AGENDA ITEM NO. 4.b.

CITY OF GARDEN GROVE

INTER-DEPARTMENT MEMORANDUM

Oversight Board of the Successor Agency to The Garden Grove Agency for Community Development

To: Matthew J. Fertal

From: Economic Development

Dept: Director

Subject: OVERSIGHT BOARD REVIEW AND CONSIDERATION FOR APPROVAL OF TWO OBLIGATIONS FROM THE ENFORCEABLE OBLIGATION PAYMENT SCHEDULE

Date: April 9, 2012

OBJECTIVE

The purpose of this report is to request that the Oversight Board review and approve two obligations from the Enforceable Obligation Payment Schedule (EOPS).

BACKGROUND/DISCUSSION

As part of its responsibility pursuant to the Dissolution Act, the Oversight Board is required to consider, approve, and affirm the Recognized Obligation Payment Schedule (the "ROPS") approved by The City of Garden Grove as Successor Agency to the Garden Grove Agency for Community Development for transmittal to the California Department of Finance (DOF) by April 15, 2012. However, the Brookhurst Triangle Disposition and Development Agreement and the Embassy Suites Disposition and Development Agreement, under consideration as part of this report, do not require payments in the timeline covered by the ROPS; therefore, they are not being considered along with the other items.

RECOMMENDATION

Staff recommends that the Oversight Board:

- Individually consider, approve, and affirm the Brookhurst Triangle Disposition and Development Agreement and the Embassy Suites Disposition and Development Agreement and include these obligations as part of the Enforceable Obligation Payment Schedule.

Jim Dellalonga

JIM DELLALONGA
Department Administrative Officer

Attachments

Recommended for Approval

Matthew Fertal

Matthew Fertal
Director

Brookhurst Triangle DDA

AGENDA ITEM NO. 7b.

CITY OF GARDEN GROVE

INTER-DEPARTMENT MEMORANDUM

Garden Grove City Council
and
Garden Grove Agency for Community Development

To:	Matthew Fertal	From:	Economic Development
Dept:	City Manager/Director	Dept:	
Subject:	DISPOSITION AND DEVELOPMENT AGREEMENT (DDA) WITH NEW AGE BROOKHURST, LLC	Date:	November 23, 2010

OBJECTIVE

This report is provided to the Garden Grove City Council (the "City") and the Garden Grove Agency for Community Development (the "Agency") in connection with its consideration of a Disposition and Development Agreement (the "DDA") with New Age Brookhurst, LLC (the "Developer") for the disposition and development in two (2) phases of up to 600 residential units (120 of which would be affordable), up to 80,000 square feet of retail, including restaurant(s), with associated parking and open space improvements on 13.9-acres of real property at the northwest corner of Brookhurst Street and Garden Grove Boulevard, commonly referred to as the "Brookhurst Triangle, (the "Site").

BACKGROUND

The Site has a premier location on two major arterial roads, Brookhurst Street and Garden Grove Boulevard, located in the center of the city. It is in close proximity to the Korean Business District, the Vietnamese Business District, and the Community Center District, just north of the Garden Grove SR 22 Freeway, and is an ideal site for a signature mixed-use development.

Deal Point Summary

The DDA (Attachment 1) contains the business terms for implementing the project. It establishes the obligations and responsibilities for both the Agency and the Developer. The DDA is based on the business terms approved by the Agency. The deal points are summarized as follows:

1. Disposition of Property
   - Developer pays a total of $30,400,000 for the Site. The Site would be conveyed in two phases. Phase I consisting of approximately 3.7-acres, for $6,000,000; and Phase II: consisting of approximately 10.2-acres, for $24,400,000.

2. Development of Property
   - The Developer has proposed to develop up to 600 residential units in two (2) phases that includes 148 attached for-sale units in Phase I, and 452 attached for-sale units.
   - Phase II development will includes up to 200 units, which could be rental units or for sale units and a minimum of 60 units would be affordable. At the option of the Developer, the number of affordable units may increase to 120.
   - In Phase II, the Developer has proposed to develop a minimum of 80,000 square feet of retail, including restaurant(s) with associated parking and open space improvements. The Developer is required to perform a market demand study to determine if there is sufficient demand for a hotel at this location.

