

REDEVELOPMENT AGENCY
BOARD

HARRY S. MAVROGENES
EXECUTIVE DIRECTOR

SEE BELOW

FEBRUARY 28, 2006

SUBJECT: REAL ESTATE PURCHASE AGREEMENT FOR
ACQUISITION OF REAL PROPERTIES LOCATED AT 150 S.
MONTGOMERY STREET, 115 AUTUMN STREET AND 510
W. SAN FERNANDO STREET

RECOMMENDATION

It is recommended that the Redevelopment Agency Board:

- (a) Approve a Purchase and Sale Agreement with James P. Mieuli, Trustee of the James P. Mieuli 2002 Revocable Trust UTA Dated August 23, 2002, in the amount of \$5,953,500 plus related closing costs, for the acquisition of real property located at 150 South Montgomery Street; and,
- (b) Approve a Purchase and Sale Agreement with Butcher Bros., a partnership in the amount of \$5,939,460 plus related closing costs, for the acquisition of real properties located at 115 Autumn Street and 510 West San Fernando Street; and,
- (c) Adopt a resolution approving a shift of \$1,500,000 from Adopted FY 2006-07 Capital Improvement Program to FY 2005-2006 Adopted Capital Budget for Downtown Housing Site Acquisition project line, and amending the FY 2005-2006 Agency appropriations resolution, as detailed on [Attachment A](#).

BACKGROUND

The Mieuli parcel is located north of the confluence of Montgomery and Autumn Streets and the Butcher Property is located at the southwest corner of San Fernando and Autumn Streets. The properties are in the area covered by the Diridon/Arena Strategic Development Plan and are also overlapped by the

Midtown Specific Plan. The Diridon/Arena area has served as a major fruit packing, transshipment, and light industrial area. This role is changing as industrial uses have left the area and large properties are occupied by interim uses or stand vacant. Recognizing this transition, and in order to capitalize on the strategic transportation hub located here, the City Council adopted the Diridon/Arena Strategic Development Plan in June 2005.

The objectives of the Diridon/Arena Strategic Development Plan are to:

- Create a pattern of development that reinforces transit.
- Provide a diversity of housing opportunities that establishes viable and livable neighborhoods.
- Preserve viable industrial and commercial-service uses.
- Create an extensive system of pedestrian pathways and open space.
- Balance circulation needs with considerations of livability.
- Complement and extend adjacent residential and commercial areas surrounding the Diridon/Arena area.

The Diridon/Arena Strategic Development Plan envisions a pedestrian and transit-oriented high-density community, through new development with an urban character. West of the Diridon rail station, a new neighborhood has been built in the past several years with the construction of over 700 residential units. During the same period, housing development has accelerated throughout the greater downtown, with active involvement by the Redevelopment Agency in assembling properties and making them available through the Request for Proposal process. Examples of successful Agency land assemblies for housing development include: 101 San Fernando, The Plaza, Park Townsend, Block 3, Dimensions, Block 8, and North San Pedro.

At the direction of the Agency Board, staff began efforts to assemble 13 parcels on 13.5 acres from 10 owners in the Diridon/Arena area in May 2005. On November 8, 2005, the Board approved the acquisition of the Stephens Meat property at the southwest corner of San Fernando and Montgomery Streets. The Agency took title to the property on February 2, 2006.

The site is to be assembled for transit-oriented mixed-use housing development, consistent with the Council-adopted Diridon/Arena Strategic Development Plan, and as analyzed in the Downtown Strategy 2000 Environmental Impact Report (EIR). The site is also a potential location for a future major league baseball stadium, however, prior to the City Council making any decision as to a potential

ballpark, voter approval is necessary as required by the City Charter and an EIR would need to be completed. Agency and City staffs are currently preparing a draft EIR as directed by the Agency Board in November 2005.

To take advantage of infill opportunities near transit, the Diridon/Arena Strategic Development Plan includes mixed use development. The subject properties are designated under that Development Plan as Transit Oriented Mixed Use. The development potential is up to 150 dwelling units per acre. A higher density mix of residential and commercial uses is allowed to maximize development opportunities.

