



## City Council

**Date:** July 8, 2019  
**To:** Mayor and Council  
**Through:** Christopher J. Brady, City Manager  
**From:** William J. Jabjiniak, Economic Development Director *WJ*  
JD Beatty, Economic Development Project Manager *JB*  
**Subject:** Approving the sale of land, and authorizing the City Manager to enter into a Purchase and Option Agreement, Development Agreement, and Ground and Parking Garage Lease with Union Mesa Holdings, LLC for a phased office campus development (UNION) of approximately 28.2 acres of property located north and northeast of the intersection of Cubs Way and Riverview Drive. (District 1)

### Purpose and Recommendation:

At an anticipated build-out of 1,350,000 SF of Class A Office space, this agreement will facilitate the largest office project ever developed in the City of Mesa.

To consider the sale of land, and authorizing the City Manager to enter into a Purchase and Option Agreement ("PA"), Development Agreement ("DA") and Ground and Parking Lease between the City of Mesa and Union Mesa Holdings, LLC, a partnership between Lincoln Property Company, Inc. and Harvard Investments, Inc. ("Developer") for a phased office campus, to be named UNION, on approximately 28.2 acres of City-owned property located north of and northeast of the intersection of Cubs Way and Riverview Drive (the "Property"). Authorizing the City Manager to enter into this agreement will facilitate the development of a Class A Office Project on the Property.

Staff recommends that the City Council approve the following documents:

1. Resolution approving the sale of land, and authorizing the City Manager to enter into a Purchase and Option Agreement, Development Agreement, and Ground and Parking Garage Lease with Union Mesa Holdings, LLC for a phased office campus development (UNION) on approximately 28.2 acres of property located north and northeast of the intersection of Cubs Way and Riverview Drive. (District 1)

### Background:

Since the completion of the Chicago Cub's Sloan Park Spring Training Complex and Riverview Park, the City of Mesa has received many inquiries from the development community on this City-owned property in the Riverview Area. The City has explored various development possibilities on the site and believes the highest and best use of the property to be an employment-driven development, such as a true Class A office campus, which would be capable of bringing thousands of quality jobs to Mesa. City staff believes the UNION Project proposed by the Developer achieves that highest and best use of the Property.

Furthermore, with the surging demand for quality office space in the region, and a substantial lack of available office space in Mesa, the timing for the development of this site is ideal for bringing quality office development to Mesa.

On May 21<sup>st</sup>, 2018, City Council authorized the City Manager to enter into a non-binding Memorandum of Understanding (MOU) with the Developer on this project, which outlined certain high-level deal points and basic terms of an agreement, which could then serve as the framework for a development agreement. Since this approval, City staff and the Developer have been working to address all the details necessary to ensure a successful development that meets the needs of the Developer and the City.

This site is also subject to a Facilities Use Agreement (FUA) between the City of Mesa and the Chicago Cubs. There are many components to this agreement, but the primary factor which must be considered in the City's agreement with the Developer is the City's obligation to provide adequate parking for Cubs on game days, and other events. The City must be able to maintain a minimum of 2,500 Parking Spaces West of Riverview Drive, and this agreement with the Developer addresses those concerns, and stipulates specific levels of parking that must be maintained and provided to the City from the Developer for the City to meet its obligations to the Cubs.

The Developer has proposed a phased development of the site for a Class A office campus. While the DA specifies a minimum of 750,000 SF, at full build-out, the entire campus is projected to total up to 1,350,000 SF of Class A Office space between four office buildings, and also includes two parking garages totaling 5,683 spaces, and an additional 840 spaces for surface parking. The phasing of the development is expected to be as follows:

- Phase A – A 4-Story, 225,000 SF Class A Office Building with a 4-Story Parking Garage with 1,008 Spaces, as well as 260 Surface Parking spaces
- Phase B – A 6-Story, 337,500 SF Class A Office Building with a 4-Story Parking Garage (connected to the Phase A Parking Garage to complete the full “East Garage”) with an additional 1,436 Spaces, as well as an additional 196 Surface Parking spaces.
- Phase C – A 6-Story, 337,500 SF Class A Office Building with a 6-Story parking Garage with 1,556 Spaces, as well as 130 Surface Parking spaces.
- Phase D – An 8-Story, 450,000 SF Class A Office Building with a 6-Story Parking Garage (connected to the Phase C Parking Garage to complete the full “West Garage”) with an additional 1,072 Spaces, as well as an additional 154 surface Parking Spaces. For this Phase, an additional floor would be added on the East Garage as well, adding an additional 611 Spaces.

### **Discussion:**

City staff have been negotiating with the Developer on three documents which are critical to this deal which include; (i) a Purchase and Option Agreement; (ii) a Development Agreement, and; (iii) a Ground and Parking Garage Lease. The following provides a summary of the primary deal points for each of these documents.

