

Meeting Date: 7/10/07

AGENDA REPORT

Agenda Item # 5c

Santa Clara

City of Santa Clara, California



DATE: July 6, 2007

TO: City Manager/Executive Director for Council/Redevelopment Agency Action

FROM: Assistant City Manager

SUBJECT: Joint Council and Redevelopment Agency "Committee of the Whole" regarding the San Francisco 49ers Stadium: City staff presentation of options and issues pertaining to the potential development of the 11-acres to the east and west of Centennial Boulevard along Stars and Stripes Drive; Recommendation to refer to the City Manager to include the Keyser Marston Associates Study in the Stadium Feasibility Study

EXECUTIVE SUMMARY:

Overview

As part of their stadium financing proposal presented at the April 24th Council meeting, the San Francisco 49ers requested a \$160 million City/Agency contribution to the \$853 million cost of stadium construction, plus constructing a parking structure and relocation of the Tasman Substation. The City is continuing the feasibility study process, and no commitment has been made to date to a stadium project nor has there been a commitment to any level of funding. As a part of the feasibility study, staff has been reviewing various financing alternatives over the past few months and will bring selected alternatives to the Committee of the Whole for review in the future, when various studies are completed. One of the possible financing options under consideration is the use of City-owned land that, through long-term lease revenue production, could be used to secure financing for a portion of the stadium construction cost.

Background

Throughout the decades of the 1960's and 1970's, Santa Clara acquired approximately 300 acres of land in the City's North Bayshore area, bounded by Mission College Boulevard to the south, Great America Parkway to the west, Highway 237 to the north and the Guadalupe River to the east. In the early acquisition period, property was acquired for future City landfill and electric utility facility needs. One of the later land acquisitions involved the purchase of a private golf course where half of the property was converted to an apartment development under ground lease with the remaining property (40 acres) left as open space. Of the approximate 300 acres initially acquired by the City, 14 acres remain without some form of contractual obligation encumbering the property. Approximately 11 of the remaining 14 acres are sited in front of the City's Golf and Tennis Club with Tasman Drive to the south, San Tomas Creek to the west, and Stars and Stripes Way to the north and east (refer to Exhibit 1 and 1A), and are typically referred to as three separate parcels:

- Parcel 1- an approximate 3.1 acre site on the east side of San Tomas Creek. This parcel has been targeted for a number of years as the location for a 1,600 space structured parking garage to support Convention Center activities. The 49ers have requested that the nearly \$42 million funding for this garage be reallocated to a garage structure to support the proposed stadium, located across Tasman in the Great America Theme Park parking lot. Given the planned expansion of the Convention Center with a new ballroom addition, it is felt that this parcel should be held into the future for a parking structure, if and when financing for this garage can be identified.
- Parcel 2 – an approximate 3.2 acre site in front of David's Restaurant to the west of Centennial Boulevard. At one time this site was looked at for a 150-room hotel, but with the severe economic downturn commencing in 2001, the developer was not able to deliver the project.
- Parcel 3 – an approximate 4.4 acre site in front of David's Banquet Facility to the east of Centennial

Boulevard. At one time this site was looked at for a 150,000 square foot office project, but again the economic downturn did not allow the project to go forward.

The remaining parcel is on the southwest corner of Tasman Drive and Centennial Boulevard (refer to Exhibit 1 and 1A):

- Parcel 4 – this 3.2 acre parcel adjoins a portion of the Great America Theme Park overflow parking lot. This acreage has been used historically to provide flex space for parking needs either at the Theme Park or the Convention Center. This particular parcel is not necessary to provide the required 8,100 parking spaces for the Theme Park under the Cedar Fair lease and has been looked at for possible development at different times. Given the continuing parking needs in this area generally, and that this parcel is included as proposed stadium parking, it is felt that this parcel should continue to serve as flex parking space.

Policies Related to Property Management

Historically the City Council has supported the concept of ground leasing publicly owned properties for long periods (55, 75 and 99 year lease terms for the most substantial properties) versus selling the land. This produces long-term income streams to the General Fund, the eventual beneficiary of all ground leasing activity, whether the lease originated from the City's Sports and Open Space Authority or its Redevelopment Agency. The General Fund received nearly \$14 million from ground leasing activity in fiscal 2006/2007 (refer to Exhibit 2). Ground lease revenue is the third largest source of General Fund revenue after sales tax and property tax. Ground lease revenue was 28% greater than the General Fund's fourth highest revenue stream, transient occupancy (hotel) tax, this past fiscal year.

