City of Sunnyvale

Notice and Agenda - Revised

City Council

Thursday, December 10, 2015 | **10:30 AM** | **Council Chambers and West Conference Room, City Hall, 456 W. Olive Ave., Sunnyvale, CA 94086**

Special Meeting: Joint Meeting and Study Session of City Council and Successor Agency to the Redevelopment Agency

10:30 A.M. PUBLIC HEARING / GENERAL BUSINESS

1 Call to Order in the Council Chambers (Open to the Public)

2 Roll Call

3 Public Comment

This category is limited to 15 minutes with a maximum of three minutes per speaker. If you wish to address the Council, please complete a speaker card and give it to the City Clerk. Individuals are limited to one appearance during this section.

4 Public Hearing/General Business

15-0444 — Direction on Article 6 of the 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA) for Transfer of the Sunnyvale Town Center Property

Recommendation: Alternative 1: Acknowledge that the proposed Transferee satisfies the four Article 6 criteria in the ADDOPA for transfer of the Sunnyvale Town Center property.

1 P.M. STUDY SESSION

5 Call to Order in the West Conference Room (Open to the Public)

6 Roll Call

7 Public Comment

This category is limited to 15 minutes with a maximum of three minutes per speaker. If you wish to address the Council, please complete a speaker card and give it to the City Clerk. Individuals are limited to one appearance during this section.

8 Study Session

15-1098 Discussion on Status of Sunnyvale Town Center Project and Presentation on Market Assessment

9 Adjourn Special Meeting

NOTICE TO THE PUBLIC

The agenda reports to council (RTCs) may be viewed on the City's Web site at sunnyvale.ca.gov or at the Sunnyvale Public Library, 665 W. Olive Ave. Any agenda related writings or documents distributed to members of the City of Sunnyvale City Council regarding any open session item on this agenda will be made available for public inspection in the Office of the City Clerk located at 603 All America Way, Sunnyvale, California during normal business hours and in the Council Chamber on the day of the Council Meeting, pursuant to Government Code §54957.5. Please contact the Office of the City Clerk at (408) 730-7483 for specific questions regarding the agenda.

PLEASE TAKE NOTICE that if you file a lawsuit challenging any final decision on any public hearing item listed in this agenda, the issues in the lawsuit may be limited to the issues which were raised at the public hearing or presented in writing to the Office of the City Clerk at or before the public hearing. PLEASE TAKE FURTHER NOTICE that Code of Civil Procedure section 1094.6 imposes a 90-day deadline for the filing of any lawsuit challenging final action on an agenda item which is subject to Code of Civil Procedure 1094.5.

Pursuant to the Americans with Disabilities Act, if you need special assistance in this meeting, please contact the Office of the City Clerk at (408) 730-7483. Notification of 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting. (28 CFR 35.106 ADA Title II).

Planning a presentation for a City Council meeting?

To help you prepare and deliver your public comments, please review the "Making Public Comments During City Council or Planning Commission Meetings" document available at Presentations.inSunnyvale.com.

If you wish to provide the City Council with copies of your presentation materials, please provide 12 copies of the materials to the City Clerk (located to the left of the Council dais). The City Clerk will distribute your items to the Council.

City of Sunnyvale

Agenda Item

15-0444 **Agenda Date:** 12/10/2015

REPORT TO COUNCIL/SUCCESSOR AGENCY

SUBJECT
Direction on Article 6 of the 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA) for Transfer of the Sunnyvale Town Center Property

BACKGROUND
In August 2015, Wells Fargo Bank (REDUS SVTC, LLC), the current property owner of the Town Center property, solicited proposals for sale or transfer of the property (Attachment 1). The Town Center property consists of an approximately 20-acre area bounded by Mathilda, Washington, Sunnyvale and Iowa Avenues. The property excludes the public parking parcels that are owned by the City/Successor Agency and the parcels occupied by the Target and Macy's stores which are under separate ownership. On November 18, 2015, Wells Fargo Bank submitted a "Notice of Intent to Transfer" (Attachment 2) to sell the Town Center property to a to-be-formed joint venture comprised of affiliates of (a) Sares Regis Group of Northern California, (b) Hunter Properties, Inc., and (c) an institutional investor advised by J.P. Morgan Asset Management (hereinafter referred to as Transferee).

Under the 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA), Article 6, the City Council acting as the Successor Agency to the Sunnyvale Redevelopment Agency (Agency), is able to review specified criteria related to the proposed Transferee's business qualifications (Attachment 3). Article 6 does not provide Agency authority to select or approve the proposed Transferee, but provides an opportunity for the Agency to assess the capabilities of the Transferee before the property transfer occurs. Certain exemptions to Agency review are stated in Article 6, including transfer of those portions of the project that have already been completed. While much of the Town Center project is pending completion, two existing office buildings (Buildings A and C) on Block 2 (see Attachment 4) have been completed and are currently occupied by Nokia and Apple. Thus, most of the proposed transfer is subject to Article 6 review, with the exception of the parcels with the completed office buildings.

ENVIRONMENTAL REVIEW
Article 6 review is not subject to the California Environmental Quality Act since it does not approve or alter the approved project or land use entitlements and only pertains to the transfer of private property.

DISCUSSION
The purpose of the special Agency meeting is to provide an assessment of the proposed Transferee under the provisions of Article 6 of the ADDOPA. The following discussion reviews the Article 6 criteria and review process and summarizes the findings of staff and consultants regarding the financial and professional experience of the proposed Transferee.

Article 6 Criteria

Article 6 defines four criteria for review of proposed Transferees qualifications that are subject to Agency review (see Attachment 3):

i. Has experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants;
ii. Has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof;
iii. Possesses a good business character and reputation; and
iv. Has prior development projects and an operating presence in California.

In order for the Agency to conduct its Article 6 review, Wells Fargo Bank is required to provide reasonable evidence to the Agency demonstrating that the proposed Transferee satisfies the four criteria. Under the terms of Article 6, the Agency has 20 business days to review the evidence and to "acknowledge or challenge" whether the proposed Transferee meets the criteria. The purpose of the review period is to allow the Agency and Bank to request and exchange additional information. Based on the notification date of November 18, the Agency must provide a response to Wells Fargo Bank by December 18, 2015. If the Agency fails to respond to the Bank within the 20-day period, the transfer is deemed permitted. Attachment 5 details the time schedule for the Article 6 review process.

Under Article 6, an acknowledgement indicates that sufficient evidence has been provided for the Agency to reach a conclusion that the proposed Transferee satisfies the criteria. If the Agency acknowledges that the proposed Transferee satisfies the four criteria, then the Article 6 review process is complete and the parties may proceed with their transaction.

Alternatively, if the Agency, exercising "commercially reasonable discretion," challenges the proposed Transferee's ability to satisfy one or more of the criteria, the Agency must provide detailed evidence for reaching this conclusion. On December 10, it may be premature to take this action since the 20-day review period (December 18) has not concluded. If necessary, the Agency could request additional information specific to any of the Article 6 criteria for its further review, which could be scheduled for the December 15 meeting. If the Agency provides evidence to the Bank by December 18 challenging the proposed Transferee's ability to meet one or more of the criteria, Article 6 provides a process for the parties to exchange more information during the following 15 days, and if the Agency ultimately continues to dispute the proposed Transferee's ability to satisfy the criteria, the dispute would then be resolved by "expedited arbitration."

The Article 6 criteria pertain to the financial capability, development experience and business reputation and character of the proposed Transferee to acquire and complete the Town Center project. While evaluating the past projects completed by the proposed development partners is germane to the Article 6 review, requesting specifics regarding the Transferee's plans for completing the Town Center project are outside of this review process and not a basis for assessing the criteria. No proposals have been put forth by the Transferee for amending the ADDOPA, land use entitlements or other agreements. Any deliberations on these items are premature until the Article 6 review is concluded. The Article 6 review functions as a sort of threshold review; if the proposed Transferee is cleared to move forward, specific proposals about how to proceed or modify any existing documents and entitlements would be negotiated and processed between the parties in the following months.

Article 6 Review Support

Completion of the Article 6 review process is a key milestone for the project and the City used two highly-qualified consultants to complete this ADDOPA requirement. The short time allowed for Article 6 review requires a fast turnaround by the Agency with limited staff and during a peak workload. Additionally, while in-house staff has considerable development review experience, the assistance of finance and real estate experts is required to supplement staff's experience and to ensure a thorough evaluation of the proposed Transferee. For these reasons, the services of two highly-qualified finance and real estate consultants were obtained to conduct a comprehensive investigation of the three entities involved in the proposed property transfer and to also understand the financial structure and development capabilities of the to-be-formed joint venture.

The lead consultant that prepared the Article 6 report is Macias Gini & O'Connell LLP (MGO), a statewide certified public accounting and business management firm with eight offices throughout the state. Scott P. Johnson, CPA, CGMA, partner with MGO, is overseeing the Article 6 evaluation. MGO serves a wide variety of industries, and is nationally recognized for its professional leadership from both the profession and industry regulators. The firm offers a diverse array of audit assurance, tax, advisory, and business management services to clients ranging from startup companies to middle -market public and private companies, the world's largest public pension system, and California's largest local governments. MGO's State and Local Government Practice is one of the largest in the country and offers unmatched resources in serving this complex sector, including serving the City of Sunnyvale as the City's Independent Certified Public Accountants for external financial reporting requirements in accordance with professional accounting standards. The City has a longstanding relationship with MGO; it has conducted our annual external audits for the past three years and is familiar with our team and organization.

Keyser Marston Associates, Inc. (KMA) has also been retained to provide peer review of the Article 6 report, as well as contribute added expertise in real estate development and finance. Tim Kelly, president of KMA, is the principal in charge of this assignment. KMA has advised many California cities and major public entities throughout the state with respect to public policy and implementation to achieve the desired public benefits using innovative approaches to land use planning and specific real estate projects. KMA has advised public clients in the Bay Area and Santa Clara Valley for over 30 years on a wide range of land use and public policy matters. The firm's local knowledge of real estate, market and economic conditions, combined with the firm's broad perspective of regional, statewide and national trends, provides valuable expertise for evaluating the financial feasibility of large developments such as the Town Center project. KMA has particular knowledge about downtown Sunnyvale, having prepared a past analysis for the Town Center project; they also prepared the recently completed market analysis that will be presented in today's study session.

Article 6 Data Request

Wells Fargo Bank indicated to the City Manager in late October that it was negotiating the sale of the Town Center property, with the intent of submitting to the City in mid-November the names of the proposed Transferee. In anticipation of this submittal, staff worked with MGO and KMA to develop a data request for conducting the City's Article 6 review. This request was submitted to Wells Fargo Bank on November 9 (Attachment 6). At the time the request was prepared, the City had no information about the identity or nature of the proposed Transferee, so the data request and related questions were broad for cautionary purposes, to some degree extending beyond the scope of the Article 6 criteria. While this broader information is helpful for providing a fuller understanding of the capabilities of the Transferee, the focus of the data request is on the core information that is needed to reach a conclusion on the four Article 6 criteria.

On November 18, Wells Fargo Bank submitted a "Notice of Intent to Transfer" (Notice) to sell the Town Center property to the proposed Transferee (Attachment 2). The Notice acknowledges that the anticipated sale of the two completed office buildings on Block 2 (Buildings A and C) as part of the transfer is not subject to Article 6 review per Section 6.01(c). However, the Notice recognizes that the remainder of the property is subject to Article 6 review per Section 6.01(b). After an initial review of the Notice and attachments, MGO and KMA concluded that additional information would be beneficial to verify and acknowledge that the proposed Transferee satisfies the Article 6 criteria.

Following submittal of the Notice and during the past week in particular, staff and consultants have actively engaged with the Transferee to request additional information to complete the Article 6 analysis. Much of the information was deemed by the Transferee to be confidential or proprietary in nature, so the consultants met directly with the development partners to share and discuss their companies' financial and real estate development data. Additionally, corporate background checks, including individual background checks of the principals, were conducted by a third party firm and these reports were provided to MGO and are deemed confidential.

Article 6 Conclusions
After a thorough review of the data shared by the Transferee, MGO and KMA have concluded that the proposed entities in the to-be-formed joint venture satisfy the four Article 6 criteria, and an acknowledgement of this finding is appropriate by the Successor Agency to conclude the review process. Attachment 7 is the primary report prepared by MGO, and Attachment 8 is the peer review memorandum prepared by KMA.

The Article 6 review was conducted with the representation that J.P. Morgan Asset Management (JPM, more specifically the JPMCB Strategic Property Fund) will be the sole equity owner of the two office building lots. For the reminder of the retail, residential and undeveloped portions of the property (subject of Article 6 review), JPM is represented as the majority property owner (95 percent equity interest or greater). A to-be-formed limited liability joint venture is proposed for ownership of the property that will consist of JPM, Sares Regis Group of Northern California (SRGNC as the residential developer), and Hunter Properties, Inc. (Hunter as the retail and office developer). While SRGNC and Hunter will actively oversee their respective residential and commercial components, JPM will have the decision-making authority.

<u>Criteria (i), (iii) and (iv)</u>:
With regard to the experience, business reputation and California presence of the development partners, MGO/KMA found that the strengths of SRGNC and Hunter complement each other well, along with the financial backing of the significant equity investment/ownership with JPM. Overall, MGO/KMA found that collectively, SRGNC and Hunter have considerable experience completing major mixed-use commercial, retail and residential projects involving primarily national, and, to a lesser extent, regional and local tenants. MGO/KMA found that while SRGNC's and Hunter's various projects are not analogous to the Sunnyvale Town Center project, these projects demonstrate their experience with mixed use development.

In comparison to Sunnyvale Town Center, MGO/KMA found that SRGNC's mixed-use residential/commercial developments have a significantly larger residential component, whereas Hunter Properties' mixed-use office/commercial projects have a significantly larger office component. SRGNC was reported to excel in upfront planning and in their ability to communicate and negotiate with those outside of their immediate development team (e.g., other owners, their agents, the community, various levels of government). Hunter Properties demonstrated particular strengths in constructing commercial retail and office buildings. Additionally, MGO/KMA found that both developers have substantial experience operating in California, with a particular development presence in San Mateo and Santa Clara Counties for over 20 years. They have maintained strong reputational standing within the real estate industry and in the communities where they have built projects. Both are longstanding members of real estate professional organizations, such as the Urban Land Institute (ULI) and International Council of Shopping Centers (ICSC).

Staff Comments: The Town Center is a unique mixed use development in a downtown setting located at a premier location in Silicon Valley. It is not surprising that the property generated intense interest among the development community when the property was marketed by Wells Fargo Bank. Given the uniqueness of the project, it is expected that each developer would not have similar projects in their portfolio. Individually, each member of the to-be-formed joint venture brings considerable expertise to development team in addition to financial capabilities. Collectively, the team brings together an impressive combination of mixed use, residential and commercial development experience as well as asset management experience, which is critical for implementing and sustaining a large complex mixed use project. When evaluated together, the complementary and overlapping expertise of the three development partners are a good indication that the development team will be able to deliver the Town Center project. The to-be-formed joint venture represents a new business relationship for the parties. Staff expects that the details regarding the operating structure will be further defined once the property transfer is finalized.

<u>Criterion (ii)</u>:

With regard to the financial capacity of the development partners, MGO took the lead in analyzing this criterion. JPM was examined in greater depth since they are the major equity investor. In examining their financial records, MGO found more than sufficient assets to fund the project. As of June 30, 2015, the fund had net assets of $27.6 billion dollars. Based on the current proposed financing structure, MGO reviewed the financial condition rather than capacity of SRGNA and Hunter, and determined that both development partners exhibit strong fiscal strength. MGO’s review of financial indicators shows both companies have sufficient financial capacity to meet their obligations throughout the development.

Staff Comments: JPM clearly has the financial capacity to be the prime equity partner for the proposed joint venture. They provide a solid financial foundation for delivering the Town Center project. Additionally, JPM already has a strong presence in downtown Sunnyvale as the owner of two office buildings at 150 and 190 Mathilda Place where Broadcom is the major tenant. As an institutional investor, JPM brings substantial equity to the project and they will be making the primary investment decisions. It is expected however that SRGNC and Hunter, as the development partners, will actively lead the construction and management of the residential and commercial components of the project. As the project moves forward, the factors affecting the decision-making process within the joint venture and how these factors will determine the path forward for the project (e.g. construction schedule, tenant mix, and project modifications) are of considerable interest to staff. While this is key consideration, it is not within the scope of the Article 6 review criteria, but would be addressed in future discussions with the three parties.

FISCAL IMPACT
Article 6 review does not have a fiscal impact on the City. Any amendments to the ADDOPA or other agreements that could have fiscal implications on the City are not being considered at this time.

PUBLIC CONTACT
Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES
1. Acknowledge that the proposed Transferee satisfies the four Article 6 criteria in the ADDOPA for transfer of the Sunnyvale Town Center property.
2. Request that the City Manager request additional data to further evaluate if the Transferee satisfies the Article 6 criteria in the ADDOPA for transfer of the property and hold a follow-up special City Council/Successor Agency meeting on December 15.

STAFF RECOMMENDATION
Alternative 1: Acknowledge that the proposed Transferee satisfies the four Article 6 criteria in the ADDOPA for transfer of the Sunnyvale Town Center property.

Per the report submitted by MGO with peer review by KMA, the Transferee has shared sufficient data to reach a positive conclusion that the proposed development partners and to-be-formed joint venture are considerably well financed to complete the Town Center project with JPM providing the vast majority of the equity for the project. The individual partners in the to-be-formed joint venture have strong development backgrounds; as a combined team, they will provide considerable investment funds and complementary expertise to execute a complex mixed use development. Both SRGNC and Hunter have substantial experience in mixed use, residential and commercial development, respectively. In particular, both developers have a strong presence in the Bay Area with a large portfolio of successful projects in multiple communities.

If the Agency cannot reach a conclusion that acknowledges that the proposed Transferee satisfies the Article 6 criteria, then additional information should be requested for further review on December 15. Any information requested must be specific and germane to determining if the proposed Transferee satisfies the four Article 6 criteria. The Agency has until December 18 to respond to the Notice of Intent to Transfer.

Prepared by: Hanson Hom, Assistant City Manager, Chief of Downtown Planning
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Eastdil Secured Marketing Notice
2. Notice of Intent to Transfer, November 18, 2015
3. Article 6 (excerpt of 2010 Amended Disposition and Development and Owner Participation Agreement)
4. Town Center Site Plan
5. ADDOPA Article 6 Review Schedule
6. Article 6 Developer Review Data Request, prepared by MGO, November 9, 2015
7. Independent Evaluation Report on Article 6 Criteria: Developer Experience and Reputational Review, and Assessment of Developer Financial Capacity, prepared by MGO, December 9, 2015
8. KMA Memorandum, December 9, 2015

Acquisition Opportunity: Sunnyvale Town Center

Sunnyvale, California

NOKIA Caltrain TARGET macy's

Eastdil Secured, as exclusive advisor, has been retained by Ownership to present the exceptional opportunity to acquire the 100% fee simple interest in Sunnyvale Town Center (the "Project" or "STC"), a San Francisco Bay Area transit-oriented, mixed-use development on six full city blocks in the heart of Silicon Valley. STC is currently entitled, at full build-out, for nearly 1.7 million square feet of retail, office, residential, and hotel product, of which approximately 1.1 million square feet is either completed or partially completed today. The table below details the Project's current development and leasing status:

Download the **Confidentiality Agreement**, **Site Plan** and **Local Map**.

Component	Current Status
Office	- 100% leased to Apple and Nokia with term through 2020 - Two LEED Silver class A office buildings totaling ~314,000 RSF
Residential	- 198 partially completed for sale residential condominiums - Three buildings totaling ~ 227,000 RSF
Retail	- Target and Macy's, both not a part of the offering, totaling ~ 351,000 RSF are open and operating - ~245,000 RSF of retail is partially complete - ~105,000 RSF "theatre building" with an LOI from Cinemark Theatres and strong interest from a national, upscale grocer
Parking	- Two new parking structures are currently in use with approximately 2,765 stalls - One parking structure requires renovation with approximately 967 stalls - Surface parking and Target parking lot totaling approximately 743 stalls
Additional Land Sites	- Additional land entitled for ~425,000 square feet of hotel, office, retail and residential

Investment Highlights

- **Potential to Create Silicon Valley's Premier Live-Work-Play Destination:** Encompassing a prime infill location totaling nearly 20 acres and six city blocks in the heart of downtown Sunnyvale, STC presents a ripe opportunity to transform downtown Sunnyvale and create a vibrant gathering place for the Silicon Valley community.
- **Silicon Valley's Only Mixed-Use Project with Access to Rail:** STC's complementary mix of retail, office and residential uses, all within one block from the Sunnyvale Caltrain station, provides convenient local and regional access, as well as an amenity package that is not found anywhere else in Silicon Valley. The Sunnyvale Caltrain station is one of only five stops between downtown San Francisco and downtown San Jose on the Baby Bullet express train, making San Francisco a mere 50-minute commute for residents and employees.
- **Two 100% Leased Trophy-Caliber LEED Silver Office Buildings Totaling Nearly 314,000 Square Feet:** STC's office component is 100% stabilized with substanially under market leases through 2020 with dominant international brands: Apple and Nokia. Situated directly on Mathilda Avenue, the buildings offer a high-prestige / high-visibility location, striking architecture, and superior construction. Nokia and Apple's selection of STC validates the quality of the office environment and importance of rail-served amenity.
- **Market-Leading, Transit-Oriented Residential Product Primed for Completion:** Sunnyvale Town Center includes 198 condominium units positioned above the retail component of the Project's lifestyle streetscape. With large average unit sizes of nearly 1,150 SF, the Project's residential D, E, and F components are approximately 70% complete, providing a compelling combination of final finish optionality with a distinct speed-to-market advantage in a highly affluent submarket where limited new supply has generated year-over-year price increases of nearly 25%, and where the ability to create an equivalently rich total amenity offering will be severely limited.
- **Critical Mass of Retail, Entertainment, and Dining Offerings:** Sunnyvale Town Center will include over 700,000 square feet of predominately street-level retail offerings. The retail component is currently anchored by Target and Macy's, both not a part of the offering, and has attracted the interest of highly-sought after retailers, including a letter of intent from Cinemark Theatres and continued leasing conversations with a national, upscale grocer.
- **Dense, affluent, & well-educated trade area** with over $62 billion of purchasing power with 5 miles of the Project which is as good as or better than the best landmark retail centers in the Bay Area. An additional 285,000 employees are located within 5 miles of the Project, further supplementing the strong population density.

Demographics	3-Mile	5-Mile
2015 Population	214,000	445,000
Avg Household Income	$134,000	$139,000
Avg HH Inc > $100K	51%	52%
Bachelor's Degree or Higher	66%	68%

- **Exceptional Local and Regional Access:** STC benefits from its infill location just one block from the Sunnyvale Caltrain Station, in addition to convenient access to all of the region's major thoroughfares and highways, including: Interstates 101 and 280, State Routes 85 and 237, and El Camino Real.
- **Flexible Investment Strategy – Acquire/Exit in Component Parts:** Investors are being offered the opportunity to acquire the entire Project or the component parts. For investors interested in acquiring the entire Project, a separate component exit strategy provides for enhanced liquidity options.

Should you have an interest in reviewing the offering memorandum, please execute the Confidentiality Agreement and return it to SunnyvaleTownCenter@Eastdilsecured.com.

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Disclosure:
The ownership of the Sunnyvale Town Center has been contested in judicial proceedings. That litigation spans two consolidated cases in the trial court (Santa Clara County Superior Court Case Nos. 1-09-CV-153447 and 1-11-CV-213485) and three appellate proceedings (Sixth Appellate District Case Nos. H037419, H038572 considered together with H039024, and H039332). In the most recent proceedings, the former developer of the Sunnyvale Town Center asserted claims, among others, to set aside the trustee's sale of the property and to cancel the trustee's deed upon sale. In an order dated May 19, 2015, and modified on June 12, 2015, the Court of Appeal directed all of the developer's claims to be stricken. On June 29, 2015, the developer filed a petition for review of the Court of Appeal's decision in the California Supreme Court, Case No. S227445. That petition is awaiting decision under California Rules of Court, rule 8.512. Interested persons are directed to the public court files for each proceeding. There can be no assurance as to the ultimate outcome of pending proceedings.

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You may download the Confidentiality Agreement as an Adobe PDF file. Adobe PDF files require Acrobat Reader software from Adobe Systems Inc. Click here to receive your free Adobe Acrobat Reader software.

SYT5

2010 AMENDED DISPOSITION AND DEVELOPMENT AND OWNERSHIP PARTICIPATION AGREEMENT

by and between

THE SUNNYVALE REDEVELOPMENT AGENCY

and

REDUS SVTC, LLC

ARTICLE 6.

CHANGES IN DEVELOPER

NOTICE OF INTENT TO TRANSFER
NOVEMBER 18, 2015

REDUS SVTC, LLC, a Delaware limited liability company, as successor to L. Gerald Hunt, as Court-Appointed Receiver in Wachovia Bank v. Downtown Sunnyvale Residential, et al., Santa Clara Superior Court Case No. 109-CV-153447 ("**Developer**") and the Sunnyvale Redevelopment Agency, a public body, corporate and politic (the "**Agency**") entered into that certain Amended Disposition and Development Owner Participation Agreement dated August 2, 2010 (the "**ADDOPA**"). Developer desires to sell the entire Project to a to-be-formed joint venture comprised of affiliates of (a) Sares Regis Group of Northern California, (b) Hunter Properties, Inc. and (c) an institutional investor advised by J.P. Morgan Asset Management (the "**Transferee**").

The Transfer of the portion of the Project comprised of the parcels improved with the office buildings (the "**Office Portion**") is authorized pursuant to Section 6.01(c) in that Developer has completed construction of Buildings A and C (as shown on Exhibit B of the ADDOPA) in accordance with those provisions of the ADDOPA relating solely to Developer's obligations to complete such buildings.

Section 6.01(b) authorizes a Transfer of the remaining portion of the Project (namely, the Project excluding the Office Portion) upon Developer providing to the Agency reasonable evidence demonstrating the Transferee's satisfaction of subsections (i) through (iv) of Section 6.01(b) of the ADDOPA, which provides in relevant part:

(b) Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants, (ii) has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof, (iii) possesses a good business character and reputation, and (iv) has prior development projects and an operating presence in California.

Developer hereby provides the enclosed documentation detailing further information regarding the Transferee and evidence demonstrating Transferee's satisfaction of each of the criteria set forth in subsections (i) through (iv) of Section 6.01(b) of the ADDOPA by Transferee.

Pursuant to Section 6.01(b), the Agency shall acknowledge or challenge the proposed transferee's satisfaction of the foregoing criteria within 20 business days after Developer's submittal. During such 20-day review period, Developer and Agency shall respond to inquiries of the other and exchange information as may be requested. If Agency, exercising commercially reasonable discretion, advises Developer that the proposed transferee does not satisfy any of the stated criteria, the Agency shall provide detailed evidence of the same. If Agency fails to respond to Developer's submittal within the 20-day period, the Transfer shall be deemed permitted. Developer shall respond to Agency's evidence of the proposed transferee's failure to satisfy the criteria within 10 days after receipt of same. If, following submission of Developer's response, the Agency continues to dispute the transferee's satisfaction of the stated criteria and so notifies Developer within 5 days after receipt of Developer's response, such dispute shall be resolved by expedited arbitration.

