

**SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA COMMUNITY REDEVELOPMENT LAW
ON A
DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN
THE REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ
AND
CITY FRONT SQUARE, LLC,
A DELAWARE LIMITED LIABILITY COMPANY
AND
CASA DE PUEBLO PRESERVATION, L.P.,
A CALIFORNIA LIMITED PARTNERSHIP**

I. INTRODUCTION

The California Health and Safety Code, Section 33433, requires that if a redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the agency must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. A copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transaction shall be available for public inspection prior to the public hearing. As contained in the Code, the following information shall be included in the summary report:

1. The cost of the agreement to the redevelopment agency, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency, plus the expected interest on any loans or bonds to finance the agreement;
2. The estimated value of the interest to be conveyed, determined at the highest and best use permitted under the redevelopment plan;
3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement with the Agency, i.e., the reuse value of the site;
4. An explanation of why the sale of the site will assist in the elimination of blight, as required by Section 33433; and

5. If the sale price is less than the fair market value of the interest to be conveyed, determined at the highest and best use consistent with the redevelopment plan, then the agency will provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the proposed Disposition and Development Agreement (“Agreement”) by and between the City of San José Redevelopment Agency (“Agency”) and City Front Square, LLC, a Delaware limited liability company (“City Front Square”) and Casa Del Pueblo Preservation L.P., a California limited partnership (“Preservation Partners”) (collectively, “Developer”) for the development of a mixed-use high-rise residential project in downtown San Jose. The purpose of this analysis is to determine the cost of the Agreement to the Agency.

This report is based upon information in the proposed Agreement and is organized into the following six sections:

1. **Summary of the Proposed Agreement** - This section includes a description of the site, the proposed development and the major responsibilities of the Agency and the Developer.
2. **Cost of the Agreement to the Agency** - This section outlines the cost of the Agreement to the Agency for costs associated with the Agreement between the Developer and the Agency.
3. **Estimated Value of the Interest to be Conveyed** - This section summarizes the value of the interests to be conveyed to the Developer.
4. **Consideration Received and Reasons Therefore** - This section describes the consideration to be paid by the Developer to the Agency. It also contains a comparison of the consideration and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.
5. **Elimination of Blight** - This section includes an explanation of why the sale of the site will assist in the elimination of blight and the supporting facts and materials.
6. **Conformance with Five-Year Implementation Plan** - This section describes how the Agreement is in conformance with the Agency’s Five-Year Implementation Plan.

II. SUMMARY OF THE PROPOSED AGREEMENT

A. *Description of the Site and Project*

Site

The site ("Site") consists of two adjacent parcels located on a downtown San Jose block known as Block 8, to be acquired by the Developer for development of a mixed-use high-rise residential project. The Site is approximately 2.01 acres in size and includes a 1.48-acre Agency-owned parcel (Agency Parcel) located at 281 South First Street (APN 259-42-080) and a 0.53-acre privately owned parcel (Casa Del Pueblo Parcel) at 240 South Market Street (APN 259-42-037). The Site extends along the entire frontage of the north side of West San Carlos Street from South First Street on the east to South Market Street on the west. The Site is located in the San Antonio Plaza Redevelopment Project Area.

The Agency Parcel is the last remaining undeveloped portion of Block 8, and is currently being used for daily and monthly surface parking for the public, monthly parking for the tenants of the Casa Del Pueblo Parcel, which leases 32 spaces, and for the adjacent Montgomery Hotel, which leases 60 spaces from the Agency. The Casa Del Pueblo Parcel is improved with a 165-unit subsidized housing project for low income senior citizens. The Casa Del Pueblo Parcel also contains the offices of the United Food and Commercial Workers Union (UFCW) local offices.

The Site will be subdivided into separate air rights parcels to allow City Front Square and Preservation Partners to own separate components of the mixed-use high-rise residential project, as will be described below.

City Front Square, LLC and Casa Del Pueblo Preservation Partners (Developer)

City Front Square, LLC (City Front Square) and Casa Del Pueblo Preservation L.P. (Preservation Partners) are jointly entering into this Agreement with the Agency. City Front Square, LLC, is a Delaware limited liability company. The managing member of City Front Square is Urban West Associates, of San Diego, CA, which is authorized to act on behalf of City Front Square. City Front Square is qualified to do business in California. The principal office of City Front Square is c/o Michael N. Kriozere, 6335 El Camino Del Teatro, La Jolla, CA 92037. In accordance with this Agreement, completion of construction of the Project (described below) is guaranteed by UrbanWest Associates.