A Summary Report was prepared by the Agency's economic consultant, Keyser Marston Associates, Inc. (KMA), to analyze the proposed financial terms, which provides, among other items, an estimated value of the interests to be conveyed at the highest and best use permitted under the redevelopment plan. See Summary Report (Attachment 4).

In order to determine the fair market value of the Site, KMA reviewed the appraisal report prepared for the Agency by Lidgard and Associates, Inc. (Lidgard). The Site's "highest and best use" is mixed-use development with residential and commercial uses. Lidgard relied on the comparable sales approach to value, with a conclusion of value for the Site of $22,115,000 or $36 per square foot of land. KMA undertook its own review and determined after analyzing all data, that the median and average sales prices were $37 and $36 per square foot of land, respectively, essentially the same as the Lidgard finding of value for the Site. KMA concluded that the fair market value of the Property is at its highest and best use at $22,115,000, or $36 per square foot of land.

Pursuant to SB 975, acceptance of cash or in-kind governmental assistance may result in a "private" development project being reclassified as "public works" subject to all of the prevailing wage law requirements set forth in the California Labor Code. Thus, the Developer has agreed to pay $30,400,000; therefore, the Developer is not required to pay prevailing wages.

KMA estimated the reuse value is a negative $ 4,558,000. KMA analysis was conservative for both the development cost and future sale prices. Despite the negative reuse value, the Developer is confident that he can build the project. The Developer has factored in the following analysis: the Site has been entitled, which adds value; a phased development is less risky; Developer's method of construction is valued engineered and more cost effective, and the Developer is optimistic about future sale prices.

Environmental

On November 24, 2009, the City Council adopted Ordinance No. 2759, which adopted a Mitigated Negative Declaration and approved Planned Unit Development No. PUD-123-09, which changing the Site zoning designation from C-2 (Community Commercial) and Planned Unit Development No. PUD-102-88, to Planned Unit Development No. PUD-123-09. On that date, the City also adopted Ordinance No. 2760, which approved a Development Agreement between the City and the Agency for development of the Site. The Mitigated Negative Declaration analyzed the potential impacts of the proposed development, which included up to 700 residential dwelling units and 200,000 square feet of commercial/office space.

The DDA contemplates a project of substantially less intensity than was previously studied in the Mitigated Negative Declaration. Pursuant to Public Resources Code Section 21166 and California Code of Regulations, Title 14, Section 15162, no further environmental review is required prior to the approval of the DDA. The DDA does not involve substantial changes, which would require major revisions of the Mitigated Negative Declaration due to the involvement of new significant environmental effects or a substantial increase in the severity of previously identified significant effects. No substantial changes have occurred with respect to the circumstances under which the DDA is being implemented, which would require major revisions of the Mitigated Negative Declaration due to the involvement of new significant environmental effects or a substantial increase in the severity of previously identified significant effects.

No new information of substantial importance, which was not known and could not have been known with the exercise of reasonable diligence at the time the Mitigated Negative Declaration was adopted shows any of the following: (a) the DDA would have one or more significant effects not discussed in the Mitigated Negative Declaration; (b) Significant effects previously examined would be substantially more severe than shown in the Mitigated Negative Declaration; (c) Mitigation measures previously found not to be feasible would in fact be feasible and would substantially reduce one or more significant effects of the Project; or (d) Mitigation measures which are considerably different from those analyzed in the Mitigated Negative Declaration would substantially reduce one or more significant effects on the environment.

FINANCIAL IMPACT

- It is estimated that this project would generate new Agency revenue of $3,100,000 annually when all phases of the project are complete, as well as $30,400,000 in land sale proceeds.

- The Agency purchased the Wang parcel for $5,600,000 with Agency set-aside funds. It is anticipated that the Agency may infuse an additional $6,400,000 set-aside funds to the Developer if the Developer elects to provide up to 120 affordable units.