At the closing of the sale, Transferee shall execute a written agreement assuming the rights and obligations under the ADDOPA with respect to the Project (excluding the Office Portion) in compliance with Section 6.02 of the ADDOPA.

Capitalized terms used herein and not defined shall have the meaning ascribed to such terms in the ADDOPA.

REDUS SVTC, LLC,
a Delaware limited liability company

By: ______________________

Name: DAVID L. ASH

Title: Sr VP

ARTICLE 6.
CHANGES IN DEVELOPER

6.01 Requirements for Transfer.

For the purposes of this Agreement, a "Transfer" means any voluntary or involuntary sale, transfer, conveyance, assignment or other disposition of fee title to the whole or any part of the Private Improvement Parcels or any assignment of this Agreement or the Related Documents (except as otherwise expressly provided by the Related Document). Transfer also includes any voluntary or involuntary sale, transfer, conveyance, assignment or other disposition of the ownership interests in Developer. Except as permitted pursuant to Section 6.03, the Developer shall not engage in a Transfer except as to the specifically permitted following Transfers:

(a) Any Transfer resulting from a foreclosure of a Security Financing Interest or deed in lieu of foreclosure.

(b) Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants, (ii) has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof, (iii) possesses a good business character and reputation, and (iv) has prior development projects and an operating presence in California. Developer shall provide reasonable evidence to the Agency demonstrating the proposed transferee's satisfaction of the foregoing criteria. The Agency shall acknowledge or challenge the proposed transferee's satisfaction of the foregoing criteria within 20 business days after Developer's submittal. During such 20-day review period, Developer and Agency shall respond to inquiries of the other and exchange information as may be requested. If Agency, exercising commercially reasonable discretion, advises Developer that the proposed transferee does not satisfy any of the stated criteria, the Agency shall provide detailed evidence of the same. If Agency fails to respond to Developer's submittal within the 20-day period, the Transfer shall be deemed permitted. Developer shall respond to Agency's evidence of the proposed transferee's failure to satisfy the criteria within 10 days after receipt of same. If, following submission of Developer's response, the Agency continues to dispute the transferee's satisfaction of the stated criteria and so notifies Developer within 5 days after receipt of Developer's response, such dispute shall be resolved by expedited arbitration.

(c) Any Transfer of a portion of the Project for which a Certificate of Completion has been issued.

(d) Any Transfer of less than a fifty percent (50%) ownership interest in Developer.

(e) Any Transfer of a residential condominium unit upon the issuance of a Certificate of Occupancy for the residential building.

(f) Except as to Block 6 (as same is shown on Exhibit A), any Transfer of any portion of the Project (other than the Minimum Project), unless the Agency, exercising commercially reasonable discretion, shows that the proposed transferee would have a material adverse impact on the Project.

All other Transfers shall be subject to the Agency's approval, which shall not be unreasonably withheld, conditioned or delayed.

In no event shall the Developer engage in a Transfer which will result in the person or entity with the obligations under the Public Parking Ground Lease or Public Parking Maintenance Agreement not being the owner of all or substantially all of the retail portion of the Project.

6.02 Effectuation of Transfers.

A Transfer approved by the Agency or permitted pursuant to Sections 6.01 or 6.03 shall be accomplished pursuant to documentation providing for the transferee to undertake and assume the relevant rights and obligations under this Agreement. If a Transfer is otherwise a Transfer permitted under this Agreement, then the transferor shall be released from all obligations related to the portion(s) of the Project upon such Transfer provided the remaining obligations of the Developer relating thereto are expressly assumed by said Transferee. Promptly following any Transfer, Developer shall provide to the Agency any information reasonably necessary to determine the ownership percentage under Section 6.01(d). Any portions of the Project shall be transferred subject to applicable existing entitlements.

6.03 Certain Permitted Transfers.

Notwithstanding the provisions of Section 6.01, the Developer, without the approval of the Agency pursuant to Section 6.01, may engage in the following Transfers:

(a) A lease of space in the Private Improvements for occupancy upon completion.

(b) A security interest or mortgage in the Private Improvements Parcel and/or the Public Parking Construction Lease in connection with the financing approved by the Agency pursuant to Section 3.08 or a security interest or mortgage created after the issuance of a Certificate of Completion.

(c) Any Transfer occurring following the end of the period that Developer receives Annual Payments pursuant to Section 8.01.

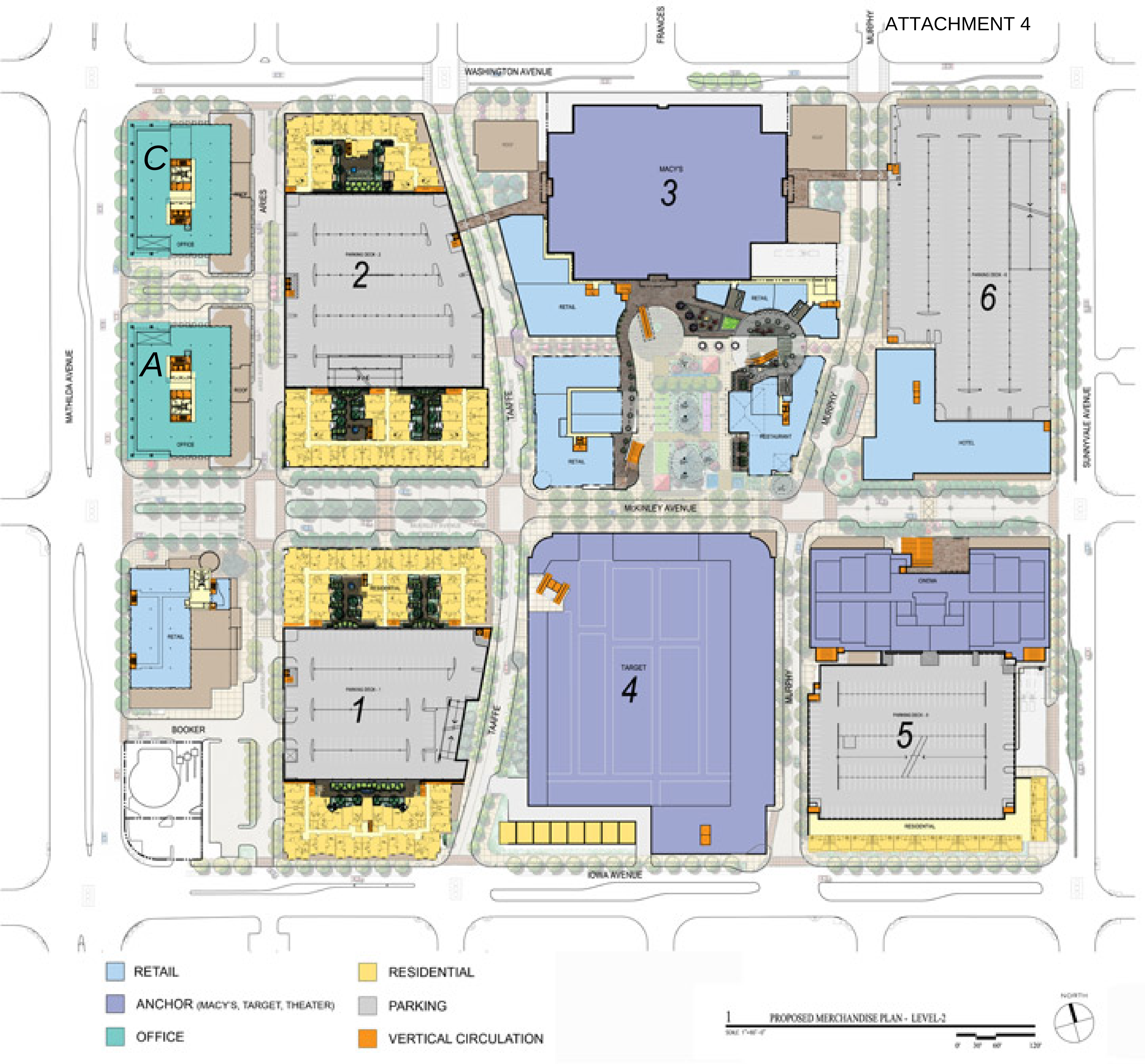
ARTICLE 7.
REPRESENTATIONS, WARRANTIES, AND COVENANTS

7.01 Agency Representations and Warranties.

The representations and warranties of the Agency in this Section 7.01 are a material inducement for Developer to enter into this Agreement. Developer would not purchase

ATTACHMENT 4

ATTACHMENT 4



Attachment 5
Sunnyvale Town Center Property Transfer
ADDOPA Article 6 Review Schedule

Date	Item
November 9	City Manager provides Article 6 data request to Wells Fargo Bank
November 18	Wells Fargo submits “Notice of Intent to Transfer” with initial response to data request to start 20-day Article 6 review period
November 19 to December 18	Continuing dialogue during 20-day review period with Wells Fargo and proposed Developer to provide information on Article 6 data request
November 30 – December 7	Councilmember Briefings on Overview of Town Center Project and ADDOPA Article 6 Review
December 10 10:00 am	**Special Joint City Council/Successor Agency Meeting:** Discussion of Town Center Project and Possible Direction on Article 6 of the 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA) for Transfer of the Property
December 15 (if needed)	**Special Joint City Council/Successor Agency Meeting:** Possible Direction on Article 6 of the 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA) for Transfer of the Property
December 18	Deadline for submittal of City response on Article 6 review (20 business days from November 18)
January 5	Deadline for Wells Fargo response to City (10 business days from December 18)
January 12	Deadline for City response to Wells Fargo (5 business days from January 5)

Certified Public Accountants
MGO Advisory Services

City of Sunnyvale, Article 6 Developer Review Data Request of Evidence

Date: November 9, 2015

To: Deanna Santana, City Manager
City of Sunnyvale

From: Scott P. Johnson, CPA – Partner, MGO Advisory Services

RE: Data Documentation Request for Evidence per Article 6.1 - Changes in Developer

Criteria:

Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants, (ii) has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof, (iii) possesses a good business character and reputation, and (iv) has prior development projects and an operating presence in California. Developer shall provide reasonable evidence to the Agency demonstrating the proposed transferee's satisfaction of the foregoing criteria.

Request from Developer:

Article 6.1

(i) and (iv) Criteria:

Developer has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants; and has prior development projects and an operating presence in California.

Methodology:

MGO will prepare a matrix and populate by documenting the following:

a. Review the Developer's website and/or perform online research to obtain pictures, addresses and other evidence of their previously completed mixed-use and major commercial development projects, (due to time constraints, we will be looking at approved applications only), noting the number of total developments;
b. Request from developer the following for each project for a total of three or more projects:
    i. Obtain references from at least three clients, within the last five years, with a focus on mixed use projects of equal scale/similar size to Town Center. MGO will develop questions and conduct the interviews with references.
    ii. Request for information for no more than three projects:

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City of Sunnyvale, Article 6 Developer Review Data Request of Evidence

a) Location/address of past mixed use projects of similar size, scope and nature involving a mix of national, regional and local retail and entertainment tenants centered around a pedestrian oriented street.
b) Square feet of commercial/retail space.
c) Number of housing or rental units.
d) Name of anchor retail and/or commercial tenants (make phone [or if local, in person] inquiry of no more than three major tenants).
e) Property management firm employed at start of project's operation (phone interview with property manager).
f) Provide each Project's implementation timeline.
g) Did any of these projects include any RDA, sales tax sharing agreements, TIF agreements or any other public financial contribution? If so, indicate specific provisions of agreements.
h) Provide information on any community benefits provided by the developer for each project.
i) Resume for project manager for Sunnyvale Town Center.
j) Organizational chart or other documentation describing the organizational structure of the developers.
k) Business roles and financial interests of the partners, and description of how decision-making authority is delegated.
l) CEQA challenges and outcomes.

Request from various Cities: Obtain the above development projects' Entitlement records from respective Cities, and review name and type of businesses seeking occupancy in the retail and commercial sections of the completed project; assess consistency with project information supplied by Developer. Prepare results in a matrix.

- Past Development project's Entitlement Records and review name and type of businesses seeking occupancy in the retail and commercial sections of the completed project.
- CEQA challenges and outcomes.
- Information regarding the tenants in the projects, especially those tenants that did their own tenant improvements and interacted with the City.

Contact the Chamber of Commerce and/or the city/county's Economic Development department to find out how many local businesses lease/rent space in the development at its inception and five years later. If time allows, we will contact Planning, Building departments to inquire about entitlement processes, working relationship with staff, responsiveness to Council and community concerns, but we anticipate uncovering this information through public records such as city council staff reports, and planning commission meeting minutes. Although interviews are preferable, due to the time-sensitive nature of this project, we will rely heavily on public records.

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City of Sunnyvale, Article 6 Developer Review Data Request of Evidence

(ii) Financial Capacity Analysis

Article 6 Criteria: Determine if the Developer has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof (developer entity and all individual principles of the entity).

Methodology:

To determine if the developer has adequate financial capacity, we will perform a fiscal review of the proposed Developer's financials to determine adequate financial capacity by looking at the proposed Developer's solvency as well as its liquidity. We will also obtain two references from two lending institutions with substantial experience in California mixed use real estate.

We will collect the following from the Developer and/or its financial institutions:

- Most recent five (5) years audited and/or interim financial statements, tax returns and any other financial data provided by the developer's Certified Public Accountants.
- References of at least two lending institutions with substantial lending experience in California mixed use real estate to show developers' financial capacity (from past projects).
- Contact information of current lending institutions.
- Request from Bank/Financial/Lending Institutions - Request for Developer's credit reports from two of three major national credit reporting agencies.
- **Developer to provide** the following:
    a. Intended vision for each of the assets being acquired; such as land uses, timing of commencement of construction, level of investment, etc.
    b. A statement in writing of its ability and willingness to use best efforts to carry out the obligations in the DDA in a timely manner. 6.1bii
    c. Evidence demonstrating that it has and is committing the necessary financial resources to (a) Purchase the asset at closing and (b) construct the contemplated development. If property sale is to be phased, please indicate phasing schedule and financing for each phase.

        i. What conditions, if any, may be attached to the transfer or assignment of each phase of the project?
        ii. Please state all conditions upon which the assignee does not close and go forward with all or portions of Town Center.
        iii. For the implementation of Town Center to proceed, what actions will be requested of the City Council and/or the Oversight Board?
            1. Address by component: office, residential, built retail and to be built retail. Examples might be: amendment to ADDOPA, approval to open the residential as apartments, approval to allow office uses in the retail, approval to delay the timing of the phase to be built retail until the direction for the Macy's property is known. If so, please explain.

City of Sunnyvale, Article 6 Developer Review Data Request of Evidence

2. Are any of these actions by the City Council and/or the Oversight Board a condition for the assignee to close and take possession? If so, please explain.

d. Stated total amount of capital accessible by Bidder for this transaction and anticipated sources of equity and debt. How much of funding is expected to be provided by Bidder?

b) If Bidder is LLC or purchaser will be a LLC (or some other legal entity other than the Bidder):
   a. Members of the LLC (or other legal entity) need to be identified.
   b. Confirmation in writing from the members that they are legally bound to fund the obligations of LLC (or other legal entity).
c) If Bidder is Developer that typically participates with an equity investor that funds the majority of the equity requirement:
   a. Identify equity investor
      i. Confirmation in writing from equity investor that it is committed to fund the obligations of the Bidder (Commitment letter must explicitly confirm the level of commitment to the City)
d) If Bidder is foreign national, provide comparable data, information and generally accepted audited financial statements.
e) Demonstrate that the Bidder has financed comparably sized projects by describing recent or current projects and how the projects are comparable to Town Center.
f) The role of the Bidder should be provided in the description:
   1. Developer/owner and percentage ownership
   2. Builder/ General Contractor
   3. Advisor to owner
   4. Other
g) Total project costs and date. Detail the amount and sources of capital and any other pertinent information, such as, equity investor and lender. Disclose how much of funding was provided by Bidder.

To assess financial capacity, we will conduct a trend analysis of following liquidity, solvency, and leverage ratios:

- **Liquidity Ratios** are used to determine a company's ability to pay off its short-term debt obligations. Generally, the higher the value of the *ratio*, the larger the margin of safety that the company possesses to cover short-term debts.
- **Solvency Ratios** measure a company’s ability to meet its debt and other obligations. The solvency ratio indicates whether a company’s cash flow is sufficient to meet its short-term and long-term liabilities.
- **Leverage Ratios** look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet financial obligations.

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Liquidity Ratios:	Solvency Ratios:	Leverage Ratios:
Accounts Payable Aging Indicator	Debt to Assets Ratio	Interest Coverage Ratio
Liquid Funds Indicator	Cash Flow from Operations to Total Liabilities	Debt to Equity
Acid Test/Quick Ratio		Debt Service Coverage
Net Income Ratio		Debt Service Coverage, pro forma
Current Ratio		
Days Cash on Hand		

Our report will provide a summary of a five-year trending along with a dashboard of these indicators to rate the strength/weakness of each ratio highlighting any red flags that may be evident of financial risks.

(iii) Developer Reputation Review

Article 6 Criteria: Developer possesses good business character and reputation.

To assess whether the developer (transferee) possesses a good business character and reputation, we will collect documentary or testimonial evidence on the following:

a. Obtain references from at least three clients, within the last five years, with a focus on mixed use projects of equal scale/similar size to Town Center.

b. Contact Secretary of State to ensure the firm is registered, identify the LLC structure and partnership information, and to ensure there are no pending legal actions against the firm. This information is contained in the Secretary of State's files, which we will review electronically or on-site.

c. Contact Department of Consumer Affairs, Contractor's Licensing Board (if applicable) to ensure there are no pending disciplinary actions against the firm. Should we discover judgments, MGO will copy case number, claim, and final disposition. The City Attorney may then use LexisNexis if they require more information than provided.

d. Perform a credit check, including any criminal and civil actions against the company; (data request submitted to the bank, request credit check from two national credit agencies). We will conduct a credit check on the individuals within the LLC to the extent we do not violate the Fair Credit Reporting Act.

e. Interview two to three current and previous clients over the past five years to obtain an understanding of the firm's character and reputation; obtain references from at least three clients with projects of equal scale/similar size to Town Center.

f. Contact the firm's financial institution and identify any potential negative relationship between the bank and the firm;

g. Perform a review of county court records in the Bay area and Silicon Valley region for possible negative history, such as pending litigation and/or prior law suits ending in a settlement against the firm in areas where projects were identified in (d) above; if possible, we will include principals, not just the LLC or company. However, if they are out of State or very far away, we

City of Sunnyvale, Article 6 Developer Review Data Request of Evidence

will not be able to investigate without incurring additional time and budget to the project. Identify any CEQA challenges and report on the outcomes.

h. Conduct an online search of publicly available resources for negative and harmful information for and/or against the firm. As an option, we will consider using Gaming background standards; however, MGO will consult with the City Attorney to ensure we do not violate any local or State laws. (Further research to be conducted to determine the level of review we can achieve within the confines of the law.)

(iv) Developer Experience and Presence in California

Article 6 Criteria: Developer has prior experience with projects and operating experience in California.

Methodology:

(v) To determine the extent the developer has prior development projects and an operating presence in California, we will:

a. **Developer to provide:** Names, locations and dates California projects were granted a certificate of occupancy from a local government agency.
b. Consult California Bureau of Real Estate records to determine whether developer is a California licensed Real Estate Broker and for evidence that he/she is actively engaged in business in California.
c. Interview leadership of professional associations, (e.g., Northern California Commercial Association of Realtors and International Council of Shopping Centers), to determine if developer is active in California.

ATTACHMENT 7

December 9, 2015

City of Sunnyvale

Independent Evaluation Report on

Article 6 Criteria

Developer Experience and Reputational Review, and Assessment of Developer Financial Capacity

Executive Summary

Why the Review was Conducted

Macias Gini & O'Connell LLP (MGO) was contracted by the City of Sunnyvale (City) to perform due diligence requirements and procedures for the potential transition of the Sunnyvale Town Center project from Wells Fargo Bank to a new developer. Specifically, MGO was to perform financial analysis and compliance with Article 6 of the Amended Disposition and Development and Owner Participation Agreement (ADDOPA). For purposes of this report, our financial analysis and compliance review is referred to as a Review.

The purpose of this review is to assist the City in acknowledging or challenging the developer based on the Article 6 criteria. Specifically, Article 6 defines four criteria for review of proposed transfers that are subject to the City/Successor Agency review (see attached Exhibit 1):

i. Has experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants;
ii. Has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof;
iii. Possesses a good business character and reputation; and
iv. Has prior development projects and an operating presence in California.

In order for the City to conduct its Article 6 review, Wells Fargo Bank and/or Transferee are required to provide reasonable evidence to the City/Agency demonstrating that the proposed Transferee satisfies the above four criteria. It should be noted that for purposes of our review, we combined criteria i and iv since the components of such criteria are similar in nature. In addition, it should also be noted that due to the relatively short time-frame for the City to respond to the proposed developer, the methodology and tasks MGO performed were developed between MGO and the City staff (with input from the City's independent peer review consultant, Keyser Marston) prior to our knowledge of the proposed structure that would be presented by Wells Fargo Bank to the City. As a result, it was necessary to modify some of the tasks and related methodology of our review due to the nature of the proposed structure of the proposed developer.

Proposed Developer Partnership Structure

The proposed developer is a to-be-formed limited liability joint venture (LLJV) [the "Developer"] between affiliates of Sares Regis Group of Northern California ("SRGNC"), Hunter Properties, Inc. ("Hunter"), and an institutional investor advised by J.P. Morgan Asset Management ("JPM") [a wholly-owned subsidiary of the JPMorgan Chase Bank Commingled Pension Trust Fund (the Fund)]. J.P. Morgan intends to acquire the office buildings, and the separate to-be-formed LLJV intends to complete development of the residential and retail portions of the Sunnyvale Town Center project (the Project).

Based on information received from J.P. Morgan, the J.P. Morgan Fund (through its subsidiaries) will comprise 100% of the equity in the office buildings and 95% or more of the equity investment in the residential and retail portions of the Project. The Fund's entire investment is allocated to the transaction and will be funded as costs are expensed. JPM will own a 95% or greater ownership interest in the joint venture and will possess decision-making authority.

What the Review Found

MGO's General Conclusions

Due to the relatively short time-frame for the City to respond to the proposed developer, the methodology and tasks MGO performed were developed between MGO and the City staff (with input from the City's independent peer review consultant, Keyser Marston) prior to our knowledge of the proposed structure that would be presented by Wells Fargo Bank to the City. As a result, it was necessary to modify some of the tasks and related methodology of our review due to the nature of the proposed structure of the proposed developer. In addition, through the City, MGO provided a data request of evidence which was initially transmitted through Wells Fargo Bank to the proposed developer. It should be noted that Wells Fargo and the Proposed Developer (including all proposed partners), generally responded to most of the information requested. However, some information was not available, considered confidential, proprietary, or information that the Developer felt would be subject to future negotiations with the City. As a result, MGO pursued alternative methods and/or requested alternative information to perform our analysis and research which helped in forming our conclusions that, based on our professional judgement, and as outlined in this report under our methodology and related results for each element of the Article 6 criteria, the proposed developer satisfies the criteria of Article 6, as outlined in this report, subject to any further follow-up the City may choose to perform.

Developer Experience, Presence, and Reputation Results

We found the two developer partners' strengths complement each other well, along with the financial backing of the significant equity investment/ownership with JP Morgan. Overall, we found that collectively, SRGNC and Hunter have experience completing major mixed-use commercial, retail and residential projects involving primarily national, and, to a lesser extent, regional and local tenants (see attached Exhibit 2: Detailed information on Developer Experience). The scope of these various projects are not analogous with the Sunnyvale Town Center project but demonstrate the various mix that comprise the development.

Specifically, in comparison to Sunnyvale Town Center, SRGNC's mixed-use residential/commercial developments have a significantly larger residential component, whereas Hunter's mixed-use office/commercial projects have a significantly larger office component. For the three projects submitted by SRGNC for our review (to meet Article 6 criteria i and iv), two comprised of a lower level of commercial and upper level residential mixed used project as projected for the Sunnyvale Town Center. However, collectively, both developer partners demonstrate the various mix that comprises the Sunnyvale Town Center development.

We found each of the developers to have substantial experience operating in California, as well as both maintain strong reputational standing within the community and real estate industry. SRGNC reportedly excels in the upfront planning and an ability to communicate and negotiate with those outside their immediate team, e.g., other owners, their agents, various levels of government. Hunter has shown particular strength constructing commercial and office buildings and working well with the community.

Financial Capacity Analysis Results

Our assessment of the proposed equity owner of the Sunnyvale Town Center project, JP Morgan, more specifically the JPMCB Strategic Property Fund (the Fund), we found has more than sufficient assets to fund the projected cost to acquire and complete the initial phases of the Project. Specifically, as of June 30, 2015, the Fund's net assets contains 50 times the projected cost to acquire and complete the initial phases of the Project.

In addition to analyzing the Fund, based on the proposed to-be-formed LLJV, we also reviewed the financial condition of the development partners (which informed us about their financial capacity) and determined both SRGNC and Hunter have exhibited strong fiscal strength. Our review of financial indicators shows they have sufficient financial capacity to meet their obligations throughout the development.

Background

Professional Standards, Qualifications, and Engagement Team

Professional Standards

We conducted our review in accordance with the American Institute of Certified Public Accountants (AICPA)'s standards for consulting services. Those standards require that we undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence, exercise due professional care in the performance of professional services, adequately plan and supervise the performance of professional services, and obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed. Our work was conducted between October 7 and December 8, 2015.

MGO Firm History and Organizational Structure

Founded in 1987, Macias Gini & O'Connell LLP (MGO) is a statewide certified public accounting and business management firm with offices in Sacramento, Walnut Creek, Oakland, Los Angeles, Newport Beach, and San Diego with 20 partners and a staff of over 250 professionals. MGO serves a wide variety of industries from our eight offices. This diversity of experience coupled with the firm's relentless focus on attracting and developing top talent has helped to earn MGO national recognition for thought leadership from both the profession and industry regulators.

The firm offers a diverse array of audit assurance, tax, advisory, and business management services to clients ranging from startup companies to middle-market public and private companies, the world's largest public pension system, and California's largest local governments.

MGO's State and Local Government Practice is one of the largest in the country and offers unmatched resources in serving this highly complex sector, including serving the City of

Sunnyvale, over the past three years, as the City's independent Certified Public Accountant for external financial reporting requirements in accordance with professional accounting standards.

