

COUNCIL AGENDA: 2-01-05
ITEM: 10.2

Memorandum

TO: HONORABLE MAYOR AND, CITY COUNCIL, /REDEVELOPMENT AGENCY BOARD
FROM: Del D. Borgsdorf
Harry S. Mavrogenes

SUBJECT: SEE BELOW

DATE: January 24, 2005

COUNCIL DISTRICT: 3
SNI AREA: University

SUBJECT: APPROVAL OF AN OPTION AGREEMENT FOR THE SALE OF A 16-UNIT RENTAL PROPERTY KNOWN AS THE DORCHESTER PROPERTY LOCATED AT 525 EAST SAN FERNANDO STREET AND 79 SOUTH SEVENTH STREET; AND ACCEPTANCE OF RELOCATION PLAN FOR THE RESIDENTS.

RECOMMENDATION

It is recommended that the Redevelopment Agency Board adopt a resolution as follows:

1. Approving the transfer to the City of San José of a 16-unit rental property located at 295 East San Fernando Street and 79 South Seventh Street and authorizing the Executive Director to enter into an option with JCN Investors, LLC (JCN) on behalf of Beta Theta Pi Fraternity (the Fraternity) to acquire the Property from the City of San José in the amount of \$1,100,000; and
2. Authorizing the Executive Director to execute such documents as necessary to conclude this transaction.

It is recommended that the City Council adopt a resolution as follows:

1. Approving the sale of 16-unit rental property known as the Dorchester property located at 295 East San Fernando Street and 79 South Seventh Street to JCN Investors, LLC (JCN) on behalf of Beta Theta Pi Fraternity (the Fraternity) from the City of San José in the amount of \$1,100,000.
2. Accepting the Relocation Plan for residents at the Dorchester property.

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BACKGROUND

The Dorchester property is located at 295 East San Fernando and 79 South Seventh Streets. The property is considered one legal parcel totaling .24 acres and is developed with two structures, the main building divided into 15 rental units and a single-family residence. The main building was constructed in 1895 and is eligible for the National Register of Historical Places and the California Register of Historical Resources, and is a candidate for designation as a City Landmark. The single-family unit was built in 1910 and is listed as a Structure of Merit on the Historic Resources Inventory. The property is surrounded by multi-family residences to the east and west, by commercial structures to the north, and by San Jose State University to the south.

In 1986, the Redevelopment Agency provided a loan to acquire and renovate the property for rental to low-income households. In April 1995, the Agency took the property back through a foreclosure action when the borrower became seriously delinquent in making regular loan payments. At the time of the foreclosure action, the total indebtedness on the property was approximately \$870,000 and the appraised value was \$550,000. Since acquiring the property, the City, on behalf of the Agency, has continued to rent the units to low-income households with the help of a property management company.

On September 10, 2003, the fair market value of the property was established at \$1,100,000 by an appraisal completed by Hulberg & Associates, Inc. This amount exceeded the outstanding debt on the property and, at that point, the City issued a Request for Quotes/Proposals to sell the property for continued use as affordable low-income housing. The only response received was from InnVision, a nonprofit agency. Staff analysis of the proposal indicated that InnVision would be unable to finance the project and the proposal was not approved.

Consistent with the City Council priority established through the Getting Families Back to Work process, the City then pursued opportunities to partner with San Jose State University in utilizing the property. The University encouraged the City to market the property to local fraternities. After sending letters to all local fraternities, two responses were received, both offering to pay the stated fair market value of \$1,100,000. A staff panel then reviewed and evaluated the performance history of the two fraternities according to a number of criteria, including: compliance with their organization regulations and University standards, maintenance and operation of their existing properties, and focus on academic and philanthropic activities. Beta Theta Pi was selected by the panel as the strongest candidate to successfully establish and maintain the operation of a fraternity in this location.

ANALYSIS

Under the terms of the proposed transaction, funds received from the sale of the property will be used to fully pay all outstanding debt on the property, including the Low and Moderate Income Housing Fund. Consistent with the requirements of California Redevelopment Law, on April 13, 2004, the City Council approved the transfer of the low-income affordability covenants on the 15

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apartments to the Art Ark project, and on June 29, 2004, the City Council approved the transfer of affordability covenants on the single-family home to Paseo Senter Family Housing Project. As a result, the City's affordable housing stock will not be reduced by the proposed transaction.

To facilitate the purchase process, JCN is negotiating on behalf of Beta Theta Pi Fraternity. Upon City Council and Agency Board approval, the Agency will enter into an option agreement with JCN and, prior to JCN's exercise of its option, the Agency will transfer the property to the City. The City will then complete the sale of the property to the Fraternity. The proceeds of the sale will be distributed as follows:

- Approximately \$380,000 to Citibank to retire the first mortgage on the property;
- The remaining \$720,000 to the Low and Moderate Income Housing Fund, including full repayment of the outstanding loan balance.

In a letter prepared by the City Attorney's Office and signed by JCN, the buyer confirmed a commitment to sell the property to the Fraternity at a future date. When the property is converted to fraternity housing, they will be required to comply with San Jose State University operation restrictions on such facilities. The proposed change of use from apartments to fraternity housing required a Conditional Use Permit (CUP), which was approved by the Planning Commission on October 27, 2004.

RELOCATION

In conformance with State relocation guidelines, a Draft Relocation Plan (attached) for the property was made available for public review on December 13, 2004, including notification letters to all tenants of the property and publication of a notice in the San Jose Mercury News. Copies of the Relocation plan were also made available at the Martin Luther King Public Library, Biblioteca Latinoamericana, City Clerk's Office, and the Public Works Real Estate Division. As part of the process of drafting the Relocation Plan, all tenants of the property were contacted regarding the plan and their potential relocation needs and rights.

JCN (on behalf of the Fraternity) has expressed its intentions to allow tenants in the 15-unit apartment building to remain in their units until they voluntarily choose to vacate. The six tenants in the single-family unit will be displaced upon the sale of the property to the Fraternity and will be provided relocation benefits as outlined in the Relocation Plan. JCN will assume responsibility for the costs of relocation.

Upon City Council approval of the Relocation Plan, the six tenants in the single-family unit will be notified that they are to be displaced from their unit. They will be given up to 90 days to relocate, assistance will be provided to them in finding alternate housing, and benefit payments will be made to them in accordance with the Relocation Plan. All six of the tenants are students at San Jose State University and have expressed an interest in relocating before the start of Spring Semester classes at the end of January. JCN has offered to pay them relocation benefits if they choose to vacate the property before receiving formal notice of Relocation following City

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Council approval of the Plan. JCN has signed a legal agreement with the City to hold the City harmless in the event that they have paid relocation benefits and the sale of the property is not completed and/or the Relocation plan is not approved.

COST IMPLICATIONS

The proposed sale of the property will result in net revenue of approximately \$720,000 in funds to the Low and Moderate Income Housing Fund (Fund 443) for the production of affordable housing units.

PUBLIC OUTREACH

Information on the project was presented at the following public/community meetings:

October 12, 2004, University Neighborhood Coalition

October 14, 2004, Horace Mann Neighborhood Association

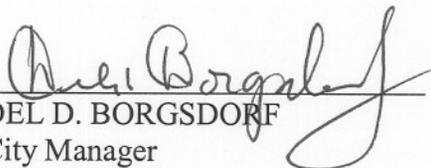
October 27, 2004, Planning Commission.

COORDINATION

This report has been coordinated with the Office of the City Attorney and the Department of Planning, Building and Code Enforcement.

CEQA

Not a Project.


DEL D. BORGS DORF
City Manager


HARRY S. MAVROGENES
Executive Director

Attachment