Casa Del Pueblo Preservation L.P. (Preservation Partners) is a California limited partnership. One of the co-general partners is Preservation Partners Development III, which is authorized to act on behalf of Preservation Partners. Preservation Partners is qualified to do business in California. The principal office of Preservation Partners is 904 Manhattan Avenue, Suite 7, Manhattan Beach, CA 90266.

Project

Subject to the inclusion of the Casa Del Pueblo Parcel as detailed below and in the Agreement, City Front Square and Preservation Partners will design, develop, and construct on the Site a mixed-use, high-rise project (Project) of first-class architectural quality and character including:

- Two high-rise residential condominium towers (collectively, For-Sale Component) with a total of approximately 414 units, one tower to be located on the Agency Parcel and the other tower to be located on the Casa Del Pueblo Parcel;
- One 245-unit residential rental tower (Rental Component), subject to the provisions of this Agreement, including the approvals of the U.S. Dept. of Housing and Urban Development (HUD Approvals), encumbered at least in part with HUD affordability requirements , which is intended to replace the existing Casa Del Pueblo building (Rental Component);
- Approximately 34,000 sq.ft. of ground floor retail space (Retail Space);
- Three levels of parking (Parking Garage), of which two must be underground and the third level may either be underground or above ground if an acceptable design is approved by the Agency, to provide necessary residential parking and to replace the parking spaces available to the public that currently exist on the Agency Parcel; and
- Necessary on-site and off-site improvements.

The exact scope, size, and other aspects of the Project will be determined only after the Developer has complied with the appropriate governmental requirements and obtained the appropriate governmental approvals, including a building permit for the Project. The Agency has particular interest and concerns regarding the layout, make up and operations of the Parking Garage, as spelled out in the Developer Responsibilities section of this report.

The Project will be designed and developed as a mixed-use, high-rise Project of first-class architectural quality and character. Any off-site and public improvements required for the Project will be designed and developed with the same degree of quality. The Project will be designed to comply with the San Jose Downtown Streetscape Master Plan. Particular attention will be paid to the quality of materials. Finish materials will be selected for quality and permanence, conveying an intended image of an urban character for such improvements appropriate in a downtown core area. The Agency and the Developer will cooperate and direct their consultants, architects, and/or engineers to cooperate so as to ensure the continuity and coordination vitally necessary for the proper and timely completion of the Project.

Development of the Project is to occur in two phases. In the first phase (Phase One), the Developer will construct on the Agency Parcel the following:

- (i) the majority of the three-level parking garage (Parking Garage);
- (ii) the first of two for-sale market rate residential towers (of the For-Sale Component), which will be located on top of that portion of the Parking Garage at the northeast corner of South Market and West San Carlos Streets on the Agency Parcel; and
- (iii) subject to the provisions of the Agreement, the rental tower (Rental Component), which will be located on top of that portion of the Parking Garage at the northwest corner of South First and West San Carlos Streets, also on the Agency Parcel.

In the second phase of construction (Phase Two), Developer, subject to the provisions of the Agreement, will construct on the Casa Del Pueblo Parcel the rest of the three-level parking garage and the second (of two) for-sale market rate residential tower (completing the For-Sale Component), which will also be located on top of the overall parking garage structure.

The Rental Component, if built, will be built on the Agency Parcel and will consist of the following:

- construction and preservation of 163 existing affordable senior units (replacing the current/existing units on the Casa Del Pueblo Parcel);
- two unrestricted manager units;
- and the creation of 80 new affordable units.

The Rental Component's 243 income-restricted units will carry a new 55-year affordability restriction limiting occupancy to extremely low- and low-income households. A total of 181 units will be restricted to low income households (households with incomes below 60% of area median income) and 62 units, or 25% of the Rental Component, will be affordable to extremely low-income households (households with incomes below 30% of area median income). The existing Casa Del Pueblo's project-based Section 8 contract, which covers 154 existing units, will be transferred to the new Rental Component on the Agency Parcel.

The new Casa Del Pueblo will offer larger living units, secure parking for residents and visitors, and both indoor and outdoor common areas. Van service will be provided for regular shopping, medical and recreational activities and a greatly expanded program of social services will be provided. Services for seniors provided by the Retail Store Employees Building Corporation will focus on daily living programs appropriate for this population.