The MGO Engagement Team

The MGO team working on this engagement included the following team members:

- **Scott Johnson**, Partner, leads MGO's State and Local Government Advisory Services. Prior to joining MGO, Mr. Johnson's career spanned over 29 years of high-level organizational management and leadership experience. He has led multi-billion dollar operations for local government agencies in various capacities. He is nationally recognized as a leader in managing municipal finances, investments, debt, and budgets. He and his team have received numerous state and national awards for excellence. Mr. Johnson is a Certified Public Accountant (CPA) and a Chartered Global Management Accountant (CGMA). He has also served on state-wide boards and is a Past-President of the California Society of Municipal Finance Officers (CSMFO). He is also a member of numerous national and state associations.
- **Ric Jazaie** served as Senior Project Manager on this engagement. Mr. Jazaie has over 16 years of hands-on operational, financial, public accounting and law enforcement experience, including progressive auditing and investigating leadership experience. He is an experienced internal auditor, fraud investigator, computer forensics auditor, and law enforcement investigator. Mr. Jazaie's areas of expertise include litigation support, auditing, and investigations at federal, state and local government organizations (as well as medium sized privately-held companies). He has served as an FBI Special Agent, law enforcement officer, internal audit director, and a seasoned auditor. Among other certifications, Mr. Jazaie is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified in Financial Forensics (CFF), and a private investigator (PI). Mr. Jazaie led the backgrounding efforts on this engagement.
- **Greta MacDonald** served as a Consultant Manager on this engagement focusing on the financial capacity analysis. Ms. MacDonald has a Master's in Public Administration (MPA), a Bachelors of Economics, and over 15 years of experience reviewing performance and financial analysis, including her assignment for the past seven years assessing the eligibility of non-profit health providers and colleges for state bond loan funds issued by the State Treasurer. She has spent 14 years with the firm managing and directing engagements for both public and private sector entities. Her professional skills include financial analysis, compliance audits, performance and internal auditing, program evaluations, statistical manipulation and analysis, information management reviews, and evaluations of financial management processes.
- **Linda Morine** served as a Consultant Manager on this engagement focusing on the development-related aspects of Article 6 criteria. Ms. Morine has a Masters of Public Affairs (MPA) and a BA in Political Science. With 27 years of experience in analysis of programs and procedures, fiscal management and budgeting, research, and compliance, she has specialized knowledge of land entitlement/development review processes and environmental compliance and has served as a consultant to numerous local government clients. She assisted in the fieldwork by collecting and reviewing data, performing procedures, analyzing data, and identifying conclusions and observations.

MGO presents the following information received and/or analyzed, as of December 8, 2015, on whether requirements were met for transfer in accordance with the following provisions of Article 6 – Changes in Developer, as documented in the following procedures, methodology, and analysis.

Analysis

Developer Experience Review (i) and (iv)

Article 6 Criteria: Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants, (iv) Developer has prior experience with projects and operating experience in California.

Methodology:

- MGO reviewed the Developer's website, performed online research to obtain pictures, addresses and other evidence of their previously completed mixed-use and major commercial development projects, (due to time constraints, we focused on built and approved projects) noting the number of total developments and their locations.
- We also utilized other methods in evaluating and assessing the projects such as interviews and reviews of planning/development documents at various cities in which projects are located.
- Lastly, MGO requested references from at least three clients (projects), within the last five years, with a focus on mixed-use projects of equal scale/similar size to Town Center.

Results:

SRGNC

SRGNC is a relatively large company that works in both northern and southern California. Three projects reviewed involve a mix of national, regional and local tenants. They have a strong background in residential (both single family and multiple family housing) and office/R&D developments. In the San Francisco bay area, they have developed and built several multi-use residential, commercial projects. The adjacent commercial portions feature major, national businesses and the retail located within the multi-use buildings is often local, personal services businesses.

Interviews with references indicate SRGNC’s work on Pilgrim Triton in Foster City demonstrated their experience completing a mixed-use commercial, retail, residential project. The residential is larger in scope, whereas the completed, as well as the eventual commercial/retail, is and will be notably smaller in size than Sunnyvale Town Center. The retail built thus far does fit with the mixed-use residential-commercial.

SRGNC was reported to have the ability to bring together owners/their agents with differing interests and negotiate solutions for multiple-year issues. For example, for the Pilgrim Triton project in Foster City, some of the initial owners’ original intentions were to sell immediately and invest nothing in the future development. Instead, SRGNC convinced them to stay and pay transportation/traffic costs even though the agreed-upon staggered payback schedule was not to those owners’ benefit and they would not receive the first reimbursement payments.

Hunter

Hunter Properties is a smaller organization with a focus on Silicon Valley. Our review found that they have a proven experience and track record developing and managing major commercial and office projects, and scope involving a mix of national regional and local tenants. In addition, our interviews with references indicate they are known for their ability to work well with the local community. For example, based on input from references, even under adverse circumstances, Hunter practices active listening and maintains their professionalism and friendly relations. In addition, they are noted for their problem-solving abilities, which makes them successful at complex projects. In particular, references pointed to their work with the City of San Jose on the FMC project. This project has four different bond issues, hazardous materials challenges, CalTrain constraints, as well as other development project hurdles.

Please see Exhibit 2: for detailed information on each developer's experience.

Financial Capacity Analysis (ii)

Article 6 Criteria: Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (iii) Developer has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof (developer entity and all individual principles of the entity).

Methodology:

- MGO applied general review and analysis techniques of financial statements to calculate limited financial ratios as summarized above to assess the JPMCB Strategic Property Fund, and its current liquidity and cash flow. We also reviewed self-reported cash position, and leverage in order to determine its capacity to fund the Sunnyvale Town Center project.
- MGO collected the most recent quarterly statement from the equity partner, JPMorgan, to assess the financial strength of the JPMCB Strategic Property Fund, which, according to the information received from the proposed developers, will provide the majority of the assets for the property purchase and related project costs.
- MGO then assessed the financial condition of the two proposed partners (Hunter and SRGNC) for the Sunnyvale Town Center project, by reviewing three years of income statements, balance sheets and statements of cash flows for both entities. We reviewed the most recent statements to date (2015) for Hunter and SRGNC, we also reviewed the most recent past two years of financial statement data (2013 and 2014), to assess the immediate past and current financial condition of the proposed partners in order to provide the City with a snapshot of the partners' fiscal strength through a financial ratio analysis.
- We also requested two references from each developer's financial institution to ensure longstanding and favorable relationships existed.

Proposed Financing Structure:

In accordance with the data submission from the proposed developer team, the Proposed Developer shall be a to-be formed limited liability joint venture (LLJV) [the "Developer"] between affiliates of Sares Regis Group of Northern California ("SRGNC"), Hunter Properties, Inc. ("Hunter"), and an institutional investor advised by J.P. Morgan Asset Management ("JPM").

Based on the proposed developer's data submission, the majority equity owner of the Sunnyvale Town Center project will be the JPMCB Strategic Property Fund (the Fund). The office property will be solely owned by JPM. The balance of the real estate; the residential, retail and excess land, will be owned by the to-be-formed LLJV. Per data received by the proposed developer, the contemplated transaction is expected to be funded with 95 percent equity provided by JPMorgan.

JP Morgan Financial Capacity Analysis:

The JPMCB Strategic Property Fund (the Fund) owns and seeks improved real estate projects with stabilized occupancies that produce a relatively high level of current income combined with moderate appreciation potential. The Fund's investment portfolio focuses on attractive office, retail, residential and industrial investments with high-quality physical improvements, excellent locations, and competitive positions within their markets.

The Fund is a Commingled Pension Trust Fund of JPMorgan Chase Bank, N.A.. The Fund is established and maintained by JPMorgan Chase Bank, N.A. under a declaration of trust. The Fund is not required to file a prospectus or registration statement with the SEC, and accordingly, neither is available. The Fund is available only to certain qualified retirement and governmental plans and is not offered to the general public. Units of the funds are not bank deposits and are not insured or guaranteed by any bank, government entity, the FDIC or any other type of deposit insurance.

The Fund Overview:

Investment characteristics

- Focus on attractive stabilized investments with high quality physical improvements
- Larger assets which have consistently outperformed
- Excellent location factors, with dominant competitive market positions
- Stronger growth demographics
- High quality income stream
- Risk and return expectations
- Managed to a low beta risk profile
- Holding period 5-10 years
- Portfolio leverage 25% to 30% total portfolio
- Operating cash target 3% of total net asset value

Investments as of September 30, 2015

- 105 office buildings
- 131 industrial buildings
- 24,898 apartment units in 76 complexes
- 11 super regional and regional malls
- 200+ neighborhood and community retail centers
- 7 lifestyle and urban centers

Ratio Analysis of Proposed Developer

Financial analysis is important to boards, managers, lenders, and stakeholders who make judgment on the financial health of an organization. Ratio analysis, which uses data from the financial statements, allows for an assessment of an organization's fiscal health and strength. Careful judgment must be taken when interpreting financial ratios. On their own, financial ratios do not always provide a complete picture of the organization's performance. However, when used in conjunction with other quantitative and qualitative measures, it can provide valuable insights into the organization's operations. The ratios that follow for the proposed developers provide a snapshot of each entity's financial condition/capacity. For each ratio computed, we included the definition, how it is calculated, and outcome of the ratio, industry target rates and the result of the ratio.

Table 1.0: JP Morgan Fund

Ratios	Calculation	Ratio	Target	Result
Liquidity Ratios				
Current Ratio	Current assets / Current liabilities	33.2	>1.0	The fund has 33 times the level of assets compared to current liabilities and is well-positioned to pay obligations as they become due. Additionally the fund has sufficient cash (liquidity) to quickly cover liabilities.
Cash Flow Analysis				
Cash Flow from Operations to Total Liabilities (or cash flow to debt)	Cash Flow from Operations / Total Liabilities	1099.0	>2.0	Cash flows generated from operations are over 1,000 times the level of total liabilities, meaning the fund is generating a high level of cash flows.

Additional Information on the Fund:

Based on research conducted, we found two examples in which two U.S. pension funds have chosen to invest in the JP Morgan Strategic Property Fund despite facing a wait of more than a year before the committed funds will be requested, which highlights the demand for core real estate exposure among institutional investors in the U.S.

Our research also found, based on a report issued by Aon Hewitt, an independent investment consultant, that the fund has been one of the best performing U.S. core[1] open-ended funds over the medium and long term, according to their report. In addition, documents prepared by Aon Hewitt show that annualized returns for the past five and 10 years were in the top quartile among its peers in the National Council of Real Estate Investment Fiduciaries Open-end Diversified Core Equity Index (NFI-ODCE) Index.

1 Core funds offer a range of strategies across sectors and geographies but tend to share similar characteristics. A core fund is one which invests typically in income producing real estate investments. It will mainly employ low levels of leverage and will have no, or very low, exposure to real estate development. In general, a core fund generates a high proportion of its return through rental income.

Detailed Results: JPM

Based on our research and information provided by the proposed developer to MGO, J.P. Morgan Asset Management ("JPM") will be the equity partner and the majority equity owner (95%) of the Sunnyvale Town Center project. Our analysis indicates that the JPMCB Strategic Property Fund (the Fund) - has significant assets available and a leveraged portfolio ratio which indicate more than sufficient financial capacity to timely commence and complete the construction thereof. The fund contains assets at a level over 50 times the projected cost to acquire and complete the initial phases of the Project. We also noted positive and increasing cash flows from prior periods indicating steady growth, a low level of liabilities (debt), and overall financial strength indicating it can pay obligations as they become due.

In scoping the methodology prior to knowing the structure of a proposed developer, MGO and the City originally anticipated receiving five years of financial data from the proposed developer. However, given the proposed structure and the very strong equity interest from the JP Morgan Fund, we determined five years of financial data was not warranted and instead we conducted other analysis as noted above. It should be noted, however, that MGO's independent research indicates the Fund has been in existence since 1998, and as of June 30, 2015, the Fund has experienced a 46 percent increase in net assets[2] since 2011. Source: JPMCB Strategic Property Fund, Annual Report, 2011 obtained through internet search.

Developer Financial Capacity and Condition Assessment

To assess the financial condition of the two proposed partners for the Sunnyvale Town Center project, we reviewed at least three years of income statements, balance sheets and statement of cash flows for both Hunter and SRGNC. We reviewed the most recent statements to date (2015 and 2014) for Hunter and SRGNC, respectively, and their most recent past two years of financial statement data (2013 and 2012) to assess the immediate past and current financial condition of the proposed partners, in order to provide the City with a snapshot of the partners' fiscal strength.

Detailed Results- Proposed Partners

Hunter:

Our ratio analysis for Hunter is reported below based on the 2015 financial statements[3]. We found Hunter to have a favorable financial condition and strength. Our ratio analysis indicates high levels of liquidity, and that the company demonstrates their ability to generate profits from shareholder's investments. The bulk of their asset funding is coming from equity rather than debt and has a high level of cash flow to cover its liabilities many times over. See Table 2.0 below for specifics.

[2] Net assets are value of the fund's assets minus its liabilities.

[3] We reviewed financial data/statements and tax return for prior two years and observed continued improvement in financial capacity.

Table 2.0: Hunter Properties, Inc. Financial Ratio Analysis

Ratios	Calculation	2015 Results	Target	Ratio Definition and Results
Current Ratio	Current assets / Current liabilities	482.5 times	>1.0	Measures liquidity and the ability of the company to cover obligations as they become due. The company has 4.83 times the amount of current assets compared to its current liabilities.
Net profit margin (net income)	Net profit after taxes/Net sales	67.5%	Positive	The company is highly profitable with a 67.5% profit margin.
Return on Equity	(Net income – taxes – interest) / Shareholders' equity	2.0%	Higher the better –	Higher the better – the firm generates $2 for every $100 invested by shareholders.
Debt to Equity	Total Liabilities / Shareholders' Equity	7.2%	Low	A lower debt to equity ratio usually implies a more financially stable business.
Debt to Asset	Liabilities / Assets	.067	<1	A low ratio indicates that the bulk of asset funding is coming from equity and that there are sufficient assets to cover its liabilities – the firm has $6.7 in liabilities for every $100 in assets.
Cash Flow from Operations to Total Liabilities (or cash flow to debt)	Cash Flow from Operations / Total Liabilities (Avg. two years)	58.2%	>.20	At least 58.2 percent of the company's operating cash flows are available to cover its total liabilities.

SRGNC:

Our ratio analysis is reported below based on the 2014 financial statements of SRGNC and its affiliates. We found that the entity is highly profitable and experiencing growth.

Based on our review of the company's financial statements, we found the company to have a favorable financial condition and strength. Our ratio analysis indicates high levels of liquidity, and that the company demonstrates their ability to generate profits from shareholders' investments. The bulk of their asset funding is coming from equity rather than debt. Further, the entities have a high level of cash flow to cover its liabilities. See table 3.0 below for results.

Table 3.0: SRGNC and affiliates - Financial Ratio Analysis

Ratios	Calculation	2014 Results	Target	Ratio Definition and Results
Current Ratio	Current assets / Current liabilities	601.3%	>1.0	Measures liquidity (available cash and assets that can easily be converted to cash) therefore improving the ability of the company to cover obligations as they become due.
Net profit margin (net income)	Net profit after taxes/Net sales	15.8%	Positive.	The company is profitable with a 15.8% profit margin.
Return on Equity	(Net income – taxes – interest) / Shareholders' equity	15.9%	Higher the better	The company generate positive growth for each dollar invested by shareholders. Return on equity is favorable.
Debt to Equity	Total Liabilities / Shareholders' Equity	32.6%	Low.	A lower debt to equity ratio usually implies a more financially stable business. Shows stability.
Debt to Asset	Liabilities / Assets	24.6%	<1	A low ratio indicates that the bulk of asset funding is coming from equity. Strong; most assets are funded by equity.
Cash Flow from Operations to Total Liabilities (or cash flow to debt)	Cash Flow from Operations / Total Liabilities (Avg. two years)	59.6%	> .20	Shows cash flow within a year that could cover total annual liabilities. Healthy -generating $60 for every $100 in liabilities.

Developer Reputation Review (iii)

Article 6 Criteria: Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (iii) Developer possesses good business character and reputation.

Methodology: To assess whether the developer (transferee) possesses a good business character and reputation, we requested documentary or testimonial evidence on the following:

- Obtained references from at least three clients (cities), within the last five years, with a focus on mixed-use projects of equal scale/similar size to Town Center.
- Secretary of State information was collected to ensure the firm is registered, to identify the LLC structure and partnership information, and to ensure there are no pending legal actions against the firm. This information was contained in the Secretary of State's files, which we reviewed electronically.
- Contacted Department of Consumer Affairs, Contractor's Licensing Board (if applicable) to ensure there are no pending disciplinary actions against the firm. Had we discovered judgments, we would have obtained a copy, case number, claim, and final disposition.
- Performed a background check, including any criminal and civil actions against the principles;
- Interviewed one current or previous colleague or client over the past five years for each developer (a total of two) to obtain an understanding of the firm's character and reputation; obtained references from eight colleagues or clients with projects of equal scale/similar size to Town Center.
- Contacted each firm's financial institutions and identify any potential negative relationship between the bank and the firm;
- Performed a review of county court records in the Bay area and Silicon Valley region for possible negative history of the principles under review, such as pending litigation and/or prior lawsuits ending in a settlement against the principles in areas where projects were identified in previous projects above.
- Identified CEQA challenges and reported on the outcomes. (See Exhibit 2, Matrix on project details for each developer)
- Conducted an online search of publicly available resources for negative and harmful information for and/or against the firm.

Results

Our background investigation of SRGNC and Hunter, as well as their principles, indicated clean backgrounds for both respective companies, both met the good business character and reputation. See table 4.0 below for detailed results of our background checks and investigation.

As of the date of this report, we continue to work on obtaining one of Hunter Properties' principles background investigation report. Neither SRGNC nor Hunter are licensed by the Department of Consumer Affairs' Contractor's License Board. Instead, however, both firms are licensed by the California Department of Real Estate.

Table 4.0: Background Check Components, Validation and Results

Background Check Component	Hunter	SRGNC
Secretary of State	**Entity Number:** C1617642 **Status:** ACTIVE **Agent for Service of Process:** DEREK K HUNTER JR	**Entity Number:** C3735952 **Status:** ACTIVE **Agent for Service of Process:** KENNETH M COATSWORTH
Department of Consumer Affairs	**Hunter Properties, LLC:** No information found. Derek Hunter: No information found. Edward Storm: No information found.	**SRGNC, Inc.:** No information found. Robert W. Wagner: Inconclusive. There are many contractors with this name. Mark Kroll: License #731316 (Cancelled)
Department of Real Estate	CA Dept. of Real Estate License ID: 01206045 Derek Hunter: 00824850 Edward Storm: 00414721	CA Dept. of Real Estate License ID: 01151815 Robert Wagner: 01504140 (Possible Match, License Expired) Mark Kroll: 00359045
Internet Open Searches	No negative reporting was observed Deke Hunter: We did not observe any negative reporting. Edward Storm: Inconclusive. This name is popular and the information did not tie back to this principal.	This business is not BBB accredited. Did not observe negative comments. Robert W. Wagner: Inconclusive. Mark Kroll: We did not observe any negative reporting.
Financial Institution – Letters of Reference indicating positive relationship	Comerica Wells Fargo	Comerica (other financial institution could not oblige reference check due to their internal policies)

Professional Standards Statement

The following language is included in accordance with professional standards for non-audit and/or non-examination engagements.

The sufficiency of the procedures as outlined in this report is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the report either for the purpose for which this report has been requested or for any other purpose. Because the procedures as outlined in this report do not constitute an examination or audit, we will not express an opinion as such and we have no obligation to perform any procedures beyond those listed in this report. If, however, as a result of the procedures or through other means, matters come to our attention that cause us to believe that the Proposed Developer does not meet the requirements outlined in this report and are not presented in accordance with the Article 6 requirements, we will disclose those matters in this memorandum. Such disclosures, if any, may not include all matters which might have come to our attention had we performed additional procedures or an examination.

This report is intended solely for the use of the City of Sunnyvale and its Successor Agency, and is not intended to be and should not be used by anyone for purposes other than defined by our procedures.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 9, 2015

Exhibit 1: Article 6 Text

A. Article 6 of the Amended Disposition and Development and Owner Participation Agreement (ADDOPA) for the Sunnyvale Town Center Project requires the Successor Agency to consent, subject to certain criteria, to transfer of the Project to a new developer. Specifically, Article 6 provides in relevant part:

"ARTICLE 6.

CHANGES IN DEVELOPER

6.01 Requirements for Transfer.

For the purposes of this Agreement, a "Transfer" means any voluntary or involuntary sale, transfer, conveyance, assignment or other disposition of fee title to the whole or any part of the Private Improvement Parcels or any assignment of this Agreement or the Related Documents (except as otherwise expressly provided by the Related Document). Transfer also includes any voluntary or involuntary sale, transfer, conveyance, assignment or other disposition of the ownership interests in Developer. Except as permitted pursuant to Section 6.03, the Developer shall not engage in a Transfer except as to the specifically permitted following Transfers:

(a) Any Transfer resulting from a foreclosure of a Security Financing Interest or deed in lieu of foreclosure.

(b) Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred: (i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants, (ii) has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof, (iii) possesses a good business character and reputation, and (iv) has prior development projects and an operating presence in California. Developer shall provide reasonable evidence to the Agency demonstrating the proposed transferee's satisfaction of the foregoing criteria. The Agency shall acknowledge or challenge the proposed transferee's satisfaction of the foregoing criteria within 20 business days after Developer's submittal. During such 20-day review period, Developer and Agency shall respond to inquiries of the other and exchange information as may be requested. If Agency, exercising commercially reasonable discretion, advises Developer that the proposed transferee does not satisfy any of the stated criteria, the Agency shall provide detailed evidence of the same. If Agency fails to respond to Developer's submittal within the 20-day period, the Transfer shall be deemed permitted. Developer shall respond to Agency's evidence of the proposed transferee's failure to satisfy the criteria within 10 days after receipt of same. If, following submission of Developer's response, the Agency continues to dispute the transferee's satisfaction of the stated criteria and so notifies Developer within 5 days after receipt of Developer's response, such dispute shall be resolved by expedited arbitration.

[c-f omitted.]”

Exhibit 2: Detailed information on Developer Experience
2.1: Hunter Properties

Name Location/Address	Residential Units	Retail/ Commercial sf	Developer's description (if different or unverified)	Tenant description & Initial Property Management Firm	Other
Village Oaks 5630-5770 Cottle Rd. San Jose South San Jose, near Blossom Hill. Bounded by Cottle Rd., Great Oaks Parkway, Raleigh Rd. and Charlotte Dr.	Built (almost): 234 units (probably condos) The Haven@ Cottle Station	Entitlement, appear built: 308,000 sf Done Additional Entitlement/not built: 5,000 sf	Entitlement 248 rsdtl units Retail 368,000 sf	Anchors: Target, Safeway, Four larger general merchandise including Marshalls, Ulta Beauty; 5 buildings commercial service along Cottle Rd., including, Chase, Bank of America; 4 buildings – primarily small restaurants off main street, within development/parking lot Applebee's Rstn in rectangular lot along Charlotte Dr. & Raleigh Rd. (not Hunter Properties) **Property Manager** Hunter Properties, Inc.	
@ First 4180 North First San Jose (northern border is Hwy 237, North First St. & Holger Way)	N/A	Retail 180,000 to 230,000 sf	Office 800,000 sf Retail 181,000 sf Hotels – 300 Room	Major Corporate campus for Brocade Communication Systems Hyatt House hotel Courtyard Marriot hotel Smaller offices – Fidelity Investments, Chase Mortgage	(1)

				Retail: CVS, Verizon, full and fast/small restaurants **Property Manager** Hunter Properties, Inc.	
Almaden Ranch San Jose Almaden Expressway & Cherry Ave.	N/A	Under construction Entitlement: 350,000 to 425,000 sf	Entitlement: App 390,000 sf Hotel -125 rooms	Anchors: Bass Pro Shops, Expect 5 major tenants, City is discussing entertainment/theatre for this site. **Property Manager:** Arcadia Companies	CEQA
Old Town Los Gatos 50 University Ave Los Gatos	N/A	Complete, Hunter/Storm owned and participated in 1990s renovation.	109,110 sf	Significant turnover since Hunter/Storm participation. Former Anchor tenants included Borders **Property Manager**: unknown	

Notes:

(1) Attorney Linda Callon of the legal firm Berliner Cohen worked on behalf of Hunter Properties during establishment of land use entitlements from the City of San Jose. The firm was listed as a contact for the Vesting Tentative Map and Conditional Use Permit (Permit# 2007 029384 AO, Reference# CP07-070) and possibly others.

a) Retail/Commercial square footage are from entitlement documents, City websites, or in the case of Almaden Ranch, an approximate range from the San Jose Economic Development department.

Background and Additional Analysis of Hunter Properties' sample projects

Village Oaks

The 25 acres that make up the Village Oaks shopping center were originally part of a former 300 plus acres IBM disk drive factory site. Hunter/Storm Properties and PLLP bought the property from Hitachi Global Storage Technologies, Inc., in March 2012. The project does not qualify as mixed use although a residential complex (app. 250 condo units on a 5 plus acre lot) with an Applebee's restaurant is being built, which is within the same rectangle of roads outlining the shopping center. Hunter Properties is not involved with development of this housing or the restaurant.

@ First

This ambitious development facing CA Highway 237 consists of a large Brocade Communication Systems office complex of multiple towers, parking garage, surrounded by two hotels, extensive retail, including a Target. The office/commercial project does not include mixed-use residential/commercial and the office square footage exceeds currently entitled Sunnyvale Town Center.

Almaden Ranch

This project is being built on an undeveloped property located near Almaden Expressway and Hwy 85. The development is a commercial/retail, not a mixed-use development. It is still too early to comment on the project, which is still being built. An anchor tenant, Bass Pro, does occupy a building. San Jose Economic Development department stated that there has been discussion with Hunter Properties about the possibility of building a theatre at the site.

2.2 Sares Regis

Name Location/Address	Residential Units	Retail/ Commercial sf	Developer's description (if different or unverified)	Tenant description & Initial Property Management Firm.	Other
The Crossing at San Bruno 1101 National Ave. San Bruno Adjacent to El Camino Real and I-380 interchange	Built: 1,063 multi-family units 835 multi-family rental 228 senior rental units Done	Built: 12,250 sf Done Entitlement: 150 room hotel Under review	900[4] multi-family	Restaurant (Jacks), plus 4 commercial in 1 building. Supercuts, Scottrade, European Wax Works, Patelco Credit Union **Property Manager**: Sares Regis Group	PF BMR PA
Pilgrim Triton, The Plaza (Phase A) 1 Plaza View Ln., Foster City SR 92 to northwest, Foster City Lagoon to northeast, East Hillsdale Blvd. to south and east, and Foster City Blvd. to southwest	Entitlement for all phases: 730 units Phase A is built (by Sares Regis): 307 units Done	Entitlement all Phases: 296,000 sf Phase A is built (by Sares Regis): 10,057 sf Done	Entitlement for entire project of 4 phases: 30,000 sf retail Not clear whether this is in the 296,000 sf.	Personal services (hair salon), coffee/food stores, and a pending restaurant on ground floor of residential. Total of 5-6 businesses with 1 to 2 vacancies. **Property Manager**: Sares Regis Group	PF CEQA BMR PA
Colonnade 4750 El Camino Real Los Altos	Built: 167 apartment units 38 townhouse units Done	7,000 sf Done	Barre 3	Vitamin Shoppe, other building (occupant not confirmed), and pending seafood restaurant **Property Manager**: Sares Regis Group	

[4] Sares Regis provided unit info regarding residential as 900 multi-family units. The discrepancy may be due to changes from the built versus the original entitlement or they may have only given residential units for the buildings they actually built.