Ground lease revenue is one of the City's few locally controlled revenue streams. Where the State of California has used cities' property tax, sales tax and vehicle license fees to balance the State budget for many years, City of Santa Clara ground lease revenues are under the control of the City Council only, and are one of the most secure revenue streams available to the General Fund.

Council has followed a set of principles in ground leasing public property that has served the community well for decades:

- Ground lease public property at fair market value. Different project types (office, hotel, restaurant, recreation, etc.) will hold different market valuations, but the appropriate fair market value will be sought for each of the project types.
- Do not subordinate the land or lease rents to project financing. If a lessee defaults on payment or performance, the City can act on a breach of the lease, but in no case does the City risk the loss of public property to a lessee's financing arrangements.
- The lessee must have strong financial backing. Most ground lease transactions involve a limited liability corporation or partnership as the lessee, but the City will ensure that there is strong financial backing underwriting the project.
- Maintain an ongoing public/private partnership with the lessee. The City has always honored its obligations to its lessees and ensures that there is a long-term, positive relationship between the parties.

Keyser Marston Associates Valuation Analysis

In order to evaluate the potential financing capability of the City's available land as a possible contribution to financing a 49ers stadium project, or for any other City purposes, Keyser Marston Associates (KMA), an advisor in land use economics and fiscal analysis, prepared a study of the potential valuation of the 7.6 acre area in front of the City's Golf and Tennis Club. This area is comprised of a 3.2 acre parcel to the west of

Centennial Boulevard and a 4.4 acre parcel to the east of Centennial Boulevard. KMA's study is attached (refer to Exhibit 3).

KMA determined that under a 99-year ground lease assumption, leasing revenue streams approximate fee title transfer, therefore KMA's valuation pertaining to lease returns are equivalent to anticipated land sale proceeds. KMA determined that fair market value would be in the range of \$50 to \$70 per square foot, or a range of \$17 million to \$24 million for the 7.6 acres. In this valuation range, staff would typically anticipate annual lease revenues, from an office project as an example, in the range of \$175,000 to \$250,000 per acre at commencement of the lease.

ADVANTAGES AND DISADVANTAGES OF ISSUE:

Understanding the value of available City-owned land possibly committed to a proposed stadium project, or other possible City uses, is necessary in making strategic decisions as to the best mix of financial resources put towards future development opportunities. Although the City has not decided to move forward with a stadium project, understanding the options is helpful. It may be determined that not all of the available 7.6 acres should be committed to a stadium financing proposal or that some portion of the anticipated revenue from development of the acreage should benefit the General Fund on an on-going, annual basis. The amount and make-up, if any, of the requested public contribution to a 49ers stadium is still under staff review and analysis. The KMA report provides valuable data in formulating potential funding options.

ECONOMIC/FISCAL IMPACT:

In order for the Council and community to make informed decisions as to the use of publicly owned land, it is helpful to have a highest-and-best use analysis of the value of those particular properties. In addition, it is important to understand the role that City-controlled ground leasing plays in providing economic resources in support of critical General Fund activities.

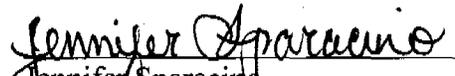
RECOMMENDATION:

It is recommended that the Council/Redevelopment Agency accept the Keyser Marston Associates study on the valuation of 7.6 acres of City-owned land adjacent to Tasman Drive and Centennial Boulevard and direct the City Manager to include Keyser Marston's study in the accumulated body of materials and information being used in the Stadium Feasibility Analysis.

