Alameda Point Disposition Strategy: City Approach to Leasing and Selling its Buildings

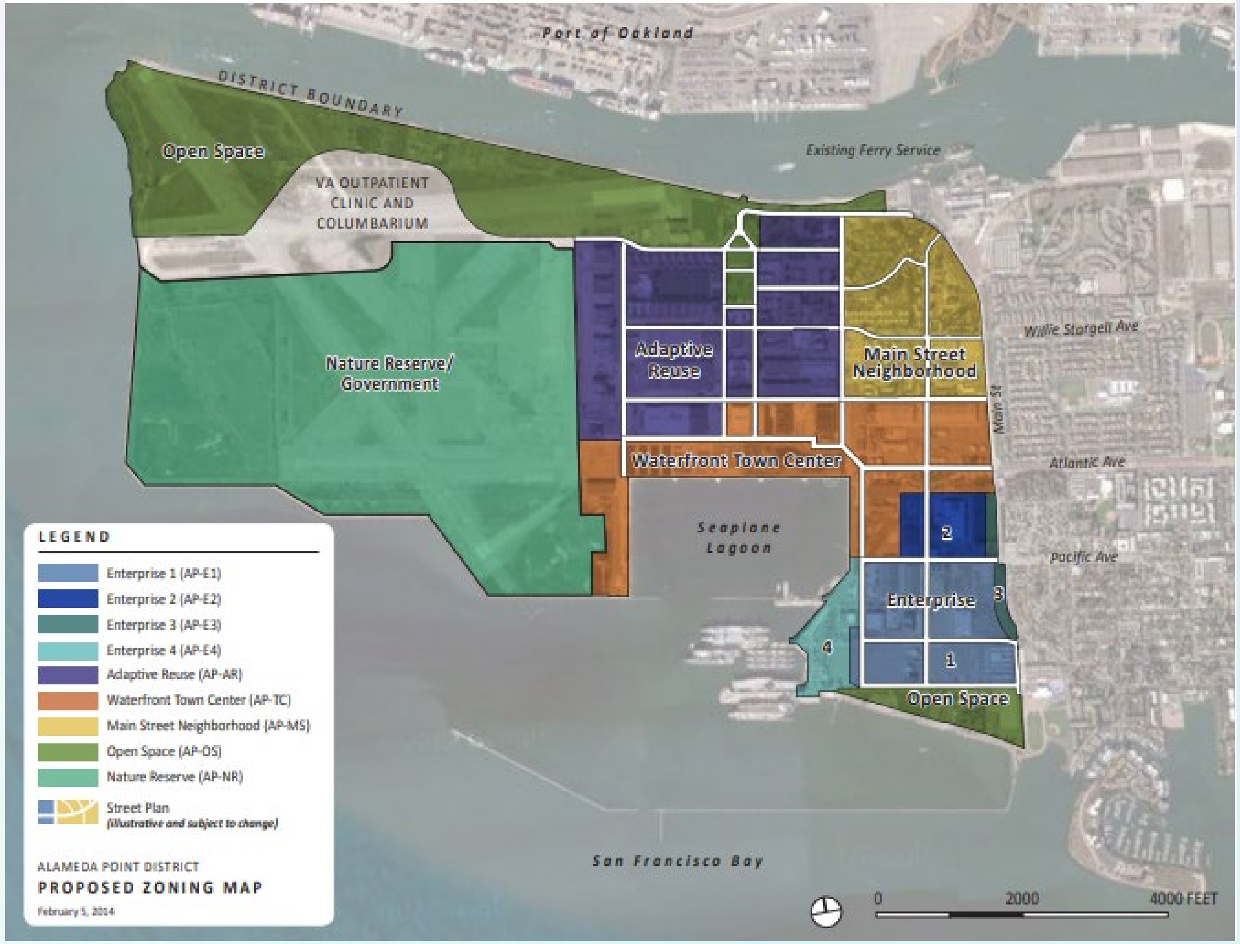
March 7, 2023

Presentation Overview

- **Purpose:**
  - City Council to provide feedback to staff on preliminary disposition and leasing strategy and guiding framework for Alameda Point
- **Today's presentation:**
  - Background
  - Goals
  - Keyser Marston Associates Analysis and Recommendations
  - Feedback from Alameda Point Owners/Tenants and Developers
  - Recommended Preliminary Strategy
  - Next Steps

Background – History

- Base Decommissioned in 1997
  - City responsible for maintaining infrastructure thereafter
- Alameda Point Community Partners Master Developer (2000-2006)
- SunCal Master Developer (2007-2010)
- City-Led Entitlement effort (2011-present)
  - Phased Conveyances to City (2013-present)
  - Alameda Point Zoning (General Plan Chapter 9 Amendments 2003; Municipal Code Amendments 2014)
  - Master Infrastructure Plan (MIP) (2014; amended 2020)
  - Town Center and Waterfront Specific Plan (2014)
  - Main Street Neighborhood Specific Plan (2017)
  - Transportation Demand Management Plan (2018)
  - Climate Action and Resiliency Plan (CARP)(2019)
- Surplus Lands Act
  - Amendment impacting Alameda Point (2020)
  - AB 2319 exempts Alameda Point (2023)
- Ongoing Commercial and Residential Leasing