Key:
PF = Some public financing was used for the development project.
CEQA = California Environmental Quality Act (CEQA) - Significant CEQA issues associated with the development project
PA = Public Amenities
BMR = Below Market Residential

Background and Additional Analysis of Sares Regis' Sample Projects

The Crossings

The Crossings is a twenty (20) acres development project located on a former 52 acre navy site. Specific plan for the entire U.S. Naval site was developed through a community planning process and adopted in 2001, amended in 2001, 2005, and 2015. Demolition of Naval Administrative facility and construction began in 2002, and was mostly completed in 2012 of high density residential, some commercial, other, as well as roads/utilities. Almost all has been built, except for pending hotel, which is now in the development review process after years of no action.

Extensive CEQA work including an Environmental Impact Report (EIR), two addendums, and a Supplemental Navy EIR, although issues encountered are not known at this point.

The first phase, consisting of two of the residential buildings or 485 rental apartment units, was financed through tax-exempt bond sales.

Pilgrim Triton

This is a 20.75 acre site, former light industrial site of small, single story, concrete tilt ups that had reached the end of their useful life. The City wanted to retain and expand business opportunities while pursuing new housing, particularly hoping the development would help them meet their Housing requirements. Project consists of four phases at various stages of development and construction. There were originally four owners, some who wanted to develop and some who wanted to sell.

Complicated CEQA work was required including an EIR. There were significant traffic impacts resulting in large traffic fees for the entire project. The first developer who was responsible for Phase 1 and others, but definitely not the entire project, paid these fees. The Cooperation Agreement ensures this developer will be paid back. First developer obligated to traffic improvement costs of $1.144 million for off-site traffic improvements and $1.450 million for Triton Drive widening.

Redevelopment monies (housing set-aside) were paid to the developer (Northwestern Mutual Life) for construction of the affordable housing in Phase 1, The Plaza. None of the other three phases received redevelopment benefits. There were no more Redevelopment Agency monies for other portions.

The Colonnade

No details regarding the project's historic and ownership background, as well as CEQA issues, potential public funding, below market rate housing, or other details are known at this time. The City of Los Altos did not respond to MGO requests for data on the Colonnade project and Sares Regis. Online information found was promotional or for potential, future residents.

ATTACHMENT 8

KEYSER MARSTON ASSOCIATES™
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
REED T. KAWAHARA
DAVID DOEZEMA

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
PAUL C. MARRA

To: Deanna Santana, City Manager
Joan Borger, City Attorney
City of Sunnyvale

From: Tim Kelly

Date: December 9, 2015

Subject: Sunnyvale Town Center
MGO Report on Transferee and ADDOPA Article 6 Criteria

Keyser Marston Associates, Inc. (KMA) has been requested by the City of Sunnyvale to provide a peer review of the analysis undertaken by MGO Accountants.

Overview of Keyser Marston Associates, Inc.

KMA is a diverse real estate and financial firm, with a special emphasis on advising public sector clients. KMA has long been an advisor to the largest cities in California and other major public entities throughout the state with respect to public policy and implementation to achieve the desired public benefits using innovative approaches to land use planning and specific real estate projects. KMA has advised public clients in the Santa Clara Valley for over 30 years.

Best practices and commitment of senior staff in providing services. KMA's 12 principals average between 20 and 40 years of experience and are members of Urban Land Institute, Lambda Alpha International, and other national professional organizations. They are recognized experts in such areas public private partnerships, value capture and land use entitlements, public financing mechanism for infrastructure, disposition strategies for public assets, affordable housing, economic and fiscal impact analyses, and the like. Tim Kelly, President of KMA, is the principal in charge of this assignment.

160 PACIFIC AVENUE, SUITE 204 ➢ SAN FRANCISCO, CALIFORNIA 94111 ➢ PHONE: 415 398 3050 ➢ FAX: 415 397 5065
WWW.KEYSERMARSTON.COM

Local knowledge with a broader perspective of regional, statewide and national trends is an important asset KMA offers its clients. KMA's advisory role is enhanced by the firm's experience throughout the Bay Area and the state with its three California offices and offers access to experience and solutions statewide. KMA has advised its clients on a wide range of land uses and public policy matters.

Public-private partnerships (P3) are collaborations between public agencies and private businesses to plan and execute development projects. KMA has long been a pioneer in structuring creative P3s, specializing in the evaluation and negotiation of transactions that achieve the goals and objectives of both the public sector as well as the private development partner. Many of these P3 agreements have been in the Bay Area and in the Silicon Valley. We strive to create successful P3s that will ultimately enhance communities and provide public benefits. Recent public clients in Santa Clara Valley include: San Jose, Santa Clara, Fremont, Morgan Hill and Santa Clara County.

KMA Assignment

KMA has been requested by the City of Sunnyvale to:

1. Review ADDOPA Article 6 criteria for proposed transferee.
2. Assist and advise staff with respect to discussions with Wells Fargo Bank and proposed transferee.
3. Participate in all working sessions with staff and MGO, including data requests to WFB and proposed transferees.
4. Provide a peer review of MGO assignment in areas of KMA's expertise related to complex public private partnerships

Proposed Transferee

The Transferee is a to-be-formed limited liability company/joint venture comprised of affiliates of (a) Sares Regis Group of Northern California ("SRGNC"), (b) Hunter Properties, Inc. ("Hunter") and (c) JPM.

JPMCB Strategic Property Fund is obligated to fund the Transferee's financial resources for the acquisition and development of the Sunnyvale Town Center (the "Project") and the requirements of ADDOPA Article 6 as mutually amended by the Sunnyvale Successor Agency, the Oversight Board for the Successor Agency of the Sunnyvale Redevelopment Agency, and the Transferee.

Article 6 Criteria

Transferee: (i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants, (ii) has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof, (iii) possesses a good business character and reputation, and (iv) has prior development projects and an operating presence in California. Transferee to provide reasonable evidence to the Agency demonstrating the proposed transferee's satisfaction of the foregoing criteria.

Review Criteria (i): Transferee has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants

The Transferee has three members: JP Morgan, Sares Regis, and Hunter Properties. JP Morgan is the equity member and has included Sares Regis and Hunter Properties for their experience in development of residential and retail, respectively.

Both Sares Regis and Hunter Properties have been active in development in the Bay Area and, in particular, on the Peninsula and the South Bay for 20+ years. Both firms are well known in the development community and widely respected. Both are long standing members of real estate professional associations, such as the Urban Land Institute (ULI) and International Council of Shopping Centers (ICSC).

MGO found the Sares Regis' and Hunter Properties' strengths complement each other well. Overall MGO found that collectively, Sares Regis and Hunter Properties have experience completing major mixed-use commercial, retail and residential projects. Specifically, Sares Regis mixed-use residential/commercial developments typically have residential as the primary component, whereas Hunter Properties' mixed-use office/commercial projects involve retail and office components. Sares Regis reportedly excels in the upfront planning and an ability to communicate and negotiate with those outside their immediate team, e.g., other owners, their agents, various levels of government. Hunter Properties has shown particular strength constructing commercial and office buildings.

KMA agrees with the findings of MGO regarding the experience of each firm.

Review Criteria (ii): Transferee has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof

MGO's assessment of the proposed equity owner of the Sunnyvale Town Center project, JP Morgan, more specifically the JPMCB Strategic Property Fund, has more than sufficient assets to fund the project. Specifically, as of June 30, 2015, the fund had net assets of $27.6 billion. Based on the current proposed financing structure of the Transferee, MGO reviewed the financial condition, rather than capacity, of the development partners, and determined both SRGNC and Hunter have exhibited strong fiscal strength. MGO review of financial indicators shows they have sufficient financial capacity to meet their obligations throughout the development.

The City also received a written letter from JP Morgan, signed by the Executive Director of JP Morgan Asset Management, of its intent to fund the acquisition and completion of the Project. The commitment is subject to due diligence, completion of documentation and closing conditions, which is typical for this type of transaction.

MGO has detailed in its report the financial capacity of the Transferee in its report. KMA agrees with the findings of MGO regarding the financial experience of each firm.

Review Criteria (iii): Transferee possesses a good business character and reputation

MGO detailed the good business character and reputation of the Transferee in its report. KMA agrees with MGO findings.

Review Criteria (iv): Transferee has prior development projects and an operating presence in California

MGO detailed in its report the development experience of Sares Regis and Hunter Properties in its report.

Conclusion

The MGO report concludes: "MGO pursued alternative methods and/or requested alternative information to perform our analysis and research which helped in forming our conclusions that, based on our professional judgement, and as outlined in this report under our methodology and related results for each element of the Article 6 criteria, the proposed developer satisfies the criteria of Article 6, as outlined in this report, subject to any further follow-up the City may choose to perform." KMA agrees with MGO findings.

Assumptions and Limiting Conditions

- The analysis provided in the report represents our best and unbiased professional judgment
- As agreed with the client, the report precludes any primary surveys or data collection. Although the information provided by MGO we deem reliable and MGO has checked for reasonableness, we cannot verify its accuracy.
- This report is not a feasibility analysis of any real property interests.

City of Sunnyvale

Agenda Item

15-1098 **Agenda Date:** 12/10/2015

Discussion on Status of Sunnyvale Town Center Project and Presentation on Market Assessment

CITY OF SUNNYVALE
OFFICE OF THE CITY MANAGER

December 9, 2015

TO: Mayor and City Council

FROM: Deanna J Santana, City Manager

SUBJECT: Background Materials for the December 10, 2015 Joint Study Session of the City Council and Successor Agency to the Redevelopment Agency

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Enclosed are three background documents for the December 10, 2015 Joint Study Session of the City Council and Successor Agency to the Redevelopment Agency.

The three attachments are:
1. Town Center Land Use Entitlements
2. Other Town Center Agreements
3. Sunnyvale Town Center Market Assessment

The three documents are included in this packet to provide background information for the Council/Successor Agency's Study Session discussion. Attachments 1 and 2 will be used by staff to provide a status of the Town Center project. Tim Kelly, President, Keyser Marston, will present the findings of Attachment 3, Town Center Market Assessment.

As part of the FY 2015/16 Recommended Budget, Council approved a budget supplement of $50,000 for the purpose of obtaining an economic consultant to evaluate the market potential and appropriate land use mix for the Town Center, with particular emphasis on assessing the feasible amount and type of retail uses for the Town Center project. Staff recommended the approval of the budget supplement as the market analysis would be beneficial in assisting staff in the evaluation of the Town Center project. Staff entered into contract with Keyser Marston on July 21, 2015 and started work on the project immediately. At the start of the project, staff was not aware that the California Supreme Court would deny a request to review the third and final legal case involving the Sunnyvale Town Center, bringing to close years of litigation that had stalled progress on Town Center.

Council will find that Mr. Kelly completed a thorough market assessment and provides an objective evaluation of the realistic market potential and fiscal implications for the Town Center project. The report was completed without any input from Wells Fargo Bank or the chosen development team of JP Morgan, Sares Regis Northern California, and Hunter Properties. The report is intended to help the City guide future discussions on any proposed changes to the current entitlement uses for the Town Center project.

TOWN CENTER
LAND USE ENTITLEMENTS

I. Approved or Allowable Land Uses

Downtown Specific Plan (DSP)

- Block 18 – Mixed Use and Hotel (38 acres)
    - Maximum 292 residential units
    - Maximum 322,000 square feet office
    - Maximum 1,007,876 square feet retail
    - Maximum 200 hotel rooms
    - Ground floor retail

2010 ADDOPA (approved by Sunnyvale Redevelopment Agency August 2, 2010)

- Total Project (Article 3, Exhibit B) – approximate quantities
    - 634,000 square feet retail (including theater, but excluding Macy's and Target)
    - 314,000 square feet office
    - 292 for-sale residential units mapped for condominiums
    - 1,112 underground parking spaces
    - 5,371 total parking spaces
    - 150,000 square feet 200-room hotel
- Minimum Project (Article 5, Exhibits B and H)
    - Theater
    - Retail – Buildings N, H, I, J and L and portions of A,D, E and F
    - Residential – Buildings D, E and F
    - Office – Buildings A and C

Approved Project (Special Development Permits)

- Maximum 292 residential units (offered for sale to individual owners)
- Maximum 315,000 square feet office (max. 10% medical offices)
- Maximum 1,000,000 square feet retail
    - Outdoor uses - 12,000 square feet outdoor uses
    - Multi-plex cinema – up to 60,000 square feet and 2,950 seats
    - Restaurants – maximum 90,000 square feet
    - Recreation facility – up to 40,000 square feet on second level
    - Maximum 200-room hotel

II. Possible Changes to Land Use Entitlements and Approval Authority

Item	Staff	SDP/PC	SDP/CC	DSP	ADDOPA
Increase amount of allowable residential, retail and/or office uses or adjust development standards			X	X	Depends
Amend "Minimum Project" and schedule for completion					X
Amend master site development plan (w/ no significant change in land uses quantities)			X		
Eliminate hotel and replace with another use			X	Maybe	
Convert Buildings D, E and F from for-sale to rental housing			X		None if condo map
Complete Buildings D, E and F and retain as for-sale housing	X				
Amend individual site plans for Blocks 1-6 (w/no significant change in land uses)	X (minor)	X (major)			
Amend architectural or landscape plans on Blocks 1-6 (w/ no significant change in land uses)	X (minor)	X (major)			
Install temporary plaza improvements on Redwood Square (Block 3)	X (minor)	X (major)			
Demolish existing Block 3 steel frame structures	X				

III. <u>Land Use Amendment Process</u>

Downtown Specific Plan (DSP)

Who Initiates:	City Council
Who Applies:	City Council - study issue Developer/Property Owner - General Plan amendment application
Who Approves:	City Council with Planning Commission recommendation
Timing:	6-18 months; depends on scope of amendment and environmental review (expect minimum 12 months if EIR required)
Environmental:	MND or EIR
Traffic Analysis:	If significant increase or change in land use

Special Development Permit (SDP)

Who Applies:	Developer/Property Owner
Who Approves:	City Council - master site development plan, significant land use changes Planning Commission - architecture and site plan review
Timing:	4-18 months; depends on scope of amendment and environmental review (expect minimum 12 months if EIR required)
Environmental:	CatEx, MND or EIR
Traffic Analysis:	If significant increase or change in land use

2010 ADDOPA

Who Approves:	Successor Agency/Oversight Board
Timing:	Processed concurrently with DSP/SDP amendments

Other Town Center Agreements

Operation and Reciprocal Easement Agreement (OREA):

- Parties: Agency, Developer, Macy's and Target
- Date: October 28, 2008, amended June 15, 2010
- Provisions:
    - Easements and licenses for improvements, uses and access
    - Construction activity
    - Allowed land uses, facilities and activities, restricted uses, and required approvals by parties
    - Maintenance standards, responsibilities and operations
    - Property taxes
    - Insurance requirements and responsibilities
    - Casualty and restoration provisions
    - Transfer of interest, rights, powers and obligations
    - Mortgagee protection
    - Signage and marketing (residential)

Public Parking Ground Lease

- Parties: Agency, Developer
- Date: September 28, 2007, amended August 2, 2010
- Provisions:
    - 75-year lease to Developer to construct, maintain and operate parking structures on Block 1 (Parking Facility A) and Block 2 (Parking Facility B) and surface parking lot on Block 6 for non-exclusive public use.
    - No charge for parking.
    - Improvements owned by tenant.
    - Amendment clarifies allowance for exclusive underground parking for office and residential uses.

Penney's Structure Operation and Maintenance Agreement

- Parties: City/Agency, Developer/Operator
- Date: April 20, 2000, amended September 28, 2007
- Provisions:
    - Developer/Operator to repair, maintain and operate Penney's Parking Structure on Block 5 and surface lot on Block 6 for non-exclusive public use.
    - No charge for parking.
    - City/Agency continues to own parking structure.

Public Street and Utility Maintenance Agreement

- Parties: Agency, Developer/Operator
- Date: September 28, 2007, amended August 2, 2010
- Provisions:
  - Developer to construct, maintain and operate public improvements and utilities within Public Street Parcel and Utility Easements for 75 years.
  - Public Street Parcel consists of portions of McKinley Avenue, Taaffe Street and Murphy Avenue located within Block 18.
  - Agency owns all improvements within Public Street Parcel.
  - Developer/Operator responsible for carrying all required insurance.
  - Improvements include: streets; curb, gutters and sidewalks; storm drain, sanitary sewer and water systems; street landscaping; street lighting; and street appurtenances.

Subdivision Agreement

- Parties: City, Developer
- Date: September 28, 2007, amended May 14, 2010
- Developer Obligations:
  - Install public improvements per approved Final Map and project approvals
  - Provide improvement security for public improvements
  - Provide maintenance security or bond
  - Provide public liability and property damage insurance
  - Pay subdivision-related fees and charges

Below Market Rate Housing Program Developer Agreement

- Parties: City, Developer
- Date: August 2, 2010
- Provisions:
  - 12.5% of all 292 entitled condominium units to be designated as below market rate (BMR) units per defined schedule in agreement and in accordance with Sunnyvale Municipal Code.
  - Maximum BMR unit prices are defined in agreement.
  - BMR units shall be sold and occupied only by “Qualified Purchasers” as defined by Sunnyvale Municipal Code.

KEYSER MARSTON ASSOCIATES

SUNNYVALE TOWN CENTER MARKET ASSESSMENT

Prepared for:
City of Sunnyvale

Prepared by:
Keyser Marston Associates

December 2015

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FIGURES AND TABLES

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EXECUTIVE SUMMARY

Keyser Marston Associates, Inc. (KMA) has undertaken the following market assessment on behalf of the City of Sunnyvale for the undeveloped retail component of the entitled mixed use Town Center development. In total, the retail entitlements for Town Center are in place allowing approximately 1 million square feet of space, including already constructed space.

Town Center is well positioned to be a successful shopping district for reasons including the following:

- *Strong Trade Area*
  - Strong residential trade area
  - Significant day time office employment within one mile of Town Center
- *Site*
  - Major assemblage with large, contiguous parcels
  - Retail entitlements in place
  - Significant public parking necessary for retailers
  - Ability to create live/work/play, walkable, and transit oriented community, which is attractive in today's marketplace.
- *Existing Sales*
  - Over $100 million annually in taxable retail sales generated at Target, Macy's and Murphy Avenue food and beverage businesses.

Town Center retail trade area compares favorably with other successful shopping districts: Downtown Palo Alto, Downtown Los Gatos, and Santana Row. To evaluate the strength of the opportunity for Town Center, the residential trade area demographics were compared to the trade area demographics for these three successful shopping districts. Detail is provided in the report on the comparison. The conclusion is that the Town Center trade area demographics are strong and compare favorably.

- *Population Density*
  There are nearly 84,000 households living within a 3-mile radius of Sunnyvale Town Center, greater than downtown Palo Alto and downtown Los Gatos shopping districts. Only Santana Row has a higher density.
- *Affluence*
  Approximately 43,000 of these households (51%) have incomes above $100,000. More than 25,000 households (30%) have incomes above $150,000. There are more households earning above $100,000 within 3 miles of Town Center than there are within 3 miles of any of the shopping districts. In fact, the

number of households with incomes above $100,000 exceeds the total of Los Gatos and Palo Alto combined. The number of households with incomes above $150,000 is also greatest at Town Center.

- _Expenditure Potential_ Aggregate expenditure potential for retail goods and restaurants by Town Center trade area residents is the highest of the selected shopping districts, even though per capita and household incomes are higher within three miles of downtown Los Gatos and downtown Palo Alto, due in part to the density of the population near Town Center. There is significant leakage of consumer expenditures by the residents of the City of Sunnyvale to retailers outside of the City. KMA estimates annual retail sales leakage of approximately $330 million dollars in the comparison goods category and approximately $59 million in the food and beverage category.

Downtown Palo Alto, Downtown Los Gatos, and Santana Row have demonstrated the ability to be successful in a very competitive retail environment. Notwithstanding the dominance of Stanford Shopping Center and Westfield's Valley Fair, these districts have achieved annual taxable sales ranging from approximately $200 million to $300 million. By comparison, Town Center in its current configuration plus Murphy Ave businesses are now achieving approximately $100 million in annual taxable sales. The strong trade area demographics, the current sales, and the success of these districts demonstrate that a significant market opportunity exists for Town Center

To position Town Center in the marketplace to be successful is predicated on certain conditions including:

- _Multiple shopping districts_ Multiple districts create multiple reasons for residents and office employees to visit. One concentration of several districts strengthens Town Center's position in the marketplace and opportunity for success. The diversity of reasons for shoppers and residents to visit Town Center is intended to distinguish Town Center from competition in the marketplace. Recommendations for four shopping districts are summarized below.

- _Continuous pedestrian friendly shopping experience with a coordinated retail leasing offering_ A coordinated leasing strategy for the spaces within the buildings must support a pedestrian oriented shopping experience and support the space requirements of retailers. It is also important that there be a connection to Murphy Avenue.

- _Parking strategy_ Ample daytime and evening parking at favorable public parking rates to attract the anchor tenants and realize the potential. Ample parking is a prerequisite for virtually all anticipated retail categories.

Four shopping districts are recommended as a means to create synergy and multiple reasons for residents and office employees to visit. Concentration of several districts strengthens Town Center's position in the marketplace and opportunity for success. In all cases, shoppers and patrons must have access to ample parking at low-cost rates that would be provided by the project.

1. *Regional retail district*, including in-line specialty retail shops anchored by Target and Macy's; the sizing of the in-line specialty shops must include sufficient square footage to satisfy co-tenancy requirements and to attract retailers.
2. *Food and beverage district* that can build on the success of Murphy Avenue and the entertainment district. A connection to Murphy Avenue is important.
3. *Neighborhood shopping district* anchored by a specialty grocery store and drug store that complements Sunnyvale's existing offering of neighborhood retail. These uses also provide amenities for Town Center residents and office employees.
4. *Entertainment/Leisure district* anchored by a multi-screen movie theater. Additionally, amenities for residents and office employees can be offered, such as a fitness center.

Table 1: Tenant Categories for Development

Retail District	**Potential Tenants (Anchors in Bold)**	
Regional Retail		
Department Stores	**Target***	**Macy's***
In-Line Shops	Apparel - Specialty	Shoes
	Children - Toys, Apparel, Shoes	Specialty Foods- Confectionery
	Furnishings / Home Décor	Sporting Goods/ Active Wear
	Jewelry/ Accessories	Other Specialty Retailers
Neighborhood Retail	**Specialty Grocery**	Drug Store / Ancillary Retail
Food and Beverage**	**Murphy Avenue***	Fast Casual- Upscale Burgers, Pizza
	Desserts/ Ice Cream	Beer Garden / Wine Bar/ Brewery
	Farm-to-Table/ Organic/ Healthy	Bakery/ Café
Entertainment/Leisure**	**Movie Theater**	Fitness Center
	Bowling Alley/Lounge	

Source: KMA.
* Existing retailers at Town Center.
** May function on second floor with appropriate design enhancements.

Table 2: Town Center Market Assessment

		Estimated Square Footage
Regional Retail District		
Target	*existing store*	181,000
Macy's	*existing store*	177,000
In-Line Shops		155,000
		513,000
Food & Beverage District		50,000
Entertainment District		
Cinema	*approx. 3,000 seats*	60,000
Fitness Center		40,000
Other Entertainment[1]		50,000
		150,000
Neighborhood Retail District		
Specialty grocery store		20,000 - 40,000
Drug store		20,000
Ancillary space [2]		10,000
		50,000 - 70,000
Total		763,000 - 783,000

Source: KMA 2015

[1] As detailed in analysis, Other Entertainment may include a bowling alley, arcade, or urban public market. (See Entertainment section of Market Analysis.)

[2] Ancillary retail refers to small convenience retailers that co-locate with grocery/drug stores.

KMA recommendation is the culmination of both a technical analysis as detailed in the report and KMA's experience and judgment.

- The methodology builds up to the total recommended square footage with a recommendation for each category: regional retail, food and beverage, neighborhood retail (grocery and drug) and entertainment (movie theater).
- The analysis is based on net new potential sales and assumes that there will not be a transfer of sales from existing Sunnyvale businesses to Town Center.
- Within the various trade areas examined, projected retail expenditure growth and existing sales leakage are sufficient to support retail development at Town Center
- Data used in the analysis are from both public sources and from confidential sources. The analyses includes: review of actual sales in the City of Sunnyvale and estimated sales leakage outside of Sunnyvale, review of actual taxable sales data provided on a confidential basis for Target, Macy's, Murphy Avenue and for the three shopping districts, review of the competition, defining the trade area for each of the groupings, estimating trade area expenditure potential using data

provided by Census, the state and confidential sales information, and estimating expenditure sales potential for Town Center in each of the groupings.

Murphy Avenue connection is an important component of Town Center. Food and beverage is an important component of a successful strategy for the downtown. The current sales volume and active pedestrian environment of Murphy Avenue creates an anchor on which Town Center can build.

Understanding the Macy's property as a component of Town Center is important. At the time of writing this report, Macy's had announced plans to close approximately 40 stores in early 2016. It is unknown whether the Town Center location will be impacted. While department stores are important tenants, Macy's is not a prerequisite for a successful shopping district. One of the strengths of the Town Center opportunity in the marketplace is the ability to create multiple shopping districts, which strengthens the district as a whole. Examples of other successful shopping districts without department stores are presented in the report. Examples of repositioning former department stores are provided in the Entertainment section of this report.

Town Center retail sales potential can be achieved without an adverse impact on existing Sunnyvale businesses, such as along the El Camino, since Town Center will expand trade areas and retail opportunities. The development of Town Center would strengthen Sunnyvale's position as a retail destination and thus attract additional shoppers to the City as a whole.

Allocation of tenants between ground floor and second floor is dependent on the tenant category and the willingness of the anchor tenant in that particular category to consider second floor space. Ground floor space will be required by in-line shop space, by specialty grocery store and food concepts, such as a bakery, and by a drug store. Second level retail space can be occupied by such uses as movie theater, other entertainment uses, food and beverage in combination with the entertainment uses, and fitness center.