APPROVED:

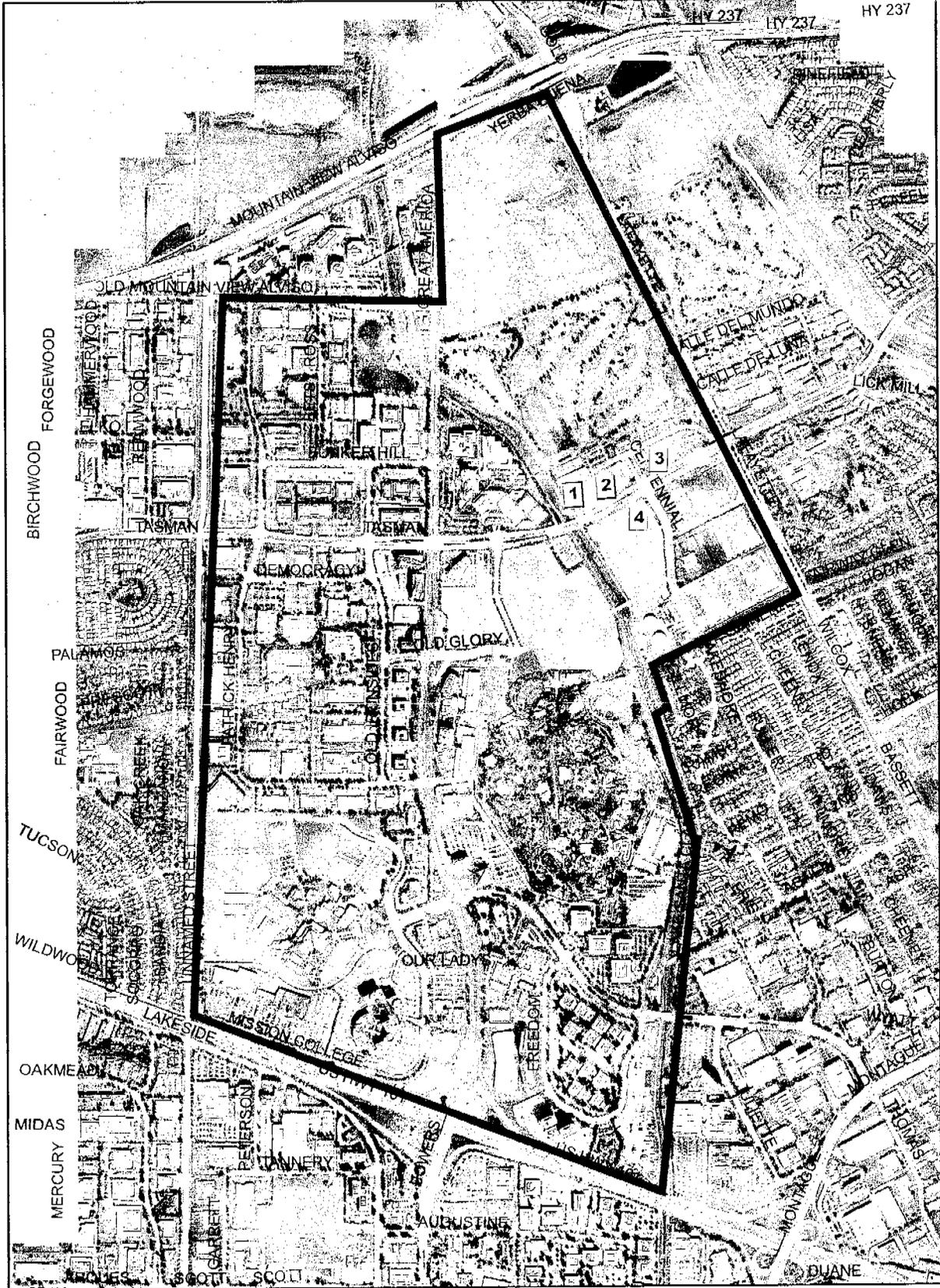


Ronald E. Garratt
Assistant City Manager


Jennifer Sparacino
City Manager/Executive Director
Redevelopment Agency

Documents Related to this Report:

- 1) Exhibit 1 – Site Map-North Bayshore Redevelopment Area
- 2) Exhibit 1A – Location Map of Four Parcels Of City-Owned Land
- 3) Exhibit 2 – Summary of 2006/2007 Ground Lease Revenues
- 4) Exhibit 3 - Keyser Marston Associates Analysis of the Valuation of City-Owned Property