### **Purchase and Option Agreement:**

The Term of this Purchase and Option Agreement will be for 96 months (8 years), allowing for the phased take-down / purchase of each Phase of the development. The City Manager may also grant 12-month extensions of each phase, as long as the Developer can demonstrate reasonable efforts in marketing the site for potential tenants.

1. The Developer will purchase the 9.12-Acre Phase A parcel (which includes a “shared tract” for an access road that will service the entire development) of the project for a price of \$3,940,960.32, or \$10.52/SF, as determined by a city appraisal. The Developer will have 24-months to execute this purchase.
  - a. Developer will have the Option to Purchase the 6.74-Acre Phase B parcel once Phase A is purchased and construction has commenced. The associated Utility Relocations for Phase A must also have been completed.
  - b. Developer will have the Option to Purchase the 4.13-Acre Phase C parcel once Phase A is completed, and Phase B is under construction.
  - c. Developer will have the Option to Purchase the 3.61-Acre Phase D Parcel once Phases A and B are completed, and Phase C is under construction. Associated Utility Relocations for Phase C must also be completed.
2. The Developer will pay the City a \$100,000 Option Payment which is non-reimbursable but may be credited against the purchase of the ensuing Phases.
3. Future purchase prices of Phases B, C & D will be subject to an annual Consumer Price Index (CPI) Increase of no less than 3%, and no more than 5%. In addition, the City will obtain re-appraisals of the remaining property every 5 years after Phase A is acquired. These appraisals will not account for the private improvements made on the previously acquired parcels but will account for any public improvements made to the parcels.

### **Development Agreement**

1. All Approved Development Plans will be consistent with the City of Mesa General Plan, and the Developer shall bear the costs and responsibility of all associated entitlement costs and fees. The City and the Developer will work together in good faith through the development process to resolve any plan review comments or changes the City may have.
2. City has agreed to provide a Customized Review Schedule to ensure the Developer’s construction timelines are met.
3. Developer will undertake any necessary demolition, environmental remediation, and archaeological compliance necessary for the development of the Project.
4. The Developer intends to construct the Project according to the Phased Development Plan, as described above, however, Developer must construct Minimum Improvements, which include a minimum of 750,000 square feet of rentable Class A building space in structures ranging from 4 to 8 stories; a parking garage on the east portions of Parcels A & B; a parking garage on a parcel leased from the City (the “West Garage”); and surface parking. The total parking may be no fewer than 3,000 spaces. These minimums are then broken down further into corresponding Minimum phases.
5. Additionally, the City has asked to retain the ground floor of the West Garage as Public Parking and is therefore willing to reimburse the Developer for the costs to construct and provide these additional parking spaces for public use. Currently estimated to be 430 spaces, the City will contribute a maximum of \$5,160,000 to retain the majority of the ground floor spaces as public parking in the West Garage.

This reimbursement will be made from the sale proceeds of Phases C and D, and will be satisfied in two phases as those parcels are developed.

6. If the actual cost incurred by the Developer to construct the 430 spaces exceeds the projected City contribution, the City may provide the Developer with a credit against lease payments, more completely described in the Ground and Parking Garage Lease.
7. The Developer also may also request and pay for an agreed upon number of parking permits on the ground floor of the West Garage at the standard City parking rate.
8. Upon completion of the Project, the Developer must provide parking facilities that will accommodate no fewer than 1,750 parking spaces for use by the City and Cubs for Game Day Parking, and other City events, as described in the Development Agreement.
9. During the construction phases of the project, the Developer must ensure that the City can provide all parking necessary to comply with the FUA.
10. The Developer will also create an Annual Parking Plan every year that illustrates where and how the Cub's Game Day Parking will be handled. This plan will be agreed upon by the Developer and the City, and also coordinated with the Chicago Cubs. Upon completion of the Project, the Plan must provide a minimum of 1,000 spaces on the West Garage Parcel, and 750 spaces elsewhere in the Development.
11. The City shall have the right to charge for parking where the Dedicated Stadium Parking is being provided, and any revenue derived will be apportioned according to the FUA. The Developer shall also have the right to charge for parking on all other portions of the development, provided that they do not charge less than is charged for parking elsewhere during Spring Training, and also agree to share gross parking revenues on a 50/50 basis with the Chicago Cubs. The City and the Developer also agree to use good-faith efforts to utilize the same entity for managing and directing Game Day and Stadium Event parking.
12. The Developer will be responsible for performing all utility relocation work necessary associated with the project, but will be reimbursed up to a maximum of \$1,200,000 in Phase A, and \$1,200,000 in Phase C. The Developer may also utilize any un-used reimbursement from Phase A relocations for Phase C relocations, if necessary.
  - a. These relocations could include, but not be limited to, existing wastewater, water, electric, gas, or drainage facilities, including but not limited to, pipes, lines, valves, headwalls, drains, conduit, casings, gates or pumps.
  - b. The Developer may also need to relocate non-utility facilities, such as a Verizon Wireless Cell Tower (if the project is determined to be in interference when the Developer moves to Phase C), and a City of Phoenix-owned Sky Harbor Airport sound monitor.
13. The Developer will also be responsible for handling any and all off-site drainage currently flowing from adjacent Riverview Park properties, up to 100,000 cubic feet of off-site drainage, based on a 100-year, 2-hour storm event.