Background - Some Sites Unavailable for Sale and/or Lease

TL Public Trust Lands (“Tidelands”)

AUSD AUSD owned land

S Previously sold / existing disposition plans

Environmental Issues

FED
- Navy Owned Land (FED)

HAZ
- Ongoing clean-up (HAZ)

FOST
- Under Investigation (FOST)

- Tarry Refinery Waste Area

- Reuse Area

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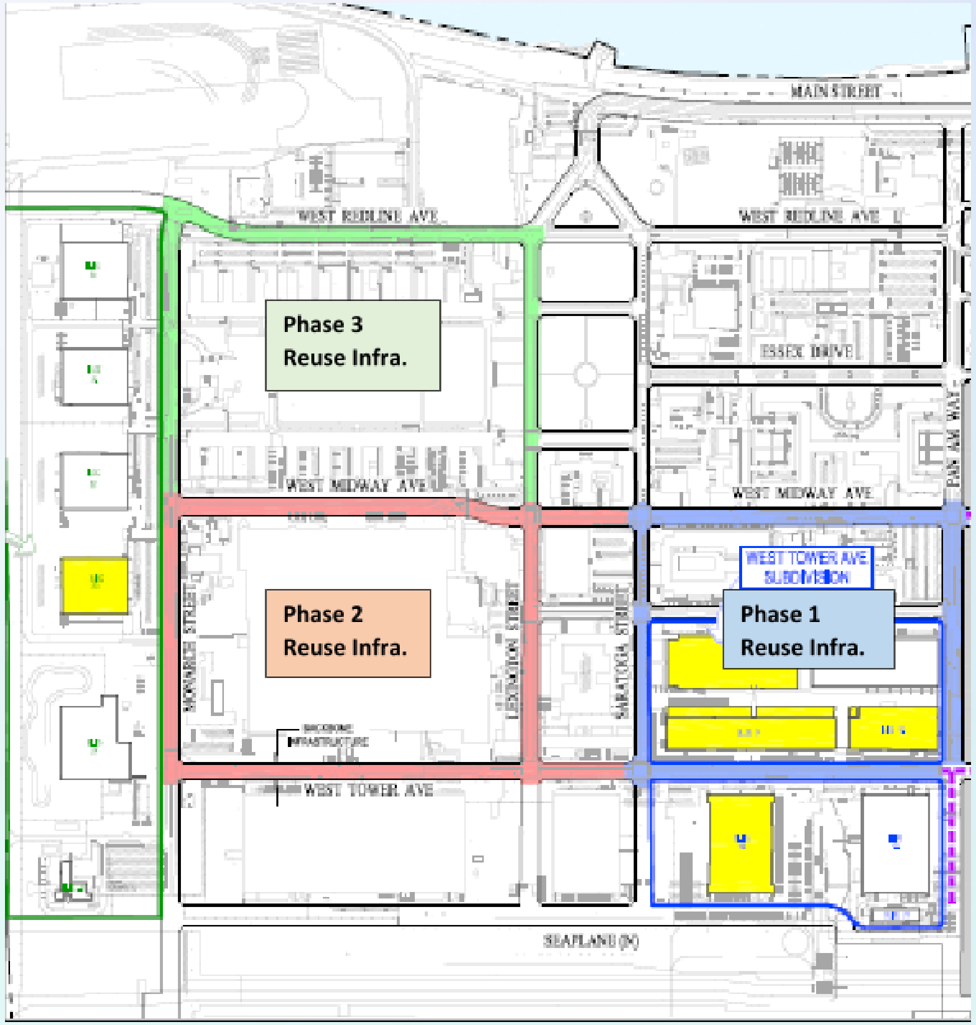
Background - Importance of Backbone Infrastructure Replacement

- **Existing infrastructure is over 70 years old -** Aging infrastructure results in reduced reliability of service and increased repair costs
- **Precursor to new construction and long-term use -** Cannot facilitate long-term private use or build new housing, parks, or businesses without new infrastructure with total costs estimated at approximately $700 million or $2 million per acre