Legend

-  RDA Boundry
-  Citylimit

North Bayshore RDA Aerial Map



- Parcel 1 - 3.1 acres (Proposed Convention Center Parking Garage site)
- Parcel 2 - 3.2 acres
- Parcel 3 - 4.4 acres
- Parcel 4 - 3.2 acres

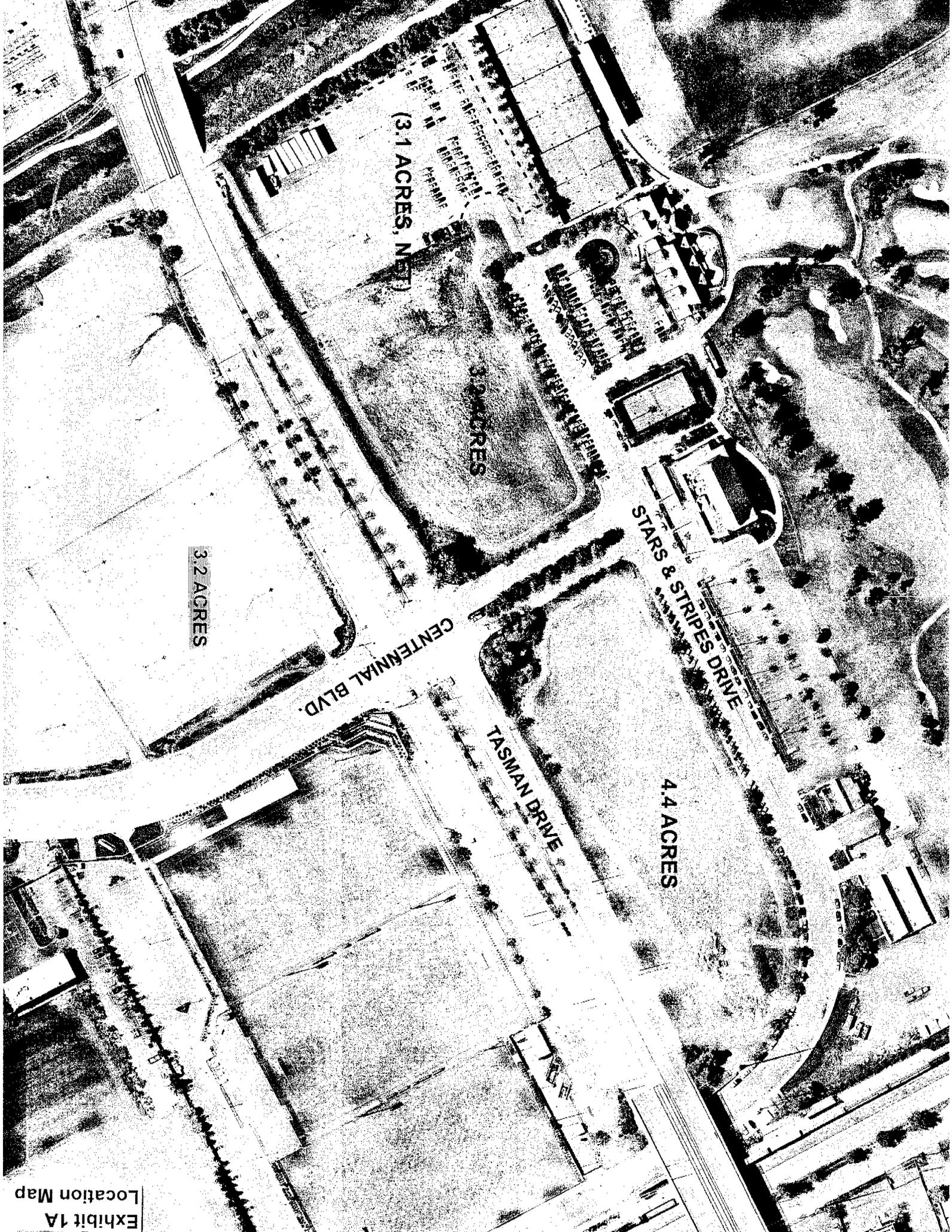
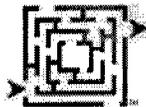


