

DATE ISSUED: March 9, 2005

REPORT NO. CCDC-05-06

ATTENTION: Chair and Members of the Redevelopment Agency
Docket of March 15, 2005

SUBJECT: One America Second Phase PT, LLC (block bounded by B, C and India streets and Kettner Boulevard)- Proposed Second Amendment to Exclusive Negotiation Agreement for the Agency-Owned "Air Rights Parcel"- Columbia Sub Area of the Centre City Redevelopment Project

REFERENCE: Site Map
Drawings dated January 12, 2005
Proposed Second Amendment to Exclusive Negotiation Agreement

STAFF CONTACT: Pamela M. Hamilton, Senior Vice President

SUMMARY

Issue - Should the Redevelopment Agency approve the proposed Second Amendment to Exclusive Negotiation Agreement ("Second Amendment") with One America Second Phase PT, LLC, a Delaware limited liability company whose sole member is General Electric Pension Trust ("Developer") for the purchase and development of the Agency-owned "air rights parcel" ("Parcel 5") on the block bounded by B, C, and India streets and Kettner Boulevard. Formal design review is not part of the proposed Second Amendment. Basic Concept/Schematic Drawings for development of Parcel 5 would be approved concurrently with any Disposition and Development Agreement ("DDA")?

Staff Recommendation- That the Redevelopment Agency approve the proposed Second Amendment to Exclusive Negotiation Agreement ("Second Amendment") with One America Second Phase PT, LLC, a Delaware limited liability company whose sole member is General Electric Pension Trust ("Developer") for the purchase and development of the Agency-owned "air rights parcel" ("Parcel 5") on the block bounded by B, C, and India streets and Kettner Boulevard. Formal design review is not part of the proposed Second Amendment. Basic Concept/Schematic Drawings for development of Parcel 5 would be approved concurrently with any Disposition and Development Agreement ("DDA").

Centre City Development Corporation Recommendation- On January 26, 2005, the Corporation Board of Directors voted unanimously (Chair Sadler and Vice Chair Vilaplana were absent) to recommend approval of the Second Amendment.

Centre City Advisory Committee (CCAC) Recommendation - The proposed development was reviewed at the Centre City Advisory Committee Pre-Design Committee meeting of December 2, and the architectural team's refinement of the design will respond to the issues raised at that meeting. Areas of the design still under study by the architectural team include the top of the tower, articulation of the podium walls, and the plaza area adjacent to the Museum of Contemporary Art.

On January 19, 2005, the CCAC voted twenty-two (22) in favor and four (4) recused to support the proposed Second Amendment.

Other Recommendations - None.

Fiscal Impact - The Agency purchased the subject property in 1996 for a price of \$2.2 million and has incurred significant costs in holding and maintaining the property since that time. The property is subject to on-going America Plaza Owners Association ("Association") fees. An Exclusive Negotiation Agreement ("ENA") for purchase and development of Parcel 5 was entered into with the Developer in July, 2003. That ENA reduced the Agency's participation in Association fees from 30% to 10% from January 15, 2003 through the later of the ENA's 300-day period of negotiations, or any extension of the period of negotiations. The First Amendment to the ENA extended the period of negotiations to January 1, 2005. The First Amendment also provided that the Developer's \$100,000 Good Faith Deposit would be retained by the Agency at \$20,000 per month, beginning November 1, 2004, for each month that the ENA was in effect but that a DDA had not been executed.

The proposed Second Amendment to ENA reduces the Agency's participation in Association fees to 0% effective January 1, 2005. The Association fees would remain at 0% for as long as the ENA is in effect and would continue at 0% with the execution of a DDA. The Second Amendment eliminates the First Amendment's provision for the Agency's \$20,000/month drawdown of the Developer's \$100,000 Good Faith Deposit.

BACKGROUND

Development of this block would advance the Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Completing development which is immediately adjacent to a safe, efficient and environmentally sensitive transportation system thereby increasing mass transit use (San Diego Trolley),
- Assisting in the development of a strong financial/commercial core, and

- Completing the orderly development of the originally-conceived 2-block integrated America Plaza development to upgrade the quality of life.

