City of Alameda California

April 20, 2010

SCC Alameda Point LLC
c/o SunCal Companies
300 Frank H. Ogawa Plaza, Suite 342
Oakland, CA 94612
Attn: Steve Elieff

Re: Comments on "Modified Optional Entitlement Application" by SCC Alameda Point LLC pursuant to the Alameda Point Exclusive Negotiation Agreement by and among the City of Alameda (**City**"), the Community Improvement Commission of the City of Alameda ("**CIC**"), and the Alameda Reuse and Redevelopment Authority ("**ARRA**") (collectively, "**Alameda**"), and SCC Alameda Point LLC ("**SunCal**"), as amended (the "**ENA**")

Dear Mr. Elieff:

On March 22, 2010, SunCal submitted a "Modified Optional Entitlement Application" to the City (the "**Modified OEA**"). SunCal subsequently submitted a project proforma to Alameda on April 8, 2010 (the "**SunCal Proforma**"), as well as a letter entitled "Re: Alameda Point CEQA Project Description" (the "**Project Description Letter**") on April 13, 2010.

Alameda understands the Modified OEA is intended to amend the "**Original OEA**" submitted by SunCal on January 14, 2010. The City determined that the Original OEA was not an Optional Entitlement Application within the meaning of Section 7.1.6 of the ENA and that SunCal was thus in default under the ENA for failure to achieve a Mandatory Milestone by the applicable date set forth in the Mandatory Milestone Schedule of Performance. Accordingly, Alameda issued a Notice of Default on February 4, 2010.[1] Alameda will acknowledge, in separate correspondence, that SunCal has cured its default under the ENA with the submittal of the Modified OEA. Alameda has reviewed the Modified OEA, the SunCal Proforma, and the Project Description Letter, and sets forth in this correspondence a non-exhaustive list of further questions related to these submissions.

[1] On March 22, 2010, SunCal submitted a "reservation of rights" letter to Alameda dated March 17, 2010 (the "**March 17 Letter**"). The March 17 Letter sets forth SunCal's disagreement with the issuance of the Notice of Default ("**NOD**"). Alameda will respond to the March 17 Letter in separate correspondence.

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Density Bonus Option

- **Two Project Descriptions.** The Project Description Letter presents two different development concepts: the 3,712-unit "**Base Project**", and the 4,845-unit "**Density Bonus Option.**" SunCal desires that the City approve both development concepts, leaving it for SunCal to later chose which concept actually will be developed. How does SunCal recommend the City and community best collectively chart a course for the future of Alameda, given the uncertainty about which of the two development concepts SunCal proposes developing at Alameda Point? What role will the City and community play, if any, in deciding between the Base Plan and the Density Bonus Option?

- **Density Bonus Percentage.** Neither the Project Description Letter nor the Modified OEA describe which type of density bonus SunCal would seek under the Density Bonus Option. What type of density bonus will SunCal be seeking, and can SunCal provide more detail regarding what it intends to build and where under the Density Bonus Option?

- **Allowable Densities.** Under City and State density bonus regulations a maximum bonus of 35% is available if a developer sets aside a certain number of units for affordable housing, for a maximum density of 29 units per acre, unless the City approves a density transfer. The Density Bonus Option proposes residential densities greater than 29 units to the acre, including development of up to 50 units per acre. (Project Description Letter, Exhibit). How does SunCal propose, consistent with Alameda's Density Bonus Ordinance and State Density Bonus law, to allow a future developer to transfer density under the density bonus regulations and construct residential units at densities of 50 units per acre?

Transportation and Sustainability

- **Previous City Transportation Studies.** Previous transportation strategies have been developed by City staff. How does the Modified OEA's transportation program improve, supplement or further advance these previous transportation strategies? How does this program differ under the two development concepts proposed by SunCal?

- **Transportation Funding and Operations.** The Modified OEA's discussion of the transportation program, contained in Chapter 5 of the Master Plan, does not provide details on funding or operations of the proposed Bus Rapid Transit, nor does it provide specific information on the funding of ferry operations or Oakland-Chinatown transportation improvements. What is SunCal's approach to funding the operations of these specific transportation facilities? Again, does this approach differ under the Density Bonus Option?

- **Transit Alignment Determination.** The Modified OEA's Master Plan provides for some final transit alignment improvements to be determined as part of the subdivision approval process. The subdivision approval process is relatively late for planning important transit infrastructure. Will SunCal be funding additional feasibility studies prior to the subdivision process to help determine the appropriate transit alignment and related improvements and costs?

- **Trip Caps vs. Trip Counts**. Section 5.4 of the Modified OEA's Master Plan describes establishing trip counts for each development phase. Why does SunCal propose trip counts instead of trip caps?

- **Parking**. Section 5.3.6 of the Modified OEA's Master Plan contemplates less parking demand than conventional suburban developments. Upon what analysis does SunCal base this conclusion, particularly for the Base Project, which includes approximately 3,300 single family homes, townhomes and duets, rather than a significant portion of multi-family development?

- **Sustainability**. Issues of sustainability and global climate change are of critical significance to Alameda, and there is growing recognition that land use patterns and development practices can affect greenhouse gas emissions. Alameda Point offers the City of Alameda a unique opportunity to develop a forward-thinking sustainable community. SunCal's December 19, 2008 Draft Redevelopment Master Plan contained an entire Chapter on Sustainability Strategies for carbon neutrality, preservation of water resources, the use of sustainable materials and the minimization of waste. The Modified OEA does not contain the same level of detail as the December Master Plan nor does it describe a specific plan or commitment for addressing climate change (e.g., goals or standards for minimizing greenhouse gas emissions per capita through prescribed and required development patterns, transportation requirements, energy use or waste reduction targets). Why does the Modified OEA not include a similar chapter on sustainability strategies? How does the Modified OEA adequately address sustainability and global climate change?

