



# City Council

**Date:** November 20, 2017  
**To:** City Council  
**Through:** Christopher J. Brady, City Manager  
**From:** Jeffrey McVay, Manager of Downtown Transformation  
Sara Sorensen, Economic Development Project Manager  
**Subject:** Consider proposed Development, Ground and Air Rights Lease, and License Agreements that will facilitate the development of The GRID; a retail, office, and residential, project on City-owned property generally located at the southwest corner of Main Street and South Pomeroy and 34 South Pomeroy and granting an option to purchase the associated land and air rights.

Consider proposed 2<sup>nd</sup> Amendment to the Lease Agreement with option to purchase with Benedictine University, for City-owned property generally located at 225 E. Main Street.

## District 4

### Purpose and Recommendation

Consider the proposed Development, Ground and Air Rights Lease, and License Agreements between the City of Mesa and 3W Management, LLC. The Agreement facilitates the development The GRID (Exhibit A – Concept Plans). The GRID is a proposed \$59M redevelopment, generally located at the southwest corner of Pomeroy and Main Street. The project site consists of an existing surface parking lot currently leased to Benedictine University, the City-owned Pomeroy Garage, and Pomeroy right-of-way (ROW) as shown on the attached Exhibit B - Premises.

### Background

City Staff and the 3W Management, LLC development team have been negotiating the redevelopment and lease of air-rights above the existing City-owned Pomeroy parking garage; and the ground lease of portions of the land the Pomeroy garage is located on, portions of Pomeroy ROW, and a surface parking lot currently leased to Benedictine University. The development would include the addition of four-stories of market-rate apartments above the Pomeroy garage, including associated improvements to serve the residents; a new seven-story building along Main Street, including a new parking structure; and rowhomes that wrap the new parking structure and existing Pomeroy garage. City Council approved a re-zoning to accommodate this development on November 6, 2017.

The Pomeroy garage has 814 parking spaces, of which 218 spaces, located in the basement are dedicated to City Courts employee parking. The remaining 596 spaces, located in Levels 1-3 are available for rental, of which the City currently receives revenue for 157 spaces equal to \$17,000/year. The 2016 operation and maintenance cost for the Pomeroy garage was \$10,000.

## **Discussion**

City Staff have been negotiating with 3W Management, LLC for the redevelopment of these sites, and the following provides a summary of the primary deal points for these documents.

### ***Description of Project:***

1. Developer will construct the following minimum private improvements:
  - a. 196 market-rate apartments, 64 micro-unit apartments, 12 rowhomes, 18,000 SF of retail/restaurant/office space, and 140 space parking structure.
  - b. Pomeroy Garage structural improvements to support addition of four stories, and reconstruction and/or addition of new stairwells and elevators.
  - c. Construct a shared refuse yard with the City Courts.
2. Developer will construct the following minimum public improvements with an estimated design and construction cost of \$5 - \$5.5M, as shown on Exhibit C – Minimum Public Improvements:
  - a. Pomeroy streetscape
  - b. Safety and lighting improvements to Pomeroy Garage
  - c. Security measures for City Courts
  - d. Gateway Park renovation
3. Developer will comply with project and unit amenity quality standards and exterior quality standards
4. Construction will commence no later than July 1, 2018
5. Completion of project and all public improvements no later than December 31, 2020.

### ***Terms of Agreements:***

1. 50-year ground and air rights lease, with 49-year extension, and an option to purchase. The proposed lease rates are shown on attached Exhibit D – Schedule of Rent.
  - a. Following the initial construction and lease-up periods, the market lease rates are based on the appraised land and air rights values, less the cost associated with making the Pomeroy Garage structurally capable of adding four stories.
  - b. Provide credits against the ground and air rights lease rates for up to \$3.0M of the \$5.0-\$5.5M in design and construction costs for public improvements included in the developer's obligations. For Years 3-15, the

Public Infrastructure Credit is equal to 75% of the lease rate. After Year 15, the Public Infrastructure Credit is equal to 50% of the lease rate. With reasonable assumptions, the Public Infrastructure Credits against the lease rate would last into Year 15. The Public Infrastructure Credits are also shown on Exhibit D.

Based on the lease rates and reasonable assumptions of the Public Infrastructure Credits, the City will receive \$777,150 in rental revenue during the first 15 years of the lease, or \$51,810/year.