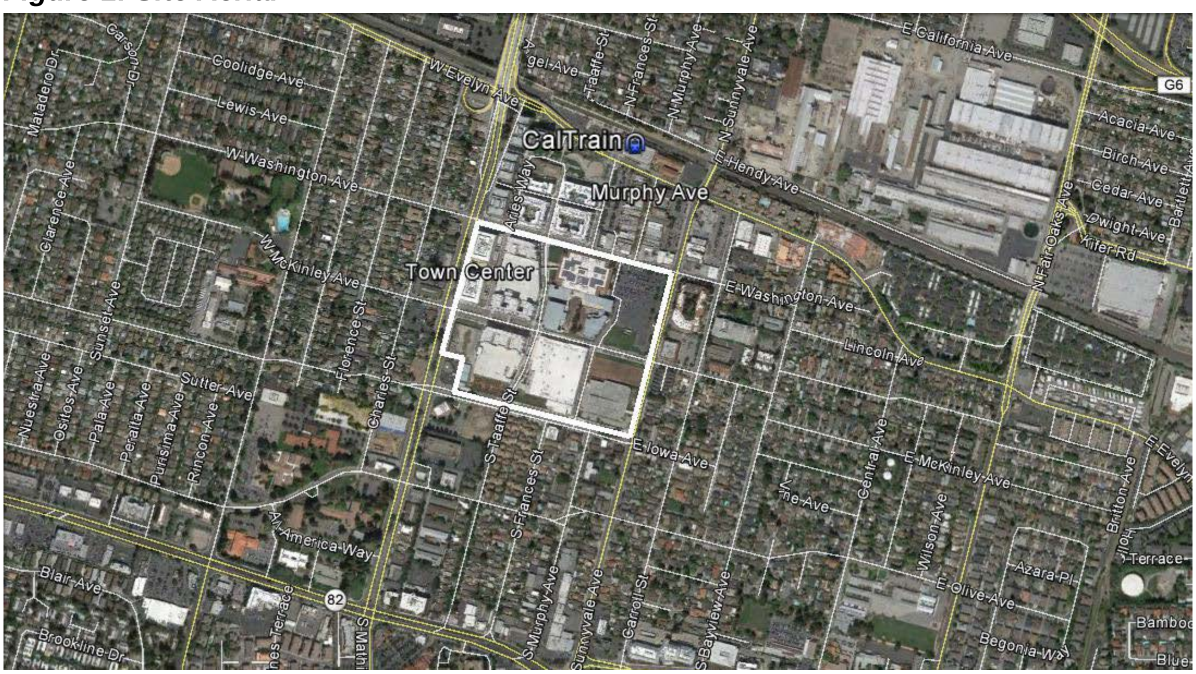
Additional office and residential development at Town Center would not significantly increase the amount of square footage needed to meet demand. Consideration was given to the ability to achieve the full one million square feet of retail entitlements by adding residential and/or office to Town Center. The technical analysis is presented in the report. The conclusion is that additional residential and/or office would increase the performance level of retailers but would not significantly increase the amount of square footage needed to meet demand.

SUNNYVALE TOWN CENTER

Sunnyvale Town Center is a 36-acre, mixed-use project located in Downtown Sunnyvale on the former site of an enclosed shopping mall. Approved by the Sunnyvale City Council in 2007, the project is entitled to build up to 1 million square feet of retail, nearly 300 residential units, 315,000 square feet of office space, and a 200-room hotel. While two office towers and two anchor retail buildings are now occupied, most of the project is unfinished due to a legal dispute between one of the original development partners and the bank which assumed ownership of the project after completing the foreclosure process in 2011. In May 2015, a California State Appeals Court ruled in favor of the bank. In August 2015, the California Supreme Court declined a request to revisit the decision, clearing the way for the sale of the property to a new developer to complete the project.

Sunnyvale Town Center is bisected by McKinley Avenue and is bounded to the west by Mathilda Avenue, to the north by Washington Avenue, to the east by Sunnyvale Avenue, and by Iowa Avenue to the south. The site is located one block south of the Sunnyvale CalTrain Station and two blocks north of El Camino Real. Mathilda Avenue provides a direct connection between the site and U.S. Route 101 and Interstate 280.

Figure 1: Site Aerial



Google, KMA

Despite delays, Town Center remains important to the overall health of downtown Sunnyvale. Its successful development presents an opportunity for downtown to achieve its full potential as the “cultural, retail, financial, and entertainment center of the community,” per the goals of the City’s Downtown Specific Plan. In light of the time that has elapsed since the project was first approved, the City has directed Keyser Marston Associates, Inc. (KMA) to prepare a retail market analysis. The purpose of the analysis is to (1) evaluate the market potential for retail at Town Center, and (2) define the appropriate mix of uses for a successful Town Center project.

Town Center Entitlements

In 2007, entitlements were granted for the Town Center site, including 315,000 square feet of office, 292 housing units, a 200-room hotel, and 1 million square feet of retail. Within the retail category, maximum allocations were set aside for a number of retail uses including restaurants (90,000 square feet), a cinema (60,000 square feet), and a fitness center designated as a second-floor use (40,000 square feet). Approximately 440,000 square feet of the 1 million square feet of allowable retail space was left undefined. (See Table 3 for a breakdown of allowable retail use by category.)

Table 3: Town Center Entitlements As Approved in 2007

Retail Use	Entitlements (SqFt)
Anchor Retail	
Macy's	177,000
Target	181,000
Total Anchor Retail	358,000
Remaining Retail	
Restaurants	90,000
Cinema	60,000
Fitness Center (Second Floor)	40,000
Outdoor Uses	12,000
General Retail/ Undefined[1]	440,000
Total Remaining Retail	642,000
Total Allowable Retail	**1,000,000**

Source: Town Center Conditions of Approval (COA) 2008, KMA

[1] Refers to remaining capacity without a specific use. May include (a) retail uses; (b) amusement uses, beer/wine establishments, and childcare providers with a Miscellaneous Plan Permit; (c) establishments serving liquor and live entertainment venues with a Special Development Permit.

Construction of Town Center largely stalled after the developer defaulted on a $109 million bank loan and the project went into foreclosure. However, portions of the project have been completed under the direction of the foreclosing bank's court-appointed receiver. The two office towers were completed in 2010 and 2012, respectively, and are now occupied by Nokia and Apple. The separately owned anchor retail buildings of Macy's (177,000 square feet) and Target (181,000 square feet) are also in use. The remainder of the project is at various stages of completion. Exterior work has completed on most of the residential buildings, which include approximately 100,000 square feet of ground-floor retail. The remaining 540,000 square feet of entitled retail space is unbuilt. (For a detailed comparison of the amount of entitled office, housing, hotel, and retail with what has been built to date, refer to Table 4.)

Table 4: Development Status of Town Center (as of August 2015)

Use	Entitlements	Complete & In Use	Near Completion[1]	Remaining Entitlements[2]
Office	315,000	315,000	-	-
Housing	292	-	198	94
Hotel	200	-	-	200
Retail	1,000,000	358,000	103,000	539,000

Source: KMA 2015, City of Sunnyvale 2015

[1] Near completion refers to projects 60% to 90% complete.
[2] Remaining capacity is calculated as the difference between planned development and developed projects at or near completion.

Nearby Developments

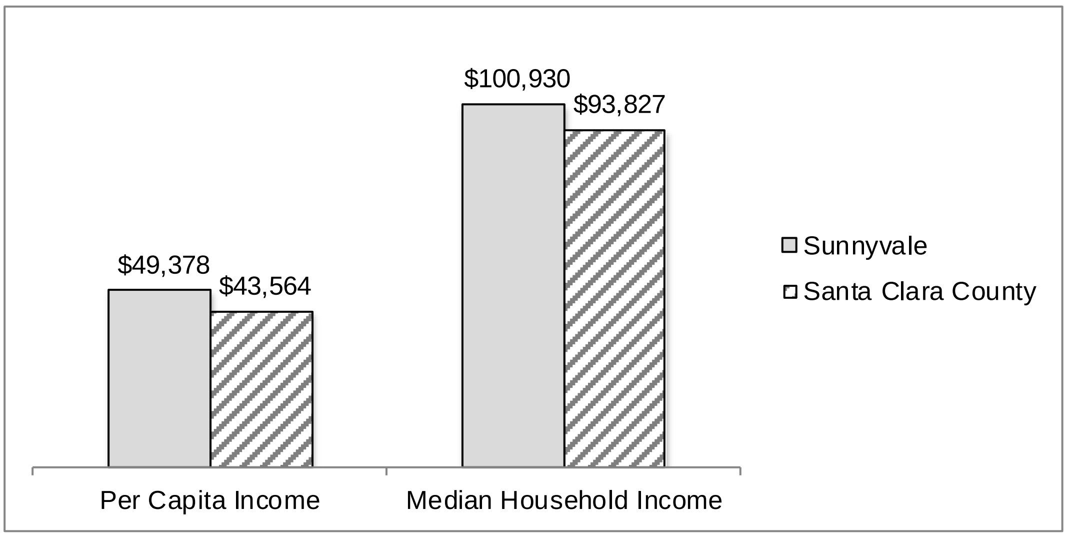
While Town Center's full retail entitlement has yet to be built, nearby developments are already transforming downtown Sunnyvale. Two luxury residential projects containing more than 400 units – Solstice and Loft House – were recently completed a block north of Town Center. They include approximately 35,000 square feet of ground floor retail (largely restaurant uses). Another 440 new residential units are now leasing or under construction within a mile of the Town Center site, not including the 300 units that remain to be completed at Town Center. (See Appendix Table A-8 and Figure A-1.)

MARKET OVERVIEW

Demographics

In 2015, Sunnyvale is estimated to have a population of nearly 148,000 residents and 57,000 households. According to Claritas, a private demographic firm, the population is projected to increase by 8,000 to 156,000 residents by 2020. Sunnyvale's per capita income ($49,000) and median household income ($101,000) both exceed county averages. In addition, an estimated 97,000 workers are employed in the City, 90% of whom commute from elsewhere – thus adding to total retail expenditure potential (City of Sunnyvale Business License Tax Data Base 2015, LEHD On-the-Map 2012).

Figure 2: Household and Per Capita Income Comparison

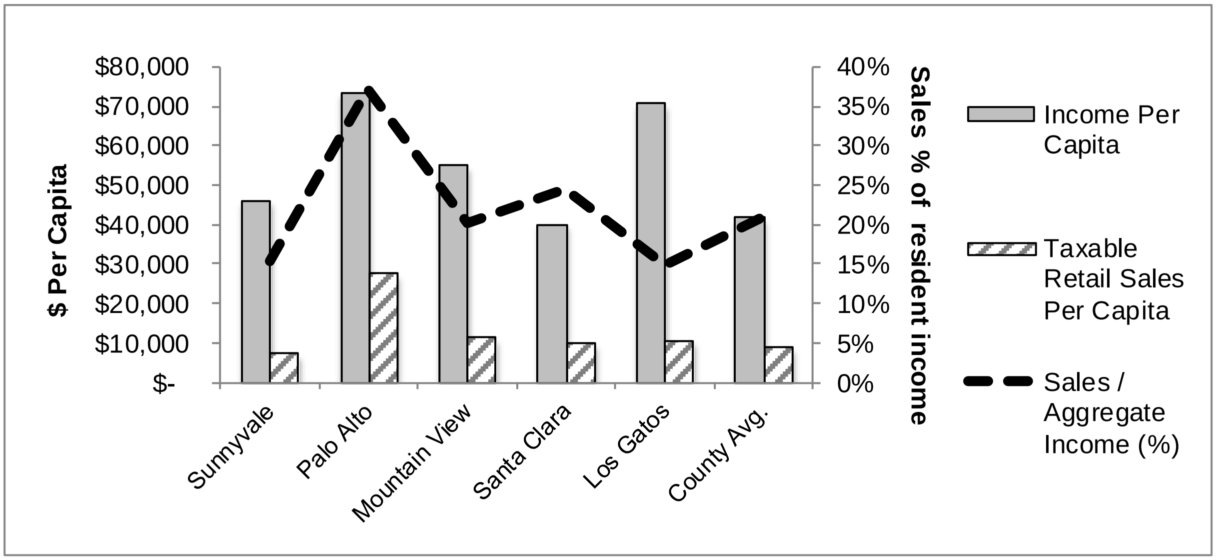


Source: KMA, Claritas

Retail Sales Conditions

Despite significant expenditure potential by local residents, Sunnyvale's retail sector is not capturing its share of this demand. At approximately $7,000, taxable sales per capita in Sunnyvale are significantly below the county average of $8,700, not to mention nearby communities. For example, taxable sales per capita are $11,100 in Mountain View and $27,300 in Palo Alto. Even when differences in income are considered, Sunnyvale retailers' sales represent a lower capture rate of resident expenditure potential than nearby communities. These findings indicate that Sunnyvale residents are spending a substantial portion of their incomes outside the boundaries of the City.

Figure 3: Resident Income and Taxable Retail Sales by City (2013)



Source: KMA, American Community Survey, California Board of Equalization.
Taxable sales excludes automotive retail category.

Table 5: Per Capita Incomes and Taxable Retail Sales Per Capita (2013)

Locality	Population	Income Per Capita	Taxable Retail Sales Per Capita	Sales / Aggregate Income (%)
Sunnyvale	143,315	$ 45,977	$ 7,068	15%
Palo Alto	65,234	$ 73,329	$ 27,332	37%
Mountain View	75,477	$ 54,758	$ 11,104	20%
Santa Clara	117,817	$ 39,966	$ 9,831	25%
Los Gatos	29,809	$ 70,420	$ 10,547	15%
County Avg.	1,812,208	$ 41,513	$ 8,712	21%

Source: American Community Survey 2013 and CA Board of Equalization
[1] Excludes automotive category

Citywide Leakage Analysis

A retail leakage analysis was prepared to identify the strengths and weaknesses of specific retail sectors within the City of Sunnyvale by illustrating where consumers are spending their money within the region. Retail leakage is calculated as the difference between actual sales and expected or potential sales in a community. Leakage in any retail category is an indicator that consumers in Sunnyvale routinely travel outside of the community to purchase goods in that particular retail category.

The analysis draws on 2013 taxable sales data from the California State Board of Equalization and the American Communities Survey to estimate the degree of surplus or leakage of retail dollars within specific retail sectors in Sunnyvale. Figure 4 and Table 6 present the results of the Citywide retail leakage analysis. The analysis indicates that at least 40% of the expenditure potential by City residents – approximately $330 million in taxable comparison goods sales – is being met outside the area. Leakage exists across all categories of comparison goods, including apparel stores, home furnishings and electronics, general merchandise, and other store retailers. Grocery and restaurant sales also show significant room for growth, with a sales gap of $75 million in taxable sales, representing 18% of the expenditure potential across these two categories.

The subsequent chapter of the report describes in greater detail the opportunities for Town Center to recapture potential retail spending in the comparison retail, grocery store, and food and beverage retail categories.

Figure 4: City of Sunnyvale - Retail Leakage by Category (2013)

Source: KMA, U.S. Census American Community Survey, California Board of Equalization
* Other Store Retailers includes Miscellaneous Store Retailers, Sporting Goods, Hobby, Book and Music Stores, Pharmacies and Drug Stores, Health and Personal Care Stores, and Non-store Retailers.

Table 6: Surplus/Leakage of Taxable Retail Sales in Sunnyvale, CA (2013)[1]

Retail Category	Actual Sales[2]	Potential Expenditures[3]	Surplus / (Leakage)[4]	Surplus/ (Leakage) %
Comparison Retail				
General Merchandise Stores	$ 209,800,000	$ 224,110,000	$ (14,310,000)	-6%
Apparel Stores	$ 46,810,000	$ 202,550,000	$ (155,740,000)	-77%
Home Furnishings and Electronics Stores	$ 110,480,000	$ 172,350,000	$ (61,880,000)	-36%
Other Store Retailers (incl. Drug Stores)	$ 129,510,000	$ 227,250,000	$ (97,730,000)	-43%
Subtotal	$ 496,600,000	$ 826,260,000	$ (329,660,000)	-40%
Food Stores (Taxable Sales Only)	$ 81,200,000	$ 97,300,000	$ (16,100,000)	-17%
Food & Beverage	$ 262,600,000	$ 321,400,000	$ (58,800,000)	-18%
Total	$ 840,400,000	$ 1,244,960,000	$ (404,560,000)	-32%

Source: KMA, CA Board of Equalization 2013 (BOE).

1 As of 08/05/15, 2013 is the most recent full year with taxable sales information as reported by the BOE.

2 All retail sales are taxable sales as reported by the source.

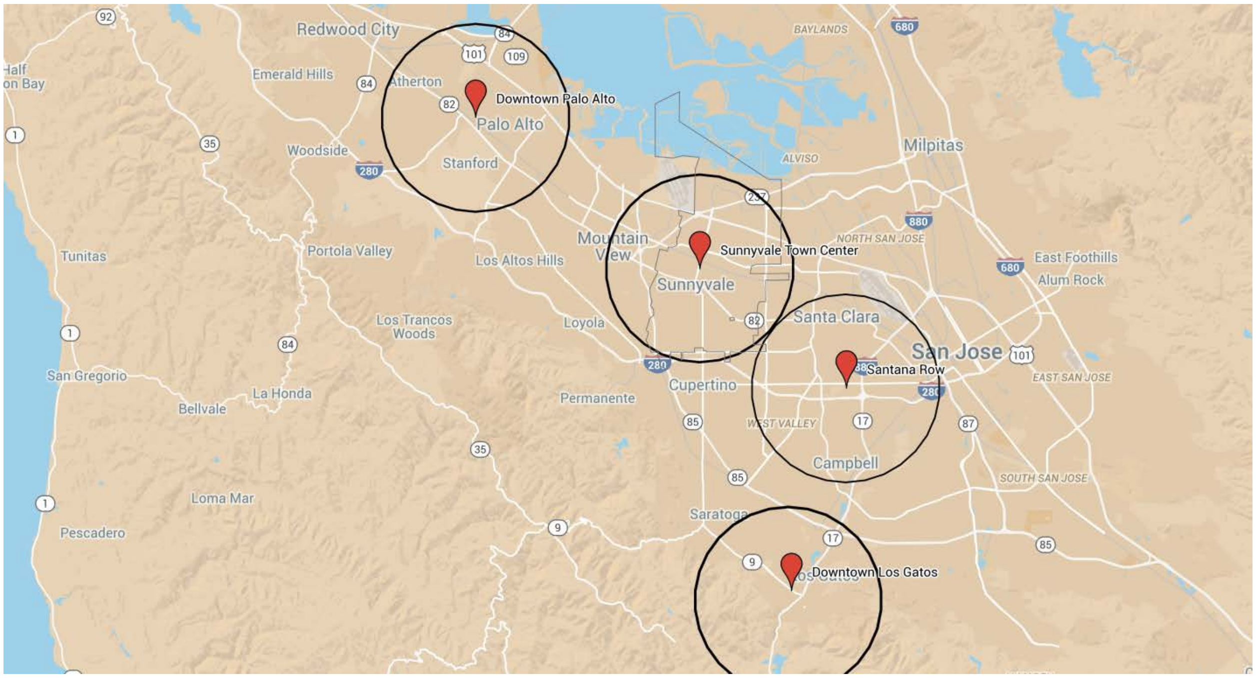
3 Demand Potential is estimated by multiplying Santa Clara County taxable sales as a percentage of the region's aggregate income by the aggregate income in Sunnyvale, CA.

4 Retail Surplus/Leakage is determined by comparing actual reported taxable sales in Sunnyvale, CA to the estimated Demand Potential.

Shopping Districts Comparison

Retail market conditions in the vicinity of Town Center were compared to shopping districts in Downtown Los Gatos, Downtown Palo Alto, and Santana Row. These three districts were selected as successful examples of well-established, pedestrian-oriented shopping centers in Silicon Valley. All three districts offer a broad selection of comparison goods retailers as well as food and beverage establishments, despite their proximity to the area’s largest regional malls, Westfield Valley Fair and Stanford Shopping Center. A three-mile radius was used as the study area to compare demographics across the four shopping districts. Per Figure 5, below, Sunnyvale Town Center’s three-mile radius area includes virtually all of Sunnyvale and portions of Cupertino, Mountain View, and Santa Clara. Town Center’s sales performance considers existing retail anchors as well as restaurants along Murphy Avenue.

Figure 5: Map of 3-mile Radii from Sunnyvale Town Center and Nearby Shopping Districts



Source: KMA, Google Maps

Table 7: Demographics of Shopping Districts (3 mile radius)

	Town Center & Murphy Ave[2]	Downtown Los Gatos	Downtown Palo Alto	Santana Row
Demographics, 3 mile radius[1]				
3 mile radius				
Population	214,056	45,081	149,443	248,088
Households	83,767	18,441	52,723	97,399
Per Cap Inc	$ 52,452	$ 73,938	$ 56,119	$ 43,101
Aggregate Income ($millions)	$ 11,228	$ 3,333	$ 8,387	$ 10,693
Average HH Income	$ 134,035	$ 180,750	$ 159,070	$ 109,783
Households Earning > $100k	42,858	11,001	26,227	39,634
Households Earning > $150k	25,389	8,062	18,093	21,379
Workforce Population (1 mile)	20,243	9,759	32,915	28,646
Taxable Sales - All Categories ($millions)[1]	$ 108	$ 195	$ 311	$ 218

Source: KMA, Claritas, HdL companies

[1] Population and income data are estimated for 2015. Sales tax data is from 2014, provided by HdL Companies.

[2] Sales data for Town Center reported for downtown business improvement district.

The table above and figures below summarize the results of the comparison. Our findings indicate the following:

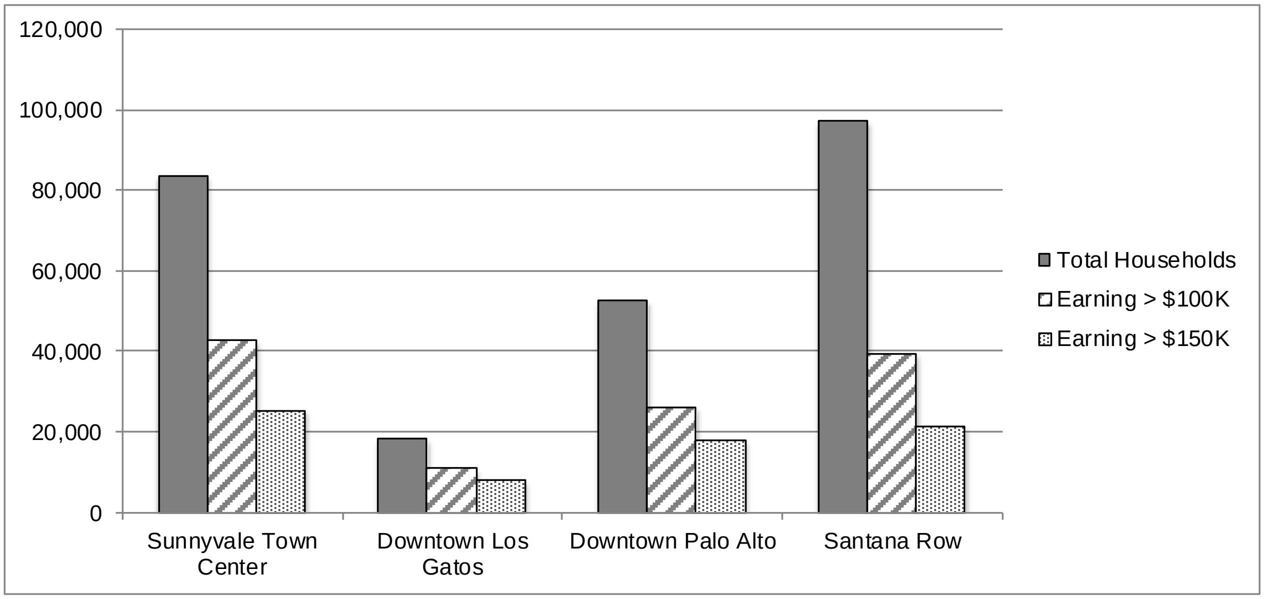
- *Population Density.* There are nearly 84,000 households living within a 3-mile radius of Sunnyvale Town Center, greater than all shopping districts but Santana Row. Approximately 43,000 of these households (51%) have incomes above $100,000. More than 25,000 households (30%) have incomes above $150,000. (See Table 7.)

- *Affluence.* There are more households earning above $100,000 within 3 miles of Town Center than there are within 3 miles of any of the shopping districts. In fact, the number of households with incomes above $100,000 exceeds the total of Los Gatos and Palo Alto combined. The number of households with incomes above $150,000 is also greatest at Town Center. (See Table 7 and Figure 6.)

- *Expenditure Potential.* Although per capita and household incomes are lower near Town Center than they are within three miles of Los Gatos and Palo Alto, aggregate expenditure potential for comparison goods and restaurants by Town Center area residents ($2 billion) is the highest of the three shopping districts, due in part to the density of the population near Town Center. (See Table 7.)

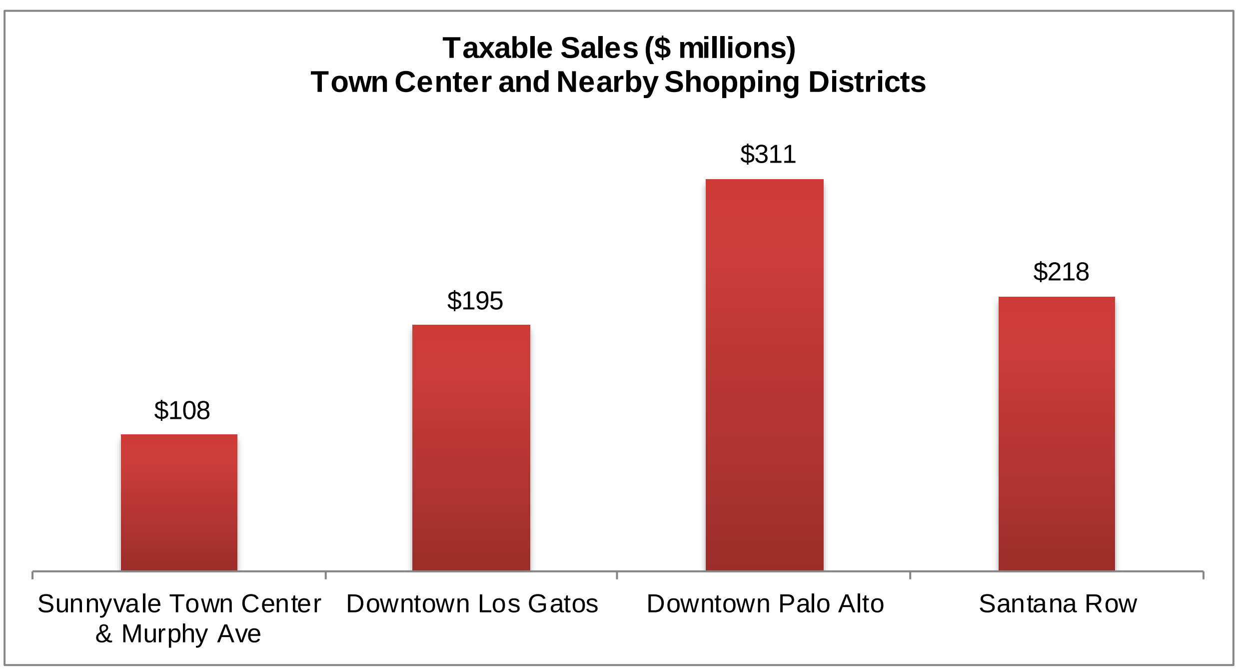
- *District Sales.* Taxable retail sales at comparable shopping centers currently outpace sales at Town Center and Murphy Avenue by $100 million to $200 million annually, suggesting significant growth potential for downtown Sunnyvale (Table 7 and Figure 7).