- The Agency economic consultant KMA has projected this project to generate approximately 400 to 600 construction jobs and approximately 200 to 400 permanent and temporary retail jobs.

RECOMMENDATION

Staff recommends the following actions be taken:

City Council

- Conduct a Public Hearing; and
- Adopt the attached Resolution consenting to the approval of the Disposition and Development Agreement between the Agency and the New Age Brookhurst, LLC.

Agency

- Conduct a Public Hearing:
- Adopt the attached Resolution approving the attached Disposition and Development Agreement with New Age Brookhurst, LLC for the development of the 13.9-acre site in the City of Garden Grove within the area known as the "Brookhurst Triangle", and
- Authorize the Director to execute the Disposition and Development Agreement and any other pertinent documents to effectuate the agreement.

Greg Blodgett

GREG BLODGETT
Senior Project Manager

Approved for Agenda Listing

Matthew Fertal
City Manager

By: Paul Guerrero
Senior Economic Development Specialist

Attachment 1: Disposition and Development Agreement
Attachment 2: City Resolution
Attachment 3: Agency Resolution
Attachment 4: Summary Report

mm(h:Staff/PG/DDA-New Age Brookhurst, LLC sr 112310v4.doc)

Attachment 4

GARDEN GROVE REDEVELOPMENT PROJECT

GARDEN GROVE, CALIFORNIA

SUMMARY REPORT PERTAINING TO THE PROPOSED SALE OF CERTAIN PROPERTY WITHIN THE GARDEN GROVE COMMUNITY PROJECT AREA

California Community Redevelopment Law
Section 33433

**PURSUANT TO PROPOSED DISPOSITION AND DEVELOPMENT AGREEMENT
BETWEEN
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT
AND
NEW AGE BROOKHURST, LLC**

Garden Grove Agency for Community Development
Garden Grove, California

November 2010

KEYSER MARSTON ASSOCIATES

I. INTRODUCTION

A. Purpose of Report

This Summary Report was prepared in accordance with Section 33433 of the California Community Redevelopment Law in order to inform the Garden Grove Agency for Community Development (Agency) and the public about the proposed transaction between the Agency and New Age Brookhurst, LLC (Developer). The Report describes and specifies:

1. The costs to be incurred by the Agency under the Disposition and Development Agreement (DDA);
2. Estimated value of the interests to be conveyed at the highest and best use permitted under the Redevelopment Plan;
3. The estimated value of the interests to be conveyed at the proposed use and with the conditions, covenants, and development costs required by the sale of the Property;
4. The compensation to be paid to the Agency pursuant to the proposed transaction;
5. An explanation of the difference, if any, between the compensation to be paid to the Agency under the proposed transaction, and the fair market value at the highest and best use consistent with the Redevelopment Plan; and
6. An explanation of why the sale of the Property will assist with the elimination of blight.

B. Summary of Findings

The Agency engaged its economic consultant, Keyser Marston Associates, Inc. (KMA), to analyze the proposed financial terms. KMA reviewed the draft DDA under discussion between the Agency and the Developer as of November 19, 2010 and additional information on project description provided by Agency staff. The KMA conclusions are summarized as follows:

- The estimated costs of the DDA to the Agency total $38,086,000.
- The estimated fair market value of the Phase I Property and Phase II Property (collectively, Property) at its highest and best use is $22,115,000.

The Developer intends to build Center Park, comprised of a total of 600 for-sale and rental residential units; 80,000 SF of retail space; a possible 100-room hotel; wrap and podium parking structures; and 320 surface parking spaces (Project). It is assumed that the residential units will be comprised of one, two, and three bedroom units, as shown below.

	Unit Mix by Phase			
	Phase I		Phase II	
	For-Sale	Rental	For-Sale	Rental
One Bedroom	37 Units	--	63 Units	110 Units
Two Bedroom	92 Units	--	156 Units	70 Units
Three Bedroom	19 Units	--	33 Units	20 Units
Total	148 Units	--	252 Units	200 Units

D. Proposed Transaction Terms

This section summarizes the salient aspects contained in the DDA between the Agency and Developer as of November 19, 2010 and additional information on project description provided by Agency staff.

