Patient Capital, TOD, and Public Real Estate Asset Management

Pleasant Hill BART at Contra Costa Centre

More New Trends in Public/Private Finance

Rail-Volution — November 6, 2006

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TRANSIT VILLAGES IN THE 21st CENTURY

Michael Bernick
Robert Cervero
1971 View of Contra Costa Centre Area
The 18-acre site is situated along a metropolitan transit corridor serving a population of 6.7 million people. Within the neighborhood, the site is currently underutilized as a massive parking lot that disconnects the adjacent residential and mid-rise office building sites.
### Pleasant Hill BART Development Summary (10/06)

<table>
<thead>
<tr>
<th>Status</th>
<th>Commercial(^2) (sf)</th>
<th>Housing(^3) (du)</th>
<th>Hotel (rooms)</th>
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<tr>
<td>Completed</td>
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<td>2207</td>
<td>424</td>
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<tr>
<td>Under Construction</td>
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<td>-0-</td>
<td>-0-</td>
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<tr>
<td>Future Projects</td>
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<td>559</td>
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<td>Total</td>
<td>2,796,016</td>
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1. Includes specific plan area and immediate vicinity
2. Includes office and retail square footage
3. Residential dwelling units
Pleasant Hill Transit Village
Walnut Creek, California
Political Factors in Land Use
The BART Property
Transit Village

• Based on 2001 Charrette
  – Highly participatory public planning process
    • Over 500 participants
    • 80 hours of “open door” time in six days

• Property rezoned by county to conform in 2002, and final development plan approved in 2005

• Residential mixed use program with local serving retail and an office component
Development Description

• 559 Residential units
  – 449 rental
  – 100 for-sale townhouses
  – 10 live-work units
• 290,000 sf of office
• 35,570 sf of retail
• 2,315 sf of civic
• Parking for all uses, including replacement of BART surface spaces, on-site in structures
Pleasant Hill Transit Village
Walnut Creek, California
Contextual Podium Level Plan
Pleasant Hill Transit Village  Walnut Creek, California

CONGRESS FOR THE NEW URBANISM • CHARTER AWARDS 2006
Multi-Modal Transportation
Vehicular Circulation
Pleasant Hill Transit Village • Walnut Creek, California

Along the multi-modal street of the transit-oriented development, street activity generated by residents provides commuters a greater sense of safety.

Legend
- Transit Corridor
- Auto Access
- Bus Access
- Bus Platforms
- Kiss N Ride
- Taxi
- Full-Time Parking
- Off-Peak Parking
- Loading
Connectivity
Open Space
Pleasant Hill Transit Village • Walnut Creek, California

The regional Iron Horse Trail and native oak tree groves are integrated into a network of tree-lined streets, linear greens and plazas to provide a pedestrian friendly town plan for the community.
Placemaking
Pleasant Hill Transit Village • Walnut Creek, California

The new Town Center creates a sense of place with its distinctive street design, architecture, landscape treatment and other planning details. The Town Square is the common public space at the heart of the plan. Here transit patrons and local residents commune over café offerings or civic functions. Retail and residential streets radiate from the town square to attract the neighborhood residents to the new walkable community.
Land Use Comparisons
Pleasant Hill Transit Village - Walnut Creek, California

2006 Pleasant Hill BART Station
• Where you go to catch BART
• Where you go to park your car

2013 Pleasant Hill Transit Village
• A place to live and work
• A place to gather and meet friends
• A place to window shop and dine
• A place to catch mass transit
• A place to vote
• A place to walk and bike
• A place to also park your car
Patient Capital and Public Agency Real Estate Management
Development Challenges

• Mixed Use Program presents a development and financing challenge
• Ground lease presents a financing challenge
• Replacement parking presents a site planning design and financing challenge
Financial Goals

• Create a long term revenue stream for the County that compensates for RDA investment and for BART to acknowledge the land value of the BART property

• At the same time also acknowledge that realization of that value requires a major front end RDA expenditure

• Most critically, provide BART with value capture in the near term which they would not get if all revenues were devoted to paying for parking
The Financial Solution

- RDA funds BART replacement parking structure — $45 million
- RDA contributes to placemaking — parks, plazas, and civic uses ($9 million)
- Divide lease revenues 75% to County and 25% to BART
- Total lease revenues are $700 million (conservative estimate)
- Present value of combined net revenue flow to County more than recovers investment at 7% discount rate
Institutional Solutions