2. Provide parking licenses for up to 349 parking spaces, of which 3W will license no less than 150 spaces.
  - a. Following the initial construction period, parking license rates range from \$20/space initially up to the Council approved rate (currently \$42/space) in Year 13. The proposed parking rates are shown in Exhibit E – Parking License Rates.
  - b. Provide credits against the parking license rates for up to \$3.0M (cumulative with credits against lease rate) of the \$5.0-\$5.5M in design and construction for public improvements included in the developer's obligations. For Years 3-15, the Public Infrastructure Credit is equal to 75% of the parking license rate. After Year 15, the Public Infrastructure Credit is equal to 50% of the parking license rate. With reasonable assumptions, the Public Infrastructure Credits against the parking license rate would last into Year 15. The Public Infrastructure Credits are also shown on Exhibit E.

Based on the parking license rates and reasonable assumptions of the Public Infrastructure Credits, the City will receive \$291,000 in parking license revenue during the first 15 years of the parking license, or \$19,400/year.

3. City will abandon portions of Pomeroy ROW, which allows development of the rowhouses that will wrap the Pomeroy Garage and new parking structure. With abandonment, sufficient ROW will continue to exist for two-way traffic and on-street parking.
4. Allow upper stories of the Main Street building to encroach into the ROW.
6. Allow closure of the Pomeroy Garage to construct structural improvements to necessary to allow the four-story addition. During periods of closure, developer will provide alternative parking for displaced Courts employees and permitted spaces, and if necessary provide shuttle services.

Allow closure of Pomeroy to construct streetscape improvements and closure of the east-west section of Pomeroy during the entire construction period for the project crane and construction yard, as shown on attached Exhibit F – Closure Phasing.

### ***2<sup>nd</sup> Amendment to the Benedictine University Lease:***

The project site includes a surface parking lot currently owned by the City and leased to Benedictine University as part of the Lease Agreement for their campus at 225 E. Main St. Benedictine has signed a 2<sup>nd</sup> Amendment to their lease, which releases their

interest in the surface parking lot in exchange for the City providing 45 reserved parking spaces within the Pomeroy Garage. The use of these 45 reserved parking spaces will be free of charge until the end of the term of the Benedictine lease. Beginning in 2028, Benedictine will pay the then-current standard parking rate per space for each of the 45 reserved parking spaces.

As of the completion of this Council Report, Benedictine University have agreed to the terms of the 2<sup>nd</sup> Amendment to their lease. However, one outstanding issue related to Security/Indemnity language within Exhibit B to the amendment (Parking License Agreement) has been raised by Benedictine University. Staff will continue to work with Benedictine representatives to resolve the issue; and Council's approval of the draft license agreement will allow the City Manager and City Attorney to resolve this issue before entering into the Parking License.

### **Alternatives**

Modify terms to the proposed Development, Ground and Air Lease, License Agreements and 2<sup>nd</sup> Amendment to the Benedictine Lease Agreement.

Denial of the proposed agreements.