- The Agency will convey the Property to the Developer for $24,000,000, as follows:
  - Phase I Property, $6,000,000
  - Phase II Property, $24,400,000. If the Developer chooses to restrict an additional 60 units (for a total of 120 Affordable Units), the Agency will pay $6,400,000 in housing set-aside funds to the Developer, resulting in an effective purchase price to the Agency of $18,000,000.
- The Agency will have cleared the Property and relocated all tenants and occupants prior to conveyance for each phase.
- The Developer will acquire the necessary land use approvals for construction and operation of the Project.

II. COSTS OF THE DDA TO THE AGENCY

The estimated costs of the DDA to the Agency total $38,086,000, and include the following items:

Agency Costs (1)	**Amount**
Site Acquisition	$32,073,000
Acquisition-Related Costs (2)	$973,000
Other Agency Third Party Costs (3)	$52,000
Agency Contribution toward Phase II Affordable Units	$6,400,000
Subtotal Total Agency Costs	$39,498,000
(Less) Estimated Income from Interim Leases	
Phase I	($0)
Phase II	($1,412,000)
Net Agency Costs	**$38,086,000**

(1) Per Agency.
(2) Reflects costs such as remediation, demolition, and relocation.
(3) Reflects legal and economic consultants.

IV. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED AT THE USE AND WITH THE CONDITIONS, COVENANTS, AND DEVELOPMENT COSTS REQUIRED BY THE SALE OF THE PROPERTY

This section explains the principal conditions and covenants which the Developer of the Property must meet in order to comply with the Redevelopment Plan. The DDA contains specific covenants and conditions designed to ensure that the conveyance of the Property will be carried out in a manner to achieve the Agency's objectives, standards, and criteria under the Redevelopment Plan. Based on a detailed financial feasibility analysis of the Project, KMA concludes that the fair re-use value of the Property is as follows:

- Phase I Property, estimated fair re-use value of *negative* $4,207,000
- Phase II Property, estimated fair re-use value of *negative* $12,035,000.

KMA estimated the re-use value of the Property based on the anticipated income characteristics of the proposed Project. Re-use value is defined as the highest price in terms of cash or its equivalent which a property or development right is expected to bring for a specified use in a competitive open market, subject to the covenants, conditions, and restrictions imposed by the DDA.

KMA reviewed and analyzed the financial pro forma submitted by the Developer for the Project. KMA then prepared an independent financial pro forma analyses for the Project using inputs and assumptions consistent with our experience with comparable projects and industry standards in Southern California. Appendices B and C present the KMA pro forma analyses for Phase I and Phase II of the Project, respectively.

Estimated Development Costs

KMA estimated total development costs excluding development of the hotel and acquisition for all components of the Project except the hotel. The Developer has the option to construct a limited-select service hotel on the Phase II Property. The KMA analysis of supportable land value for the hotel component is presented at the end of this section.

	Valuation Factors	[illegible]	
		Phase I	Phase II
Residential – For-Sale	Average Sales Price: $320/SF	$50,442,000	$85,848,000
Residential – Rental	Average Rent: $1.94/SF	--	$35,600,000
Retail	Average Rent: $2.50/SF (NNN)	--	$28,880,000
Total Gross Sales Proceeds		$50,442,000	$150,328,000

Residual Land Value

The following table delineates the residual land value calculation on a per-phase basis. KMA has allowed factors for cost of sale and target developer profit of 3.0% and 12.0% of gross sales proceeds, respectively.

	Residual Land Value	
	Phase I	Phase II
Gross Sales Proceeds	$50,442,000	$150,328,000
(Less) Cost of Sale/Target Profit	($7,566,000)	($22,549,000)
Supportable Investment	$42,876,000	$127,779,000
(Less) Development Costs (1)	($47,083,000)	($141,814,000)
Residual Land Value	($4,207,000)	($14,035,000)
Add: Hotel Component	--	$2,000,000
Adjusted Residual Land Value	($4,207,000)	($12,035,000)

(1) Excludes hotel development costs and acquisition costs.