Joint Powers Authority –
the Pleasant Hill BART Leasing Authority
Project Sponsors

Pleasant Hill Transit Village • Walnut Creek, California

Public

- Pleasant Hill Leasing Authority
- Bay Area Rapid Transit (BART) District
- Contra Costa County Redevelopment Agency
- County of Contra Costa

Private

- Pleasant Hill Transit Village, LLC
  - Millennium Partners
  - Avalon Bay Communities

*"The business side of the project is every bit as challenging. Except for the for-sale condominiums, the entire project will be built on land owned by BART and leased to Millennium. In order to achieve all the project goals - including replacing almost 1500 parking spaces for BART patrons - a financial partnership was set up between BART, the County of Contra Costa, and its Redevelopment Agency. This partnership, which is called the Pleasant Hill BART Leasing Authority (the "JPA"), as well as the County Redevelopment Agency will be directly involved in the business transaction by the JPA leasing the property, and the Redevelopment Agency financing aspects of the project (BART replacement parking, streets and drainage, as well as parks, plazas, open-space, and civic uses), and financing affordable housing. County staff estimates that over 15 major agreements totaling well over one-thousand pages will be necessary to fully document the business side of the Transit Village project.*

Reprinted from Contra Costa County Redevelopment Agency Newsletter
## TRANSIT VILLAGE PLAN OF FINANCE ($000,000)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Public</th>
<th>Public/Private</th>
<th>Private</th>
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<td></td>
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<td>Phase II</td>
<td>Phase III</td>
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<tr>
<td>RDA – BART Parking</td>
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<td>RDA – Placemaking</td>
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<td>$170</td>
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Mitigating the Risk of Project Timing

• Phase I (BART Replacement Parking Garage) has to be built before Transit Village

• RDA needs Transit Village to proceed to warrant upfront investment
Solution: Sell $125 million multi-family bonds in advance and GIC the proceeds thereby guaranteeing the funds necessary to construct the Phase II Transit Village are available.
BART Replacement Parking Garage
Plan of Finance ($000,000)

<table>
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<td>RDA – Base Business Deal</td>
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# Placemaking Plan of Finance ($000,000)

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<td>Civic Uses</td>
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<td>• RDA</td>
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<tr>
<td>• County</td>
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<tr>
<td>Business Conference Center –</td>
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<tr>
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<tr>
<td>• BART Sale of Impact Fee Credits</td>
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<td>BART Station Enhancements</td>
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<tr>
<td>• Housing Incentive Funds</td>
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<td>• BART Sale of Impact Fee Credits</td>
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<td></td>
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Total $16.5 million
Affordable Housing

Mixed Income Transit Village

• Rental Apartments
  – Market Rate 359
  – Affordable 90
  Total 449

• For-Sale Market-Rate Townhouses 100
  Total Units 549
Affordable Housing Assistance

• Residual Note $2.5 million
• Annual Pledge
  – External Housing Set-Aside $500,000/Year
  – Project Based Housing Set-Aside $350,000/Year
  at Stabilization
• Sinking Fund Contribution
  Escalating up to $425,000/Year (est.)
Backbone Infrastructure Costs ($000,000)

- Streets/Circulation: 6.0
- Pedestrian Facilities: 2.0
- Utilities: 6.0

Total: $14.0
Backbone Infrastructure
Plan of Finance ($000,000)

Infrastructure Cost
- Mello Roos Special Tax Bonds $14.0 million
- Annual Debt Services (est.) $1.0/year
- RDA Reimbursement
  - Infrastructure Capital $0.45
  - Infrastructure Maintenance $0.05
- Net Annual Cost to Developer $0.5
BART Station Facade

A pig’s ear on a silk purse
BART Station Façade Enhancement
($000,000)

Plan of Finance

• BART Sale of Development
  Impact Fee Credits $1.5
• Housing Incentive Funds 1.0
  Total $2.5
Return on Investment

Ground Lease
• Minimum Rent
• Percentage Rent
• Bonus Rent
• Participation Rent
The Money
99-year Revenue Projections - Cumulative

$696 Million
Based on projections produced jointly by ADK&A and BART’s consultant, ERA, using mutually agreed upon assumptions as to market conditions, pricing, timing, financing and lease terms.
Ground Rent
Blocks A&B For-Rent Residential and Retail (1 of 2)