Project Plan B

If the HUD approvals do not occur as detailed in the Agreement, the Developer will solely construct just a three-level parking garage and the For-Sale Component of the Project, with both market rate condominium towers constructed on the Agency Parcel, and the Casa Del Pueblo Parcel will be

left intact (Project Plan B). In Project Plan B--Phase One, the first for-sale market rate residential tower will be located on top of that portion of the Parking Garage at the northeast corner of South Market and West San Carlos Streets on the Agency Parcel. In Project Plan B--Phase Two, the Developer will construct the second for-sale market rate residential tower, which will be located on the top of the parking structure at the northwest corner of South First and West San Carlos Streets, also on the Agency Parcel.

The Developer will allocate one percent (1%) of the hard Project costs of the For-Sale Component as defined in the Agreement for provision of public art to be located on the Site and to be developed by an artist mutually acceptable to the Developer and the City's Office of Cultural Affairs. The public art program may include various works of art displayed in areas open to and readily accessible to the public, or in major interior spaces open to and readily accessible to the public provided all of the funds will be expended on-site.

B. Agency Responsibilities

Subject to the specific terms and conditions stated in the Agreement, the Agency's responsibilities under the proposed Agreement are as follows:

1. Prior to transfer of the Agency Parcel to the Developer, approve the Environmental Condition of the Casa Del Pueblo Parcel.
2. Sell the fee interest in the Agency Parcel to the Developer "as is" on an agreed upon date for a cash purchase price of \$28,620,000, as detailed in Section III.B of this report, provided that the Developer has complied with all of its obligations under this Agreement with respect to the acquisition of the Agency Parcel. The purchase price remains unchanged if the Developer builds just the For-Sale Component of the Project (Project Plan B).
3. Enter into a Use Agreement with HUD as detailed in the Agreement.
4. Perform all the of the Agency's indemnity obligations to the Developer under this Agreement.
5. Execute a Parking Operations Plan with the Developer to govern ownership, operations, and maintenance of the parking spaces to be made available to the public that are part of the Project.
6. Agency understands and acknowledges that the initial development of the Project will include one of the towers comprising the For-Sale Component. If Phase One includes development of the Rental Component on the Agency Parcel, and Developer does not

proceed with Phase Two of the Project, the Agency would obtain the Casa Del Pueblo Parcel in lieu of the second installment of the Purchase Price.

7. The parties acknowledge that the Site will be subdivided into air rights parcels to allow the Rental Component and each phase of the For-Sale Component of the Project to be separately owned.
8. Pay one-half of the escrow fee, an amount equal to any state or county and one-half of any city documentary transfer tax, and pay the portion of a CLTA title insurance policy as detailed in the Agreement.
9. Approve or disapprove the Developer's Design Review submittals in accordance with the requirements of the Design Review Process. The Agency will have the right of review (including, but not limited to, architectural review) and approval of all plans, drawings, and related documents for the development of the Project submitted by the Developer, including Design Development Documents and 50% Construction Documents.
10. At completion of either component of the Project, furnish the Developer with the Certificate of Compliance for such component of the Project, at the written request of the Developer.
11. The Agency will not be liable for any real estate commissions or brokerage fees. The Agency and the Developer each represent that neither has engaged any broker, agent, or finder in connection with this Agreement except for John Miller whose commission will be paid by the Developer pursuant to a separate agreement.
12. The Agency is entitled to assign its rights or obligations pursuant to this Agreement to the City of San Jose at any time without the prior written consent of the Developer.

C. City Front Square and Preservation Partners Responsibilities

Subject to the specific terms and conditions stated in the Agreement, the Developer's responsibilities under the proposed Agreement are as follows:

1. Prior to close of escrow, satisfy all conditions required by the Agency to be in full force or effect, including the following:
 - Provide evidence of financing for the Project.
 - Provide evidence of executed construction agreements to begin construction of the Project.