The Agency purchased Parcel 5 of the two-block development generally known as America Plaza for redevelopment purposes as the site for the new Main Library. The City Council subsequently designated an alternate site for the Library. Parcel 5 is an "air-rights parcel" on the block bounded by B, C, Kettner and India streets which includes an easement in the garage beneath the parcel for 113 parking spaces. Parcel 5 carries an FAR of 8 which limits the gross square footage of development above grade to less than 522,368 SF; the minimum height is 125'.

The Developer purchased the other parcels which comprise the two-block America Plaza development on November 27, 2002. The Developer expressed interest in purchase and development of Parcel 5 in that Parcel 5 continues to have a negative impact on the appearance and activity/synergy of the overall America Plaza development. An ENA was entered into with the Developer in July 2003.

A First Amendment to the ENA was executed in July, 2004. The First Amendment extended the period of negotiations to January 1, 2005, provided for an adjustment in the Association fees (which had been adjusted from 30% to 10% during the negotiation period under the ENA) to 0% upon the execution of a DDA, resolved a dispute between the parties regarding the financial obligations for mold remediation and restoration work performed on Stairwells 4H and 8H at America Plaza, and provided that the Agency could draw down \$20,000 per month from the Developer's \$100,000 Good Faith Deposit, beginning November 1, 2004, for each month that the ENA was in effect but that a DDA had not been executed. The purpose of this "drawdown" provision was to act as an incentive to the Developer to complete the due diligence on the Site and negotiate a DDA at the earliest possible date.

CONCLUSIONS OF DEVELOPER'S DUE DILIGENCE

The Developer and its architectural team of Solomon Cordwell Buenz and Associates, its engineering team of Magnusson Klemencic Associates, and with construction cost estimating by Roel Construction Company, has completed its due diligence regarding the development potential of Parcel 5. It is the conclusion of the Developer that development of Parcel 5 is financially infeasible at the FAR of 8 currently assigned to the Site by the existing Community Plan and Centre City Planned District Ordinance ("PDO"). The Developer has concluded that an FAR of 10 (as proposed for the Site in the draft Community Plan Update) would be feasible. CCDC staff and Keyser Marston Associates agree, after an analysis of the FAR of 8 and FAR of 10 alternatives for the Site, that the FAR of 8 alternative would not meet the threshold returns for an institutional investor.

From a design and density perspective, the Developer and CCDC agree that the FAR of 10 alternative is preferable on the Site. The FAR of 10 development proposed by the Developer provides 262 market-rate residential condominium units in a 37-story tower with a total of 313 parking spaces assigned to Parcel 5. Because of the foundation and structural retrofit work required in all four levels of the existing below-grade garage, approximately 78 of the parking spaces in the garage would be removed. The parking assigned to Parcel 5 would be provided in four levels of parking above grade encapsulated within the podium of the residential tower, with another 35 spaces allocated in the existing below-grade garage. Approximately 22,000 SF of the project's ground level is assigned to retail and an "Art and Technology" shell. The project reopens the aperture looking west on C Street to provide sight lines to the Santa Fe Depot, while responding to the curvature of the trolley station. The project opens and significantly "lightens" the trolley station canopy. The project's design provides a generous public plaza and is an excellent response to existing development which surrounds the Site. Completion of this development would create a dynamic mixed use block of residential, office, retail, cultural and transit uses, and establish a strong "public place" in this neighborhood.

