



TO: T.C. Broadnax, City Manager
FROM: Ricardo Noguera, Director, Community and Economic Development Department
COPY: City Council, City Clerk and CEDD Business Development Manager
SUBJECT: Resolution to Authorize City Manager to Execute Development Agreement – Convention Center Hotel and Mixed Use Project
DATE: November 18, 2014

SUMMARY:

The Community and Economic Development Department is requesting Council to authorize the City Manager to execute a Development Agreement with Yareton Investment & Management (Washington) L.L.C. of Des Moines, WA to develop a hotel and mixed use project on an approximate two-acre City-owned site adjoining the Greater Tacoma Convention & Trade Center (GTCTC) in the downtown at 17th & Broadway (vicinity map attached). This estimated \$150 million development is a “game changer” for Downtown Tacoma. It will positively impact development and investment opportunities, increase the City’s tax base, create about 1,000 construction and 200 full-time jobs, and enable the GTCTC to attract larger conventions to enhance Tacoma’s economic vitality.

STRATEGIC POLICY PRIORITY:

The Development Agreement that will result in new investment, job creation and greater revenue will align best with the following Council priorities:

- Strengthen and maintain a strong fiscal management position.
- Strengthen and support public safety, human services, public education, and diverse higher learning opportunities in Tacoma.
- Foster neighborhood, community, and economic development vitality and sustainability, and
- Encourage and promote an open, effective, results-oriented organization.

In addition, the hotel and mixed use project will:

- Promote redevelopment of adjacent underdeveloped properties.
- Align with the University of Washington Tacoma campus expansion plans and build-out of the Brewery District, and
- Attract new investment and development interest beyond Tacoma and Pierce County.

BACKGROUND:

On April 15, 2014 (14-0299), the City Council authorized staff to negotiate a Development Agreement with Yareton Investment & Management (Washington) L.L.C. (subsidiary of Shanghai Mintong Real Estate Company Ltd.) to develop a hotel and mixed use project on an approximate two-acre City-owned site adjoining the Greater Tacoma Convention & Trade Center (GTCTC) in the downtown at 17th & Broadway. This Tier 1 site represents one of several downtown development opportunities the City Council has deemed appropriate for disposition. Furthermore, in 2004, the GTCTC was designed and built to accommodate a hotel.

Key contract provisions are as follows:

1. Four stages of the project are envisioned.
 - A. Stage I – Initial Due Diligence Period (5 months). The Developer will have 150 days (five months) from the execution of the Development Agreement to ascertain project feasibility.



- B. Stage II – Second Due Diligence Period (18 months). The Developer will design the project and prepare to obtain entitlements and initial construction permits.
 - C. Stage III – Property Conveyance (30 days). The property will be conveyed only when:
 - (1) All entitlements are in place and initial construction permits are ready to be issued; and
 - (2) The Developer provides sufficient evidence that it has 100 percent of the financing committed to the estimated \$85 million Phase One Project. Yareton shall demonstrate that it has a minimum of 40 percent of equity committed, which is approximately \$34 million, and up to 60 percent of debt committed, which is approximately \$51 million; and
 - (3) The Developer has entered into an agreement, acceptable to the City, with a hotel operator to operate a 4-star hotel on the Property for at least five (5) years. Approval will not be provided for any product less than a 4-star hotel. Furthermore, the Developer must enter into a covenant to maintain the property as a 4-star hotel for at least 25 years with the initial hotel operator or a successor; and
 - (4) The Developer remits the appraised Fair Market Value for the Property.
 - D. Stage IV – Project Construction (24 months for the Phase One Project). The Developer will construct and complete the Phase One Project in a timely manner.
2. Two phases of construction are anticipated.
- A. The Phase One Project will consist of an approximate 240-foot high tower that will include (1) a 4-star hotel containing not less than 300 rooms, (2) in-hotel retail and at least 10,000 sf of street-level retail, (3) a minimum 10,000 net sf Grand Ballroom and 9,000 net sf of other function rooms within the hotel and providing the GTCTC the first right of use as specified in an agreement with the GTCTC, which use shall be obtained at market rate; (4) not less than 200 private parking stalls; and (5) a plaza.
 - B. If supported by the Developer’s pro forma and market demand and after stabilization of the Phase One Project, the Phase Two Project will encompass an approximate 240-foot high tower that will consist of (1) a minimum of 200 condominiums and/or market rate apartments, (2) at least 20,000 sf of street-level retail and (3) not less than 200 private parking stalls. The target market for these residential units will be EB-5 investors, downtown employees and University of Washington Tacoma students. The Developer may also construct commercial office space as part of the mixed use development.
3. The Developer will facilitate negotiations to enable the GTCTC to obtain a long-term room block agreement for at least 250 rooms with the hotel operator.
4. The Developer will construct public parking on the site as directed by the City of Tacoma, which would become a condominium estate and be paid for upon completion or on a payment schedule. The City will decide whether or not it intends to purchase public parking during the Initial Due Diligence Period upon receipt of an estimated price per parking stall together with all engineering and other supporting documentation in making the estimate. If developed, prevailing wages for all construction work on the Public Garage will be paid. In addition, long-term access to the existing



parking under the GTCTC will be maintained. The City and the Developer will negotiate management of the Public Garage not associated with the hotel, retail and potential commercial office and/or residential properties.

