$3 K	\$750,000	
Escalation	\$19	Per Bldg GSF		\$19	\$11 K	\$2,441,298	
Contingency	\$39	Per Bldg GSF		\$39	\$23 K	\$5,095,175	
<b>Total Hard Costs</b>	<b>\$401</b>	Per Bldg GSF		<b>\$401</b>	<b>\$235 K</b>	<b>\$52,863,223</b>	
Hotel FF&E + OS&E	\$45	Per Hotel GSF			\$25 K	\$5,625,000	
<u>Soft Costs</u>							
Entitlement Costs	2%	of Hards			\$4 K	\$1,000,000	
Operating Losses	0%	of Hards			\$0	\$0	
Other city fees (allowance)	2%	of Hards			\$6 K	\$1,250,000	
Architects & Consultants	6%	of Hards			\$14 K	\$3,216,852	
Legal	1%	of Hards			\$1 K	\$300,000	
Property Taxes	0%	of Hards			\$0 K	\$67,960	
Admin & Misc	0%	of Hards			\$1 K	\$166,667	
Insurance	2%	of Hards			\$5 K	\$1,169,764	
Marketing	1%	of Hards			\$3 K	\$750,000	
Development Fee	5%	of Hards			\$12 K	\$2,656,379	
Contingency	1%	of Hards			\$2 K	\$528,881	
<b>Total Soft Costs</b>	<b>21%</b>	of Hards			<b>\$49 K</b>	<b>\$11,106,503</b>	
<u>Financing Costs</u>	<u>4%</u>	of Hards			<u>\$9 K</u>	<u>\$2,097,159</u>	
<b>Total Development Cost BEFORE Land</b>	<b>\$544</b>	Per Bldg GSF			<b>\$319 K</b>	<b>\$71,691,885</b>	
<u>Land Costs</u>							
Land Acquisition	\$24	Per Bldg GSF			\$14 K	\$3,100,000	
Entitlement Fees	\$0	Per Bldg GSF			\$0	\$0	
Closing Costs	\$2	Per Bldg GSF			\$1 K	\$200,000	
<b>Total Land Costs</b>	<b>\$25</b>	Per Bldg GSF			<b>\$15 K</b>	<b>\$3,300,000</b>	
<b>Total Development Cost INCLUDING Land</b>	<b>\$569</b>	Per Bldg GSF			<b>\$333 K</b>	<b>\$74,991,885</b>	
<b>Net Operating Income</b>							
<u>Hotel</u>	<u>ADR</u>	<u>Occ.</u>		<u>POR</u>	<u>Per Key</u>	<u>Total</u>	
Room Revenue	\$227	80%		\$181	\$66 K	\$14,900,760	
F&B	\$30	POR		\$24	\$9 K	\$1,980,272	
Other Operated Departments	\$15	POR		\$12	\$4 K	\$990,136	
Other Revenue	\$5	POR		\$4	\$1 K	\$304,657	
<b>Total Revenue</b>				<b>\$221</b>	<b>\$81 K</b>	<b>\$18,175,825</b>	
Margin	31.6%			(\$151)	(\$55 K)	(\$12,432,264)	
FF&E Reserve				(\$7)	(\$2 K)	(\$545,275)	
<b>NOI - Hotel</b>				<b>\$63</b>	<b>\$23 K</b>	<b>\$5,198,286</b>	
<u>Retail</u>							
<b>Net Operating Income</b>					<b>\$23 K</b>	<b>\$5,198,286</b>	
<b>ROC</b>						<b>6.9%</b>	