1. Minimum Rent:
   - Stabilized at $452,900 per year (at 30% during construction, 33% during lease-up year 1, 67% during lease-up years 2-3)
   - Reset in year 13 and then every 10 years to 80% of average prior 3 years’ total rent paid

2. Percentage Rent: 7.26% of AGI (Adjusted Gross Income, equals revenues less property taxes, insurance and utilities expenses)

3. Rent Deferral:
   - In years 1-6, Developer may defer amounts due above scheduled rents. Deferred balance bears 6.5% interest until paid.
   - Due in full at earlier of first sale or financing, or end of year 13
4. **Bonus Rent:** 50% of AGI above fixed threshold of $11.24 million, up to $450,000 per year
   - Bonus Rent is intended to cover CFD payment reimbursements paid by Agency from TI setaside funds
   - Therefore Bonus Rent payments allocated 100% to County

5. **Participation Rent:**
   - 3.75% of net proceeds for first sale or financing, 9.5% for all subsequent sales or financings
   - JPA’s transaction costs associated with sales to be reimbursed by Developer up to $200,000 indexed to inflation
Ground Rent
Block E For-Rent Residential and Retail

1. Minimum Rent:
   • Stabilized at $37,100 per year (at 30% during construction, 33% during lease-up year 1, 67% during lease-up years 2-3)
   • Reset in year 13 and then every 10 years to 80% of average prior 3 years’ total rent paid

2. Percentage Rent: 7.26% of AGI (Adjusted Gross Income, equals revenues less property taxes, insurance and utilities expenses)

3. Rent Deferral: Not applicable to Block E

4. Bonus Rent: Not applicable to Block E

5. Participation Rent: Same terms as Blocks A&B
Ground Rent
Phase II - Block D Office

1. Minimum Rent:
   • Stabilized amount to be determined, with reduced levels during construction and lease-up as for Phase I
   • Reset in year 13 and then every 10 years to 80% of average prior 3 years’ total rent paid

2. Percentage Rent: Currently estimated at 6.7% of AGI, to be determined

3. Rent Deferral: Not applicable to Block D, though some “ramp up” of percentage rent may be negotiated if needed

4. Bonus Rent: Not applicable to Block D

5. Participation Rent: Not yet determined but should have similar terms as Blocks A&B
Backbone Infrastructure
Return on Investment

Bonus Rent Returns

• Revenue source exclusively for County to compensates for infrastructure reimbursement.
Bonus Rent Revenue Tranche

- Assuming profitability thresholds are met, County receives Bonus Rent equal to 50% of Adjusted Gross Income > $11.25 million, not to exceed $450,000/year
- Financial models suggest Bonus Rents accrue starting in year 15
- Life cycle value of Bonus Rent is $38.4 million
For-Sale Housing Participation

Participation in for-sale housing
• $4 million for 2-acres of land payable to BART
• JPA receives 10% of the amount by which the average sales price > $533,140

Participation in sale of other improvements
• JPA receives 3.75% of net sales proceeds on first sale and 9.5% for all subsequent sales
• JPA reimbursed for transaction costs up to $200,000 (indexed to CPI)
Participation in Sale of Tax Credits

- JPA receives 50% of proceeds of Low Income Housing Tax Credits associated with Blocks A & B
Other Deal Points

1. **Interim Modernization:**
   - Developer must keep for-rent units competitive
   - After year 25, JPA can compel capital investment of up to 10% of value if survey indicates property is not competitive

2. **Completion Guarantee:** Developer to provide for all elements

3. **Easements:** to cover relationships among for-rent residential owners, condo owners, retail operators, office owners and BART station

4. **Arbitration:** “Baseball” type to be used for disputes

5. **Removal of Improvements:**
   - 20 years prior to lease expiration, JPA to specify which improvements to keep
   - Developer to fund sinking fund to cover demolition and removal costs
Calendar
Accomplished

- Charrette held — 2001
- Property rezoned — November, 2002
- Redevelopment Agency has raised required capital — $40 million — with bond sale on August 21, 2003
- JPA formed — September 9, 2003
- FDP Approved — May, 2005
- Business Deal Signed — December, 2005
- Garage Construction Started — March 8, 2006
- Tax-Exempt bonds sold, $125 million — March 23, 2006
Groundbreaking March, 2006
Next Steps March 2006 – April 2008

• Garage Construction
• Transit Village Construction
  - April 2008 — Phase I
  - 2012 — Build out of site
Thank you for listening