Third Party Agreements

- **Tidelands Trust Exchange**. The phasing of the Tidelands Trust Exchange process is of critical significance to Alameda. Will the Trust Exchange Property be transferred in phases or simultaneously, and what is SunCal's strategy for pursuing a successful Trust Exchange? How does SunCal propose that strategy be coordinated with the Navy's obligation to clean up and transfer the property for reuse?

- **United States Fish and Wildlife Services Section 7 Consultation**. The Modified OEA proposes residential units in certain buffer lands subject to specific land use restrictions within the 1999 Biological Opinion. Alameda representatives attended meetings with SunCal and United States Fish and Wildlife Service ("**USFWS**") at which the concept of allowing residential uses in the zones subject to those restrictions (specifically, Terms & Conditions ("**T&Cs**") 4.a – d and 5.a - c) was discussed. Alameda representatives did not observe any indication that the USFWS would be willing to consider changing the T&Cs to allow residential use in these zones. What additional information can SunCal provide to evaluate the feasibility of this proposal? What will SunCal propose be modified in the Base Plan and the Density Bonus Option if the USFWS will not allow residential uses in the currently restricted zones?

Affordable Housing

- **Collaborative**. There are currently 200 Collaborative units for the formerly homeless operating at Alameda Point, as authorized by Alameda. Why does the Modified OEA only show a relocation of 186 Collaborative units?

- **Affordable Housing Plan**. There is only a minimal amount of information on the location, type, income mix and funding of affordable housing in the Modified OEA. What is SunCal's plan for affordable housing? Does SunCal intend for residents at very-low, low- and moderate-income levels to occupy for-sale housing in the proposed development? What is meant by "group living" in the Modified OEA's discussion of affordable housing?

Market and Financial Feasibility

- **SunCal Proforma.** The SunCal Proforma only addresses the financial impacts of the Base Project. When can Alameda expect to receive a proforma for the Density Bonus Option?

- **Internal Rate of Return**. The unleveraged Internal Rate of Return ("**IRR**") of 14.7 percent shown in the SunCal Proforma for the Base Project is significantly below SunCal's stated minimum of 20 to 25 percent. Moreover, when the issues discussed below are taken into account, the project IRR is likely to be considerably lower than the 14.7% shown. Has SunCal changed its required minimum internal rate of return for the project? On what basis does SunCal conclude that the Base Project is financially feasible? Will there be sufficient funding to pay for the public amenities and community benefits envisioned in the Master Plan?

- **Absorption Rate**. The annual sales of market-rate units in the SunCal Proforma are approximately 10 to 15 percent greater than in prior SunCal proformas based on the project as submitted to the voters via ballot initiative in February, 2010 (the "**Measure B Plan**"), despite a reduction in the diversity of product types. A lower rate of absorption therefore is likely and would reduce the projected IRR. Why has SunCal increased the annual absorption rate when the diversity of housing has been reduced?

- **Residential Sales Prices**. Sales prices assumed by SunCal are high compared to current prices and likely future prices. The current Bayport sales prices of $300 per square foot suggest that SunCal projects a 33 percent increase in sales prices over the next 4 years to achieve values of over $400 per square foot assumed by 2014, the first year of residential land sales. This would require annual increases of 7.5 percent through 2014. Given the slow recovery expected in the housing market (which perhaps has not even begun), and the increased equity and other requirements for home financing, these price projections appear to be highly unrealistic and likely unachievable. What is the basis for these market price assumptions?

- **Improved Land Value**. The improved land values in the SunCal proforma appear to be substantially overstated relative to assumed market prices for finished units. Improved land values typically range between 15 and 25% of total finished development value. SunCal's residential land value estimates for single family, small lot homes represent 49 percent of finished unit value, significantly above achievable land values given typical development economics. One reason for this is that SunCal's assumptions of construction costs are very low, ranging from $100 to $115 per square foot for residential units proposed to sell for $780,000 to about $1 million. Why are SunCal's land values so high relative to building values? What is the basis for SunCal's estimates of costs per square foot for residential uses?

- **Appreciation**. SunCal assumes unit prices increase by 5% annually, while costs increase at the assumed 3% percent inflation rate. It appears that in the SunCal proforma a substantial proportion of this real appreciation falls to the land value, resulting in land sales prices increasing at 10% annually, over 7% above the assumed inflation rate, a phenomenon known as "land leverage". This is an aggressive assumption that implies: 1) little of the appreciation is captured by the vertical developer; and 2) costs do not increase in real terms as markets and prices increase. What is SunCal's basis for such aggressive assumptions about residual land values, the primary source of project revenue?

- **Fiscal Neutrality.** The SunCal Proforma includes approximately $17 million in what appears to be mitigation for fiscal impacts, however this is likely to be insufficient. The current fiscal analysis, which was based on the project submitted to the voters in the recent ballot initiative and is similar to SunCal's Density Bonus Option, indicates an estimated $5 million of adverse impact on public works-related service costs. The Base Plan has a similar infrastructure cost, so the impacts are likely to be comparable. It is not evident whether the SunCal Proforma includes an ongoing source of fiscal mitigation. How will the City be assured that the project's fiscal impacts will be adequately mitigated?

We expect to discuss these, and other topics, with SunCal in the coming weeks.

Regards,

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Ann Marie Gallant
Interim City Manager

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