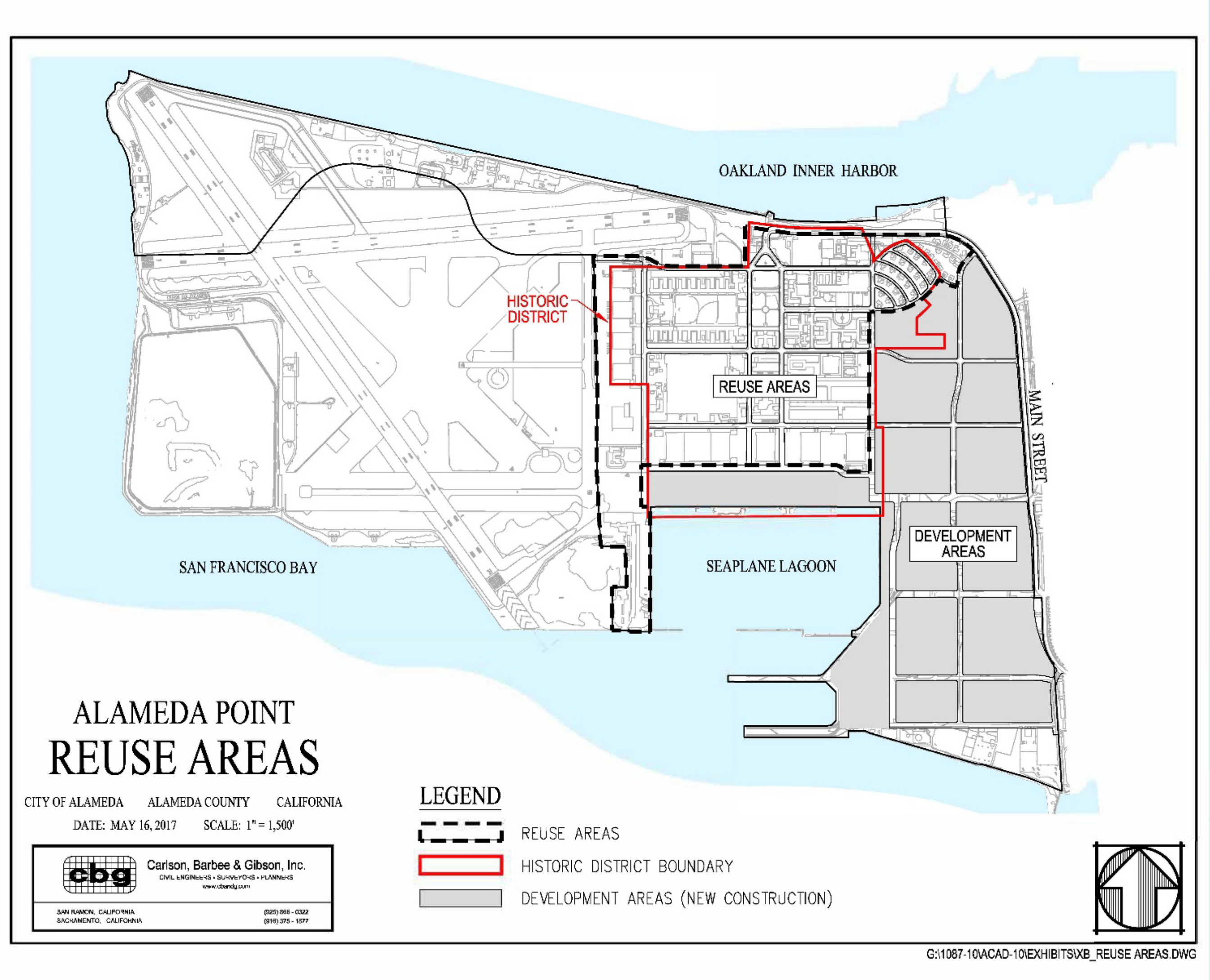


Background - Infrastructure Challenges

- Existing infrastructure is old (and getting older), designed for Navy use and costly to repair
  - two water systems – domestic and “deluge” system
  - steam trench no longer used with failing vault lids
  - street lighting not to current standard
  - lack of bike/pedestrian facilities
  - leaky sewer system contributing to regional wet weather issues
  - Flooding in certain areas at high tide
- Ongoing operating expenses for utilities (ex. water and gas) until replacement with PGE and EBMUD owned facilities

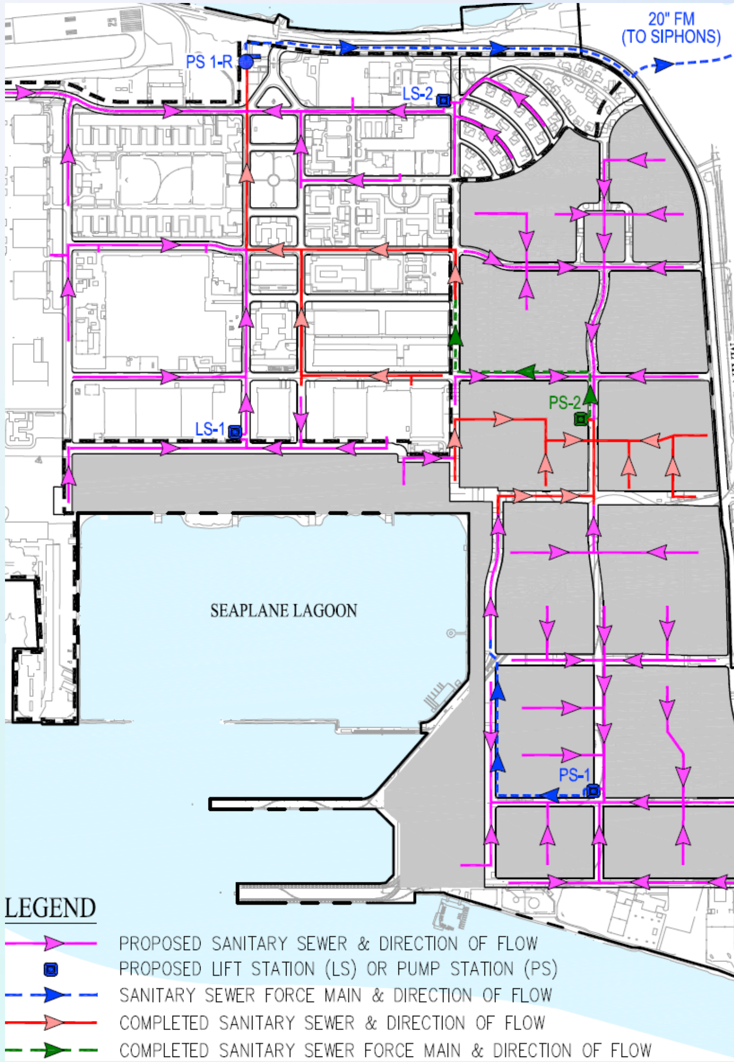
Background - Development vs. Reuse Areas