5. The Developer will purchase the property in “as is” “where is” condition and pay Fair Market Value (FMV) for it based on the August 26, 2013 appraisal that Kidder Matthews conducted. FMV is estimated at \$75/sf subject to easements, air rights and other interests/conditions. Total cost is anticipated not to exceed \$6.29 million. The Developer will be responsible for all demolition and infrastructure installation to serve the development. Since this property was originally purchased with bond proceeds as part of the Convention Center project, any funds received from the sale of this property will need to be used to redeem associated bonds or applied to other public-purpose capital project(s).
6. The City will not provide the Developer any subsidy, although the Developer may apply for and benefit from any programs available to it as a developer of real property in the City’s downtown core.
7. The Developer will include measures designed to promote environmental sustainability through the incorporation of conservation design elements and green building principles. Yareton will also consult with the City regarding how it can incorporate Small Business Enterprise (SBE) and Local Employment Apprenticeship Training Program (LEAP) participation in construction of the project.
8. The Developer will remit earnest money to the City in two installments:
 - A. \$575,000 upon execution of the Development Agreement. In the event the Developer is unable to fulfill its obligations under the Agreement, the City will retain \$287,500 plus accrued interest and return the remaining \$287,500 plus accrued interest to the Developer.
 - B. \$575,000 at the beginning of the Second Due Diligence Period. If the Developer is in default or is unwilling or unable to perform, the City will retain \$287,500 plus accrued interest and return the remaining \$862,500 plus accrued interest to the Developer.

The total deposit of \$1,150,000 plus accrued interest will be applied toward the purchase price of the Property when the Developer has satisfied its obligations and is ready to begin construction.

9. The City and the Developer will work together to determine the most cost-effective solution to preserve the City’s access to the “A” Garage under the GTCTC in the future and during construction of the Project (parking facilities map attached). Yareton is required to keep access to parking under the GTCTC open, which is currently achieved through Broadway. The City would retain an easement when Broadway is vacated. The value of the easement will decrease the Purchase Price in an amount determined by an updated appraisal. In determining value, the appraiser will consider the extent to which the City requires access to the “A” Garage under the GTCTC during project construction as well as access through the site upon project completion.
10. The project schedule is as follows based on an initial starting date of December 1, 2014:
 - A. Complete Initial Due Diligence (5 months; includes scoping process, utility coordination, Development Plan approval) By April 30, 2015
 - B. Complete Design and Obtain Approval of All Entitlements and Construction Permits (18 months) By October 31, 2016



- C. Secure Equity and Debt Financing By October 31, 2016
- D. Convey Property (30 days) By November 30, 2016
- E. Commence Construction of Phase One Project By December 1, 2016
- F. Complete Construction of Phase One Project By November 30, 2018
- G. Obtain Certificate of Occupancy for Phase One Project By December 31, 2018
- H. Commence and Complete Construction of Phase Two Project Based on Market Demand and After Stabilization of the Phase One Project

11. The City will retain the right to repurchase the entire Property at the same price the Developer paid if construction in accordance with the Development Plan does not begin within 90 days of closing.
12. The Developer will submit quarterly progress reports of each year the Development Agreement is in effect until completion of the Project. Quarterly reports will be submitted to the CEDD Director who will share copies with the City Manager and key City staff who will be overseeing the planning and implementation of the project. The City will review the information and, if progress is stalled, will work with Yareton to determine how to achieve performance. If Yareton cannot or is unwilling to perform, the City will seek other investors to redevelop the site.
13. Upon approval of this Development Agreement, the City’s Planning and Development Services Department will appoint a Project Manager and assume a lead role overseeing the planning and implementation of this project. CEDD’s Business Development Manager will continue to work closely with the Project Manager to ensure that the key components of the Development Agreement are addressed.

ALTERNATIVES:

The City Council may elect not to enter into the Development Agreement. However, this action will delay development and downtown revitalization, which will negate investment, job creation and revenue generation.

RECOMMENDATION:

Staff recommends that the City Council authorize the City Manager to execute a Development Agreement with Yareton Investment & Management (Washington) L.L.C. of Des Moines, WA to develop a hotel and mixed use project on an approximate two-acre City-owned site adjoining the Greater Tacoma Convention & Trade Center (GTCTC) in the downtown at 17th & Broadway. The project will serve as a catalytic development in the heart of Downtown Tacoma. It will generate substantial revenue, create jobs, potentially increase downtown residential density to support shops and services, add retail that will connect to the University of Washington Tacoma retail corridor, attract diversified foreign investment and enhance the City’s international image.



FISCAL IMPACT:

Funds will be needed to administer and implement the Development Agreement. More specifically, the City will be responsible for conducting a property survey, subdividing the Property to create a separately conveyable parcel, vacating the necessary right(s)-of-way and/or air rights, establishing easements and performing other real estate-related activities.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
1195-UDAG, UDAG Fund	852400	5330100	\$50,000
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Bond Fund			Up to \$6,290,000
TOTAL			

POTENTIAL POSITION IMPACT: N/A

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: N/A

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.

Explain how expenditures are to be covered and if budget modifications are required. N/A