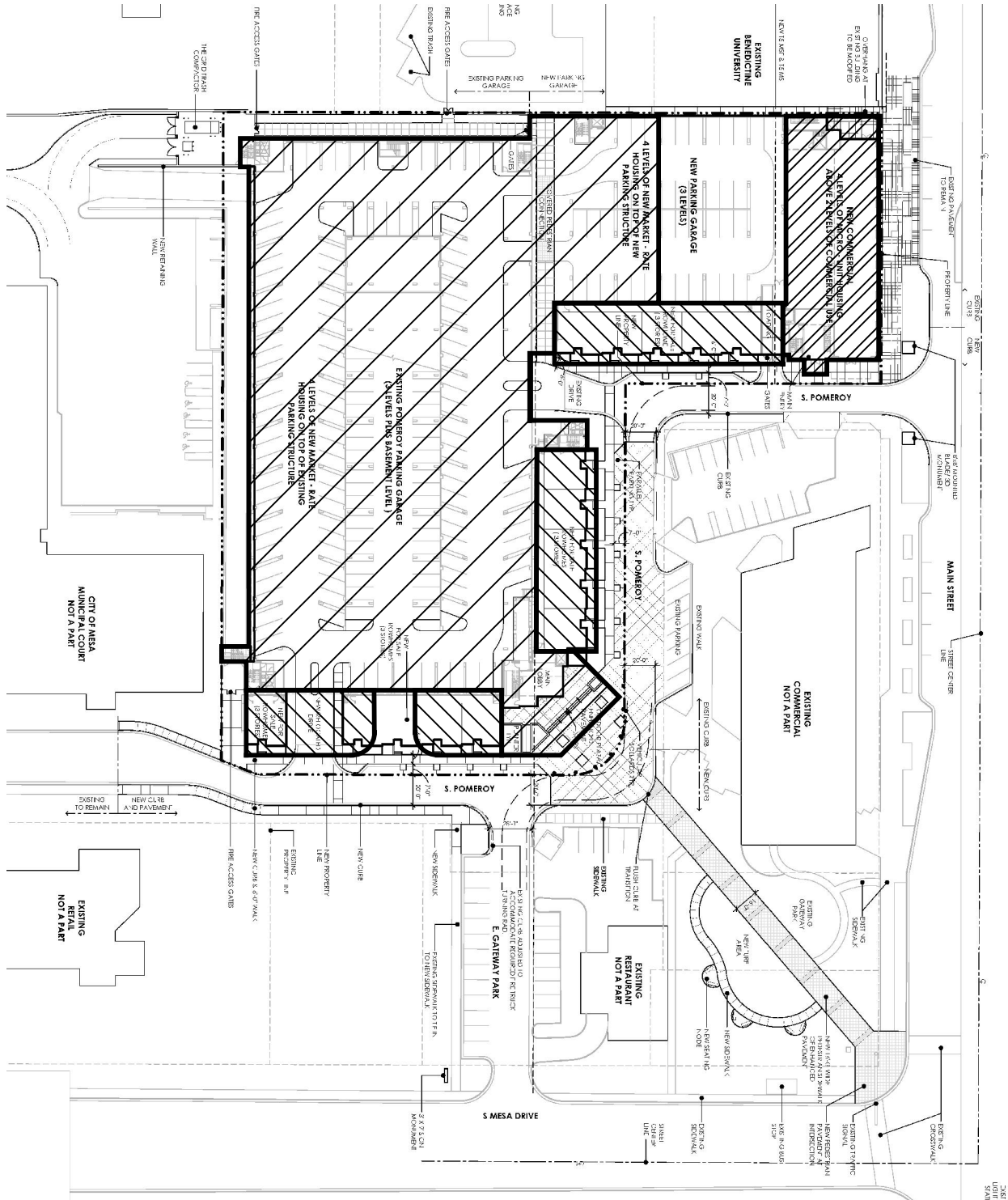
### **Fiscal Impact**

Over the first 15 years the City would receive an estimated \$1,068,150 in lease and parking license revenue, or \$71,210/year.

### **Attachments**

- Exhibit A: Concept Plans
- Exhibit B: Premises
- Exhibit C: Minimum Public Improvements
- Exhibit D: Lease Rates
- Exhibit E: Parking License Rates
- Exhibit F: Closure Phasing

# EXHIBIT A - CONCEPT PLANS RESIDENTIAL (MINIMUM IMPROVEMENTS)



## Residential Project

### Apartments

-  Main Street Apartments
-  Sky Apartments
-  Row Homes

[illegible]

15 Nov 17



# EXHIBIT A - CONCEPT PLANS

## PROJECT SITE PLAN, ELEVATIONS, AND LANDSCAPING

NO. 17-2016-00

**THE GRID**

30 S POMEROY  
MESA, AZ 85201

**3W MANAGEMENT**  
Scottsdale, AZ  
(480) 325-7991



**TODD & ASSOCIATES, INC.**  
Civil, Mechanical, Electrical, Plumbing  
Architectural  
4019 North 44th Street  
Phoenix, AZ 85018  
Phone: (602) 942-8958  
Fax: (602) 942-8959  
www.toddassoc.com  
Copyright 2017 Todd & Associates, Inc.

