

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

☒ Action ☐ Information

MEAD Number:
203392

Resolution:
☒ Yes ☐ No

TITLE:

JGB - Modification of Joint Development Agreement

PRESENTATION SUMMARY:

To advise the Board of Directors and seek approval of proposed changes to the Joint Development Agreement (JDA) and related documents for 600 Fifth Street NW (the Jackson Graham Building or JGB) which Metro entered into with Squares 487 Associates, LLC per Board Resolution No. 2020-05.

PURPOSE:

Authorize staff to amend the Joint Development Agreement and related documents with Square 487 Associates, LLC for the redevelopment of the Jackson Graham Building at 600 Fifth Street NW.

DESCRIPTION:

Metro and Square 487 Associates, LLC, a joint venture between Rockefeller Group Development Corporation and Stonebridge Acquisitions, LLC, are parties to the October 30, 2020 Joint Development Agreement (JDA) for the ground leasing of the land under the Jackson Graham Building (JGB) to the Developer and the redevelopment of the building as an office building. As a result of the pandemic and its effects, the Developer has asked Metro to modify the JDA.

Key Highlights:

- In 2016, the Board authorized an office consolidation strategy to improve working conditions for Metro employees and to reduce administrative operating costs.
- The strategy included consolidating 10 existing leased and owned office facilities into four Metro-owned office buildings, as well as disposing of Metro's headquarters (JGB) located at 600 Fifth Street NW, Washington, DC.
- The JGB site was offered for joint development in April 2019, and Square 487 Associates, LLC was selected as the developer. Metro and the Developer negotiated a Joint Development Agreement that proposes a 99-year ground lease.

- As a result of changes in conditions arising from the pandemic, the Developer desires to make changes to the JDA.

Background and History:

In 2016, Metro began implementing an office consolidation strategy to more efficiently use its owned space and to dispose of leased office space. It was determined that the costs of renovating JGB would be prohibitive. The office consolidation will reduce the total number of administrative facilities from 10 to four locations, including three newly-constructed Metro-owned office buildings at L'Enfant Plaza, New Carrollton and Eisenhower Avenue as well as existing space in Greenbelt.

As the new buildings open, JGB will no longer be needed for Metro operations or administration. However, continuing control of the JGB site is required because three Metro Station chiller plants are located on the roof and the Red Line tunnel runs under the property. As a result, and in accordance with Metro's Joint Development Policies, JGB was put on the market as a ground lease opportunity in April 2019, and the Developer was selected through a competitive bid process.

Discussion:

The Developer proposes to redevelop JGB into a trophy-quality office building for lease. The building will be stripped down to its concrete skeleton, three floors and ground floor retail added, and a new glass exterior installed. The existing Metro chiller plant serving the Archives, Gallery Place and Judiciary Square Stations will be removed and a new chiller plant installed below grade.

The Joint Development Agreement outlines the terms and conditions under which Metro would ground lease the property to the Developer for 99 years for the purpose of redevelopment. The ground lease will expire at the end of the 99-year term, and the building will revert to Metro's ownership.

The pandemic has had a materially adverse impact on the office building development and leasing market in Washington, DC resulting in (1) higher leasing costs due to an excess supply of office space, (2) increased construction costs resulting from a spike in inflation and supply chain disruptions, and (3) higher financing costs due to interest rate hikes. As a result, the Developer has requested that Metro modify the economic terms of the Joint Development Agreement to allow the project to proceed in the next year as planned.

FUNDING IMPACT:

The modification preserves the transaction but affects the timing and amount of funds

that would be received by WMATA.

Project Manager:	Steven A. Teitelbaum, Senior Real Estate Advisor
Project Department/Office:	CFO/LAND

TIMELINE:

Previous Actions	<p>2018 - Board Resolution 2018-13 requires Board approval of joint development agreements and amendments to joint development agreements that result in a net reduction in compensation to Metro and/or a substantial change to any terms that impact the joint development criteria set forth in Board Resolution 2018-14.</p> <p>February 2020 - Board Resolution 2020-05 approved the execution of a Joint Development Agreement with Square 487 Associates, LLC (Developer).</p> <p>October 2020 - Metro and the Developer sign a Joint Development Agreement.</p>
Anticipated actions after presentation	<p>2022 - Metro and the Developer to negotiate an amendment to the Joint Development Agreement and related documents (ground lease and Construction Agreement).</p> <p>2023 - Metro and Developer to close on the ground lease.</p>

RECOMMENDATION:

Authorize staff to amend the Joint Development Agreement and related documents with Square 487 Associates, LLC for the redevelopment of the Jackson Graham Building at 600 Fifth Street NW.

SUBJECT: APPROVAL TO AMEND THE JOINT DEVELOPMENT AGREEMENT FOR THE JACKSON GRAHAM BUILDING SITE

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, Resolution 2018-13 requires Board of Directors approval for any amendment to a joint development agreement that results in a net reduction to the compensation approved or a substantial change to any terms that impact the criteria set forth in Section 2.2 of the Joint Development Policies; and

WHEREAS, In Resolutions 2020-05, the Board of Directors authorized the General Manager and Chief Executive Officer to negotiate and execute a joint development agreement with a joint venture partnership comprised of Rockefeller Group Development Corporation and Stonebridge Acquisitions, LLC (the "Developer") or its affiliate for the Jackson Graham Building site; and

WHEREAS, On October 30, 2020, staff executed a joint development agreement (the JGB Joint Development Agreement) with the Developer that provided for the Developer to ground lease and develop the Jackson Graham Building site; and

WHEREAS, As a result of the pandemic and its impact on the real estate market, staff recommends revisions to the JGB Joint Development Agreement that may result in a net reduction to the compensation approved and/or a substantial change to terms that impact the criteria set forth in Section 2.2 of the Joint Development Policies;

NOW, THEREFORE, be it

RESOLVED, That the Board of Directors authorizes the General Manager and Chief Executive Officer to negotiate and execute an amendment to the joint development agreement with the joint venture partnership comprised of Rockefeller Group Development Corporation and Stonebridge Acquisitions, LLC for the Jackson Graham Building site that may either result in a net reduction to the compensation previously approved and/or a substantial change to terms that impact the criteria set forth in Section 2.2 of the Joint Development Policies; and be it finally

RESOLVED, That this Resolution shall be effective immediately to enable staff to timely negotiate and execute the amendment to the joint development agreement for the Jackson Graham Building site.

Reviewed as to form and legal sufficiency,

Patricia Y. Lee
Executive Vice President and General Counsel

WMATA File Structure No.:
21.9.4 Joint Development Agreements