KMA also prepared an estimate of supportable land value for the hotel component. The Developer has the option to construct a 100-room limited-select service hotel on the Phase II Property. KMA surveyed comparable land sales for proposed hotel developments in Southern California from January 2008 to present. Based on this review of surveyed comparables, as well as KMA experience with comparable developments, KMA estimates a supportable land value for the potential hotel on the

V. THE COMPENSATION WHICH THE DEVELOPER WILL BE REQUIRED TO PAY

The estimated value of the compensation to be received by the Agency for the Property is $24,000,000, as follows:

- Phase I Property, $6,000,000
- Phase II Property, $24,400,000. If the Developer chooses to restrict an additional 60 units (for a total of 120 Affordable Units), the Agency will pay $6,400,000 in housing set-aside funds to the Developer, resulting in an effective purchase price to the Agency of $18,000,000.

VII. EXPLANATION OF WHY THE SALE OF THE PROPERTY WILL ASSIST WITH THE ELIMINATION OF BLIGHT

The Redevelopment Plan (Plan) for the Garden Grove Community Project Area governs the Property. In accordance with Section 33490 of the California Community Redevelopment Law, the Plan contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Area. Implementation of the DDA can be expected to assist in the alleviation of blighting conditions through the following:

- Eliminate blighting influences including deteriorating buildings, uneconomic land uses, obsolete structures, and other environmental, economic and social deficiencies.

- Encourage private sector investment in development in the Project Area.

- Provide housing to satisfy the needs and desires of various age, income, and ethnic groups of the community, maximizing the opportunity for individual choice.

Appendix A

RESIDENTIAL AND COMMERCIAL LAND COMPARABLES

Center Park

Garden Grove Agency for Community Development

Appendix B

FINANCIAL PRO FORMA ANALYSIS

Center Park - Phase I

Garden Grove Agency for Community Development

TABLE B-2

ESTIMATED DEVELOPMENT COSTS
CENTER PARK
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT

	Totals	Per Unit	Comments
I. Direct Costs (1)			
Off-Site Improvements (2)	$484,000	$3,270	$3 Per SF Site
On-Sites/Landscaping	$1,612,000	$10,892	$10 Per SF Site
Parking	$6,475,000	$43,750	$25,000 Per Structured Space
Shell Construction	$25,029,000	$169,115	$135 Per SF GBA
FF&E/Amenities	$296,000	$2,000	Allowance
Contingency	$1,695,000	$11,453	5.0% of Directs
Total Direct Costs	$35,591,000	$240,480	$192 Per SF GBA
II. Indirect Costs			
Architecture & Engineering	$1,424,000	$9,622	4.0% of Directs
Permits & Fees (2)	$2,220,000	$15,000	$12 Per SF GBA
Legal & Accounting	$534,000	$3,608	1.5% of Directs
Taxes & Insurance	$1,500,000	$10,135	Allowance
Developer Fee	$1,068,000	$7,216	3.0% of Directs
Marketing/Sales	$1,513,000	$10,223	3.0% of Value
Contingency	$248,000	$1,676	3.0% of Indirects
Total Indirect Costs	$8,507,000	$57,480	23.9% of Directs
III. Financing Costs			
Loan Fees	$530,000	$3,581	1.5% of Directs
Interest During Construction	$1,907,000	$12,885	5.4% of Directs
Interest During Sales	$424,000	$2,865	1.2% of Directs
HOA Dues on Unsold Units	$124,000	$838	0.3% of Directs
Total Financing Costs	$2,985,000	$20,169	8.4% of Directs
IV. Total Development Costs	**$47,083,000**	**$318,128**	**$254 Per SF GBA**

(1) Does not assume payment of prevailing wages.
(2) Estimate. Not verified by KMA or City.