SCHEMATIC NOT  
FOR CONSTRUCTION  
OR RECORDING

**DATE**  
08-28-2017  
By: [Signature]  
Drawn: BVC

SECOND  
REZONING SUBMITTAL

BUILDING ELEVATION

**A8**





# EXHIBIT A - CONCEPT PLANS

## PROJECT SITE PLAN, ELEVATIONS, AND LANDSCAPING

NO. 17-2016-00

**THE GRID**

30 S POMEROY  
MESA, AZ 85201

**3W MANAGEMENT**  
Scottsdale, AZ  
(480) 235-7971



**TODD & ASSOCIATES, INC.**  
Architectural Planning  
Landscape Architecture  
1000 N. Scottsdale Road  
Phoenix, AZ 85018  
Phone: 480-952-8995  
Fax: 480-952-8996  
www.toddcoinc.com  
Copyright 2017 Todd & Associates, Inc.

SCHEMATIC NOT  
FOR CONSTRUCTION  
OR RECORDING

DATE  
08-28-2017  
Proj. Mgr.  
Darin Byr.

SECOND  
REZONING SUBMITAL

BUILDING ELEVATION

**A9**

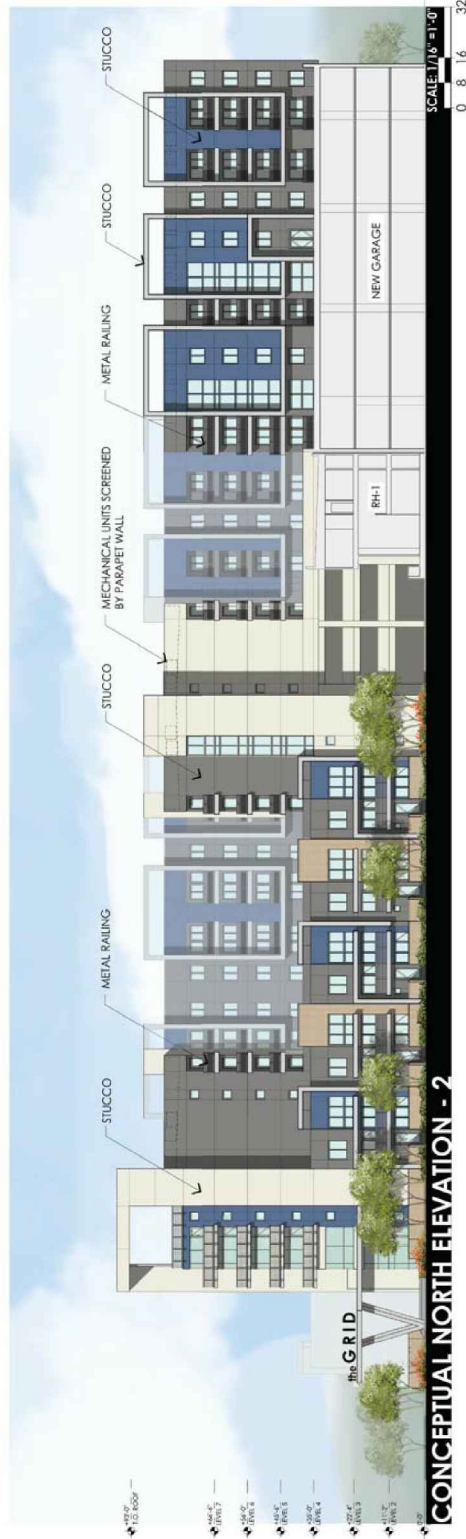


EXHIBIT A - CONCEPT PLANS  
PROJECT SITE PLAN, ELEVATIONS, AND LANDSCAPING

PROJECT  
NO. 17-2016-00

**THE GRID**  
30 S POMEROY  
MESA, AZ 85201

CLIENT  
**3W MANAGEMENT**  
Scottsdale, AZ  
(480) 235-7921

SEAL

CONTACT  
**TODD & ASSOCIATES, INC.**  
Architecture Planning  
Landscape Architecture  
4019 North 44th Street  
Phoenix, AZ 85018  
602-952-8380p 602-952-8958f  
www.toddrac.com  
Copyright 2017 Todd & Associates, Inc.