ANALYSIS

150 South Montgomery Property Information:

Property Owners:	James P. Mieuli, Trustee of the James P. Mieuli 2002 Revocable Trust UTA Dated August 23, 2002
Land Area:	Approximately 44,100 sq. ft.
Present Use:	Commercial
Improvements:	Commercial Building
Assessor's Parcel Number:	259-48-053
Purchase Price:	\$5,953,500

The original Offer to Purchase letter was presented to the property owner of record on September 1, 2005, based on an appraisal prepared by the Agency's consultant, Hulberg & Associates, dated July 15, 2005. The original offer was for a purchase price of \$5,515,000. The property owner countered on September 19, 2005 with a sale price of \$5,953,500. The Agency and property owner continued to negotiate additional deal points and ultimately agreed upon the purchase and sale agreement as outlined in this report.

The appraiser has reviewed the counteroffer and issued a letter indicating that the agreed sales price is within a Fair Market Value range.

The Agency will have 60 days from Board approval to complete its due diligence, including environmental investigations. To assist the Seller in completing an IRS 1031 tax-deferred exchange, the Agency has agreed to an extended escrow period. Escrow is scheduled to close on or before July 1, 2007, although Seller has an option to close earlier upon 30-days written notice to the Agency.

115 Autumn and 510 West San Fernando Property Information:

Property Owners:	Butcher Bros., a partnership
Land Area:	Approximately 43,996 sq. ft.
Present Use:	Commercial
Improvements:	Commercial Building
Assessor's Parcel Number:	259-48-011/259-48-013
Purchase Price:	\$5,939,460

The original Offer to Purchase letter was presented to the property owner of record on September 1, 2005, based on an appraisal prepared by the Agency's consultant, Hulberg & Associates, dated July 15, 2005. The original offer was for a purchase price of \$5,499,500. The property owner countered on September 19, 2005 with a sale price of \$5,939,460. The Agency and property owner continued to negotiate additional deal points and ultimately agreed upon the purchase and sale agreement as outlined in this report.

The appraiser has reviewed the counteroffer and issued a letter indicating that the agreed sales price is within a Fair Market Value range.

The Agency will have 60 days from Board approval to complete its due diligence, including environmental investigations. To assist the Seller in completing an IRS 1031 tax-deferred exchange and to allow Seller to continue to receive rental income from its tenant, Amtrak, the Agency has agreed to an extended escrow period. Escrow is scheduled to close on or before July 1, 2007, although Seller has an option to close earlier upon 60-days written notice to the Agency. Amtrak's lease expires on June 30, 2007. Amtrak has indicated to the property owner that it has begun exploring space options for when the lease expires. If Amtrak does not relocate prior to expiration of their lease, the Agency may consider allowing Amtrak to remain on the property on a month to month lease.

The recommended acquisitions would secure the second and third of the 13 parcels targeted for assembly. Staff has extended purchase offers on two other parcels that have been offered for sale by their respective owners and are continuing negotiations with those owners. Staff has also met with the other property owners within the assembly area, all of whom have expressed willingness to consider an offer to purchase their properties. Staff is planning to conclude negotiations on the two outstanding offers within the next several months and to present offers on the remaining parcels over the next 6 to 12 months.

ENVIRONMENTAL CONDITIONS:

To address possible environmental concerns, the Agency contracted with the firm of Lowney & Associates to conduct Phase I and Phase II environmental reports. The Phase I work is documented in their October 17, 2005 report. Although no significant leaks or spills were observed at the time of the site visits, due to the long history of industrial use of the sites, Lowney & Associates recommends conducting a Phase II studies to evaluate baseline soil and groundwater quality prior to close of escrow. The Purchase and Sale Agreements provides for a 60-day due diligence period from the Board's approval of the contract.

COORDINATION

Preparation of this report has been coordinated with the Department of Planning, Building and Code Enforcement and the Agency's General Counsel.

FISCAL IMPACT

The proposed shift moves \$1,500,000 from the Adopted FY 2006-07 Capital Improvement Program to FY 2005-2006 Adopted Capital Budget - Downtown Housing Site Acquisition project line as detailed on [Attachment A](#); the proposed shift will have no impact to the capital reserve, as detailed on [Attachment A](#).

CEQA

Downtown Strategy 2000 EIR, Resolution No. 72767

HARRY S. MAVROGENES
Executive Director

[Attachment](#)