



**Sacramento
Housing &
Redevelopment
Agency**

REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

915 I Street, Sacramento, CA 95814-2671

Staff Report
February 14, 2006

Honorable Chair and Members of the Board:

Subject: 926 J Street Owner Participation Agreement

Location/Council District: Southwest corner of 10th and J streets, Central Business District (District 1)

Recommendation:

This report seeks Agency direction on a request from Rubicon Partners for 1) an Owner Participation Agreement (OPA) with the Redevelopment Agency (Agency) and 2) a proposed public investment in the project of up to \$15 million. A resolution approving the request is attached.

Contact: Traci Michel, AICP, Senior Project Manager, 808-8645
Leslie Fritzsche, Downtown Development Manager, 808-5450

Presenters: Traci Michel, AICP, Senior Project Manager

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451

Summary:

The office building located at 926 J Street was completed in 1925 and is currently one of the most architecturally significant and visible buildings in downtown Sacramento (Attachment 1). The property owners' representative, Rubicon Partners ("Partners"), originally planned to renovate and re-tenant the building, but now have a unique opportunity to consider a boutique hotel use. This change in use would stimulate additional redevelopment activities in the downtown Sacramento and would provide significant long-term returns to the City, but requires financial assistance to implement. This report provides information about the Partners' request for an OPA with the Agency for development of a boutique hotel on the property. In addition, the Partners have requested up to \$15 million in public assistance for the project. If the Agency so directs, staff will negotiate with the Partners and, if successful, return to the Agency with an

OPA for approval. The OPA would establish milestones for the project's progress and the amount of public financial participation.

Committee/Commission Action:

There are no Committee or Commission actions associated with this item. However, the Development Subcommittee of the Downtown Sacramento Partnership is scheduled to meet on February 10th to review the project.

Background Information:

The building located at 926 J Street was completed in 1925 for California Western Life Insurance Company and was the first high-rise office building at 14 stories in downtown Sacramento. Today, it is still one of the most significant and visible buildings in downtown Sacramento. The building's architect was George Selland, California's first State Architect and the father of many historic structures, including San Quentin Prison. The building and its location are considered key to downtown redevelopment for several reasons:

- The historic character and significant architecture of the building make it a Sacramento landmark;
- The building presents a visual anchor to Caesar Chavez Park across J Street and complements other high-rise structures surrounding the park;
- The block between 9th and 10th streets contains a number of blighted and underutilized buildings;
- J Street is one of the main arterials in downtown Sacramento;
- The 10th/J intersection offers significant visibility and has high vehicular and pedestrian volumes;
- 10th Street is a critical corridor, connecting City Hall with the State Capitol and intersecting with the Agency's 10th/K redevelopment project; and
- Public parking facilities to support the site are available nearby.

Project Proposal

The boutique hotel project (Proposed Project) consists of renovating the existing 14-story office building to accommodate the following:

- A 197-room boutique hotel to be operated by Joie de Vivre Hospitality (JDV) or other high-end boutique hotel operator;
- Approximately 12,000 square feet of meeting space, 3,500 of which would be located on the outdoor patio on the 7th floor;
- Two ground-floor restaurants;
- Fitness center; and
- One level of office space, if feasible.

Based in San Francisco, JDV is the largest boutique hotel company in Northern California with a total portfolio of 28 hotels, including 18 in San Francisco. JDV has proposed creating a new hotel with a sense of history and place in Sacramento. The

Proposed Project is to be of high-quality interior décor, designed along the lines of other new JDV hotels such as the Hotel Adagio and the Hotel Vitale in San Francisco, and the Hotel Montgomery in San Jose. The Hotel Rex, also located in San Francisco, and another JDV property have been indicated as a design model for the Proposed Project.

Market Conditions

Staff hired PKF Consulting to study the Proposed Project and current hospitality market conditions. PKF is a preeminent international firm specializing in analyzing the hotel and hospitality industry. The firm is utilized extensively by investors, government agencies, hotel owners, operators and developers for market research, feasibility studies, market positioning and financial analysis. PKF's work on this project included:

- Review of recent occupancy and average daily rate (ADR) performance for the overall Sacramento lodging market and the Downtown lodging market specifically;
- Forecast of expected future performance of the Downtown Sacramento lodging market over the next several years;
- Estimation of the likely occupancy and ADR for the Proposed Project;
- Estimation of the impact the Proposed Project would have on existing hotels in the competitive market; and
- Forecast of the Transient Occupancy Tax (TOT) to be produced by the proposed project.