DATE  
08-28-2017  
Proj Mgr.  
Dawn By:

SCHMATIC NOT  
FOR CONSTRUCTION  
OR RECORDING

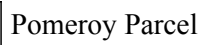
DATA  
SECOND  
REZONING SUBMITTAL  
BUILDING ELEVATION  
**A10**



15 Nov 17





[illegible]

[illegible]

 Gateway Park

## EXHIBIT D - SCHEDULE OF RENT

<b>Year 1<sup>3</sup></b>	<b>Monthly Lease Rate</b>	<b>Yearly Lease Rate</b>	<b>PI Cap Credit (Monthly)<sup>1</sup></b>	<b>PI Cap Credit (Yearly)<sup>1</sup></b>	<b>Monthly Lease w/PI Cap Credit<sup>2</sup></b>	<b>Yearly Lease w/PI Cap Credit<sup>2</sup></b>
Construction Rate	\$1,000	\$12,000	N/A	N/A	\$1,000	\$12,000
<b>Year 2<sup>3</sup></b>						
Lease up period	\$2,500	\$30,000	N/A	N/A	\$2,500	\$30,000
<b>Years 3-15</b>						
6% Lease	\$18,850	\$226,200	\$14,137.50	\$169,650	\$4,712.50	\$56,550
<b>Years 16-17</b>						
7% Lease	\$22,000	\$264,000	\$11,000	\$132,000	\$11,000	\$132,000
<b>Years 18-20</b>						
7% Lease	\$22,000	\$249,000	\$11,000	\$132,000	\$11,000	\$132,000
<b>Years 21-99</b>	Based on 7% monthly/annually of the then appraised value of the property every 7 years					

<sup>1</sup> Rent Credit available only to reimburse for those Minimum Public Improvements and Additional Public Improvements that have been completed and accepted by the City Engineer, up to the \$3,000,000 Cap. Rent Credits are only available after Year 3 of the Lease. Additionally, if Tenant is entitled to Rent Credits (i.e., PI Cap Credits) under the terms of the Development Agreement, the PI Cap Credits will be used as described in this Exhibit and License Exhibit D to reduce the Rent (and the License Fees under the License) until the Credits are used (up to the Cap) between the Rent and License Fees or are extinguished under the terms of the Development Agreement, Lease, or License at which point the Rent shall be as described in the “Monthly Lease Rate” and “Yearly Lease Rate” columns. Because the use of the Credits will be based on future variables (such as the number of licensed parking spaces and the use of the Credits under the Lease) this Exhibit does not show or establish when the Credits will be used up, which the Parties shall agree to when all such future variable are determined.

<sup>2</sup> For Years 3-15, the maximum Rent Credit that can be used to offset the Rent shall not exceed 75% of the Rent. After Year 15, the maximum Rent Credit to offset the Rent shall not exceed 50% of the Rent.

<sup>3</sup> If Developer does not meet the Compliance Dates in Section 4.12, including but not limited to timely submittal of plans, paying for permits, and Commencing Construction timely, the Rent for the remainder of the Construction Rate and Lease Up periods shall be \$22,000/month.

<sup>4</sup> Starting in the 21<sup>st</sup> year of the Lease and every 7 years thereafter, the Rent shall be based on 7% of the fair market value of the Premises (as unimproved property and air rights) as follows: one hundred and twenty days before the 21<sup>st</sup> year of the Lease (and every 7 years thereafter), the Parties (if they Parties are unable to agree upon the fair market value of the Premises unimproved) shall each create a list of three appraisers and provide such list to the other Party. The appraisers on the lists shall be members of the American Institute of Real Estate Appraisers (“M.A.I.”) with at least 10 years of experience in appraising commercial real property. The Parties shall act in good faith to select one appraiser from one of the lists as the primary appraiser (the “Primary Appraiser”) and to select from the other list another appraiser to be the review appraiser (the “Review Appraiser”) (the Primary Appraiser and Review Appraiser shall be from different lists). If the Parties cannot so agree within thirty (30) days of providing the lists, either Party may, upon at least 5 days prior written notice to the other Party, apply to the American Institute of Real Estate Appraisers or to the presiding judge of the Maricopa County Arizona Superior Court, for selecting such appraisers. Within 45 days after selecting the Primary Appraiser, the Primary Appraiser shall provide the Parties with an appraisal of the Premises that determines the fair market value of the Premises (as unimproved). Within 15 days after receiving such appraisal, either Party may provide notice to the other Party that they disagree with the Primary Appraiser’s fair market value of the Premises and engage the Review Appraiser to appraise the Premises. If such notice is not provided, the fair market value of the Premises shall be as stated in the Primary Appraiser’s appraisal, unless the Parties agree in writing to another amount for the fair market value of the Premises. If notice that a Party disagrees with the Primary Appraiser’s determination is provided, the Parties agree that the Premises shall be appraised by the Review Appraiser; and, then, within 30 days of engaging the Review Appraiser, the Review Appraiser shall provide the Parties with an appraisal of the Premises that determines the fair market value of the Premises (as unimproved); the Parties shall negotiate in good faith based on the two appraisals to agree upon a fair market value of the Premises that falls within the range of the two appraisals. If the Parties cannot so agree within thirty (30) days of receiving the Review Appraiser’s appraisal, either Party may, upon at least 5 days prior written notice to the other Party, apply to presiding judge of the Maricopa County Arizona Superior Court, (or file suit in Maricopa County Arizona Superior Court) for a determination of the fair market value of the Premises. Each Party agrees to pay one-half (½) of the fees for the appraisals. The date of valuation for the appraisals shall be the date the appraisal is completed.