- Submit Design Development Documents and 50% Construction Documents to the Agency and receive Agency approval of said documents.
 - Obtain required land use and zoning approvals, and have complied with the requirements of the California Environmental Quality Act (CEQA).
 - Purchase the Casa Del Pueblo Property from the UFCW concurrently with, or prior to, acquisition of the Agency Parcel;
 - Enter into an agreement to purchase the Casa Del Pueblo Parcel from the UFCW and relocate all residents and businesses, including the UFCW's offices to a suitable replacement site acceptable to the UFCW, as detailed in the Agreement.
 - Enter into a Use Agreement with HUD as detailed in the Agreement.
 - Preservation Partners will have obtained all necessary financing to complete construction of the Rental Component of the Project, including a loan from the City of San Jose in an amount of approximately \$6,600,000. The loan will be secured by a deed of trust on the air rights parcel of the Rental Component of the Project. The source of funds is the dedicated 20% funds for affordable housing received by the Agency.
2. Developer will purchase the Site "as is" from the Agency for \$28,620,000 in two cash installments as detailed in Section III.B of this report. The first installment is to be paid at the start of construction of the first phase of the Project and the second payment is due upon the first construction draw under the construction loan for Phase Two of the For-Sale Component of the Project, but no later than 36 months after the Developer obtains a foundation permit for Phase One of the For-Sale Component of the Project. The Purchase Price remains unchanged under Project Plan B. The Developer has the sole responsibility and expense to determine the condition of the Site, including the presence of any hazardous materials.
 3. Developer will obtain a letter of credit or bond in the full amount of the cost to demolish the building located on the Casa Del Pueblo Parcel. The Agency will have the right to enforce such letter of credit or bond if the Developer defaults under the Agreement prior to demolishing the existing Casa Del Pueblo housing project.
 4. Developer will perform all the of the Developer's indemnity obligations to the Agency under this Agreement.
 5. Upon conveyance, City Front Square and Preservation Partners will diligently develop and construct their respective components of the Project, including diligently pursuing all design approvals, entitlements, commencement and completion of construction

within the time specified in the Agreement. The Schedule of Performance provides that the close of escrow and conveyance of the Agency Parcel will occur on or before December 1, 2007. Phase Two of the Project will be completed within 24 months of the start of Phase One construction, in the 4th quarter 2009. If the HUD approvals are not obtained, and City Front Square only builds the For-Sale Component of the Project (Project Plan B), the Developer must submit an Amended Schedule of Performance for Agency approval and a new Comprehensive Preliminary Design review application must be initiated.

6. If the Developer is unable to obtain HUD approval on or before the HUD approval date as detailed in the Agreement, the parties acknowledge that the Project will proceed provided that the Casa Del Pueblo Parcel and the Rental Component of the Project will be eliminated from the Project and City Front Square will proceed to construct two market rate towers on the Agency Parcel along West San Carlos Street (Project Plan B). Under Project Plan B, any and all obligations relating to the Casa Del Pueblo Parcel will no longer apply and Preservation Partners will have no further rights or obligations under this Agreement.
7. All costs of developing the Site and constructing all improvements thereon will be financed by City Front Square and Preservation Partners, except for the Housing Department Loan.
8. Provide and maintain a completion guarantee as provided in the Agreement.
9. The Developer and any contractor engaged by the Developer will pay prevailing wages for construction of the Project.
10. Developer will submit to the Agency for its approval covenants, conditions, and restrictions (CC&R's) for the For-Sale Component of the Project. The CC&R's will be consistent with the terms of the Agreement and will contain standards to assure the use, operation, and maintenance of the For-Sale Component of the Project and any adjacent common areas as a first-class quality residential condominium development. The CC&R's will be recorded against each legal parcel on which residential condominium units are to be developed.
11. Developer will comply with the City's Public Art Requirements, whereby the Developer is to allocate one percent (1%) of hard costs of the For-Sale Component of the Project as defined in the Agreement for provision of public art to be located on the Site and to be developed by an artist mutually acceptable to the Developer and the City's Office of Cultural Affairs. The public art program may include various works of art displayed in areas open to and readily accessible to the public, or in major interior spaces open to and readily accessible to the public provided all of the funds will be expended on-site.

Developer will include in the CC&R's a provision requiring the Developer and its successors and assigns, including any future homeowners associations to maintain and repair any public art located on the For-Sale Component of the Project.