Based on an analysis from PKF consulting, the Proposed Project should be able to obtain a comparably high ADR due to its uniqueness in the market and high-quality, new hotel product. Additionally, the Proposed Project offers the competitive advantages of a downtown location and an essentially new product, but wrapped in a historic shell. PKF's study indicated the following:

- There is strong demand for more hotel rooms in downtown Sacramento;
- The Proposed Project will attain a stabilized occupancy of approximately 73 percent with a concurrent ADR of \$150;
- The Proposed Project will have no measurable impact on the occupancy or ADR performance of existing hotels in the competitive market;
- The project would not have an affect on occupancies at other existing hotels;
- The TOT generated from the project would be new TOT revenue; revenues if the Proposed Project were completed; and
- The Proposed Project is estimated to produce over \$1 million annually in TOT on a stabilized basis after 2009, with a 3% increase annually after 2012.

Project Costs

Although the Partners are still refining their project budget and staff's financial analysis has not been fully completed, the total project costs are estimated at \$50 million. Of that amount, it is estimated that approximately \$15 million in public assistance is needed to make the project financially feasible. The public assistance would be used in the following ways:

- Offset cost differential between office and hotel uses;
- Streetscape enhancements on both J and K streets;
- Public improvements on 10th Street to accommodate outdoor seating opportunities for a ground-floor restaurant;
- Tenant improvement costs for a signature restaurant and ground-floor tenants;
- Permit costs for any additional fees or permits required for the hotel conversion (permit costs have already been paid for the office renovation project);
- Relocation assistance for any remaining tenants; and
- Sewer fee credits.

Additionally, the project will require securing 175 parking spaces to support the hotel use.

Project Benefits

The Proposed Project will generate a number of benefits to the Agency and to the City. The direct economic benefits include:

- Approximately \$1 million in additional TOT tax annually;
- An estimated \$330,000 in annual sales tax;
- Approximately \$300,000 in additional property tax; and
- 200 new jobs for the hotel operation and an estimated 30 new jobs for the new restaurant

In addition to the direct benefits, the project is anticipated to stimulate additional redevelopment along the J Street corridor as well as support the Agency's efforts to bring new retailers and restaurants along K Street. It is envisioned that the development of a boutique hotel at this location would serve to not only turn around a section of J Street that has long suffered from disinvestment, but benefit the City as a whole in its efforts to become a visitor and tourist destination. The project will revitalize a deteriorating historic building on a blighted corner.

Next Steps

If the Agency supports the Proposed Project in concept, staff will begin to analyze the Proposed Project financials in detail and negotiate an OPA. The OPA would include the specific parameters of the project and the Agency's financial participation. Staff would return to the Agency for approval of the OPA.

Financial Considerations:

Staff considered various forms of financial assistance as possible funding sources for the Proposed Project, including Downtown redevelopment bond funds, property tax rebates, TOT, historic tax credits, building permit and/or fee credits and sewer credits. Because of the project timing, Downtown redevelopment bond funds are the most feasible source for the requested subsidy of up to \$15 million.

The specific amount of funding required will be analyzed as part of negotiating the OPA. As part of that process, staff will negotiate with the Partners on potential participation in the project. The final details of the project and specific funding allocation will be included in an Owner Participation Agreement that will be presented to the Agency for approval.

Environmental Considerations:

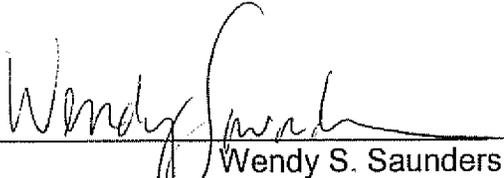
The proposed action to authorize negotiations with the developer to further redefine the Proposed Project scope and to commence environmental review, if necessary, is authorized under CEQA Guidelines Section 15262, planning for possible future action.

Policy Considerations:

The negotiation period will result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and 2005-2009 Merged Downtown Implementation Plan. Additionally, the proposed project is consistent with the development objectives outlined in the recent JKL Community Workshop process.

M/WBE Considerations:

Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully submitted: 
Wendy S. Saunders
Economic Development Director
on behalf of the Redevelopment Agency
of the City of Sacramento

Recommendation Approved:


RAY KERRIDGE
Interim City Manager

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RESOLUTION NO.