- Master Infrastructure Plan: Defines different implementation approaches due to site characteristics and constraints
- Reuse Areas: Building sales will fund infrastructure
  - Nationally Registered Historic District inhibits significant building demolition and large-scale new development
  - Single buildings / small parcels unable to support large cost of infrastructure
- Development Areas: Infrastructure funded by new development
  - Economy of scale enables infrastructure development to be funded by private developers (e.g. Site A, West Midway Projects)



Background - Alameda Point Master Infrastructure Plan

- Provides for the phased replacement of backbone infrastructure at Alameda Point
- Different approach for Development Areas (grey shaded) versus Reuse Areas
- In Reuse Areas – revenue from building sale funds the construction of new utilities and roadways under the City's Capital Improvement Program
- EBMUD Water Infrastructure Agreement - Phases



Background - Reuse Areas Backbone Infrastructure

- First building sale in 2017, 5 sold to date
- Reuse Areas Backbone Infrastructure Project programmed in 2019-21 CIP
- March 15, 2022 Council award of first construction project

CITY OF Alameda | WORK IN PROGRESS: 2019-21 CAPITAL BUDGET | 57

2019-2021 CAPITAL BUDGET PROJECT DESCRIPTION

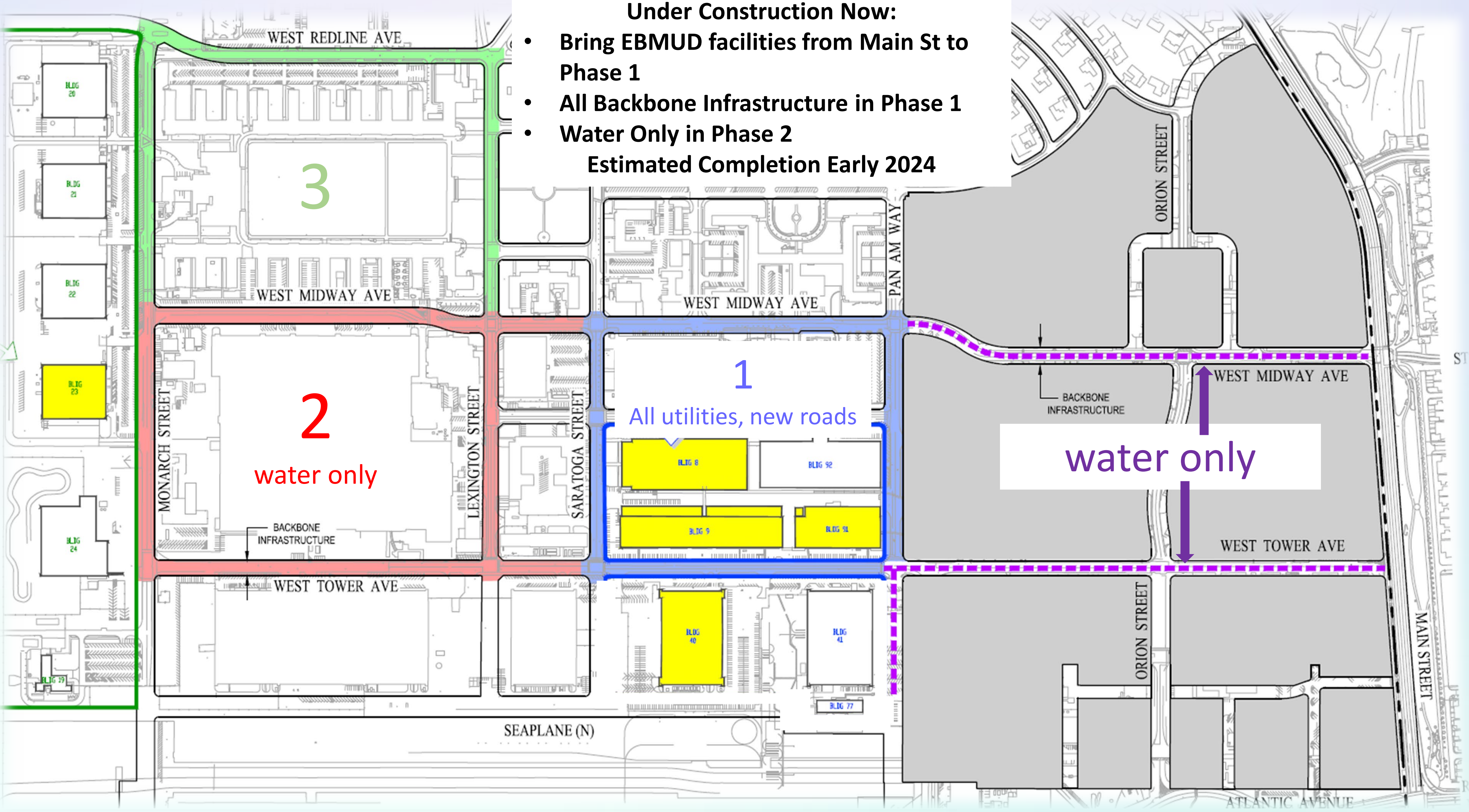
ALAMEDA POINT ADAPTIVE REUSE BACKBONE INFRASTRUCTURE

Lead Department: Public Works **Project Type:** Rehabilitation
Project Summary: Replace the backbone infrastructure in Alameda Point's Adaptive Reuse Area per the approved Master Infrastructure Plan.
CIP No.: 91890311

Under Construction Now:

- **Bring EBMUD facilities from Main St to Phase 1**
- **All Backbone Infrastructure in Phase 1**
- **Water Only in Phase 2**

Estimated Completion Early 2024



Background - What's Next for Reuse Areas Infrastructure

- Mid-year budget request for design services for phase 2 and 3 remaining backbone infrastructure
- As construction dollars becomes available, appropriate funds to CIP for second construction project
- Continued reliance on Master Infrastructure Plan in Reuse and Development Areas