Prepared by: Keyser Marston Associates, Inc.
Filename: I:Garden GroveAppendix B_2010_Center Park_Re-Use_Phase I;11/19/2010;rks

Appendix C

FINANCIAL PRO FORMA ANALYSIS

Center Park - Phase II

Garden Grove Agency for Community Development

TABLE C-2

ESTIMATED DEVELOPMENT COSTS
CENTER PARK
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT

	Totals	Per Unit	Comments
I. Direct Costs (1)			
Off-Site Improvements	$1,334,000	$2,951	$3 Per SF Site
On-Sites/Landscaping	$4,447,000	$9,838	$10 Per SF Site
Parking	$18,275,000	$40,431	$25,000 Per Structured Space
Shell Construction - Residential	$67,460,000	$149,248	$135 Per SF GBA - Res.
Shell Construction - Retail	$8,800,000	$19,469	$110 Per SF Retail
Tenant Improvements	$2,400,000	$5,310	$30 Per SF Retail
FF&E/Amenities	$904,000	$2,000	Allowance
Contingency	$5,181,000	$11,462	5.0% of Directs
Total Direct Costs	$108,801,000	$240,710	$188 Per SF GBA
II. Indirect Costs			
Architecture & Engineering	$4,352,000	$9,628	4.0% of Directs
Permits & Fees (2)	$7,060,000	$15,619	$12 Per SF GBA
Legal & Accounting	$1,632,000	$3,611	1.5% of Directs
Taxes & Insurance	$4,000,000	$8,850	Allowance
Developer Fee	$3,264,000	$7,221	3.0% of Directs
Marketing/Sales	$2,575,000	$5,697	3.0% of Value
Marketing/Lease-Up - Rental	$200,000	$442	$1,000 Per Unit - Rental
Marketing/Lease-Up - Retail	$400,000	$885	$5 Per SF Retail
Contingency	$704,000	$1,558	3.0% of Indirects
Total Indirect Costs	$24,187,000	$53,511	22.2% of Directs
III. Financing Costs			
Loan Fees	$1,595,000	$3,529	1.5% of Directs
Interest During Construction	$5,743,000	$12,706	5.3% of Directs
Interest During Lease-Up/Sales	$1,276,000	$2,823	1.2% of Directs
HOA Dues on Unsold Units	$212,000	$469	0.2% of Directs
Total Financing Costs	$8,826,000	$19,527	8.1% of Directs
IV. Total Development Costs	**$141,814,000**	**$313,748**	**$245 Per SF GBA**

(1) Does not assume payment of prevailing wages.
(2) Estimate. Not verified by KMA or City.

Prepared by: Keyser Marston Associates, Inc.
Filename: i:Garden GroveAppendix C_2010_Center Park_Re-Use_Phase II;11/19/2010;rks

PHASE II

TABLE C-4

NET SALES PROCEEDS - RENTAL
CENTER PARK
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT

	Average Unit Size	# of Units	$/SF	$/Month	Total Annual
I. Gross Scheduled Income					
One Bedroom at 110% AMI (1)	650 SF	70	$2.00	$1,300	$1,092,000
One Bedroom at Market-Rate	650 SF	40	$2.00	$1,300	$624,000
Two Bedroom at 110% AMI (1)	900 SF	40	$1.90	$1,710	$821,000
Two Bedroom at Market-Rate	900 SF	30	$1.90	$1,710	$616,000
Three Bedroom at 110% AMI (1)	1,100 SF	10	$1.85	$2,035	$244,000
Three Bedroom at Market-Rate	1,100 SF	10	$1.85	$2,035	$244,000
Total/Average	783 SF	200	$1.94	$1,517	$3,641,000
Add: Other Income			$25 /Unit/Month		$60,000
Total Gross Scheduled Income (GSI)					$3,701,000
(Less) Vacancy @			5.0% of GSI		($185,000)
Effective Gross Income (EGI)					$3,516,000
II. Operating Expenses					
(Less) Operating Expenses			$4,500 /Unit/Year		($900,000)
(Less) Property Taxes			$2,050 /Unit/Year		($409,000) (2)
(Less) Replacement Reserves			$350 /Unit/Year		($70,000)
Total Expenses			$6,900 /Unit/Year 39.2% of EGI		($1,379,000)
III. Net Operating Income					**$2,137,000**
IV. Net Sales Proceeds - Rental					
Net Operating Income					$2,137,000
Capitalized Value @			6.0% Cap Rate		$35,617,000
(Less) Cost of Sale			3.0% of Value		($1,069,000)
(Less) Target Developer Profit			12.0% of Value		($4,274,000)
Net Sales Proceeds - Rental					**$30,274,000**

(1) Units will be restricted to moderate-income households [households earning between 81% and 120% of Area Median Income (AMI) and affordable at 110% of AMI]. Affordable rents have been adjusted downward to reflect current market rents.