Adopted by the Redevelopment Agency of the City of Sacramento

Date _____

AUTHORIZATION TO NEGOTIATE AN OWNER PARTICIPATION AGREEMENT REGARDING THE TERMS OF AN AGREEMENT FOR REDEVELOPMENT OF THE PROPERTY LOCATED AT 926 J STREET

BACKGROUND

- A. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors.
- B. One of the outcomes of that workshop was an interest in looking at stimulating redevelopment not only along K Street but also on the adjacent corridors of J and L streets because of their high visibility and significance as the main transportation corridors in the Central City.
- C. The Agency has invested in the 9th and J Lofts project to stimulate additional redevelopment and elimination of blight along the J Street corridor.
- D. The Proposed Project lies within one block of that significant Agency investment.
- E. The building is an historic structure in deteriorating condition.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

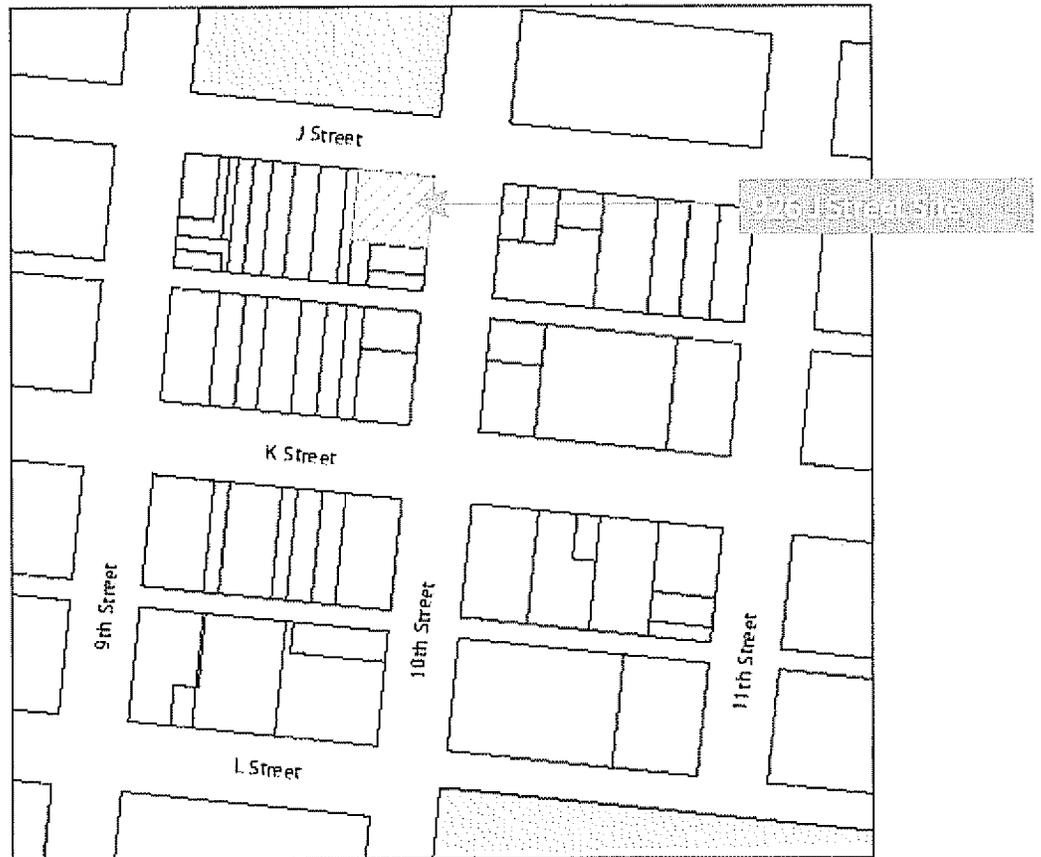
Section 1. After due consideration of the facts presented, the findings, including the environmental findings regarding this action, as stated in the staff report, are approved.

Section 2. Agency staff is directed to return to the Agency for approval of the Owner Participation Agreement (OPA).

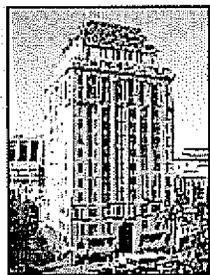
Section 3. Agency staff is directed to negotiate an OPA with Rubicon Partners regarding the redevelopment of the property located at 926 J Street with a public investment of not more than \$15 million.

ATTACHMENT 1

926 J Street - Project Site Location Map



Site Profile



926 J Street