

DOMICILE I

DATE: December 15, 2017

TO: Kathy Kleinbaum, Deputy City Manager
City of San Mateo, 330 W. 20th Ave, San Mateo, CA 94403

FROM: Alan Talansky, Executive VP for Development
EBL&S Property Management, Inc.
803 Laurel Avenue, San Mateo, CA 94401

FOR: DOMICILE I, LLC

RE: RESPONSE TO QUESTIONS REGARDING RFP

COMMENT: This is in response to the questions of your email of December 4th, 2017. Our response to the RFP was a team effort, with contributions from multiple disciplines. We appreciate your detailed review, and have updated our complete RFP response for internal consistency. Here are individual responses to each of your questions.

Question: 1. There are inconsistencies with the development program cost data shown on page 23 and on page 40 of the proposal. Please clarify the correct information.

Answer: The table on Page 23 has been corrected to be made consistent with the table text shown on Page 40.

Question: 2. There are inconsistencies with the mix of units at different levels of affordability as shown on page 12 and page 23. Please clarify the correct information.

Answer: The table on Page 23 has been modified to be consistent with the text on Page 12. Both now reflect the accurate unit count and affordability levels.

Question: 3. Clarify how the Kinko's housing development is contributing about \$3 million to the public parking, as noted in the Parking Sources and Uses on page 40. It does not appear to be reflected in the Kinko's site sources and uses summary also on page 40 or on page 50 and also appears to be part of the principal for the lease for the parking repayment on page 51.

Answer: A requirement of the RFP for housing on the Kinko's site is to produce 125 parking spaces for the City's use, in addition to any parking required for the housing to be built on site. Our projections show a cost of \$23,804 to build each parking space, hard and soft costs, creating a total cost of \$2,975,500 to comply with this requirement. In turn, this cost is factored into the reduction of land value on which the Kinko's ground lease rates are based, consistent with standard appraisal methodology. Details may be found on Page 51, in an updated Worker's Resource Site-15 Year Cash Flow Projection, where \$2,975,500 and is also shown on Page 40 as the cost of "Parking Sources & Uses" for the Worker's Resource site.

Our project employs more efficient methods of construction, made possible by close collaboration with construction trade unions, that will reduce construction time and cost. Conservatively, the pro-forma we have submitted assumes more conventional construction methods, and therefore higher costs. Our team is confident that our innovative construction methods we will generate sufficient savings in building out both sites to fund the additional equity requirement for the 125 parking spaces required by the City. If these savings are not realized during construction, the sponsors will simply contribute the \$2,975,500 as additional equity. The sponsors have demonstrated sufficient capital reserves to do this without any need for external financing.

Question: 4. Clarify what is the source of "parking sponsor equity" and how this will be repaid over time, and more specifically, clarify who is responsible for the \$812,131 lease payment shown in the WRC pro forma, and whether this will be used to repay "parking sponsor equity". Is the term of this lease 30-years, and who are the parties to the lease?

Answer: As stated in the response to Question 3 above, the lease payment for the garage facility will be reduced to reflect the 125 spaces that the City requires as replacement parking, which will reflect a building lease payment of approximately \$661,537 per year, increasing at 2.0 % per year. The source of the "parking sponsor equity" is capital contributed by the project sponsors. The sponsors have provided their financial statements to establish that they have a combined \$100 million of liquidity available for equity contributions to the project, without any borrowing or syndication. The sponsors have offered the City the opportunity to co-invest in up to 40% of the project equity requirements, at the City's discretion, pari passu and under the same terms as the sponsors contribute their own equity. This is purely an option for the City, whose funds are not required to finance the project as we have proposed it.

The lessor and lessee are as follows:

KINKO'S SITE:

Owner/Ground Lessor: The Joint Powers Agency or Successor Agency of the Redevelopment Agency will retain ownership of the Kinko's site, and ground lease it to Domicile I.

Ground Lessee/Operator-Manager: Domicile I – This is the sponsors' single-purpose entity that will ground lease the Kinko's site, and then develop and manage there the residential building. The ground lease payments for the Kinko's site will be the sole responsibility of this lessee, and will be made on a priority basis, prior to any return on equity, or return of equity, and second only to the allowable first mortgage on the property.