- Continue maintenance of existing infrastructure with creative solutions in the interim – ex. solar street lighting

Goals of Alameda Point Disposition Strategy

"Transform NAS Alameda into a transit oriented, mixed use residential district and employment center with unique waterfront parks, recreational, entertainment and retail opportunities." – Reuse Plan (1997)

1. **Implement New Cohesive Backbone Infrastructure System**
   - Risk exposure of old existing infrastructure
   - Significant annual cost to maintain old existing system
   - New infrastructure precursor to long-term private use and new construction
2. **Generate Sufficient Lease Revenue to Cover Operating Expenses**
   - Leasing to cover ongoing operating expenses (staffing, maintenance) and contribute to contingency fund
3. **Deliver Community Benefits to Alameda Point/City of Alameda**
   - Ferry Terminal
   - Public parks, including development of new regional sports complex
   - Job creation
   - Affordable housing
   - Growing tax base (property, sales, possessory interest, etc.)

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KMA ANALYSIS

- Focus on Reuse Area where existing historic buildings are to be adaptively reused

- Evaluate tradeoffs between sale and lease

- Financial testing of alternatives:
  - Sale and leasing of an individual building
  - Sale and leasing of the entire Reuse Area portfolio

CONTINUE HOLDING BUILDINGS – PROS / CONS

Pros

On-going Lease Revenues provide operational funding

Exposure to Real Estate Upsides: rent growth, increase in value

City Selects Tenants: can consider economic development, policy factors

Cons

Unclear Path to Adequately Fund New Infrastructure

Exposure to Real Estate Downsides: recession, value decrease

Unexpected Repair Costs

Private Investment in Major Building Upgrades Less Likely

SALE OF BUILDINGS – PROS/CONS

Pros

Lump Sum $$s to Replace Infrastructure

Reduced City Operational Responsibility and Expense

Tax Revenue Increase

Increase Private Investment in Building Renovations

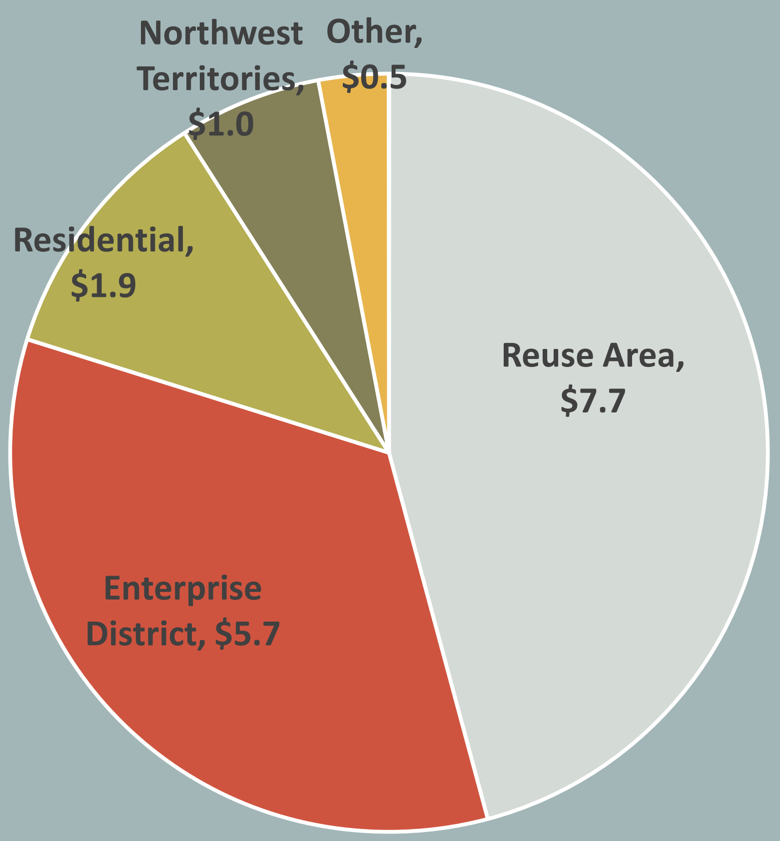
Cons

Reduced Lease Revenue
(new tax revenue replaces only ~15-20% of lost lease revenue)