(2) Based on capitalized income approach; assumes a 1.15% tax rate and 6.0% cap rate.

Prepared by: Keyser Marston Associates, Inc.
Filename i:\Garden Grove\Appendix C_2010_Center Park_Re-Use_Phase II;11/19/2010;rks

PHASE II

TABLE C-6

RESIDUAL LAND VALUE
CENTER PARK
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT

I. Supportable Investment	
Net Sales Proceeds - For-Sale	$72,971,000
Net Sales Proceeds - Rental	$30,274,000
Net Sales Proceeds - Retail	$24,548,000
Net Sales Proceeds - Hotel (1)	$2,000,000
Total Supportable Investment	$129,793,000
II. (Less) Development Costs	($141,814,000)
III. Residual Land Value	**($12,021,000)**

(1) Estimate of supportable land value based on $20,000/room for a 100-room limited-service hotel.

Prepared by: Keyser Marston Associates, Inc.
Filename: I:garden grove\Appendix C_2010_Center Park_Re-Use_Phase II;11/19/2010;rks

Embassy Suites Expansion

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

Garden Grove Agency for Community Development And The Garden Grove Sanitary District

To:	Matthew Fertal	From:	Chet Yoshizaki
Dept:	Director	Dept:	Economic Development
Subject:	EMBASSY SUITES EXPANSION DDA	Date:	January 9, 2007

<u>OBJECTIVE</u>

The purpose of this memorandum is to request the Garden Grove Agency for Community Development (Agency) to conduct a public hearing and consider approval of a Disposition and Development Agreement (DDA) between the Agency and Landmark Companies, LLC, (Developer) for the construction of a 225 room expansion of the existing Embassy Suites Hotel located at 11767 Harbor Boulevard.

<u>BACKGROUND/DISCUSSION</u>

The Embassy Suites originally opened in 2001 under a DDA between the Developer and Agency. In spite of the difficulties experienced in the initial years, as did many of the hotels immediately following the events of September 11, 2001, the Embassy Suites project has exceeded projections in occupancy and revenue in recent years. It is currently the highest producing revenue generator of all hotels developed under recent contracts between the Agency and hotel developers. The financial assistance program currently in place extends to January 2009, and the terms of that agreement will not be altered in any way as the result of any new agreement for the expansion project.

Hilton Corporation has encouraged both the Developer and Agency to facilitate an expansion of the hotel because of the strength and potential of the hotel operations. The Developer currently has land available for expansion provided the parking on the site is replaced. The proposed leased land will accommodate the parking required for the expansion, replacement of the existing parking, and ancillary hotel facilities (approximately one acre). The expansion proposes to add new amenities and expanded conference opportunities that will enhance the hotel campus.

At a closed session on October 24, 2006, the Agency concluded that alternative development options were not feasible at this time from a financial and timing perspective. Thus, staff was directed to proceed with a DDA for the expansion of the Embassy Suites Hotel. Staff and the Developer have been negotiating the business points since that time and critical issues have been resolved per Agency direction.

Below, is a summary of the proposal, based on the preliminary site plan.