Exhibit 1A
Location Map

**City of Santa Clara
Annual Lease Revenues
FY 2006/2007**

TYPE OF LEASE	ANNUAL LEASE REVENUE	TOTALS
Entertainment/Sports		
Great America Theme Park	\$5,462,452	
Great America Parking	\$117,857	
49ers Training Center	\$22,732	
PAL/BMX Track	\$1,543	
<i>subtotal</i>		\$5,604,584
Office		
The Irvine Company	\$3,639,002	
TechMart	\$1,000,000	
Commerce Plaza	\$22,346	
Clay Street	\$1,200	
<i>subtotal</i>		\$4,662,548
Hotels		
Hyatt Regency Santa Clara	\$1,385,327	
Hilton Santa Clara	\$569,086	
<i>subtotal</i>		\$1,954,413
Housing		
Interland Apartments	\$1,236,804	
Gianera House (RDA pays rent to City)	\$24,000	
Questzal House (RDA pays rent to City)	\$24,000	
<i>subtotal</i>		\$1,284,804
Restaurants/Retail		
David's Restaurant	\$80,461	
David's of Santa Clara	\$100,541	
Fiorillo's Restaurant	\$39,600	
Peddlers Plaza	\$8,120	
City Hall Cafeteria	\$1,200	
<i>subtotal</i>		\$229,922
Cellular Telephone Sites		
Cingular (2 sites)	\$43,131	
Nextel	\$27,911	
T-Mobile	\$27,537	
Metro PCS	\$31,215	
<i>subtotal</i>		\$129,794
Miscellaneous		
Construction Staging Facility (end of Centennial)	\$36,000	
Pumpkin Patch/Christmas Tree Farm	\$20,000	
<i>subtotal</i>		\$56,000
Total		\$13,922,065



KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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SAN DIEGO
GERALD M. TRIMBLE
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To: Ron Garratt, Assistant City Manager
City of Santa Clara

From: Keyser Marston Associates, Inc.

Date: July 6, 2007

Subject: City-Owned Property/Vicinity Tasman Drive and Centennial Boulevard

This memorandum provides a summary of KMA's findings in respect to the proceeds that might be realized from sale or long term ground lease of approximately 7.6 acres of real property owned by the City of Santa Clara between Stars and Stripes Way and the San Tomas Aquino Channel, north of Tasman Drive and south of the Santa Clara Golf and Tennis Club.

Executive Summary

We have concluded that for planning purposes, a disposition price at fair market value could likely be in the range of \$50 to \$70 per square foot of site. Within these parameters, the 7.6-acre property could realize in the range of \$17 to \$23 million (rounded). For planning purposes, an estimate of \$21 million less the \$1 million for environmental remediation as noted below yields \$20 million.

These values are provided for planning purposes and do not constitute an appraisal of any property interests.

Properties

The property is nearly rectangular in shape and could be developed separately or as part of an integrated mixed use development. A minor amount of fill would be required to bring the properties to street grade.

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The property is now vacant except for the western-most parcel, which is used for surface parking related to the Convention Center. According to City staff, the following conditions are applicable: The property is not encumbered by leases, soils conditions appear adequate, and there is likely a shallow groundwater condition underlying the properties (at about 7-8 feet below the surface). Allowable building heights are reported as relatively unconstrained. Staff indicates that environmental remediation could cost about \$1 million, which is taken into account in the pricing reported in this memorandum.

Location of the properties on a major east-west arterial in the Golden Triangle, adjacent to transit and the Convention Center Complex, and in proximity of major Silicon Valley firms, is highly supportive of commercial development.

Highest and Best Use

We have been informed that development of residential uses on these properties is contrary to public policy; therefore, such uses could not qualify as the highest and best use. However, with the current relative lull in the housing market and the strengthening in commercial markets, the premium in land value for residential versus commercial, which has characterized the land market in the last several years, has substantially diminished or even been eliminated in some instances.