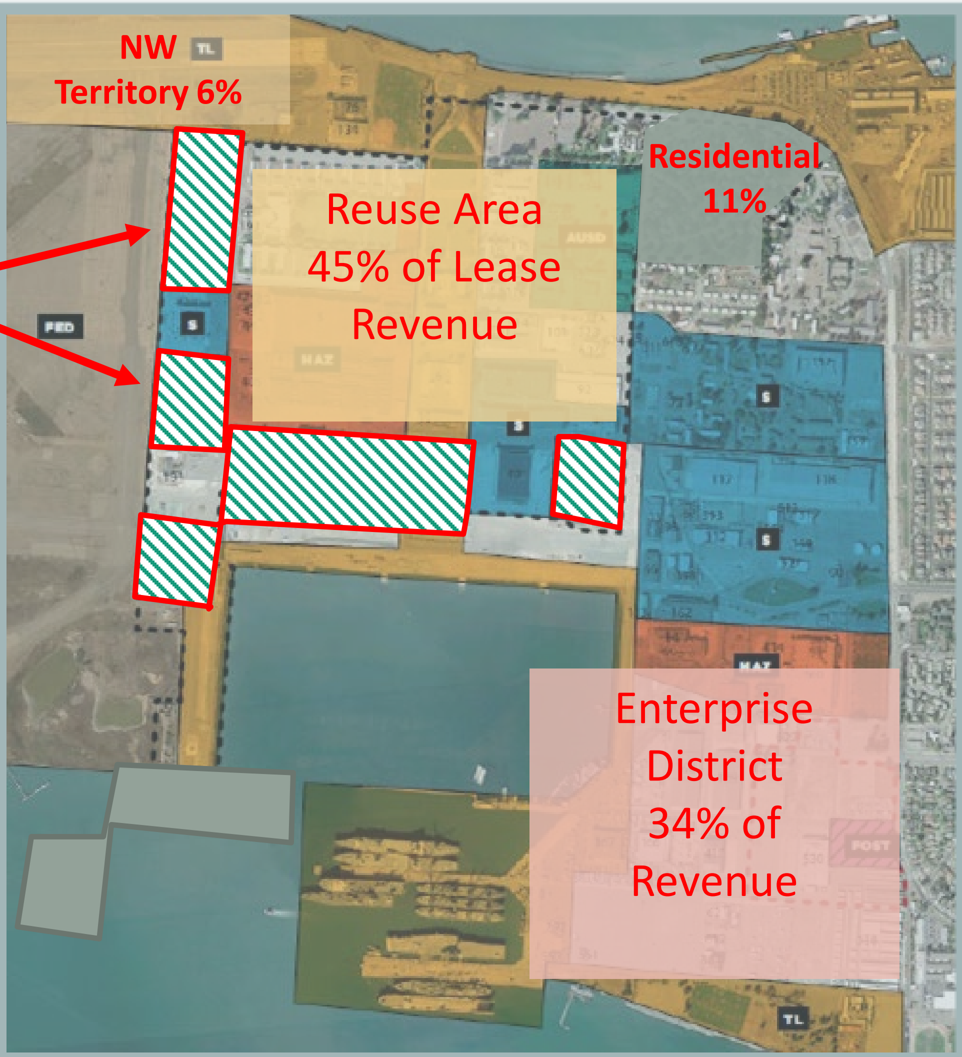
Operational Expenses may need to Transition to Other City Funding

REUSE AREA GENERATES ~45% OF LEASE REVENUE

Alameda Point Gross Lease Income: ~$16.7 Million
Includes Pending Leases



Hangars: 90% of Reuse Area Revenue



SIMILAR FINANCIAL RESULTS TO CITY OVER TIME IN LEASE AND SALE SCENARIOS

- Tested four lease and sale scenarios for an individual building
- Similar dollar results over time in lease and sale scenarios (includes sale proceeds, taxes, lease revenues)
- Major Difference:
  - Selling means upfront $$$ for infrastructure
  - Holding means on-going lease revenues for operations

Total to City Over 30-Years ($Millions)*	
Hold ten years, then sell	$24.4
Sell Year 1, no renovation after sale	$22.0
Sell Year 1, renovation by new owner after sale	$24.3
Hold 30 years, renovation by tenant with costs credited to rent, then sell	$21.8

** Net Present Value calculated using a 6% discount rate.*

HANGARS: GREATEST POTENTIAL SALES PROCEEDS

- **Hangars are Premium Assets**
  - Proven income-generators, large clear spans & heights, views to Bay.
  - Large share of potential sale proceeds (2/3)
  - Selling reduces lease revenue the most
  - Need to be strategic about hangars, balance capital / operating needs

- **Other Buildings**
  - Aside from hangars, ~85% of remaining space in Reuse Area is vacant
  - Vacant space may be costly to make useable, more difficult to market, proceeds more uncertain

Sales Proceeds, Preliminary Estimate ($Millions)	
Hangars	$110 to $160
Other Reuse Area Buildings	$50 to $90
Total Reuse Area	$160 to $250

Note: preliminary estimate for planning purposes, actual will vary based on future market conditions and other factors.