Figure 6: Density and Affluence—Number of Households by Income (3 mile radius), Town Center and Nearby Shopping Districts



Source: KMA, Claritas 2015

Figure 7: 2014 Taxable Sales ($millions), Town Center and Nearby Shopping Districts



Source: KMA, Claritas, HdL Companies

RETAIL MARKET ANALYSIS

Market Segmentation

Retail centers are traditionally grouped into two broad categories: neighborhood-serving and regional/community-serving. This basic distinction recognizes that retail centers vary in size, tenant mix, and amenities according to which market segment is targeted.

Neighborhood-serving retail centers primarily offer everyday goods and services, such as groceries and hair salons, that customers tend to purchase within a five or ten minute drive from their homes. Centers maintain their market position by providing convenient access to an attractive mix of everyday items which customers from the trade area[1] (1-2 miles from the center) value having nearby.

Regional/Community-serving centers, by contrast, primarily offer comparison goods, such as clothing or electronics, which tend to be discretionary purchases, driven by personal preference more than convenience. Because customers are willing to travel farther from their homes to make such purchases, the trade area for regional-oriented centers is correspondingly larger, extending five to ten miles or even more. Providing a complete and unique shopping experience with a variety of entertainment and dining options has become increasingly important for regional centers seeking to capture a sizable share of the trade area's discretionary income.

As a mixed-use project in the heart of downtown, Town Center has the opportunity to serve both neighborhood and regional market segments. The trade area demographics for both segments strongly support retail demand. Nearby, residential and office developments have augmented demand for food and beverage establishments, as well as neighborhood amenities, such as a specialty grocery store. On a regional scale, there is a $3 billion market for comparison goods, and Town Center possesses the scale, access, and parking capacity to become a regional destination.

Market Analysis Approach

In the context of Silicon Valley's highly competitive retail environment, Town Center's success hinges on targeting both of the above customer segments, thus fulfilling its role in supporting a vibrant downtown center. With this in mind, our analysis treats Town Center as four separate shopping "districts" aimed at meeting the diverse retail and entertainment needs of local residents and workers, as well as the region at large. The analysis focuses on the following recommended shopping districts, each with a distinct market segment, trade area, expenditure potential, and competitive base:

[1] A trade area refers to the geographic area where the majority of a retail center's customers reside. It also contains or is proximate to the center's principal sources of completion.

- *Regional shopping district,* including a specialty collection of in-line shops anchored by Target and Macys;
- *Food and beverage district,* anchored by Murphy Avenue;
- *Neighborhood shopping district,* anchored by a specialty grocery store;
- *Entertainment district,* anchored by a multi-screen movie theater.

The following summarizes our approach to assessing the market potential for each of the above retail categories at Town Center:

1. *Trade Area Identification* – A geographic trade area is defined based upon: (a) the likely drawing-power of retailers within the category, (b) the location and nature of existing and planned competition.

2. *Expenditure Potential* – The trade area's expenditure potential is estimated using available demographic data and retail sales data. Expenditure potential is projected through the year 2020.

3. *Evaluation of Competitive Supply* – Town Center's market position is assessed relative to the competitive supply.

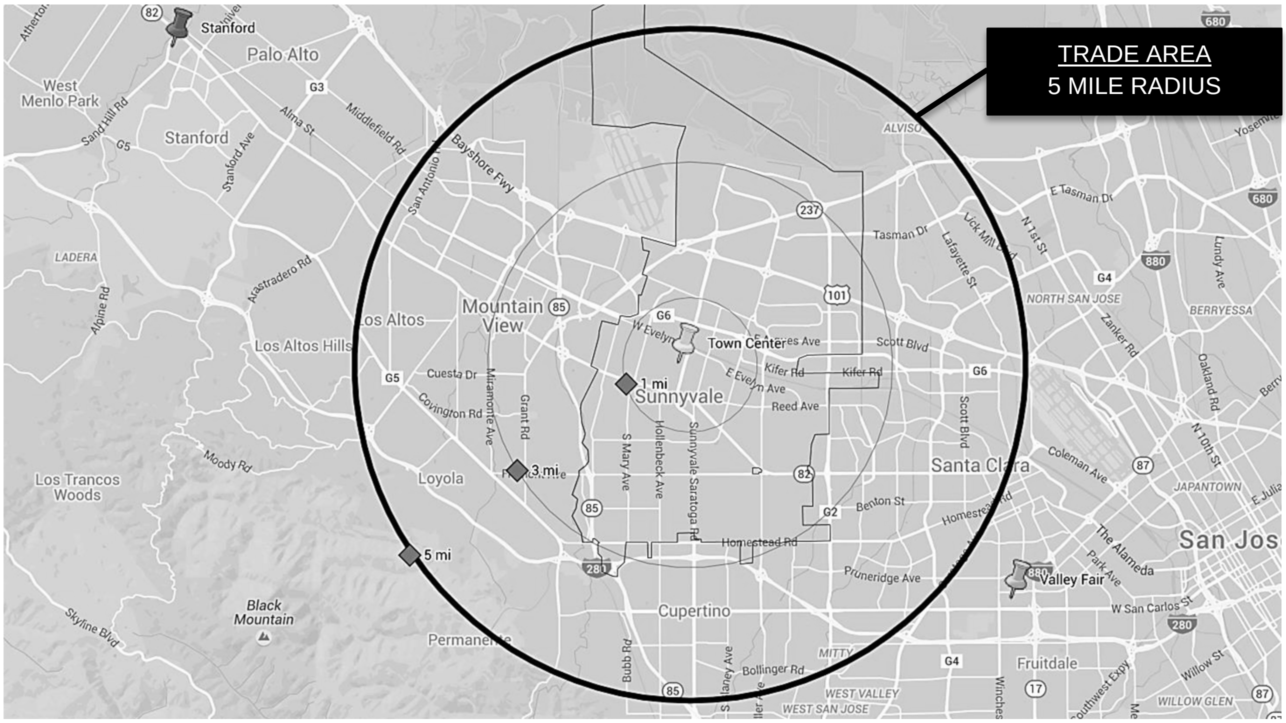
4. *Assessment of Capture Potential* – Based on the preceding tasks, the percentage of expenditure potential that Town Center is likely capture is estimated. Projected sales are converted to supportable square feet of retail based on industry benchmarks. These vary by retail category.

Regional Serving Retail

Trade Area

Regional-serving retail encompasses comparison goods for which consumers are willing to drive a greater distance in order to compare prices and quality before they make their purchase. As such, a typical trade area for comparison goods can extend five to ten miles, or more. After considering Town Center's regional positioning, KMA defined the project's trade area for comparison goods as a five mile radius from the site, representing the lower range of a typical regional trade area. As illustrated by Figure 8, a five mile radius includes all of Sunnyvale, most of Mountain View, Los Altos, and Santa Clara, and small portions of Los Altos Hills and San Jose. The trade area is bordered by Silicon Valley's two premiere regional shopping centers, Stanford Shopping Center to the northwest and Westfield Valley Fair to the southeast, both of which draw customers from Town Center's trade area. Town Center's competitive positioning in relation to these two centers is reviewed in greater detail below.

Figure 8: Regional Trade Area (5 Mile Radius)



Source: KMA, Google Maps, Claritas

Trade Area Expenditure Potential

As shown in Table 8, Town Center's regional trade area includes approximately 445,000 residents, projected to reach 472,000 residents by 2020. Residents of the regional trade area currently have a per capita income of $53,095 that is estimated to increase annually by 1.1% in real terms, based on historical income growth. Correspondingly, KMA estimates aggregate resident expenditure potential for comparison goods in the trade area will increase from $3.0 billion in 2015 to $3.3 billion by 2020. This expenditure category includes merchandise typically sold at department stores: general merchandise stores, apparel stores, furniture stores and other retail stores (abbreviated as GAFO).

While the following estimate accounts for expenditure potential by area workers who also live in the area, workers who do not live in the trade area are excluded from the estimate of regional expenditure potential. A 2012 survey by the International Council of Shopping Centers shows that while per capita spending by workers near their places of work can be significant ($6,000 per year), most of this spending is dedicated to restaurant and convenience purchases. Given the commuting dynamics of Silicon

Valley, substantial comparison goods spending by local workers who live outside the region is not likely to be a major source of demand at Town Center.

Table 8: Demand Characteristics of Regional Trade Area

5-mile radius		2015		2020
Population[1]		445,383		472,240
Households		170,172		180,764
Per Capita Income[2]	$	53,095	$	56,080
Aggregate Income	$	23,647,400,000	$	26,483,100,000
GAFO Spending as % of Income[3]		12.5%		12.5%
GAFO Expenditure Potential	$	2,955,900,000	$	3,310,400,000

Source: KMA, Claritas
Figures expressed in 2015$

[1] Population growth based on 5-year projections provided by Claritas, a private data vendor

[2] Assumes 1.1% real income growth per historical trend.

[3] GAFO (General Merchandise, Apparel, Furniture, and Other) refers to goods normally sold at department stores. The share of income available for GAFO spending is derived from the US Bureau of Labor Statistics' Consumer Expenditure Survey.

Capture at Town Center

Town Center has the potential to become a pedestrian friendly shopping district, anchored by Murphy Avenue, Macy’s, and Target. KMA considered Town Center’s market position and the sales performance of competing centers to estimate the project’s share of regional expenditure potential. KMA has assumed that the project has the potential to capture 7% of regional demand, which translates to $273 million in comparable goods sales by 2020 (assuming that 15% of total sales are derived from visitors).

The projected potential for comparison good sales would support 513,000 square feet of regional-serving retail by 2020, including the 358,000 square feet of space currently occupied by the project’s two existing anchors, Macy’s and Target, and up to 155,000 square feet of new in-line space. It is assumed that over time, sales performance of both existing anchors will reach $375 per square foot, reflecting the typical performance of larger department stores. At this level of sales productivity, Macy’s and Target alone would generate half of the center’s potential comparable goods sales, leaving approximately $139 million in sales for new in-line tenants. Sales productivity of in-line retailers is significantly higher than department stores, and generally ranges from $850 to $1,050 per square foot within a newly constructed shopping district.

Table 9: Supportable Square Feet of Regional-Serving Retail at Town Center Based on Capture of Trade Area Expenditure Potential

			2015		2020
Regional Expenditure Potential		$	2,955,900,000	$	3,310,400,000
Town Center Expenditure Potential					
Town Center Market Capture @	7%	$	206,913,000	$	231,728,000
Sales Inflow[1] @	15%	$	36,514,000	$	40,893,000
Total Expenditure Potential		$	243,427,000	$	272,621,000
Existing Anchor Expenditure Potential					
Macy's and Target SF			358,000		358,000
Targeted Sales PSF[2]		$	350	$	375
Anchor Expenditure Potential		$	125,300,000	$	134,250,000
New, In-Line Specialty Shops - Supportable SqFt					
Exp. Potential Net Existing Anchors		$	118,127,000	$	138,371,000
Supportable Square Feet[2] @	$900 PSF		130,000		155,000

Source: KMA, Claritas. See Appendix A-2 for complete list of demand assumptions.
Dollar figures expressed in 2015$. Supportable SF rounded to nearest 5,000.
[1] 15% of demand is expected to derive from visitors living outside the trade area.
[2] Sales targets per square foot based on industry benchmarks for anchor and in-line retailers for space in planned shopping districts. Sales performance for anchors is assumed to improve as center

Competitive Environment

A. Super Regional Malls

For Town Center to achieve the regional sales capture targeted above, the project will have to differentiate itself from the region's two largest shopping centers, Stanford Shopping Center (9 miles northwest of Town Center) and Westfield Valley Fair (6 miles southeast of Town Center), both of which command substantial market power within the trade area. Combined, the two centers contain more than 2.7 million square feet of retail and generate approximately $1.5 billion in taxable sales. They continue to expand and add tenants, and will reach 3 million square feet of leasable area over the next two years. The table below provides an overview of these two centers.

Table 10: Characteristics of Super Regional Shopping Malls Proximate to Town Center

	Stanford Shopping Center	Westfield Valley Fair
Year Opened	1956	1986
City	Palo Alto	San Jose
Distance to Town Center (miles)	9	6
Leasable Area		
Current[1]	1,234,000	1,474,000
Planned	132,000	600,000
Total	1,366,000	2,074,000
Total Stores	144	260
Anchor Tenants	Nordstrom's	Nordstrom's
	Bloomingdale's	Bloomingdale's
	Macy's	Macy's
	Nieman Marcus	
Taxable Retail Sales (2014)	$ 573,000,000	$ 746,000,000
Reported Retail Sales[2]	n/a	$ 901,000,000

Source: KMA, Simon Properties, Westfield, ICSC Shopping Center Directory, City of Palo Alto

1 Stanford's current renovations downsize the Bloomingdale's store and add 132,000 SF. Resulting GLA is comparable to what center had prior to renovations.

2 Includes all sales reported to Westfield; however, only in-line tenants are required to report sales.

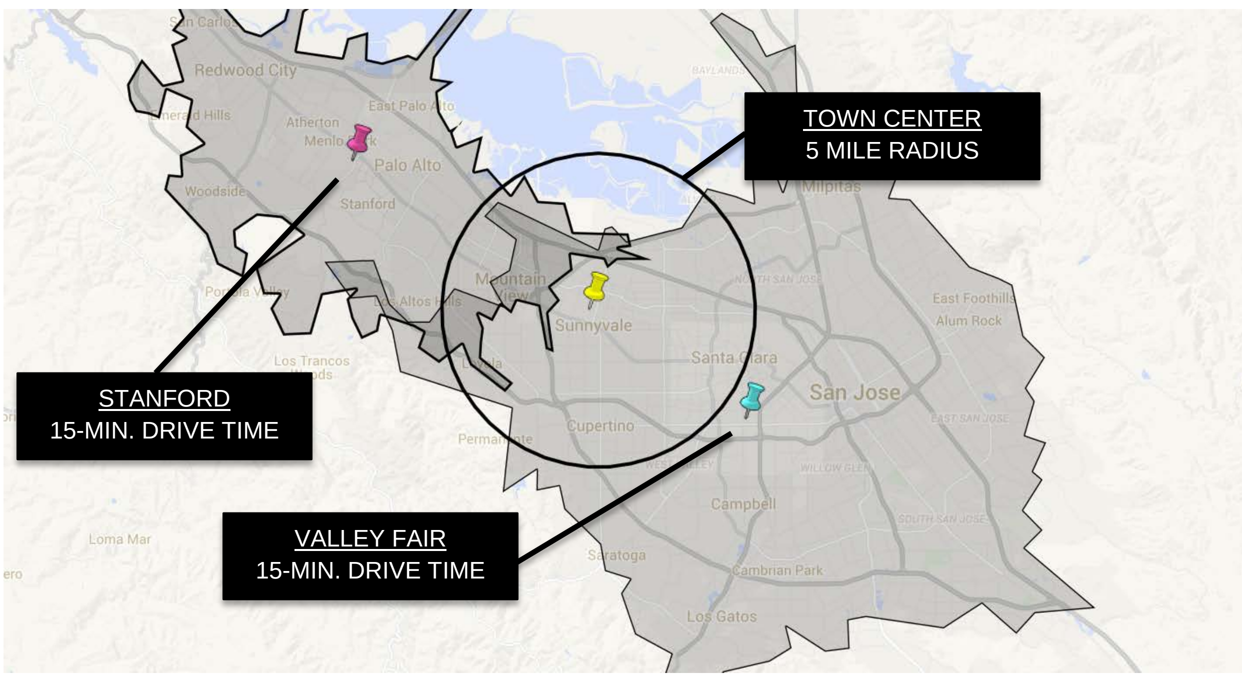
Westfield Valley Fair is a largely enclosed, regional mall featuring approximately 260 retailers across 1.5 million square feet of retail space. Valley Fair is considered one of the top performing malls in the nation, supporting $634 million in taxable sales and $901 million in gross sales. Specialty retailers, which comprise half of total leasable area, are reported to generate more than $1,000 in gross sales per square foot of retail space. Anchor tenants include Macy’s and Nordstrom’s. Valley Fair has received substantial investment in recent years. Following the opening of a dining terrace and an expanded luxury wing, Westfield has announced plans for a $600 million investment to add 600,000 square feet of retail space, including a 150,000 square foot Bloomingdale’s department store, a 10-screen Show PLACE Icon cinema, and 80 to 100 new specialty stores. The expansion, slated for completion in 2017, also includes a new dining district and the enhancement of open-air public spaces.

Stanford Shopping Center is an open-air regional mall that will comprise 1.4 million square feet when renovations are completed in early 2016. Stanford Shopping Center’s tenants generate approximately $573 million in taxable sales per year (gross sales are higher). Tenants include anchors Nordstrom’s, Nieman Marcus, Bloomingdale’s, and

Macy's, as well as more than 140 specialty retailers. The relocation and redesign of the Bloomingdale's anchor store was completed in the fall of 2014. With the new, smaller location, Bloomingdale's has downsized from 230,000 square feet to 120,000 square feet, making way for a roughly equivalent amount of new specialty retail and restaurant space, currently under construction.

Per Figure 9, below, there is significant overlap between the regional trade areas of Stanford and Valley Fair and Town Center. Nearly all of Town Center's 5-mile trade area is also within a 15-minute drive of Stanford, Valley Fair, or both, which is to say Town Center must differentiate itself from the two regional centers. From a retailer's perspective, most anchor tenants at Valley Fair and Stanford will not open up an additional location at Town Center, as doing so would primarily transfer sales from their existing store to a new store. Market saturation will be of particular concern to larger department stores, many of which are in the process of consolidating stores. For example, Nordstrom's operates a full-line store at both Westfield and Stanford, for a total of 417,000 square feet. Between these two stores, Nordstrom's market penetration in Santa Clara County, measured by square feet per capita, is three times its national average, or twice its national average when adjusted for income. Considering that Nordstrom's typically opens one full-line store per year, it is highly unlikely that the retailer would choose to open an additional full-line store at Town Center.

Figure 9: 15-Minute Drive Times from Stanford and Valley Fair in relation to Town Center Trade Area



Source: KMA, Google Maps, Claritas.
Drive time = Areas that can be reached within a 15-minute drive of subject shopping center. Valley Fair's 15-minute drive time does not account for freeway traffic.

B. Shopping Districts

Despite the above, there are a number of successful comparison retail clusters in the market area that are thriving in the “shadow,” so to speak, of the two super regional centers, and more still that will be opening over the next several years, due to the strength of Silicon Valley’s demographics. “High street” or “lifestyle” retail formats, such as Downtown Palo Alto, Santana Row, and Downtown Los Gatos, have achieved success by offering comparison goods shopping in a pedestrian-friendly retail environment with excellent food and leisure/entertainment options. Despite being proximate to Westfield and Stanford, all three shopping clusters generate impressive sales ($200 million to $300 million in taxable sales), including in comparison retail categories, without the support of a large retail anchor.

Table 11 summarizes the characteristics of three of the most successful shopping districts. The centers below provide an example of what other shopping districts located within the trade areas of Valley Fair and Stanford are capable of achieving. They also represent another source of competition from which Town Center must differentiate itself.

Table 11: Profile of Shopping Districts

	Downtown Palo Alto[2]	Downtown Los Gatos[2]	Santana Row
Distance to Stanford (mi)	0.3	19	15
Distance to Valley Fair (mi)	15	7	0.3
Taxable Retail Sales ($millions)	$ 311	$ 195	$ 218
Retail Space (sqft.)[1]	**600,000**	**514,000**	**584,000**
Retail	n/a	350,000	479,000
Restaurants	n/a	163,000	105,000
Representative Tenants			
Apparel - Specialty			
Anthropologie		X	X
American Apparel	X		
Chico's	X	X	
Gap/Banana Republic		X	
H&M			X
J. Crew		X	
Jos A Bank	X	X	
Lululemon Athletica	X		X
Patagonia	X		
Title Nine	X	X	
Electronics			
Apple Store	X	X	
Best Buy			X
Furniture/Housewares/Home Décor			
Container Store			X
Crate & Barrel			X
Restoration Hardware	X	X	
Sur La Table		X	X
West Elm	X		
Williams Sonoma		X	
Other			
Tesla Motors			X

Source: KMA, HdL Companies, City of Palo Alto, City of Los Gatos, Simeon Properties, R. McLaughlin

[1] Retail space in Los Gatos and Santana Row excludes all other commercial uses (including hotel). Palo Alto figure does not exclude non-retail uses.

[2] Downtown Los Gatos defined as C-2 zoning district up to Saratoga Road. Downtown Palo Alto defined as Commercial Downtown Ground Floor Combining District. (CD-C GF/P Zoning District)

Santana Row is a nationally recognized mixed-use development located at the intersection of Stevens Creek Boulevard and Winchester Boulevard in San Jose, steps away from Valley Fair. Developed in 2002, the project includes a 214-key hotel, more than 800 residential units, 60,000 square feet of office, and nearly 585,000 square feet of retail, offered in a pedestrian-friendly setting. Santana Row's 70 shops and 20 restaurants generated approximately $218 million in taxable sales in 2014. Tenants include Best Buy, a Tesla showroom, Crate & Barrel, a six-screen CinéArts movie theater, and 105,000 square feet of food and beverage establishments. The existing project is roughly the same size as Town Center, and its main thoroughfare, Santana Row, is comparable in length to the blocks of McKinley Avenue that bisect Town Center. The owners are moving forward with plans to develop the remaining acreage, "Santana West," and incorporate 2 additional acres into the development area. While the second phase is primarily focused on office, the expansion will include 56,000 square feet of retail.

Downtown Palo Alto is a Main Street shopping district centered on pedestrian-oriented University Avenue, located on the opposite side of El Camino from the Stanford Shopping Center. The core downtown district covers approximately 29 acres and runs 2,700-square feet along University Avenue. The downtown includes more than 600,000 square feet of ground floor commercial space, the bulk of which is occupied by retail and restaurant tenants, which generated $311 million in annual taxable sales last year (gross sales are higher). A variety of home décor, apparel and specialty tenants, including West Elm, Restoration Hardware, and Patagonia, are located in Downtown Palo Alto rather than Stanford Shopping Center. These tenants are joined by popular food and beverage establishments, two art house movie theaters, and a variety of local boutiques.

Downtown Los Gatos is another historic Main Street district with approximately 170 retailers located along North Santa Cruz Avenue, East Main Street, and University Avenue. The core of downtown consists of 514,000 square feet of retail supporting $195 million in taxable sales. This includes approximately 163,000 square feet of restaurants, and 350,000 square feet of stores and services. Primary tenant types include clothing, jewelry, sportswear, and specialty gifts, many of which are local boutiques. Downtown Los Gatos has arguably benefitted from being farther from Valley Fair and Stanford through its ability to attract retailers which also operate locations at the regional malls, without conflicting with shopping center radius clauses. For example, Williams Sonoma, Gap, and J Crew all operate stores in Los Gatos, in addition to their stores at Stanford and Valley Fair.

C. Planned Projects

As a sign of the growth potential of retail in Silicon Valley, sophisticated real estate investors have announced plans for additional investments in community- and regional-serving shopping centers. Two of the most significant planned projects are profiled below.

City Place Santa Clara is a proposed 239-acre master-planned project of Related California to be built on a City-owned land fill site just north of Levi's Stadium in Santa Clara, 3.5 miles northeast of Town Center. The projected is envisioned to contain 5.7 million square feet of office, 1,360 residential units, 700 hotel rooms, 190,000 square feet of entertainment, and 1.3 million square feet of retail, including 250,000 square feet for food and beverage place. A minimum of 500,000 square feet of retail would be required by the City as a condition of the project's entitlement. The first phase of the project is anticipated to commence in 2017 and be completed by 2020. Subsequent phases would be developed over a 10-15 year period. The project will cost upwards of $6.5 billion, including the construction of a concrete podium structure over the landfill site. Related is in the process of preparing the Environmental Impact Report and negotiating with the City of Santa Clara regarding the terms of the development agreement and ground lease.

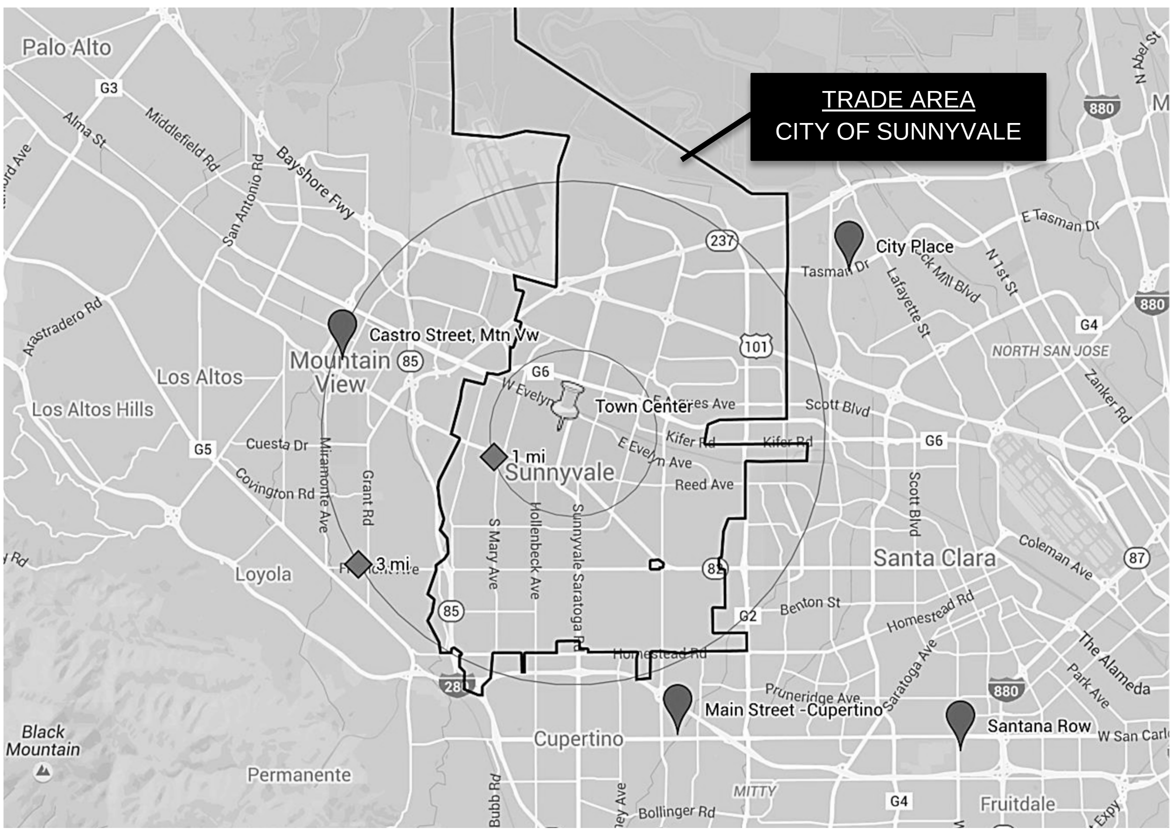
Vallco Shopping Mall is an existing Cupertino mall located 3.5 miles southeast of Town Center, which is now poised for a $2 billion revitalization. The long-neglected, 50 acre property was purchased by Sand Hill Property Company late last year, which is expected to submit a formal plan for the site this fall. Sand Hill intends to convert the 1.3 million square foot shopping mall into a mixed-use "town center" for Cupertino. Through its updated General Plan and Housing Element, the City of Cupertino has allocated a minimum of 600,000 square feet of retail, up to 2 million square feet of office, and 389 residential units to the project. Vallco is located across I-280 from the 3 million square foot Apple Campus, and virtually adjacent to another Sand Hill project, Main Street Cupertino. Main Street features 130,000 square feet of retail, 260,000 square feet of office, 120 residential units, and a hotel, all organized around a pedestrian plaza. The retail space has primarily leased to modern, casual food and beverage establishments (Eureka Burger, Meet Fresh, Roostock Wine Bar, and LYFE Kitchen). Comments by the city and the developer indicate that the retail component of the renewed Vallco will focus on a mixture of high-end shopping, leisure, and entertainment uses. The AMC movie theater is one of the few existing tenants reportedly performing well, and will be the only anchor to continue with the project through its revitalization. Macy's closed its store in March, and the remaining anchors, Sears and JC Penney, are reported to be vacating their spaces by late 2015 and early 2016, respectively.

