

Recommendation to Approve Ground Lease Amendment with HPS – San Mateo, LLC

Finance Committee
July 24, 2023



Overview

- In December 2022, the JPB entered into a long-term ground lease with HPS – San Mateo, LLC (HPS) for transit-oriented development (TOD) at the Hayward Park Caltrain Station
- Per the lease, if the developer is unable to assemble financing for the project the lease could be terminated in September
- Due to current challenging market conditions, staff recommends that the Board authorize the Executive Director to:
 - Approve an amendment to the ground lease that includes an extension to the existing termination option and an associated adjustment to rents
 - Approve three additional 6-month extensions, if requested by HPS and at the Executive Director's discretion

Background: Hayward Park TOD

- The Hayward Park TOD will be Caltrain's first TOD project, including:
 - 191 studio, one- and two-bedroom residential units, including 28 income-restricted units
 - 16 affordable to very low-income households
 - 12 for moderate-income households
 - A publicly accessible bike room
 - An improved bus stop and enhanced bicycle and pedestrian connectivity to the station
- The project is consistent with the City of San Mateo's 2005 Rail Corridor Plan



Ground Lease Overview

- Executed in December 2022
- 65-year term with two 17-year extension options
- The JPB will continue to own the land, and the developer is responsible for financing, developing, owning and maintaining the project
- An early termination option allows the lease to be terminated in the event the developer is not able to assemble financing for the project by September 2023
- Current capital markets, including the effects of the banking crisis, make this this a particularly challenging time to finance the project

Current Ground Lease Rents

Preliminary Term \$10,000 per month through May 2023

Construction Term \$15,000 per month until issuance of the project Certificate of Occupancy (24 months maximum)

Stabilization Term \$20,000 per month until the project reaches 90 percent occupancy (12 months maximum)

Regular Term Minimum base rent: \$250,000/year

Participation Rent (% of Effective Gross Income):

Year 1: Minimum Base Rent

Years 2 to 10: 4%

Years 11 to 20: 10%

Years 21 to 65: 12%



Proposed Amendment

- Extend the early termination option for six months, with the potential for three additional six-month extensions at the discretion of the Executive Director
 - Initial extension will be from September 2023 to March 2024
- Adjust the definition of the Preliminary Term to allow HPS to continue to pay Preliminary Term rent until the project is financed and ready to enter the construction phase
- At the time of each extension, adjust all of the rents upward based on the Consumer Price Index to reflect the time value of money

Process for Additional Extensions

- Staff will receive regular updates from HPS about their progress toward financing the project
- If HPS requests additional extensions, staff will develop a recommendation to the Executive Director based on an independent assessment of market conditions and information about the status of comparable planned apartment projects
- If it is determined that the delays are due to limitations of HPS, and not due to market and financial conditions, staff will recommend against the extension

Budget Impact

- Delays receipt of rent increases that were previously expected under the ground lease by 10 months, with the potential for an additional 18 months if all extensions are requested and approved
- If the Amendment is not approved, it is possible that HPS will choose to terminate the ground lease, which would result in reduced rent revenue in the near term and significant uncertainty about the amount and timing of future revenue from a new ground lease with a new developer

Staff Recommendation

Staff recommends that the Board authorize the Executive Director, or designee, to:

- 1) Approve the Ground Lease Amendment, including:
 - A six-month extension to the early termination option, with the potential for up to three additional six-month extensions
 - An adjustment to the ground lease milestones to allow HPS to continue to pay the Preliminary Term rent until the early termination option period has passed
 - An upward adjustment to ground lease rents at the time of each extension based on the Consumer Price Index
- 2) Approve up to three additional six-month extensions, if requested by HPS, and at the Executive Director's discretion



Thank you!