ADEQUATE OPERATIONAL FUNDING ACROSS VARIETY OF DISPOSITION SCENARIOS

- **Adequate Operational Funding in Variety of Scenarios**
  - Lease revenue reduces as buildings are sold
  - O&M / leasing expense estimated to decreases as portfolio under management reduced
  - Tax revenues replace portion of lost lease revenue, but timing lag of five years for CFD revenue
  - More reliance on revenues from development areas as Reuse Area buildings sold

	1. Existing	2. Sell All Reuse Area Bldgs excl. Tidelands / Haz	3. Sell Reuse Area Served by Ph1 Infra	4. Sell Reuse Area Served by Ph1 & 2 Infra	5. Sell Vacant Space + Bldgs 41, 92, 525, 29	6. Sell Hangars
Gross Lease Income*	$17	$10	$16	$12	$16	$11
Expenses	($11.4)	($8.5)	($10.7)	($9.5)	($10.1)	($9.3)
Net Lease Income Available	$5.2	$1.5	$5.3	$2.1	$5.6	$1.3
Added City/CFD Revenue	$0.0	$3.3	$0.5	$1.5	$1.7	$1.5
Total	**$5.2**	**$4.8**	**$5.8**	**$3.6**	**$7.3**	**$2.8**
Delta vs. existing	*$0.0*	*($0.4)*	*$0.6*	*($1.6)*	*$2.1*	*($2.4)*

* For all of Alameda Point, includes pending leases

USE OF LEASE REVENUES TO FUND INFRASTRUCTURE: LESS FUNDING, SLOWER PACE

- City could hold buildings and use lease revenue to finance infrastructure.

- Ability to fund infrastructure more limited, slower paced
  - Preliminary estimate is $35 - $40 Million for infrastructure if commit half ($3M/year) of Reuse Area net lease income to debt service
  - Not sufficient to fund phases 2 and 3 of Reuse Area infrastructure ($56 M cost estimate as of 2019)
  - Growth in lease revenue over time may enable City to fund additional infrastructure, but pace likely slower than if pursue building sales.
  - Unclear path to adequately fund Reuse Area infrastructure

- Committing lease income to debt may limit flexibility to sell buildings in the future and counteracts a benefit of retaining the buildings to maintain operational funding

DISPOSITION ALTERNATIVES FOR REUSE AREA

Sale

- Prioritize building sales near-term to provide funds for infrastructure

Long-Term Hold

- Continue to lease
- Retain public ownership for long term
- Use annual lease revenue and debt to fund infrastructure

Mixed / Phased Sale [Recommended]

- Phase sales strategically with infrastructure investments
- Transition to private ownership over time

Portfolio Sale to Master Developer

- Sale of entire portfolio to private master developer
- Developer installs the infrastructure

SUGGESTED CRITERIA: ASSETS TO SELL VS. HOLD WITH PHASED APPROACH

Assets to Sell

- Expected to generate substantial proceeds to fund infrastructure
- Benefited by new infrastructure
- Upon vacancy when purchaser can improve building and recover costs through new lease
- Opportunity to attract catalytic user or use

Assets to Hold

- Not benefited by new infrastructure
- Strong desire to preserve specific uses, unless preservation accomplished with conditions on sale
- Cannot be sold: Tidelands Trust, Navy still owns and/or toxic concerns

Preliminary Staff Recommendation: Mixed Portfolio Phasing Strategy

- Reflects recommendations by KMA as well as input from Alameda Point owners/tenants and developers
- Building sales to fund continued backbone infrastructure development based consistent with phasing in MIP
- Over time City portfolio shrinks as buildings are sold resulting in reduced ongoing expenses and the need for leasing revenues (i.e. smaller portfolio and new infrastructure reduces maintenance and contingency needs)
- Result is primarily private ownership served by new backbone infrastructure developed by City and limited ongoing expenses

Recommended Guiding Framework

- Maximize land value and sale proceeds by selling adjacent to new infrastructure
  - Coordination between land sales and infrastructure phasing
  - Potential sales should be focused in Reuse Areas
  - Continue progress from Site A; generally east to west
- Retain high-value leasing assets until operational costs are significantly reduced
  - Continue leasing of hangars until adjacent backbone infrastructure has been completed (Phases 3 and 4)
- Maintain flexibility; provide ability to be nimble, opportunistic

Feedback from Alameda Point Tenant/Owner Meeting

- February 7, 2023 – In Person at WETA Maintenance Facility
- Attendance: ~60 Members of the Community & City Staff
- Key Takeaways:
  - General agreement with strategy
  - Questions whether private developers could move faster
  - City leasing Process is challenging for tenants
  - Ongoing safety concerns, particularly about foot traffic at night
  - Strong desire for more amenities, services and destinational draws
  - Support for business diversity and unique, opportunistic approach
  - Thankful to be involved and heard!