Food and Beverage

Trade Area

Trade area boundaries for food and beverage establishments extend 1 to 2 miles to the east and west of the site, and approximately 3 miles north and south. Covering the City of Sunnyvale, the trade area considers the pull factor of potential restaurant tenants and the location of competitive restaurant clusters, including Castro Street in Downtown Mountain View and Santana Row in San Jose, as well as planned restaurant clusters in Santa Clara and Cupertino. A secondary trade area was defined to include downtown workers within a 1 mile radius of the site; the trade area for downtown workers is smaller understanding that office workers prefer to eat and drink within walking distance of their place of employment. (See Figure 10.)

Figure 10: Food and Beverage Trade Area (City of Sunnyvale)



Source: KMA, Google Maps

Trade Area Expenditure Potential

Total trade area expenditure potential at food and beverage establishments is estimated to be $383 million in 2015 increasing to $430 million by 2020. The trade area includes approximately 148,000 residents of Sunnyvale. Residents are estimated to spend $358 million at food and beverage places, reaching $400 million by 2020, due to growth in population and real incomes. The remaining trade area expenditure potential derives from the office workers who commute downtown. Approximately 20,000 workers are based in downtown Sunnyvale, including 1,000 who work within the Town Center project at the office towers of Nokia and Apple. Ninety percent of these workers commute from outside the trade area (LEHD 2012). Based on typical spending patterns of office workers near their place of employment, commuters to downtown add $25 million to total trade area expenditure potential. This figure is projected increase to $30 million by 2020.

Table 12: Trade Area Food and Beverage (F&B) Demand Characteristics

		2015		**2020**
Resident Demand (City of Sunnyvale)				
Population		147,735		156,220
Households		56,512		59,841
Per Capita Income	$	49,378	$	52,155
Aggregate Income ($M)	$	7,295,000,000	$	8,148,000,000
F&B Spending as % of Income[3]		4.9%		4.9%
F&B Expenditure Potential	$	358,000,000	$	400,000,000
Worker Demand (1 mile radius)				
Total Workforce		20,243		22,350
Per Capita Restaurant Spending Near Work[4]	$	1,254	$	1,325
F&B Expenditure Potential	$	25,000,000	$	30,000,000
Total Trade Area Expenditure Potential	$	383,000,000	$	430,000,000

Source: KMA, Claritas
Figures expressed in 2015$

[1] Population growth based on 5-year projections provided by Claritas, a private data vendor

[2] Assumes 1.1% real income growth per historical trend.

[3] Share of income spent at food/drinking places derived from US Bureau of Labor Statistics' Consumer Expenditure Survey (CES).

[4] Per capita restaurant spending based on national survey of office workers by ICSC. Spending was reduced by 10% to exclude spending by workers who also live in the trade area.

Capture at Town Center

Our analysis indicates that Town Center and Murphy Avenue are capable recapturing approximately one third of trade area leakage, for an effective capture rate of 15%, including Murphy Avenue's existing share of trade area expenditure potential. KMA compared resident and downtown worker expenditure potential with existing restaurant sales for the trade area as a whole and found that 22% of trade area expenditure potential is currently being spent elsewhere. Murphy Avenue already captures close to 8% of trade area demand. Achieving a 15% capture rate—equivalent to approximately one third of the area's leakage rate plus Murphy's existing capture—restaurants at Town Center and Murphy Avenue have the potential to generate sales of $76 million by 2020 when combined with visitor demand (comprising 15% of total expenditure potential). Assuming existing sales at Murphy Avenue keep pace with trade area demand, $37 million in expenditure potential would remain to support new food and beverage development at Town Center. Based on the typical sales performance of restaurants in new commercial buildings ($700 - $800 PSF), projected food and beverage sales at Town Center can potentially support 50,000 square feet of additional space.

Table 13: Supportable Square Feet of Food & Beverage at Town Center Based on Capture of Trade Area Expenditure Potential

			2015		2020
Trade Area Expenditure Potential					
Sunnyvale Residents		$	358,000,000	$	400,000,000
Downtown Workers		$	25,000,000	$	30,000,000
Total Trade Area		$	383,000,000	$	430,000,000
Town Center/Murphy Capture					
TA Capture @[1]	15%	$	57,000,000	$	65,000,000
Sales Inflow @[2]	15%	$	10,000,000	$	11,000,000
Total F&B Expenditure Potential		$	67,000,000	$	76,000,000
Murphy Avenue Exp. Potential		$	34,000,000	$	39,000,000
Town Center Exp. Potential		$	33,000,000	$	37,000,000
Town Center Supportable Square Feet					
Supportable Square Feet[3] @	$750 PSF		45,000		50,000

Source: KMA, Claritas. See Appendix A-2 for complete list of demand assumptions.

[1] Includes Murphy Ave capture (7.5%) plus recapture of approximately one-third of trade area leakage (7.5% of 22%).

[2] 15% of demand expected to derive from visitors outside the trade area.

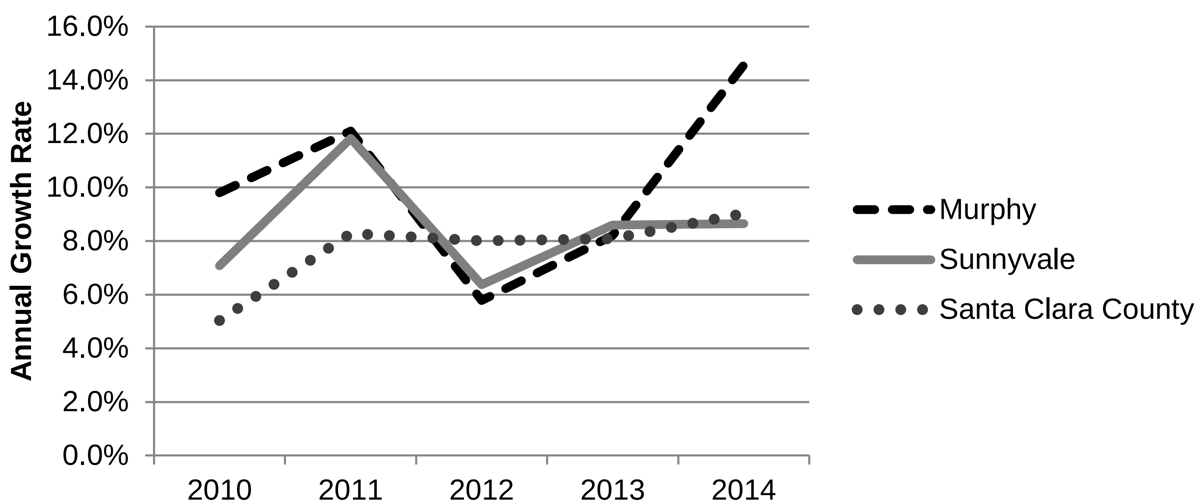
[3] Sales target per square foot based on industry benchmarks for food and beverage in planned shopping districts.

Murphy Avenue

Downtown Sunnyvale benefits from an existing cluster of approximately 30 restaurants and bars located along Murphy Avenue, a historic, pedestrian friendly "Main Street" one block from the Town Center site. The City has made significant investments in the revitalization of Murphy Avenue, including major streetscape improvements, and has an interest in its continued success as a vibrant downtown destination. It is important to consider the appropriate level of new restaurant space at Town Center within the context of an overall healthy downtown.

Up to this point, additional downtown development has in fact augmented the sales of Murphy Avenue restaurants. Murphy Avenue restaurants generated taxable sales of approximately $32 million in 2014, or nearly 8% of total trade area expenditure potential. With the completion of 400 residential units in downtown in 2014, taxable sales at Murphy grew by more than 14% over the prior year, far above the City and County growth rates for restaurants, even as the two residential developments added approximately 35,000 square feet to the supply of ground-floor food and beverage space.

Figure 11: Annual Growth in Taxable Restaurant Sales



Source: KMA, HdL Companies

Town Center can be complementary to Murphy Avenue restaurants, provided that the food and beverage offering is appropriately sized and the overall mix of shops, restaurants, and entertainment options attracts new visitors to downtown. The inclusion of entertainment and shopping options with a regional draw will add depth to the demand for downtown restaurants, and expand Murphy Avenue's market potential. Town

Center's food and beverage district can be developed in synergy with Murphy Avenue to fill gaps in the existing offering, particularly by catering to the tastes of Silicon Valley's changing demographics. There is an increasing demand across the region for organic and natural food, delivered in a fast casual setting. Recent food and beverage arrivals to downtown Sunnyvale fit this mold, and as the leakage analysis suggests, there continues to be room for growth across this market segment.

Neighborhood-Serving Retail

Trade Area

As with restaurants, the City of Sunnyvale was selected as Town Center's trade area for neighborhood-serving retail. (Figure 10, above.) The City of Sunnyvale covers a slightly larger geographic area than what is typically assumed as the trade area for neighborhood-serving retail (1-2 miles). This is to allow for a more complete analysis of the supply gap for neighborhood retail, since many existing retailers are located at the periphery of a traditional 1 to 2 mile radius from the Town Center site. Also, the type of neighborhood-serving tenants that Town Center is positioned to attract, such as a specialty grocer, are capable of drawing customers from across the City. Given that a substantial share of office workers' expenditures go toward grocery items, including prepared foods during the lunch hour, downtown workers based within a mile of Town Center are considered as an additional component of local expenditure potential.

Trade Area Expenditure Potential

As summarized in the table below, Sunnyvale's 148,000 residents currently support $356 million in expenditure potential for groceries and $92 million for drug store products, for a total of $448 million in convenience retail expenditure potential. Resident expenditure potential for convenience goods is projected for to reach $500 million by 2020.

The more than 20,000 workers employed within a mile of Town Center constitute another source of demand for convenience retail. According to a 2012 study by the International Council of Shopping Centers, the typical office worker spends $1,400 annually at grocery and drug stores near their work. After adjusting this factor to exclude workers who also live in the trade area, our analysis indicates that downtown workers have the potential to contribute an additional $26 million to trade area convenience retail expenditure potential. Owing to growth in the workforce population and in salaries, worker expenditure potential is projected to reach $30 million by 2020.

Combined, Town Center's neighborhood represents an estimated $474 million in consumer expenditure potential, growing to $530 million by 2020.

Table 14: Trade Area Expenditure Potential - Grocery and Drug Stores

		2015		2020
Resident Expenditure Potential (City of Sunnyvale)				
Population		147,735		156,220
Per Capita Income	$	49,378	$	52,155
Aggregate Income ($M)	$	7,295,000,000	$	8,148,000,000
Expenditure Potential				
Grocery	$	356,000,000	$	397,000,000
Drug Store	$	92,000,000	$	103,000,000
Subtotal- Resident Expenditure Potential	$	448,000,000	$	500,000,000
Worker Expenditure Potential (1 mile radius)				
Total Workforce		20,243		22,350
Annual Per Capita Spending Near Work[1]				
Grocery	$	929	$	981
Drug Store	$	323	$	341
Expenditure Potential				
Grocery	$	19,000,000	$	22,000,000
Drug Store	$	7,000,000	$	8,000,000
Subtotal - Worker Expenditure Potential	$	26,000,000	$	30,000,000
Total Trade Area Expenditure Potential				
Grocery	$	375,000,000	$	419,000,000
Drug	$	99,000,000	$	111,000,000
Total Convenience	$	474,000,000	$	530,000,000

Source: KMA, Claritas

[1] National data from International Council of Shopping Centers, adjusted downward to exclude workers who live and work in the trade area.

Capture at Town Center

Per Table 15, a grocery store at Town Center is capable of capturing 9% of trade area expenditure potential, representing sales of $40 million by 2020, including sales to visitors. This level of sales would support approximately 35,000 to 40,000 square feet of retail, based on typical sales performance of specialty grocery stores ($1,000 in gross sales per square foot). KMA's estimate of Town Center's capture rate assumes the grocery store on site will capture half of unmet demand within the trade area.

KMA's leakage analysis indicated there is also a market opportunity for an additional drug store within the trade area. Per the table below, a drug store at Town Center is capable of capturing $12 million in trade area and visitor sales by 2020, supporting a drug store of 10,000 to 20,000 square feet. A drugstore of this size stands to capture approximately one third of drug store retail leakage within the trade area. In addition to what is shown below in the table, we assume that a neighborhood shopping district would include 10,000 square feet of ancillary neighborhood retail (i.e., hair salons, stationary store, bank, etc.).

Table 15: Supportable Square Feet of Convenience Retail at Town Center Based on Capture of Trade Area Expenditure Potential

Grocery		**2015**	**2020**
Trade Area Expenditure Potential		$ 375,000,000	$ 419,000,000
Expenditure Potential at Town Center			
TA Capture @[1]	9%	$ 34,000,000	$ 38,000,000
Supportable Square Feet[2] @	$1000 PSF	34,000	38,000
Drugstore		**2015**	**2020**
Trade Area Expenditure Potential		$ 99,000,000	$ 111,000,000
Expenditure Potential at Town Center			
TA Capture @[1]	10%	$ 10,000,000	$ 11,000,000
Supportable Square Feet[2] @	$800 PSF	13,000	14,000

Source: KMA, Claritas. See Appendix A-2 for complete list of demand assumptions.

1 Assumes project captures 50% of grocery leakage (currently 19% of demand) and one third of drug store sales leakage (currently 31% of demand).

2 Sales per square feet based on industry benchmarks for newly constructed space.

Competitive Landscape

The trade area is currently served by approximately 15 grocery and other food stores, though none are located within Sunnyvale's downtown. Supermarkets within one mile of Town Center include Trader Joe's, Sprout's, and Safeway, all located along El Camino Real, as well as a Lucky Supermarket one mile north of the site. Farther from Town Center, the trade area is served by a Costco and a Zanotto's (both 2 miles away), two additional Safeway locations, and a handful of ethnic/specialty grocers. In addition, Amazon has announced plans to locate an 11,000-square foot drive-through grocery store just south of El Camino Real. Nevertheless, the remaining sales gap for food retail (equivalent to nearly 20% of trade area expenditure potential) and Town Center's proximity to higher-density residential and office development indicates an opportunity for a specialty/gourmet grocer that can both a catalyst for downtown and complementary to the existing grocery offer in Sunnyvale.

A free-standing pharmacy or drug store with a mix of health products and general merchandise is also missing from Sunnyvale's downtown, and could be viewed as an attractive amenity to nearby residents and workers. While there is a pharmacy inside Target's store at Town Center, the closest free-standing drug store is a Walgreen's on El Camino Real approximately 0.7 miles south of the project site. Per the recent sale agreement between CVS and Target, CVS should be taking over the operations of Target's pharmacy at their store at Town Center, potentially limiting the company's interest in a second location. However, there is market potential for attracting a competing pharmacy to the project, particularly if the drug store can locate near the grocery store, as part of a cohesive neighborhood shopping district.

Town Center Opportunity

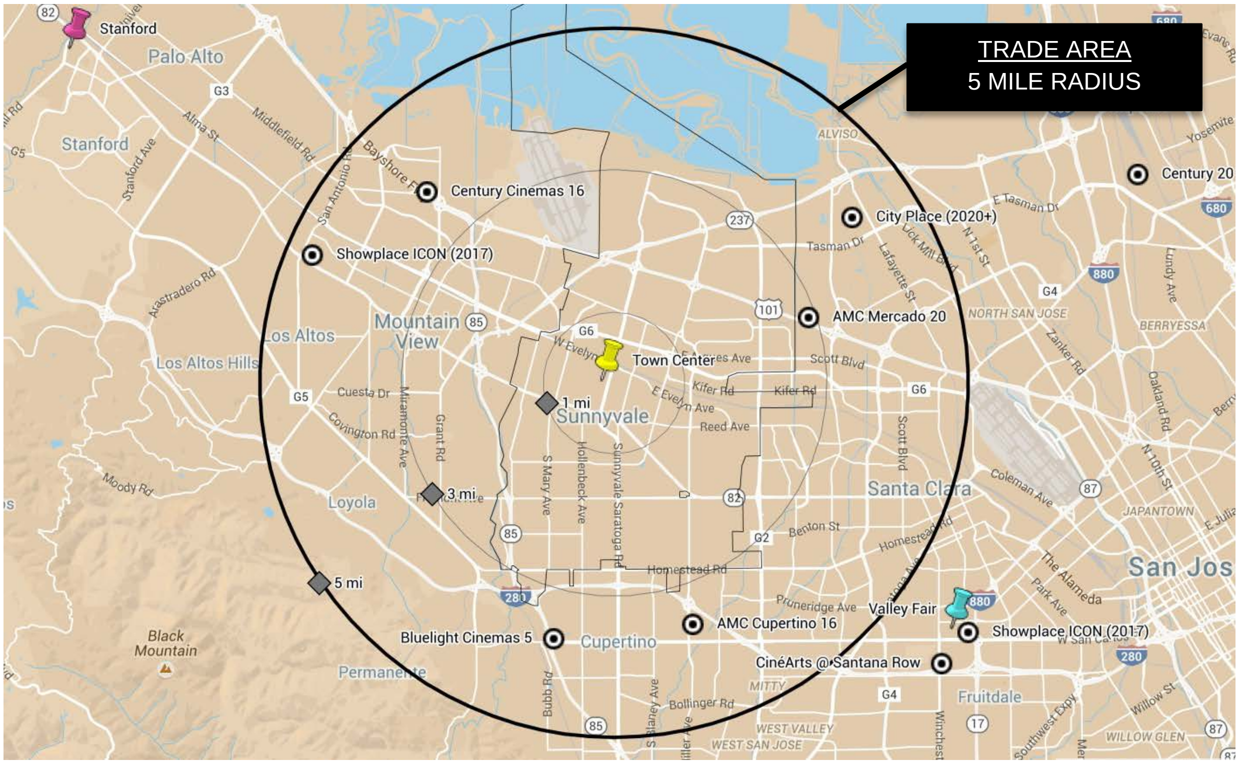
A grocery store and other neighborhood-serving retail play an important "placemaking" role in pedestrian-oriented, mixed-use districts. For example, Safeway's King Street location across from AT&T Park in San Francisco has helped form a cohesive neighborhood within the Mission Bay redevelopment area. In Silicon Valley, grocery tenants are increasingly common in shopping centers that also offer comparison goods, such as San Antonio Center in Mountain View, which includes a Trader Joe's as well as apparel and specialty retailers. A grocery store makes a neighborhood and can play a similar role at Town Center. For neighborhood-serving retail to function at Town Center, retailers will require ground floor space with ample free or low-cost parking.

Entertainment Uses

Trade Area

The trade area for entertainment uses is defined as a five-mile radius from Town Center. As KMA's analysis of entertainment uses focuses primarily on movie theaters, this regional trade area was selected considering the likely distance that customers are willing to travel to attend a movie, and the location of the competitive supply. Figure 12 below illustrates the boundaries of the trade area, and the existing and planned movie theaters that fall within it.

Figure 12: Movie Theater Trade Area (5 mile radius)



Source: KMA, Google Maps

Movie Theater Demand and Competitive Supply

There are currently 8,000 residents per movie screen in the United States. Applying this factor to the trade area population, there is currently sufficient demand in the trade area to support 56 movie screens. Demand should increase to 59 screens by 2020, as the trade area population grows.

Table 16: Unmet Demand (Screens) for Movie Theaters in Trade Area (5-Mile Radius)

5-mile radius	2015	2020
Theater Demand (Screens)		
Population	445,383	472,240
Potential Demand[1]	56	59
Theater Supply (Screens)		
Existing Supply	52	52
Inflow Adjustment[2]	(9)	(9)
Supply Net Inflow	43	43
Unmet Demand	**13**	**16**

Source: KMA, Claritas

[1] Assumes 8,0000 residents per screen per data from the National Association of Theater Operators

[2] Includes all cinemas with more than 5 screens in the trade area (5 mi-radius). The Cinearts theater at Santana Row is beyond 5 miles and falls outside the trade area.

[3] 25% of screens at AMC Mercado and Century Mountain View are excluded to account for demand from residents outside 5-mile radius.

As shown in Table 16, above, three major multiplexes operate 52 screens in the trade area (excluding one smaller, second run theater). This includes figure includes AMC Mercado (20 screens) in Santa Clara, AMC Cupertino Square (16 screens), and Century Cinemas in Mountain View (16 screens). AMC Mercado and Century Mountain View both serve trade areas that extend beyond the five mile radius from Town Center. For this reason, 25% of the screens supplied by these two theaters are removed from the trade area's supply, to account for this inflow of customers. This leaves a net supply of 43 screens serving the trade area, indicating a potential gap of 13 screens. Population growth between 2015 and 2020 will increase the supply gap to 16 screens.

Table 17 lists the current and planned supply of movie theaters within and proximate to the trade area. The planned supply includes a 10-screen ShowPlace ICON theater in Mountain View, the potential replacement of the Century Theaters in Mountain View, and a movie theater of an undetermined size included in the long-range master plan of Santa Clara City Place. Beyond the five-mile trade area, Valley Fair will open at 10-screen theater in 2017, and Santana Row may expand its existing cinema from 6 to 13 screens. The inventory of planned supply indicates that planned additions to theater capacity in the trade area will cover most, if not all of unmet demand by 2020. However, as with the current supply, many of these projects lie at the periphery of the trade area indicating that a significant portion of demand may come from residents living beyond five miles from Town Center.

Table 17: Movie Theater Supply

Theater Name	Type	Screens		Opening Year
Existing Supply, 5 mi. radius				
AMC Mercado	Chain	20		1997 *
AMC Cupertino Square	Chain	16		2007
Century Cinemas Mountain View	Chain	16		1980's *
Bluelight Cinemas	Independent, Second-Run	5		2009
Total		57		
>5 screens only		52		
Planned Supply, 5 mi. radius				
San Antonio Center	Chain, Luxury	10		2017
City Place Santa Clara	TBD	TBD		2020+
Century Cinemas Mountain View (rebuild)	Chain, Luxury	15	*total*	2018+
		(1)	*net new*	
Net New Supply		9	*net new*	
Planned Supply, >5 mi.				
ShowPlace ICON- Valley Fair	Chain, Luxury	10		2017
CinéArts @ Santana Row	Chain, Luxury	13	*total*	2018 expansion
		7	*net new*	
Total Net New Supply		17		

Source: KMA

* Recently renovated.

Town Center Opportunity

Town Center has market potential to accommodate a movie theater of 10 to 15 screens, requiring between 40,000 and 60,000 square feet of retail space. A second-floor movie theater is a possibility. Town Center’s retail site assemblage, as well as its existing and potential mix of restaurants and comparison retail, makes the project a competitive location for a movie theater. Providing ample, free or low-cost parking, as Town Center is capable of doing, is essential to realize this market opportunity.

While there are plans to add theater capacity to the trade area, the economics of movie theater site selection are complex, and many other factors will determine the viability of a movie theater at Town Center. Theater operators select locations to achieve market share and to vie for a superior market position relative to competitors. As older theaters come to the end of their useful life, additional unmet supply is created. The unique physical requirements of movie theaters mean that there are very few sites, particularly in urban markets, that can accommodate them. Shopping centers themselves may subsidize movie theaters to generate foot traffic and create a 24/7 district.

Additional Entertainment Uses

As store sizes continue to shrink, additional entertainment/leisure uses beyond movie theaters are now being incorporated into shopping districts to support the retail environment, particularly within live/work/play, walkable, and transit oriented developments. KMA conducted a review of other regional shopping districts in the Bay Area to identify other possible entertainment uses. A list of possible uses for consideration is presented below.

While a formal market study has not been performed, KMA recommends allotting between 30,000 and 50,000 square feet for additional entertainment uses within the development program. A luxury bowling alley, other interactive entertainment (arcades/ billiards), a public market, or live entertainment space are all potential uses. Food components of entertainment uses should be counted against the maximum supportable food and beverage program and other food uses should be scaled back accordingly. Second-floor space is an option for most entertainment uses. Parking is also necessary to realize this market opportunity.

The most successful entertainment uses are integrated with the shopping center's food and beverage offering, and in many cases, with outdoor public spaces, such as public plazas or open-air dining areas. As the cases below indicate, many are also management-intensive. For example, flexible space that can be adapted for entertainment use, as is found in public markets, requires significant investment by the property manager in programming events. It is not uncommon that such uses are amenities to a shopping district and, as such, are financially subsidized and underwritten.

Plank, Jack London Square, Oakland

Plank is a 50,000 square foot, privately managed restaurant and entertainment concept, which opened in October 2014 at a former Barnes and Noble space in Oakland's Jack London Square. Plank is meant to establish the shopping area as a regional destination and bring needed activity to the shopping center during the evenings. Plank is comprised of 15,000 square feet of outdoor space, with a beer garden, fire pits, and bocce-ball courts, and a 34,000 square feet indoor venue, with 18 bowling lanes, an arcade, and private event space. An extensive food and drink menu is offered throughout the venue and live music events are hosted on the weekends.

Hillsdale Mall Redevelopment
The owner of Hillsdale Mall has submitted plans to replace Sears' 200,000 square foot anchor store with an upscale food and entertainment complex. Buildings will include a 40,000 square foot fitness center, a 44,000 square foot Cinépolis luxury cinema, and a two-story bowling alley lounge and restaurant. Buildings are organized an outdoor food court with an open-air plaza. The shopping center owner aims to capture growing demand from nearby residential projects, such as Bay Meadows (1,100 units).

Eastridge Mall Redevelopment
A similar approach to filling vacant anchor space has been taken in Santa Clara County at Eastridge Mall. Round One, a Japanese bowling chain, recently occupied 50,000 square feet on the second floor of the anchor building formerly occupied by Bed, Bath, and Beyond.