WORKER'S RESOURCE CENTER SITE:

Owner/Ground Lessor: The Joint Powers Agency or Successor Agency of the Redevelopment Agency will retain ownership of the Worker's Resource Center site, and ground lease it to Domicile I

Ground Lessee/Parking Structure Sub lessor: Domicile I – This is the sponsors' single-purpose entity that will ground lease the Worker's Resource Center site, develop the parking structure on behalf of the City, and then sublease the parking structure to the City to operate/manage. The ground lease payments for the Worker's Resource Center site will be paid by this lessee, but reimbursed by the City of San Mateo, as follows. Under a sublease agreement, the City as sublessee will operate the garage on behalf of the sub lessor Domicile I. The City will retain all revenues from parking operations, but will reimburse Domicile I for its ground lease-payments to the lessor, plus other expenses as may be negotiated by those two parties.

NOTE: The cash flow shown on Page 51 did not include the annual 2.0% inflation on the ground-lease payments noted in the Lease Analysis assumptions. This oversight has been corrected, and the correct cash flow is now shown.

Question: 5. What is the source of the parking and utility reimbursement in your cash flow projection on page 46 and 47? Is that unbundled parking fees or is any attributable to public parking revenues?

Answer: The parking and utility reimbursements shown in the cash flow projections for the residential project at the Kinko's site represent the income from charges to residential tenants of the market rate units.

Question: 6. Clarify why there is a difference between what is indicated on pages 38 and 39 for the ground lease terms versus what is shown in the cash flow pro-forma for each site. Please clarify the ground lease terms for each site.

Answer: The inconsistency has been corrected. The correct terms of the ground lease are reflected in the tables on Page 39, as follows:

KINKO'S SITE

50-year term; lease rate of 2.5% of adjusted land value; 2.0% annual inflator, initial four years of lease payments tolled (not charged) during construction and stabilization periods.

Lease payments will be the first priority of payments before return on equity and debt incurred by the sponsors. Lease payments shall be subordinated only to the first mortgage, which shall not exceed 75% of project value.

WORKER'S RESOURCE SITE

50-year term; lease rate of 2.5% of adjusted land value; 2.0% annual inflator, initial four years of lease payments tolled (not charged) during construction and stabilization periods.

Lease payments will be the first priority of payments before return on equity and debt incurred by the sponsors. Lease payments shall be subordinated only to the first mortgage, which shall not exceed 75% of project value.

Question: 7. Please clarify the proposed ownership structure and who is the lessor and the lessee. The information provided on pages 37 and page 42 regarding this proposed structure appear to be inconsistent.

Answer: The information on Page 42 has been modified to be consistent with the information on Page 37 and reflects the following:

KINKO'S SITE

Owner/Ground Lessor: The Joint Powers Agency or Successor Agency of the Redevelopment Agency will retain ownership of the Kinko's site, and ground lease it to Domicile I.

Ground Lessee/Operator-Manager: Domicile I – This is the sponsors' single-purpose entity that will ground lease the Kinko's site, and then develop and manage there the residential building.

WORKER'S RESOURCE CENTER SITE

Ground Lessor: The Joint Powers Agency or Successor Agency of the Redevelopment Agency will retain ownership of the Worker's Resource Center site, and ground lease it to Domicile I.

Ground Lessee/Parking Structure Sub lessor: Domicile I – This is the sponsors' single-purpose entity that will ground lease the Worker's Resource Center site, develop the parking structure on behalf of the City, and then sublease the parking structure to the City to operate/manage.

Parking Structure Sublessee/Operator-Manager: Under a sub-lease agreement, the City as sublessee will operate the garage on behalf of the sub lessor Domicile I. The City will retain all revenues from parking operations, but will reimburse Domicile I for its ground lease-payments to the lessor, plus other expenses as may be negotiated by those two parties

Question: *8. Provide a projection of the net revenue to the City by including a 15-year pro forma cash flow which includes the revenues from each site and any payments required by the City (such as the lease payment for the parking garage) from project stabilization.*

Answer: Fifteen-year cash flows for both the Kinko's site and Worker's Resource Center site have been added to our response to the RFP, and total cash flow to the City of San Mateo from both sites also shown. Please refer to Page 52.

Question: *9. Is the public employee restriction essential to your project?*

Answer: No, the public employee restriction is not essential to the project nor is it a prerequisite for any of the funding sources we have identified. That said, the objective of our project is to serve City employees of every nature and across a wider spectrum of workforce income than is permitted under low-income housing tax credits and other government subsidies. One of the principal benefits of our proposal is that it does not rely on public financing, neither grants nor tax credits, so the myriad of regulatory requirements that accompany them need not be laid over the goals and objectives of the City of San Mateo. The sponsors and the City of San Mateo would be free to develop tenant qualifications and restrictions, unfettered by any other agencies or funding sources, in compliance, of course, with all applicable Federal, State and City laws.