## EXHIBIT E - PARKING LICENSE RATES

	Monthly Rate (300 spaces)	Yearly Rate (300 spaces) <sup>1,2</sup>	PI Cap Credit (Monthly) <sup>3</sup>	PI Cap Credit (Yearly) <sup>3</sup>	Monthly Rate w/PI Cap Credit <sup>4</sup>	Yearly Rate w/PI Cap Credit <sup>4</sup>
<b>During Construction</b>	Developer shall provide replacement parking for current permitted parking spaces and Mesa Courts employees displaced during construction, at its sole costs.					
<b>Years 3 -5 (\$20/space)</b>	\$6,000	\$72,000	\$4,500	\$54,000	\$1,500	\$18,000
	Monthly Rate (250 spaces)	Yearly Rate (250 spaces) <sup>1,2</sup>	PI Cap Credit (Monthly) <sup>3</sup>	PI Cap Credit (Yearly) <sup>3</sup>	Monthly Rate w/PI Cap Credit <sup>4</sup>	Yearly Rate w/PI Cap Credit <sup>4</sup>
<b>Years 6-10 (\$25/space)</b>	\$6,250	\$75,000	\$4,687.50	\$56,250	\$1,562.50	\$18,750
<b>Year 11 (\$30/space)</b>	\$7,500	\$90,000	\$5,625	\$67,500	\$1,875	\$22,500
<b>Year 12 (\$35/space)</b>	\$8,750	\$105,000	\$6,562.50	\$78,750	\$2,187.50	\$26,250
<b>Years 13-99</b>	Based on then Council approved parking rate/space/month, or if such fee ceases to exist in the future, the Parties shall negotiate in good faith and agree upon a commercially reasonable rate (which shall in no event be less than the previously applicable rate)					