San Pedro Square
The "Urban Public Market" is a retail concept which organizes specialty and gourmet food vendors within a large market hall with common customer seating, similar to a food court. Urban markets have been developed in many communities including Oakland, Emeryville, San Francisco and San Jose. In San Jose, San Pedro Square is a 25,000 square feet public market, with a diverse mix of 20 food vendors (including coffee shops, wood fired pizza) in spaces ranging from 200 square feet to 2,000 square feet. The market is adjacent to Peralta Adobe Plaza, which is used for additional seating and for regular live performances. The property management company, as well as individual tenants, organize a steady stream of entertainment events (including trivia nights, karaoke, food truck / farmers markets, and live bands) drawing customers to the market. It is worth noting that the public market concept does not typically dedicate space solely for entertainment use. Rather, common eating areas and public open spaces are repurposed as live entertainment venues as events occur.

Town Center Residential & Office Impact on Retail

Per the market analysis above, Town Center has the potential support 780,000 square feet of retail and entertainment uses, which is 220,000 less than what the project is entitled to build.

KMA considered the extent to which adding residential and office would support the development of the current entitlement for 1 million square feet of retail. While additional residential and office would certainly aid Town Center in achieving the development program and retail sales targets recommended above, it is highly unlikely that retail demand deriving from additional residential and office development downtown would permit Town Center to add significantly more retail space than what is recommended above. Moreover, additional retail space would need to be located on the first floor, per the requirements of most tenants, and it is not clear that the Town Center site can accommodate additional ground floor retail beyond what is included in the program recommendations above.

Town Center is primarily a regionally oriented shopping center. As such, Town Center's success depends mostly on differentiating itself as a regional or community destination. The office and residential development at Town Center only marginally increases the expenditure potential within a mile from the site. Town Center would need to generate roughly $140 million in additional retail sales to support the remaining 220,000 square feet of retail. This represents a substantial increase in the project's capture of regional expenditure potential. Additional development proximate to the site could raise the profile of downtown and Town Center as a mixed use, live/work/play district, but the direct impact deriving from population growth will not support a significant increase in retail space.

Based on the likely expenditure potential of new downtown residents and workers and Town Center's potential capture of that demand, we estimate that every 100 residential units built downtown would support an additional 5,000 square feet of retail at Town Center; an additional 100,000 square feet of office would support 2,000 square feet of retail. Most of this growth in demand would flow to neighborhood shopping (grocery and drug) and food and beverage retail segments, as opposed to regional-serving retail. (See Appendix Table A-6 for full analysis.)

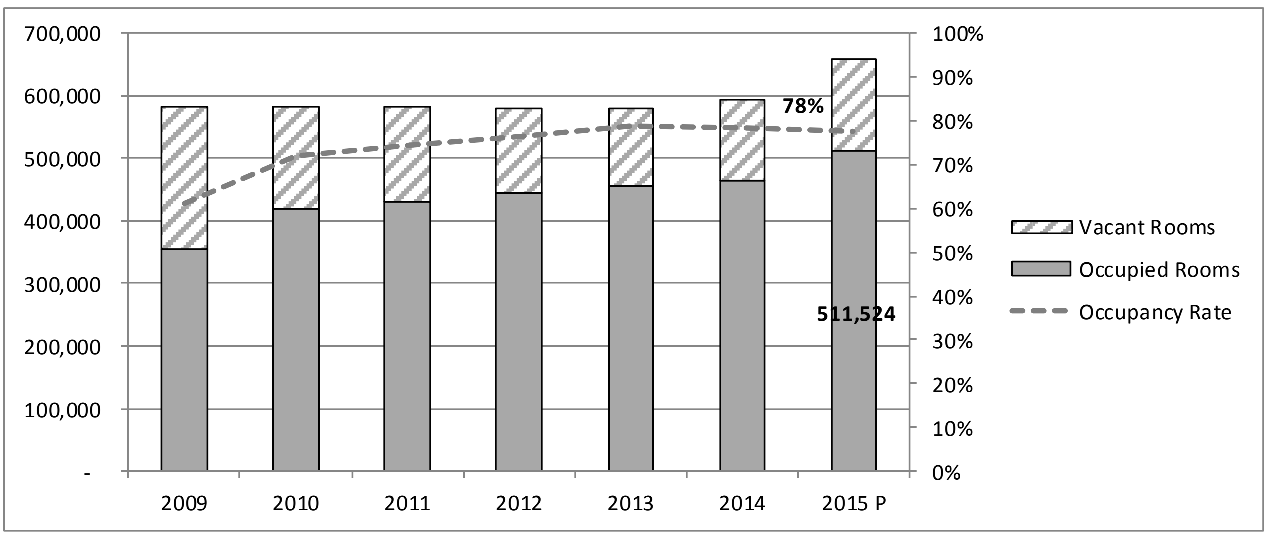
HOTEL MARKET OVERVIEW

Hotel Trends in Sunnyvale

The following chapter provides an overview of the current real estate market conditions for a 200 room hotel, as Town Center's entitlements allow. Hotel market conditions in the City of Sunnyvale are generally perceived as strong. Occupancy in 2015 has averaged 78%—slightly above historical the historical rate (STR 2015 Trend Report – City of Sunnyvale). KMA projects that hotels in Sunnyvale will close out the year with more than 511,000 room nights.

While supply of hotel rooms had been virtually flat since the economic recession, two new hotel projects were added to the supply over the past year: a 145-room Courtyard Marriott, located along El Camino Real, and an 85-room Aloft, located one block away from the project site on Sunnyvale Avenue.

Figure 13: Historical Room Nights, Vacant Rooms and Occupancy - Sunnyvale, CA



Source: KMA, STR

Growth in Demand and Supply

If hotel demand in the City of Sunnyvale grows by 8% per year over the next five years, demand will reach 752,000 room nights per year by 2020. An illustrative, best-case assumption, eight percent growth is twice the average annual growth rate of the last five years, which has seen limited hotel investment. This level of demand would support the addition to 890 new hotel rooms, assuming occupancy averages 76% (the historical rate). Even under this aggressive growth scenario, the development pipeline of hotels in Sunnyvale exceeds the number of supportable hotel rooms by more than 900 rooms

(Table 18). There are currently 1,795 rooms at some stage in the development pipeline in Sunnyvale, nearly matching the 1,821 rooms at existing hotels. Two-thirds of these planned hotel rooms fall into the Upper Upscale and Upscale market categories (Table 19). While not all of these rooms will be built, the completion of even half of the planned supply would satisfy the most optimistic projections for growth in room night demand.

Table 18: Projected Hotel Demand through 2020

City of Sunnyvale	2015	2020
Demand Potential		
Room Nights @ 8% Annual Growth	511,524	751,597
Rooms Supported[1]	1,844	2,709
Supportable Hotel Growth		
Existing Room Supply	1,821	1,821
Supportable Growth	23	888
Hotel Pipeline		
Planned Growth		1,795

Source: KMA 2015, STR 2015
[1] Assumes historical occupancy rate of 76%.

Table 19: Existing and Planned Hotel Inventory in Sunnyvale, CA

	Existing		**Pipline**	
Market Class[1]	Rooms	%	Rooms	%
Luxury	104	6%	53	3%
Upper Upscale	513	28%	432	24%
Upscale	689	38%	879	49%
Upper Midscale	515	28%	217	12%
Unknown	-	0%	214	12%
Total	**1,821**	**100%**	**1,795**	**100%**

Source: KMA 2015, STR 2015, City of Sunnyvale 2015
[1] Market class defined by STR according to Average Daily Rate, with Luxury representing top 15% of hotels.

Town Center Opportunity

Town Center's unique location makes it a competitive site for a hotel. The opportunity to develop a hotel at Town Center depends on the delivery of the site in the marketplace. In the near term, the large existing development pipeline for hotels is sufficient to meet demand through 2020. There remains a long-term opportunity to develop the 200-room hotel that the project is entitled to build. In the meantime, Aloft Sunnyvale, one block from Town Center, can provide some of the benefits that an on-site hotel would offer, such as evening foot traffic and the opportunity to capture visitor shopping demand.

CONCLUSION

KMA concludes that there is a significant market opportunity at Town Center for a regional shopping district. The Town Center site will serve an affluent trade area. Town Center's trade area compares favorably with those for downtown Los Gatos, downtown Palo Alto, and Santana Row. These shopping districts have demonstrated their success in a very competitive market, and Sunnyvale Town Center has the opportunity to do the same. KMA recommends a retail program that creates multiple reasons for shoppers to visit Town Center, including:

- In-line specialty retail shops anchored by Target and Macy's;
- Entertainment district anchored by a multi-screen movie theater,
- Food and beverage cluster that can build on the success of Murphy Avenue and the entertainment, and
- Neighborhood shopping district anchored by a grocery store.

Second level retail space can be occupied by such uses as movie theater, other entertainment uses, food and beverage in combination with the entertainment uses, and fitness center. Ground floor space will be required by in-line shop space, by grocery store and food concepts, such as a bakery, and by a drug store.

Consideration was given to the ability to achieve the full one million square feet of retail entitlements by adding residential and/or office to Town Center. The conclusion is that additional residential and/or office would increase the performance level of retailers but would not significantly increase the amount of square footage needed to meet demand.

APPENDIX TABLES

APPENDIX TABLE A-1
Trade Area Demographics of Nearby Shopping Areas, With Additional Districts Included
Market Assessment
Sunnyvale Town Center

3 Mile Radius	Town Center & Murphy Ave[2]	Downtown Los Gatos	Downtown Palo Alto	Santana Row	Main Street Cupertino[3]	Downtown Mountain View[3]
Population[1]	214,056	45,081	149,443	248,088	243,121	158,078
Households	83,767	18,441	52,723	97,399	89,316	64,727
Per Cap Inc	$52,452	$73,938	$56,119	$43,101	$51,692	$62,197
Aggregate Income ($millions)	$11,228	$3,333	$8,387	$10,693	$12,567	$9,832
Average HH Income	$134,035	$180,750	$159,070	$109,783	$140,708	$151,900
Households Earning > $100k	42,858	11,001	26,227	39,634	47,121	34,836
Households Earning > $150k	25,389	8,062	18,093	21,379	29,395	22,613
Workforce Population (1 mile)[4]	0	9,759	32,915	28,646	14,145	19,319
Taxable Sales - All Categories ($millions)[1]	$108	$195	$311	$218		

Source: KMA, Claritas 2015, HdL companies
[1] Population and income data are estimated for 2015. Sales tax data is from 2014, provided by HdL Companies.
[2] Sales tax data for Town Center includes all of Downtown Sunnyvale.
[3] Sales tax data not provided for Mountain View and Cupertino.
[4] New Apple Campus near Main Street Cupertino is anticipated to house 13,000 employees. (not reflected above)

APPENDIX TABLE A-2
Retail Demand Assumptions
Market Assessment
Sunnyvale Town Center

Common Assumptions				
Population Growth (2015-2020)				
Regional Trade Area		1.2%	annual growth	[1]
Neighborhood Trade Area		1.1%	annual growth	[1]
Employment Growth (2015-2020)				
1 mile radius		2.0%	annual growth	[2]
Real Per Capita Income Growth		2.3%	annual growth	[3]
Regional Retail Demand Assumptions				
Resident Spending on Comparison Goods		12.5%	of income	[4]
Town Center Capture of Regional Demand		7%	of exp. potential	[5]
Visitor Sales (Sales Inflow)		15%	of sales at project	[6]
Eating and Drinking Demand Assumptions				
Resident Spending at Eating/Drinking Places		4.9%	of income	[4]
Worker Spending at Eating Drinking Places	$	1,254	annual exp. per capita	[7]
Capture Rate				
TA Leakage (2013-2014)		22%	of TA exp. potential	[8]
Murphy Ave/TC Recapture of Leakage		33%	of TA leakage (above)	[9]
		7.3%		
Murphy Ave Existing Sales Capture (2013-2014)		7.5%	of TA exp. potential	[10]
Effective Murphy Ave/TC Capture Rate		15%	of TA exp. potential	
Visitor Sales (Sales Inflow)		15%	of sales at project	[6]
Grocery Demand Assumptions				
Resident Spending at Eating/Drinking Places		4.9%	of income	[4]
Worker Spending on Groceries	$	929	annual exp. per capita	[7]
Capture Rate				
Average Trade Area Leakage (2013-2014)		19%	of TA exp. potential	[11]
Town Center Recapture of Leakage		50%	of TA leakage (above)	[9]
Effective Capture Rate		10%	of TA exp. potential	
Drug Store Demand Assumptions				
Resident Spending at Eating/Drinking Places		1.3%	of income	[4]
Worker Spending at Drugstores		$323	annual exp. per capita	[7]

APPENDIX TABLE A-2
Retail Demand Assumptions
Market Assessment
Sunnyvale Town Center

Table Continued

Drug Store Demand Assumptions

Capture Rate			
Average Trade Area Leakage (2013-2014)	31%	of TA exp. potential	[12]
Town Center Recapture of Leakage	40%	of TA leakage (above)	[9]
Effective Capture Rate	12%	of trade area exp. potential	

Source: KMA and sources below

Abbreviations
exp. = expenditures
TA = trade area
TC = Town Center

[1] Claritas 2015-2020 Projection
[2] KMA assumes growth in Downtown Sunnyvale slightly above the 5-year average projected for the county by CalTrans (1.9%)
[3] Based on CalTrans 5-year projection of retail sales growth net population growth in Santa Clara County.
[4] Per 2012-2013 Consumer Expenditure Survey for San Francisco Bay Area, California Board of Equalization and HDL sales tax data for 2012-2014, and US Business Census 2012.
[5] KMA assumption based on the sales performance of nearby shopping districts and Town Center's competitive position
[6] KMA assumption based on typical visitor sales in retail districts.
[7] International Council of Shopping Centers, Office Worker Spending in a Digital Age (2012)
[8] See table A-3.
[9] KMA assumption.
[10] Based on 2013-2014 retail sales on Murphy Avenue reported by HDL and trade area expenditure potential quanitified in table A-3.
[11] See table A-4.
[12] See table A-5.

APPENDIX TABLE A-3
Eating and Drinking Leakage Analysis (Baseline Condition)
Market Assessment
Sunnyvale Town Center

Eating and Drinking Trade Area		**2013**		**2014**
Aggregate Resident Income [1]	$	6,474,643,400	$	6,872,548,883
% of Income Spent @ Eating/Drinking Places [2]		4.91%		4.91%
Est. Resident Expenditure Potential	$	317,904,991	$	337,442,150
Nearby Worker Expenditure Potential (1 mi)	$	23,818,161	$	24,688,627
Total Exp. Potential	$	341,723,152	$	362,130,777
Eating & Drinking Sales [3]	$	262,552,406	$	285,275,185
Estimated Spending Leakage	$	79,170,746	$	76,855,593
% of Trade Area Expenditure Potential		23%		21%

Source: KMA 2015, ACS 2013, Claritas 2015, BOE 2013, HDL 2015

See Table A-2 for additional details on demand assumptions.

[1] 2013 income data from American Community Survey 5-year estimates, 2014 data from Claritas.
[2] Based on share reported in Consumer Expenditure Survey, US West 2012-2013.
[3] 2013 taxable sales data from state BOE, 2014 data from HdL.

APPENDIX TABLE A-4
Grocery Leakage Analysis (Baseline Condition)
Market Assessment
Sunnyvale Town Center

Grocery Trade Area	**2013**	**2014**
Aggregate Resident Income [1]	$ 6,474,643,400	$ 6,872,548,883
% of Income Spent at Grocery Stores [2]	4.9%	4.9%
Est. Resident Grocery Expenditure Potential	$ 315,599,686	$ 334,995,171
Est. Nearby Worker Demand (1 mile radius)	$ 17,645,932	$ 18,290,826
Total Exp. Potential	$ 333,245,618	$ 353,285,997
Taxable Grocery Sales [3]	$ 63,242,400	$ 60,282,800
Taxable Share of Gross Sales [4]	22%	22%
Est. Gross Grocery Sales	$ 283,027,539.90	$ 269,382,870
Spending Leakage	$ 50,218,079	$ 83,903,127
% of Total Demand [5]	15%	24%

Source: KMA 2015, ACS 2013, Claritas 2015, BOE 2013, HDL 2015

See Table A-2 for additional details on demand assumptions.

[1] 2013 income data from American Community Survey 5-year estimates, 2014 data from Claritas.

[2] Based on a comparison of countywide income to grocery sales reported by BOE/HdL.

[3] 2013 and 2014 taxable sales data from from HdL for grocery and other food stores.

[4] Taxable sales share derived by comparing gross sales reported in the 2012 Economic Census to taxable sales reported by HdL during the same period.

APPENDIX TABLE A-5
Drug Store Leakage Analysis (Baseline Condition)
Market Assessment
Sunnyvale Town Center

Drug Store Trade Area	**2013**	**2014**
Aggregate Resident Income [1]	6,474,643,400	$ 6,872,548,883
% of Income Spent @ Drug Stores [2]	1.4%	1.3%
Est. Resident Expenditure Potential	$ 88,631,529	$ 86,570,635
Nearby Worker Demand (1 mi radius)	$ 6,125,698	$ 6,349,569
Total Exp. Potential	$ 94,757,226	$ 92,920,204
Taxable Drug Store Sales [3]	$ 22,448,600	$ 21,813,300
Taxable Share of Gross Sales [4]	34%	34%
Est. Gross Drug Store Sales	$ 65,869,003	64,004,896
Spending Leakage	$ 28,888,224	28,915,308
% of Total Demand	30.5%	31.1%

Source: KMA 2015, ACS 2013, Claritas 2015, BOE 2013, HDL 2015

See Table A-2 for additional details on demand assumptions.

[1] 2013 income data from American Community Survey 5-year estimates, 2014 data from Claritas.
[2] Based on a comparison of countywide income to drug store sales reported by HdL.
[3] 2013 taxable sales data from state BOE, 2014 data from HdL.
[4] Taxable sales share derived by comparing gross sales reported in the 2012 Economic Census to taxable sales reported by BOE and HdL during the same period.

APPENDIX TABLE A-6
Incremental Demand from Housing and Office Development
Market Assessment
Sunnyvale Town Center

Household Demand Assumptions		**Calculation**
Monthly Lease Rate per unit [1]	$3,750	
Housing expenditure as % of income	30%	
Household Income - New Residents	$150,000	
Share of Aggregate Income Spent On Taxable Retail Sales [2]	19%	
Taxable Share of Gross Retail Sales [3]	71%	
Total Potential Retail Expenditures Per Household	$39,045	A
Project Capture of Exp. Potential [4]	80%	B
Benchmark Sales Per Square Foot Retail [5]	$650	C
Incremental Demand (Residential)		
Potential Project Retail Sales per 100 residential units	$31,200	(AxBx100)
Supportable Retail Sq Ft per 100 residential units	5,000	(AxBx100)/C
Housing Units Required to Support 220,000 sq ft retail	4,400	
Worker Demand Assumptions		
Annual Retail Spending Per Office Worker [6]	$3,000	
Office Workers Per 1,000 Sq Ft [7]	5	
Total Retail Expenditure Potential Per 1,000 Sq Ft Office	$15,000	A
Project Capture of Exp. Potential [4]	80%	B
Benchmark Sales Per Square Foot of Retail [5]	$650	C
Incremental Demand (Office)		
Potential Project Retail Sales per 100,000 sq ft of office	$1,200,000	(AxBx100)
Retail Sq Ft Per 100,000 sq ft office	2,000	(AxBx100)/C
Sq Ft Required to Reach 220,000 sq ft retail	11,000,000	

Source: KMA — Supportable retail rounded to nearest thousand square feet.

[1] Based on listed rate for 2-br unit at Carmel Partners' Loft House.
[2] Based on 2013 BOE sales tax data for 9-county Bay Area. Includes eating and drinking, comparison, and convenience retail categories.
[3] Based on a comparison of statewide gross sales by retail category reported in the 2012 Economic Census to taxable sales for the same period.
[4] KMA assumption. This is an aggressive capture rate for illustrative purposes.
[5] KMA assumption, based on lower range of average sales per square foot for Western regional malls as reported by the International Council of Shopping Centers (2015).
[6] Based on 2012 ICSC survey, Office Worker Spending in the Digital Age, adjusted to 2015 dollars. Eating and drinking, convenience and entertainment sales are reduced by 10% to account for resident workers. Only 10% of comparison retail expenditure potential is assumed to be net new to the regional trade area.
[7] KMA assumption.

APPENDIX TABLE A-7
Order-of-Magnitude Fiscal Benefits to Sunnyvale General Fund of Recommended Net New Retail Uses
Market Assessment
Sunnyvale Town Center

	Net New Retail Uses				
	In Line Specialty	Grocery/Drug	Eating & Drinking	Entertainment	**TOTAL**
Net New Square Feet	155,000	70,000	50,000	110,000	385,000
Estimated Fiscal Benefits [1]					
Property Tax [2]	$119,000	$54,000	$38,000	$84,000	$295,000
VLF Property Tax	$39,000	$18,000	$13,000	$28,000	$98,000
Sales Tax	$1,130,000	$189,000	$338,000	$36,000	$1,693,000
Total Estimated Fiscal Benefits	$1,288,000	$261,000	$389,000	$148,000	$2,086,000

Source: KMA

[1] Estimate of fiscal benefits does not account for costs to the city to service new workers or to maintain new infrastructure.
[2] Assessed values will vary depending on the development program. For the time being, a flat rate is assumed for commercial and residential property values, respectively. Only the City's share of property tax revenues is displayed.

APPENDIX TABLE A-8
Order-of-Magnitude Fiscal Benefits to Sunnyvale General Fund of Non-Retail Land Uses
Market Assessment
Sunnyvale Town Center

	Hotel	**Office**	**Residential**
	Upscale Hotel	General Office	Multifamily
Sq Ft / Units [1]	100	100,000	100
Estimated Fiscal Benefits [2]			
Property Tax [3]	$57,000	$77,000	$83,000
VLF Property Tax	$19,000	$25,000	$28,000
Sales Tax [4]	$25,000	$1,000	$8,000
Transit Occupancy Tax	$728,000	$0	$0
Total Estimated Fiscal Benefits	$829,000	$103,000	$119,000

Source: KMA

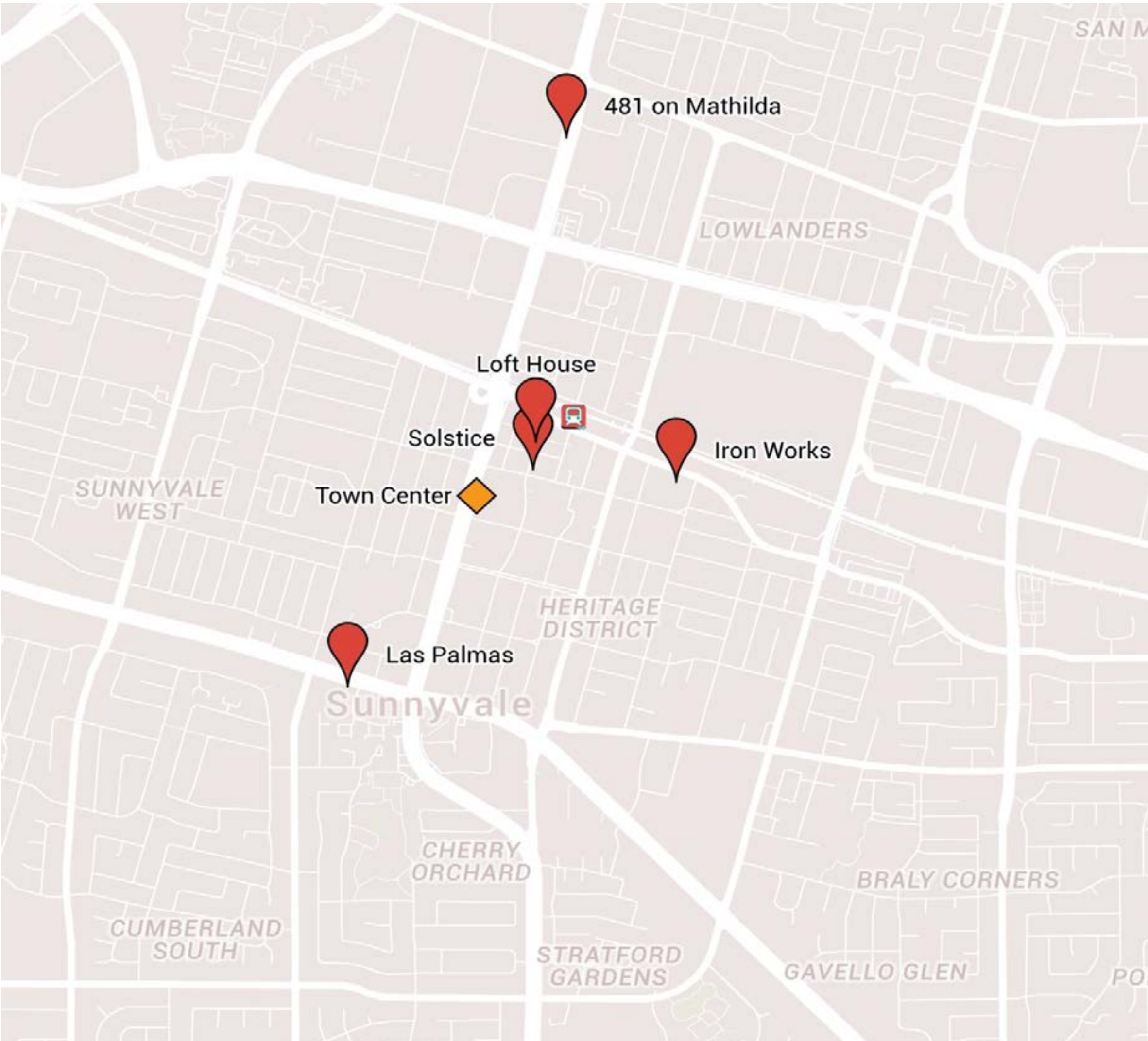
[1] Built areas for non-residential uses are asumed for illustrative purposes only.
[2] Estimate of fiscal benefits does not account for costs to the city to service new residents/workers or to maintain new infrastructure.
[3] Assessed values will vary depending on the development program. For the time being, a flat rate is assumed for commercial and residential property values, respectively.
[4] For non-retail uses, taxable retail sales represent only non-project retail sales within Sunnyvale. For purposes of this illustrative analysis off-site sales represent a small share (5%-10%) of total expenditure potential. See Appendix Table A-6 for a more complete analysis of incremental retail demand generated by residential and office uses.

APPENDIX TABLE A-9
Residential Developments Completed and Planned Near Town Center
(0.5 mile radius)
Market Assessment
Sunnyvale Town Center

Project Name and Address	Completion Date	Units
Completed		
Solstice, 299 W Washington Ave	2014	280
Loft House, 150 S Taafe Street	2014	133
Las Palmas, 660 West El Camino Real	2015	103
Subtotal, Completed Units		**516**
Under Construction		
Iron Works North and South, 388 E Evelyn Ave	2016	184
481 on Mathilda, 445 N Mathilda Avenue	2016	105
Other Infill Projects	2015-2016	52
Subtotal, Units Under Construction		**341**

Source: KMA, City of Sunnyvale
Does not include 292 Town Center units (most with exterior shells completed).

APPENDIX FIGURE A-1
Location of Planned and Completed Developments Near Town Center
Market Assessment
Sunnyvale Town Center



Source: KMA, City of Sunnyvale, Google Maps