Development Components:

- 225 Room expansion (cost: $249,400/room).
- 850 +/- spaces total per entitlements and hotel franchise agreement.
- 40,000 +/- sq. ft. ballroom, meeting and pre function space.
- ~24,800 sq. ft. back of house facilities.
- ~7,700 +/-sq.ft. of resort spa, pool and deck.
- ~5,000 sq. ft. restaurant.
- ~3,000 sq. ft. other food and retail

Financial Components:

- 50% of Transient Occupancy Tax, Tax Increment, and Sale Tax assistance for seven years.
- Total assistance capped at $7 million.
- Assistance front-loaded in earlier years, and only if revenue from the expanded project is available.
    - Year One: 80% of available revenue
    - Year Two: 70%
    - Year Three: 60%
    - Year Four: 50%
    - Year Five: 40%
    - Year Six: 30%
    - Year Seven 20%

Transaction Components:

- Lease of landfill site for fifty-five years with two extensions - 99 years max @ $1.00 per year lease.
- Can be terminated for future development. Agency or new developer has to replace parking.
- In the event of paid parking, Sanitary District shares 50% of net revenues, after normal operating expenses.

Developer agrees that should the hotel be sold prior to the end of the assistance period, the assistance payments will remain with the hotel. A twenty-year (20) operating covenant will also be placed on the development to ensure its continuous operation as a hotel, with minimum standards for property maintenance.

A Cooperation Agreement between the Garden Grove Sanitary District and the Agency will be used to facilitate the lease of the property to the Developer. The lease can be terminated in future years, if necessary, to accommodate development of the parking site, provided that the Agency or developer agrees to replace the number of parking spaces up to a maximum of 850 for the Embassy Suites at no cost.

The proposed expansion, when partnered with the adjoining Hyatt Hotel, presents a unique opportunity to create a mini-convention hotel campus, with 1,430 full service guest rooms and over 100,000 square feet of meeting and banquet space for the International West resort and entertainment district. This should make the hotel district even more competitive with neighboring Anaheim hotel properties, as visitors and conventioneers spend more of their time in Garden Grove.

The projected economic and project benefits that accrue from the project include:

- Estimated annual tax increment of $500,000 +/-.
- Estimated annual Transient Occupancy Tax of $1 million dollars.
- Estimated annual Sales Tax of $150,000, which includes restaurant, spa, and banquet sales.
- Eighty (80) new jobs.
- Expanded conference and banquet facilities.
- 10-year restriction against similar or equivalent brand in the market.

Environmental Clearance

The CEQA clearance for the DDA is the environmental impact report approved as part of the 2002 Redevelopment Plan Amendment.

COMMUNITY VISION IMPLEMENTATION

Improving the City's economic base through development of tax-generating uses where appropriate.

FINANCIAL IMPACT

The financial impact to the Agency, is limited to the amount of the transient occupancy tax and property tax increment assistance package of $7 million dollars over seven years, as determined by the Agency's economic consultant. This amount represents 50% of the anticipated tax revenues generated from the project.

RECOMMENDATION

Staff recommends that the Garden Grove Sanitary District take the following actions:

- Conduct the joint public hearing;
- Adopt a Resolution approving a Cooperation Agreement and leases between the Garden Grove Sanitary District and the Garden Grove Agency for Community Development for the lease of property generally described as 12261 Harbor Boulevard (APN No. 233-181-01);
- Direct staff to retain the services of an environmental consultant to assess the condition of the landfill and make recommendations.

Staff recommends that the Agency take the following actions:

- Conduct the joint public hearing;
- Adopt a Resolution approving:
  1. A Cooperation Agreement and leases between the Garden Grove Agency for Community Development and the Garden Grove Sanitary District;
  2. A Disposition and Development Agreement between the Garden Grove Agency for Community Development and Landmark Companies, LLC.

CHET YOSHIZAKI
Economic Development Director

By: Greg Brown
Senior Project Manager

Approved for Agenda Listing

Matthew Fertal
Director

Attachment 1 - Site Map
Attachment 2 - Garden Grove Sanitary District Resolution Approving Cooperation Agreement
Attachment 3 - Cooperation Agreement (Sanitary District)
3a. Parking Site Lease
3b. Expansion Site Lease
Attachment 4 - Garden Grove Agency for Community Development Resolution Approving DDA and Cooperation Agreement
Attachment 5 - Reuse Analysis
Attachment 6 - Disposition and Development Agreement Between the Garden Grove Agency for Community Development and Landmark Companies, LLC.

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