Feedback from Developer Focus Group

- February 16, 2023 – Virtual Meeting
- Attendance: ~25 Real Estate Developers & City Staff
- Key Takeaways:
  - Mixed portfolio approach makes sense
  - Funding building investment and infrastructure costs up-front extremely difficult to finance; preference for sales or purchase options to finance
  - Lease-purchase option structure is extremely helpful for smaller developers
  - City maintaining flexibility with framework key for new opportunities
  - Can City explore other means to fund operations besides leasing?
  - “Keep Embers Together” to build synergy and keep momentum

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Next Steps

- Incorporate Council feedback into proposed disposition strategy and guiding framework
- Return to Council for approval?
- Continue negotiating and recommending leases and buildings sales in Reuse Area guided by the goals, strategy and framework

Council Feedback

- Are these identified goals in alignment with yours (continuity of infrastructure development, generating sufficient revenue to cover *both* operating and capital expenses, and deliver community benefits)?
- Do you agree with a mixed portfolio phased strategy that leverages building sales to fund continued backbone infrastructure development?
- Do you agree with the recommended framework that will guide leasing and sales efforts (e.g. maximizing sale proceeds by selling adjacent to new infrastructure and continue leasing hangars until operational costs are minimized)?

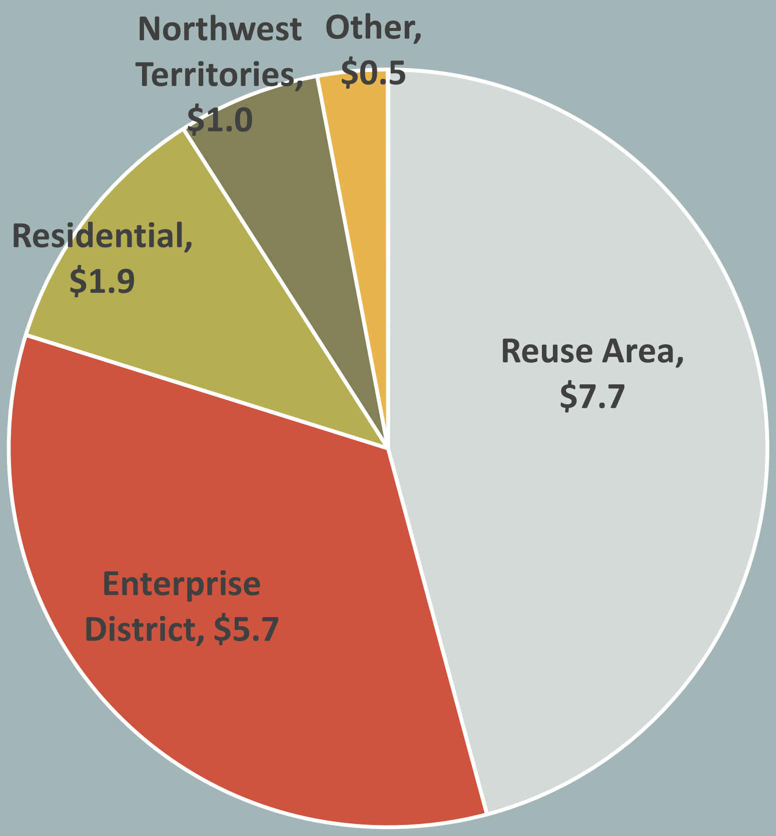
Other Background Slides

KMA ANALYSIS

- Focuses on Reuse Area where existing historic buildings are to be adaptively reused

- Financial Analysis of Sale and Lease Alternatives:
  - Sale and leasing of an individual building (four scenarios)
  - Sale and leasing of the entire Reuse Area portfolio (six scenarios)

ALAMEDA POINT LEASE REVENUE ($MILLIONS)



Note: includes revenue from pending leases

- $16.7 Million gross revenue
- Reuse Area ~$7.7 Million / Year
  - 45% of Alameda Point Total
  - Hangars ~90% of Reuse Area Revenue

- Uses of Lease Revenue:
  - Costs of ownership (O&M, leasing): $4.1M
  - AP-related staff / 3rd party costs: $6.5 M
  - Debt service: $0.9 M
  - Balance for capital projects, reserves

LEASE/SALE SCENARIO TESTING – INDIVIDUAL BUILDING

- Test Four Scenarios for an Example Building
- Similar dollar results (includes sale proceeds, taxes, lease revenues)
- Obvious Difference:
  - Selling now means upfront $$$ for infrastructure
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LEASE/SALE SCENARIO TESTING – ENTIRE REUSE PORTFOLIO

- **Hangars are the Premium Assets**
  - Proven income-generators, large clear spans & heights, views to Bay
  - Greatest potential sale proceeds, but selling also reduces lease revenue the most

- **Limiting Sales to Primarily Vacant Buildings is More Difficult Path**
  - Aside from hangars ~85% of remaining space in Reuse Area is vacant
  - Selling vacant buildings increases tax revenues without losing lease revenue
  - Challenges: likely costly to make useable, more difficult to market

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Sales Proceeds Prelim. Estimate ($Millions)	none	$159 to $250	$33 to $50	$105 to $156	$61 to $105	$109 to $162
Operating Revenues ($Millions/Year)						
Lease Income After Expenses	$5.2	$1.5	$5.3	$2.1	$5.6	$1.3
Added City and CFD Taxes	$0.0	$3.3	$0.5	$1.5	$1.7	$1.5
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