12. Developer's plans will incorporate the following Agency requirements for the Parking Garage component of the Project:
 - Developer will provide at least 93 parking spaces for transient parking users (general public, retail customers, and residential guest parking) only (no monthly parking) on the first floor of the Parking Garage;
 - Developer will use good faith efforts to negotiate a lease with the Montgomery Hotel for not more than 60 spaces in the Parking Garage for employee and guest parking for the Montgomery Hotel;
 - Developer will provide parking spaces for any new rental residential units in a ratio of not less than 1 space per each rental unit and no less than 83 parking spaces for the replacement rental units from the Casa Del Pueblo Property and for the two manager units;
 - Developer will provide parking spaces for the for-sale residential units as follows: at least 2 spaces for units with 2 or more bedrooms; and at least 1 space for units with less than 2 bedrooms;
 - Developer will provide guest parking and handicapped parking for all residential units as required by the City's Department of Planning, Building, and Code Enforcement.
 - Under Project Plan B, the parking garage will be three levels, of which two levels will be underground and the third level may either be underground or above grade. Under Project Plan B, no rental parking is needed other than the existing 32 parking spaces currently provided for senior tenants of Casa Del Pueblo. Any additional parking spaces above the parking requirements of Project Plan B would be short term/daily transient public parking.
13. Developer will execute a Parking Operations Plan with the Agency to govern ownership, operations, and maintenance of the parking spaces available to the public that are part of the Project. The Parking Garage will be owned and operated by the Developer and all revenues earned and expenses incurred to the operation of the Parking Garage will be the responsibility of the Developer. Maintenance and security of the Parking Garage will be the sole responsibility of the Developer. The Parking Garage will be operated and maintained to the standard of a first class parking garage.

Developer may contract out or assign the operating responsibility to a third party operator without Agency approval.

14. Developer will use reasonable efforts to comply with all HUD requirements and assume complete responsibility and financial obligation for the relocation of all residents and businesses located at the Casa Del Pueblo Parcel.
15. Developer acknowledges that the Hotel Montgomery may have direct pedestrian access to the Parking Garage and vehicular access may be provided from the Hotel Montgomery to the Parking Garage.
16. Developer will pay one-half of the escrow fee, one-half of any city documentary transfer tax, and pay the portion of the CLTA title insurance policy as detailed in the Agreement. The Developer will pay all ad valorem taxes and assessments due after closing.
17. Developer will make a good faith effort to encourage the ground floor retail tenants to participate in the Agency's voluntary San José First Source Employment Program, a program that assists San José residents in gaining early access to employment opportunities in San José and in helping businesses that are experiencing difficulty finding qualified workers.
18. Developer agrees that prior to the issuance of a Certificate of Compliance for completion of the Project, except for Phase Two of the For-Sale Component, Developer will not assign all or any part of this Agreement without the prior written consent of the Agency, which approval will be provided at the Agency's sole discretion.
19. Developer agrees and acknowledges that the qualifications and identity of the Developer, and its respective principals and personnel are of particular concern to the community and the Agency. The following key persons are designated as essential to the leadership and direction of the Project, and no key changes to key persons will occur without the written consent of the Agency: Michael Kriozere, David Kriozere, Willam Szymczak.

D. City Housing Department Responsibilities

The Housing Department will provide a funding commitment for a construction/permanent loan of up to approximately \$6.6 million to Casa Del Pueblo Preservation L.P. for the development of the new Casa Del Pueblo Apartments, provided that the U.S Housing and Urban Development Department (HUD) has executed the Property Use Agreement and Assumption Agreement as detailed in the Agreement. The loan will be secured by a deed of trust on the air rights parcel to be owned by Preservation Partners.

III. COST OF THE AGREEMENT TO THE AGENCY

This section presents the total cost of the Agreement to the Agency, as well as the "net cost" of the project after consideration of the project revenues. The net cost can be either an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by implementation of the Agreement exceed expenditures.

A. *Estimated Cost to the Agency*

The Agency incurred historic costs associated with acquiring Block 8, including the Agency Parcel, from 1969 to 1997. The Agency also funded environmental and geotechnical site assessments of the Agency Parcel over the past decade. For the sale of the Agency Site to the Developer, the Agency will pay one-half of the escrow fee, an amount equal to any state or county transfer taxes and one-half of any city documentary transfer tax, and pay the portion of a CLTA title insurance policy as detailed in the Agreement. Except for the City Loan described below, no additional Agency assistance of any kind is being provided to the Project.