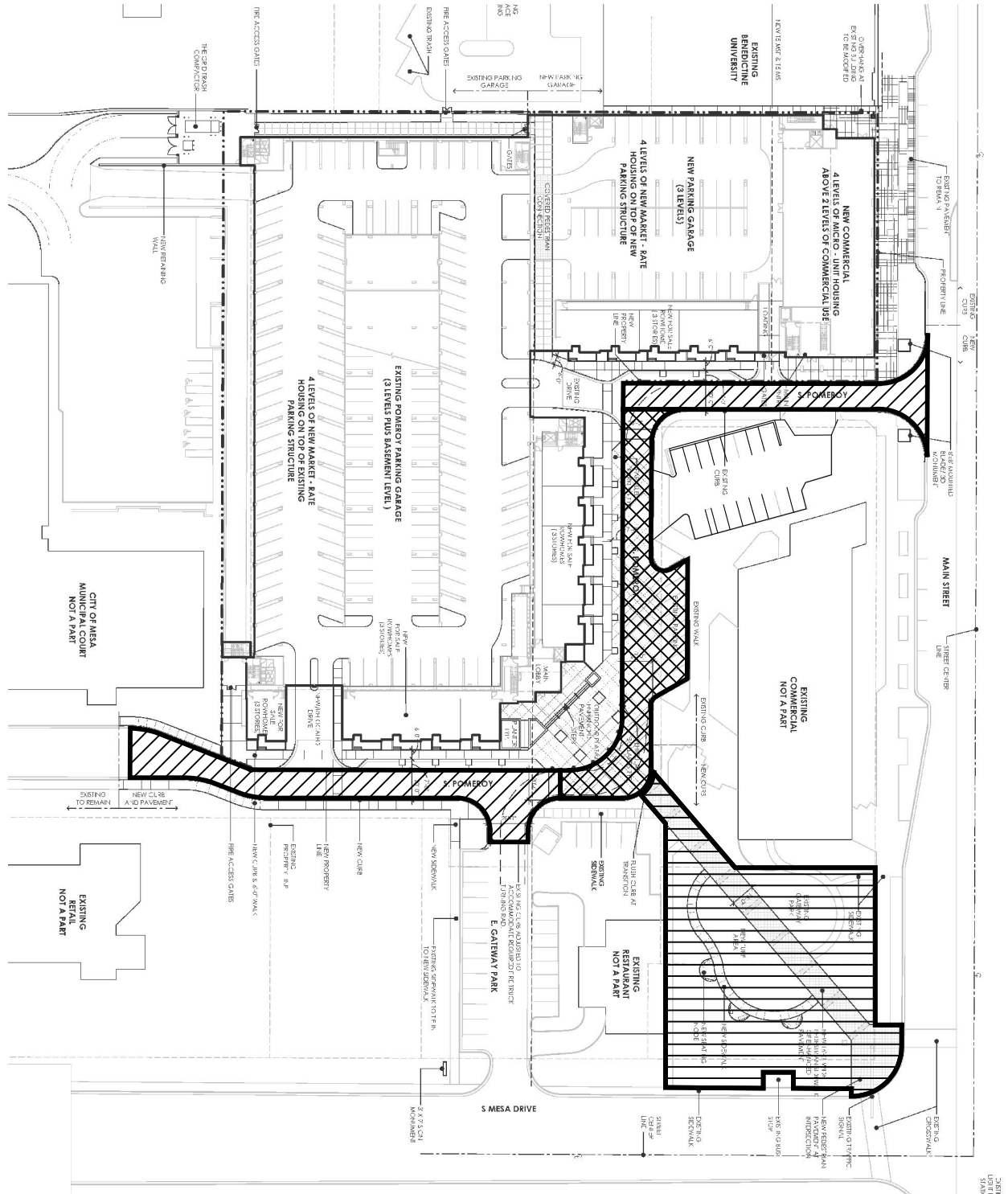
<sup>1</sup>Developer shall have the right to reduce the number of parking spaces licensed on a yearly basis, but at no time will the developer license less than 150 parking spaces. After monthly/annual payments for the minimum 150 licensed parking spaces, the additional parking license fee will be assessed per/space licensed, up to the maximum 340 spaces.




<sup>2</sup>Calculations shown in this table represent assumed number of parking spaces licensed. Actual monthly and yearly License Rates will be based on actual number of parking spaces licensed. Additionally, if Licensee is entitled to Rent Credits (i.e., PI Cap Credits) under the terms of the Development Agreement, the PI Cap Credits will be used as described in this Exhibit and Lease Exhibit C to reduce the License Fee (and the Rent under the Lease) until the Credits are used (up to the Cap) between the License Fees and Rent or are extinguished under the terms of the Development Agreement, Lease, or License at which point the License Fee shall be as described in the "Monthly Rate" and "Yearly Rate" columns. Because the use of the Credits will be based on future variables (such as the number of licensed parking spaces and the use of the Credits under the Lease) this Exhibit does not show or establish when the Credits will be used up, which the Parties shall agree to when all such future variable are determined.

<sup>3</sup>For Years 3-15, the maximum PI Cap Credit shall not exceed 75% of the License Rate. After Year 15, the maximum PI Cap Credit shall not exceed 50% of the License Rate.

<sup>4</sup>PI Cap Credit available only to reimburse for those Minimum Public Improvements and Additional Public Improvements that have been completed and accepted by the City Engineer, up to the \$2,000,000 Cap. PI Cap Credits are only available during Years 3-15 of the lease.

# EXHIBIT F - CLOSURE PHASING



-  Closed During Gateway  
Park Construction
-  Closed During Road  
Re-Alignment
-  Closed Throughout  
Construction