



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

MEMORANDUM

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REAL ESTATE
AFFORDABLE HOUSING
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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.

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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.

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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.

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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.

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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.