For this agreement, the cost to the Agency is estimated to be:

	<u>Dollar Estimate</u>
Land Acquisition Costs – Agency Parcel ⁽¹⁾	\$ 4,100,000
Environmental & Geotechnical ⁽²⁾	75,000
Escrow fees, other transfer fees (e.g. CLTA) ⁽³⁾	100,667
Other site costs, e.g. demolition ⁽⁴⁾	N/A
Total	<u>\$ 4,275,667</u>
	(Rounded) \$ 4,280,000

Notes:

1. Pro-rata share of Agency's historic acquisition costs for Block 8 parcels including the Agency Parcel. The Agency assembled Block 8 from 1969 to 1997 at an Agency cost of \$8,838,781 (approximately \$63.41 per sq.ft.). The pro-rate share of this cost for the 1.48-acre Agency Parcel is approximately \$4.1 million.
2. Agency estimate of costs incurred from 1992 to 2004.
3. Agency estimate for ½ of escrow fee, title fee (CLTA), transfer tax, ½ of City conveyance tax, and misc. fees.
4. Agency incurred historic costs for demolishing improvements and clearing the Agency Parcel—costs N/A.

As shown above, the estimated cost to the Agency is \$4,280,000. Historically, the Agency has funded Agency costs with bond proceeds and tax increment. For this Agreement, the majority of the Agency expenses were incurred over a decade ago. Assuming the entire amount of Agency costs was funded by bond proceeds, interest on Agency financing of approximately \$4,280,000 is estimated to be approximately \$4,070,000 over 30 years at an assumed interest rate of 5%. Principal and interest will be repaid over a 30-year period. On a present value basis, the interest cost is nominal.

Estimated Cost to the Housing Department

Using dedicated 20% funds for affordable housing received by the Agency, the Housing Department will loan up to approximately \$6.6 million for the construction/permanent financing of Casa Del Pueblo. The loan will be secured by a deed of trust on the air rights parcel to be owned by Preservation Partners.

B. Revenues to the Agency

The Agency will sell the Agency Parcel to the Developer for a purchase price of \$28,620,000 in cash. The Developer will pay 50% of this amount (\$14,310,000) at close of escrow. The remaining 50% (\$14,310,000) will be payable pursuant to a promissory note that is to be secured by a deed of trust against the Agency Parcel. The note will require that the principal balance, together with any interest due be paid in full by City Square Partners upon the first construction draw under the construction loan for Phase Two of the For-Sale Component of the Project, but no later than 36 months after the Developer obtains a foundation permit for Phase One of the For-Sale Component of the Project. Discounting this future payment (of principal and accrued interest) at 5%, the present value of this payment is estimated to be \$14,310,000. Therefore total Agency revenues are \$28,620,000.

Revenues to the Housing Department

The Housing Department loan will be paid from residual receipts. The department anticipated that the loan will be repaid over approximately 32 years.

C. Net Revenue to the Agency

Total Agency revenues are estimated to be \$28,620,000. The Agency's gross cost is estimated to be \$4,280,000. As a result, the net revenue to the Agency is \$24,340,000, as summarized below:

	<u>Estimate</u>
Agency's Revenue	\$ 28,620,000
(Less) Agency Gross Cost	<u>(4,280,000)</u>
Net Revenue to Agency	\$ 24,340,000

Net Revenue to the Housing Department

The Housing Department loan will be secured by a deed of trust and repaid from residual receipts. The anticipated net cost to the Housing Department is nominal as the loan is expected to be repaid.

IV. VALUE OF THE INTEREST TO BE CONVEYED

Fair Reuse Value

The fair reuse value for the Site is directly a function of a very specific development program as specified in the terms and conditions of the Agreement and the development economics of the specific use. The Agency is requiring the Developer to: (1) develop the Project with no financial assistance from the Agency except for the City Loan, and (2) pay prevailing wages for construction of the Project. Development of the Project must occur immediately after conveyance, e.g., speculation is not allowed.

In 2004, the Agency authorized the release of a Request for Proposals (RFP) seeking developers to redevelop the Agency Parcel on Block 8 (Site) for high-density residential development and/or full service hotel development. Project proposals were to incorporate a significant amount of active retail/commercial uses on the ground floor with pedestrian-oriented design features at street level. After an extensive and thorough review and interview process, the proposal received by City Front Square was selected as being the strongest and most consistent with the goals and evaluation criteria outlined in the RFP. City Front Square is paying \$28,620,000 for the Agency Parcel, which is entitled for construction of the Project. City Front Square will subsequently be investing an additional approximately \$240 million to build the For-Sale Component of the Project.

Based on the proposals received by the Agency and the reuse conditions that the Developer is required to satisfy, the payment of \$28,620,000 to the Agency is the fair reuse value.

