



MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Alexa Jeffress, Director
Economic and Workforce
Development Department

SUBJECT: 2100 Telegraph Project Update

DATE: June 1, 2020

City Administrator
Approval

Date
June 1, 2020

INFORMATION

This memo is prepared in response to a City Council request received during the May 5, 2020 closed session meeting, during which staff was asked to provide an update on the status of the 2100 Telegraph Project.

Background

The City of Oakland and W/L Telegraph Owner, LLC (“Developer”) entered into a Disposition and Development Agreement (DDA), dated July 16, 2019, pursuant to Ordinance No. 13558 C.M.S., for the sale of City-owned property located at 2100 Telegraph (the “Property”, as shown on **Attachment A**) for net sales proceeds of at least \$22.4 million, which is the fair market value of \$28 million less site preparation costs of up to \$5.6 million. The Property is a former Redevelopment site on the Long-Range Property Management Plan, and 100% of any sale proceeds must be used for a redevelopment purpose. The Developer plans to acquire two adjacent sliver parcels, currently owned by the City, and merge the Property with other surrounding Developer-owned parcels to create a full square-block site on which to construct one of two development scenarios including up to 1.5 million square feet of large floor-plate office space, up to 80,000 square feet of ground floor retail, up to 22,000 square feet of community space and an optional 365,000 square-foot residential tower with approximately 400 units of market-rate housing (the “Project”).

Project Status

Kaiser Permanente

In June 2019, prior to execution of the DDA, Kaiser Permanente (“KP”) announced its intention to enter into an agreement with the Developer to acquire the Project to develop its new national headquarters. In the process, KP would vacate five downtown Oakland office buildings and consolidate all administrative functions at the Project site, which KP dubbed the Thrive Center.

Pursuant to the terms of the DDA, KP was not a party to the agreement between the City and the Developer, and would not become party to any terms unless and until the executed DDA was assigned to KP in accordance with permitted transfer language therein. In anticipation of a request to transfer, staff worked with on-call financial consultants to evaluate KP’s financial strength and development experience, and found that KP meets the requirements of a Permitted Transferee under the DDA.

In mid-March 2020, KP announced it would no longer pursue the Project as its national headquarters, citing rising development costs and construction schedules.

Moving Forward

The Developer has stated that it remains committed to the Project. With the uncertainties caused by the COVID-19 pandemic, marketing to potential tenants has mostly been put on hold as all parties in the market are waiting to see how the demand for office space will change post-COVID-19. It is possible the Developer will come back to the City with a request to modify certain aspects of the Project design in response to new workplace norms.

Under the DDA terms, the Developer has three years, or until July 16, 2022, to commence construction, with four 1-year extension options, potentially extending the groundbreaking to July 2026. The next Project deliverable is an itemized operating budget and 20-year cashflow projection, due by December 16, 2020.

22nd Street Right-Of-Way Parcels

The approved Project plans include construction of improvements over two small parcels along 22nd Street within the City's right-of-way, shown as Parcel 1 and Parcel 2 on **Attachment B** ("the sliver parcels").

A Final Planned Unit Development (P.U.D.) plan was adopted by the Planning Commission on July 18, 2018. Condition of P.U.D. Approval #19 requires the Developer to work with the City to vacate the public street right-of-way, and acquire the underlying land, about 3,000 square feet in total. A Broker's Opinion of Value estimates the fair market value of the sliver parcels to be \$792,000.

The Developer recently confirmed their intent to purchase the 22nd Street parcels, and have submitted an application to vacate the City's right-of-way. A survey revealed a Comcast line running under Parcel 2 which may need to be relocated. The Developer is waiting for Comcast to provide additional information from Comcast to confirm its exact location, which is currently delaying them from moving forward with the street vacation.

A draft Purchase and Sale Agreement has been negotiated with the Developer to acquire the sliver parcels and will be presented to City Council for approval as soon as possible. Approval of the street vacation will be sought at the same time. This transaction is separate from, and outside the terms of the DDA.

Major DDA Terms

The following provides a brief overview of the main business terms for the transaction:

Conveyance Price

The conveyance price is \$28 million, which is the appraised fair market value. A portion of the sale proceeds will be held back in escrow for garage demolition and soil remediation costs (up to \$3.7 million and \$1.9 million, respectively) for minimum net sale proceeds of \$22.4 million.

DDA Term and Extension Fees

The Developer will have three years, or until July 16, 2022, to commence construction, with four 1-year extension options. The Property appraisal will be updated with each extension request, and the conveyance price will be adjusted accordingly, but in no event will it be less than \$28 million.

Each extension request will require payment of graduated extension fees as follows: \$300,000 for the first extension; \$500,000 for the second; \$700,000 for the third; and \$900,000 for the fourth extension.

Site Conveyance

The Property shall be conveyed when the Developer provides written notice to the City that 100% complete construction drawings have been submitted to the City for review in its regulatory capacity and building permits are ready for issuance, but for approval of the Final Map for the merger of all parcels.

Permitted Transfers

Transfer of the DDA, its rights and obligations, to another developer will be permitted upon approval by the City Administrator of the Permitted Transferee's proven financial strength and experience to complete the Project per the terms of the DDA, or to an owner/user with a qualified construction manager.

Completion Guaranty

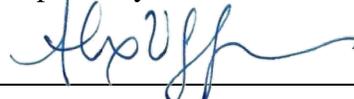
The Developer will be required to provide a completion guaranty for 100% of the total development costs, less any predevelopment work completed prior to the DDA term. The completion guaranty shall be provided by an entity able to pledge assets of at least 40% of the construction and remaining predevelopment costs.

Local Hire/ Project Labor Agreement/Workforce Development Contribution

The Developer shall comply with the City's Local Hire and Small/Local Business Enterprise Programs (the "City Programs"), which require at least 50% of jobs to be local. Penalties for noncompliance shall not exceed \$10 million if the Developer follows all program procedures. The City Programs will continue to apply to Project operations (property management, maintenance, engineering, parking operations, etc.) for positions not already filled by existing employees for five years from the date of occupancy, although this term will not apply if the Project is sold to an owner/user.

Developer shall make best efforts to negotiate a Project Labor Agreement ("PLA"). Developer shall also contribute \$2 million to the City to support workforce development programs for Oakland residents.

Respectfully submitted,



ALEXA JEFFRESS
Director, Economic and Workforce
Development Department

For questions, please contact Jens Hillmer by phone at (510) 238-3317 or by email at jhillmer@oaklandca.gov.