PROPOSED DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Property Owner: One America Plaza PT, LLC	B. Bradford Barrett, President	General Electric Pension Trust (Publicly-owned)
Proposed Developer: One America Second Phase PT, LLC	B. Bradford Barrett, President	General Electric Pension Trust (Publicly-owned)
Project Manager: Sentre Partners, Inc.	Stephen B. Williams Matthew T. Spathas Tom Sullivan	Stephen B. Williams Matthew T. Spathas Michael P. Peckham (Privately-owned)

Architect: Solomon Cordwell Buenz	Martin Wolf	John Lahey Martin Wolf Beth Durkin Mark Frisch Ed Williams Fred Abrams Peter Noone Jim Curtin Tom Humes John Buenz (Privately-owned)
Structural Engineer: Magnusson Klemencic	Brian Dickson	Jon D. Magnusson Ron Klemencic Brian J. McIntyre Jay A. Taylor Drew A. Gangnes Shelley R. Clark John D. Hooper Donald W. Davies (Privately-owned)
Preconstruction Services and Estimating: Roel Construction	Wayne Hickey	Stephen Charles Roel Kevin John Elliott John William Elliott Craig Douglas Koehler Wayne Edward Hickey Stephen Lloyd Mead Donald Allen Line Thomas Brady Laura Anne Doane Line Brandon J. Line Rachel L. Line (Privately-owned)
Market Research: Market Pointe	Alan Nevin	Russell Valone (Privately-owned)

The ENA entered into with the Developer in July 2003 was recommended (rather than the issuance of a general Request for Qualifications/Proposals for Parcel 5) for these reasons:

- Exclusive negotiations with the Developer had the potential of realizing the earliest and highest quality development of the Site.
- The development of Parcel 5 is integral to the existing development on the two blocks. The Developer, as the Tower and Parking Owner on the two blocks, has certain design and use approval rights for Parcel 5. As Tower and Parking Owner, the Developer has the ability to propose revisions to the Covenants, Conditions and Restrictions ("CC&Rs") governing the America Plaza parcels, and to offer use of the parking garage beyond the existing CC&Rs, to the advantage of Parcel 5.
- Parcel 5's construction will require close coordination with, and construction easements from, the Tower and Parking Owner. Such coordination is facilitated if the Tower and Parking Owner is the developer of Parcel 5.
- The Manager of One America Plaza, Sentre Partners, has demonstrated through its excellent management of major office buildings downtown that it understands "place-making." This approach to the development of Parcel 5 would benefit not only the immediate vicinity but the entire Columbia Sub Area.

These reasons for entering into the ENA with the Developer remain true today. A Second Amendment to ENA is recommended which will extend the period of negotiations and make other revisions to the ENA.

PROPOSED SECOND AMENDMENT TO ENA

The proposed Second Amendment to ENA would make the following revisions to the ENA and the First Amendment to the ENA:

1. The proposed Second Amendment would extend the period of negotiations to October 1, 2005. If, during that period, the FAR and other development standards for the Site were revised by a new Community Plan and a new PDO, the Developer would be permitted to submit a proposal meeting the new requirements and any DDA would be negotiated based on those new development standards.
2. The Agency's \$20,000/month drawdown of the Developer's \$100,000 Good Faith Deposit, provided for by the First Amendment, would be eliminated. This revision to the ENA is proposed in light of the Developer's expenditure to date of more than \$550,000 in third-party architectural, engineering, legal and other expenditures related to the Developer's due diligence on the Site.

3. The Agency's liability for Association fees for the Site is reduced from 10% (a temporary reduction from 30% during the period of negotiations under the ENA) to 0% effective January 1, 2005. The Association fees would remain at 0% for as long as the ENA is in effect and would continue at 0% with the execution of a DDA.
4. The Second Amendment does not alter the requirement in the First Amendment that any DDA negotiated for Parcel 5 shall require a purchase price of not less than the Agency's actual out-of-pocket costs (excluding general overhead) for its purchase and management of Parcel 5. To date these expenditures exceed \$3 million.

SUMMARY/CONCLUSION

Given the complexities of Parcel 5's integration with the 2-block One America Plaza development, continuing negotiations with the owner of One America Plaza, particularly in light of the qualifications of the owner and its asset manager, holds the most promise for the appropriate and timely sale and development of Parcel 5.

Respectfully submitted,

Concurred by:

Pamela M. Hamilton
Senior Vice President

Peter J. Hall
President

Attachments: Site Map

Drawings Dated January 12, 2005

Proposed Second Amendment to Exclusive Negotiation Agreement