Value at Highest and Best Use

KMA has also estimated the value of the interest being conveyed to the Developer if sold by the Agency at its highest and best use allowed under the Redevelopment Plan. The highest and best use must satisfy zoning, building codes, market conditions, and the Agency requirement that new investment must occur shortly after conveyance. The zoning designation of the Site is Downtown Commercial (DC), a new zoning designation created in 2004. The DC zoning designation applies to the majority of downtown San Jose and allows for the most intense types of use in the city including high-rise residential and commercial development, mixed-use development, and large public projects. Per the terms of the Agreement, the Project will be a well-designed mixed-use development, and will maximize the use of the site. The Project must be built in the near-term and represents the highest value that will be paid for this Agency Site in the SOFA area of downtown San Jose.

The Developer was selected using a competitive bidding process. Based on the proposals received by the Agency and the reuse conditions that the Developer is required to satisfy, the

Developer is paying \$28.62 million for the Agency Parcel. The payment is considered to represent fair market value for the Agency Parcel based on the competitive bidding for the Agency Parcel.

V. CONSIDERATION RECEIVED AND REASONS THEREFORE

The consideration being paid to the Agency is not less than the fair reuse value at the use and with the covenants and conditions imposed under the DDA. The consideration being paid to the Agency is also not less than the fair market value that the Agency could receive for the Property at its highest and best use with the conditions that a major investment be made to reuse the Site, and speculation is not allowed.

The Agency has determined that this specific Project as provided in the Agreement offers the best complementary uses for other land uses in the San Antonio Plaza Redevelopment Project Area and adjacent Market Gateway, Guadalupe-Auzerais and Park Center Plazas Redevelopment Project Areas. The Project will enhance the area by increasing the supply of housing downtown, and stimulating a vital retail/entertainment district. Therefore, the Project will further the overall goals of the Agency's Downtown Strategy Plan 2010 adopted by the San José City Council and the Agency to revitalize the downtown core.

VI. ELIMINATION OF BLIGHT

The Site in which the Project will be constructed is located in the San Antonio Plaza Redevelopment Project Area on the block bounded by W. San Fernando Street, S. First Street, W. San Carlos Street, and S. Market Street. The neighborhood of the Site consists of the heart of the downtown, including the Hotel Montgomery, Fairmont Tower, and Fairmont Hotel to the north, the U.S. Courthouse and Federal Building to the east, the Hyatt. St. Claire Hotel to the south, and the Plaza de Cesar Chavez city park to the west.

To reinforce and enhance the vitality of the downtown as a public and commercial center for San José, the Agency made a substantial investment in the revitalization effort to create a downtown core that serves as both a daytime and nighttime activity center. The revitalization effort includes the development of cultural, art, entertainment, commercial, and residential components. The Redevelopment Agency has determined that the Site is ideal for a high quality, high visibility mixed-use high-rise residential development, with ground floor retail and parking. The Project will assist in the removal of blight by increasing the supply of housing downtown on an underutilized Site, strengthening the San Antonio Plaza Redevelopment Project Area as a first-class residential and retail location in San José, and providing a catalyst/create momentum for additional private investment in the Downtown Area. The Project will increase employment, both during the construction phase and thereafter. In addition, the City's general fund will show increased sales taxes, business taxes, utility user fees, and an increase in property tax payments.

Thus, the Agency is entering into this Agreement in order to achieve its objectives to stimulate further mixed-use development in the downtown area and remove blight in the downtown area.

VII. CONFORMANCE WITH FIVE-YEAR IMPLEMENTATION PLAN

The primary Five-Year Implementation Plan program objective for the San Antonio Plaza Redevelopment Project Area is to eliminate conditions that negatively impact economic development of the community. To that end, the Agency is selling the Site for reuse as a mixed-use, high-rise residential development tower with ground floor retail and parking.

Furthermore, the Implementation Plan also establishes a priority objective of increasing the community's economic base by encouraging investment in the redevelopment project area. The Project will further encourage the San Antonio Plaza Redevelopment Project Area and adjacent Market Gateway, Guadalupe-Auzerais and Park Center Plaza Redevelopment Project Areas as a mixed-use 24 hour activity center consistent with the goals of the Agency's Downtown Strategy Plan to attract mixed-use development uses to downtown San José. The Project will be developed in the near-term and it will maximize the Site's ability to draw additional uses to the downtown. As such, the Project will increase the real property tax base and provide new sales tax, business license tax and utility user tax within the San Antonio Plaza Redevelopment Project Area. The Project conforms to the Implementation Plan and will achieve the goals specifically defined in the implementation plan.