14. In order to be eligible for the reimbursement of costs associated with any of the aforementioned reimbursements, all construction of facilities that will be owned by the City must be procured pursuant to Title 34.
15. The Developer acknowledges that this Property and Project is adjacent to an existing Wastewater Treatment Facility and junction box.
16. Because the Developer will purchase the individual parcels of the Property in phases, the City will continue to maintain and operate all unacquired Property in a manner that allows for continued Spring Training Parking, until such time as the Developer actually acquires ownership of such parcels.

### **Ground and Parking Garage Lease**

1. The Developer and City will execute a long-term (99 year) ground lease on the West Garage Parcel, which is a total of approximately 4.6 acres.
2. It is extremely important that the City maintain ownership of this parcel, and leasing this parcel rather than transferring it in a sale for the following reasons:
  - a. It is immediately adjacent to a Wastewater Treatment Plant, which is a critical public infrastructure facility that the City needs to protect.
  - b. The City needs to maintain substantial public parking on the ground floor of the garage to provide public parking for Spring Training Games and City Stadium Events, Riverview park patrons, and recreational use of the existing trailhead to the north.
  - c. Additionally, the public will have access to all levels of the West Garage on weeknights after 7:00PM and weekends, which will substantially increase the parking and accessibility capacity of Riverview Park for the community.
3. The Developer will pay the City an annual Base Rent of 6.25% of the appraised value of the parcel. This Base Rent will be adjusted through a new appraisal to be performed on the parcel every 10 years, with a maximum corresponding increase of 10%. The City and the Developer both agree that this structure is reflective of market conditions. The Developer will also only need to lease the portion of the parcel that they are currently occupying. For example, in Phase C, the Developer may only be leasing half the acreage from the City, until they move to Phase D of the project.
4. The Base Rent will be paid monthly.
5. This Lease is a lease of "Government Property Improvements," pursuant to state statute, and is therefore not subject to ad valorem real property taxes or assessments.
6. The City will have the exclusive right to use no fewer than 430 parking spaces on the entire ground floor of the West Garage, with no fewer than 215 spaces being constructed in the first phase of the West Garage Construction. These spaces will be public parking.
7. In addition to the above, there is anticipated to be approximately 60 surface parking spaces south of the West Garage that will remain public parking, as they are today.

8. The Developer will be responsible for all costs and expenses related to maintenance, repairs, replacements, etc. in order to keep the Premises / garage in good order and repair.

### **Alternatives:**

If Council does not approve the DA and Lease as drafted and recommended, they may choose one of the alternatives listed below:

Not Approve the Project: The Council could choose not to approve the Agreement and Lease. In which case, the Project and development will most likely not move forward on the Property, as these documents are required for them to develop this project in Mesa.

Direct Staff to Modify the Agreements: Council could direct staff to modify the Agreement and Lease. This would require additional negotiations and discussions with the Developer, and could also jeopardize the project's anticipated timelines, potentially causing the project not to move forward.

Take No Action: The Council could choose to take no action or table the item until a future date. The timing of this Project is sensitive and tabling the item could cause a negative impact to the progress of the Project, but exact impact is not known.

### **Fiscal Impact:**

The City expects to receive \$3,940,960.32 for the sale of Phase A, and will also receive additional land sale revenue, in accordance with the noted annual CPI adjustments and reappraisals, as the Developer acquires the additional Phases.

While future appraisals cannot be predicted, based solely on the most conservative, 3% annual CPI Increases alone, and through the City's internal estimates, the City expects to receive a minimum of \$11.3 million from the land sale proceeds. The City will use these proceeds to fund the Utility Relocation reimbursements, as well as the construction of Dedicated City Parking.

In addition, the City expects to receive lease revenue from the Ground Lease of the West Garage. City staff estimates an annual lease payment from the Developer of approximately \$225,625.

Lastly, the City expects to receive significant indirect and direct economic benefits from the development of this Project, which will bring additional jobs and investment to Mesa.

### **Coordinated With:**

The Office of Economic Development has worked closely with the City Attorney's Office, Development Services, Engineering, Water Resources and Transportation on this project.