The most likely highest and best use of the properties is for development of fairly intensive commercial development, focused on office and/or hotel. Both markets are strongly recovering:

- *Office development* is strengthened by the recovery of employment in the tech sector and the diminishing supply of Class A space in the Silicon Valley. In Santa Clara, Yahoo, Citrix Systems, Hyperion Solutions, WebEx, and others have absorbed large amounts of office space. There has also been movement by developers and some users such as Omnivision to purchase and reposition existing properties for office. There has been active bidding for comparable properties that have recently been put on the market. The City's property could be positioned either for speculative office or (more likely) by an owner/user as a smaller corporate campus.
- *Hotel occupancy in the Santa Clara market* reached 68%, with Average Daily Room rates of \$123 per night in 2006, compared to 55% and \$105 for 2003, following the dot-com implosion in 2001. Therefore (considering both occupancy and rate), the hotel market has staged a nearly 50% recovery in revenue per available room in the last several years in response to stronger economic

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conditions in the Silicon Valley. The market has not, however, recovered to the extent that development proposals for hotels are in evidence in the Valley. The location of the properties near the Convention Center Complex is highly advantageous for hotel development.

An illustrative program for the properties north of Tasman would consist of development of say, two structures of about 10-12 stories, with a total of about 400,000 square feet, at an overall FAR of about 1.2. Parking would include surface, structure, and possibly limited subterranean elements.

Supportable Sales Proceeds

KMA has reviewed market transactions that have been occurring recently to derive an estimate of potential land sales proceeds, in respect to price per unit of land and per unit of FAR, with consideration of entitlement status and other factors affecting pricing.

The market indications include transactions for properties located in North San Jose, Santa Clara, Mountain View and Sunnyvale and involve market participants such as Philips Lumiled Lighting, Legacy Partners, BEA Systems, Tishman-Speyer, Hunter-Storm Properties, Adobe Systems, Lockheed Martin, and Hewlett Packard.

In view of the escalating market, transactions that occurred prior to 2006 were not evaluated as part of this assignment. Our review of market transactions suggests that pricing in the range of \$50 to \$70 per square foot of land could be supported for these properties. Based on data available to us, indicative market transactions such as the sales of the Philips Lumileds Lighting Company office site in North San Jose (Orchard Parkway) to Legacy Partners, the sale of the BEA Systems, Inc. office site on North First Street to Tishman Speyer and a recent transaction for HP land in Mountain View to a local developer, support the pricing range we have identified. Since the overall market for commercial land is trending up, there may be some prospects that marketing the property in a year or two could yield somewhat higher proceeds.

In providing these estimates we do not, of course, certify that these results will actually be achieved, since a variety of factors could affect the actual price.

Land Lease Considerations

For policy and financial reasons, many public land owners lease rather than sell land, and it has proved feasible for private developers to finance and construct major urban developments (with the notable exception of residential condominiums) on leased land.

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The longer the term of the land lease, the more that the land transaction will be deemed equivalent to fee. Based on KMA's experience with land lease situations, the minimum land lease term for high density urban development such as could occur on these properties would be about 65 years; with this term, there would be some discount to the land versus the value in fee. If the term were extended to 99 years, the difference in proceeds from sale of the fee versus a land lease would be minimal.

Public ground leases are almost always unsubordinated in respect either to the lessor's fee interest or to the payment of rent by the land tenant.

A fair lessor return from a ground lease is in the range of 8% to 10% of the value of the fee interest. Therefore, if the value of the properties were \$20 million, the land lease payment could be in the range of \$1.6 to \$2.0 million annually, with stipulated increases during the term.

One possibility for a land lease structure that has the goal of raising maximum upfront proceeds, would be conveyance of a prepaid 99-year ground lease. With this approach, proceeds close to fee value might be achieved.

A secondary option, which has been implemented by one client of KMA, would be to raise proceeds through placement of a traditional mortgage on the land lease income stream. This would be transparent to the land lessee, whose only obligation is to pay rent. It would be potentially attractive to a lender due to the high quality of a land lease income stream on a major urban project; financial participants in the project would not allow the ground lease to go into default. The potential benefit to the land lessor is that the cost of borrowed funds could be north of a hundred basis points less than the rate applicable to the ground lease payments, resulting in a leveraging of the lessor's position in the land. The specific underwriting criteria would need to be explored with lenders.

It should be borne in mind that the structuring of public land leases is a complex and time-consuming endeavor, and that the public side will typically have many non-financial interests at stake, such as the program of use for the property, design quality, public benefits, etc. Therefore, the timing requirements for the process for stadium development must be taken into account when considering whether to lease these important properties.