



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kim Walesh

**SUBJECT:** SEE BELOW

**DATE:** June 3, 2011

Approved

Date

6/8/11

**COUNCIL DISTRICT: #3**  
**SNI AREA: N/A**

**SUBJECT:** DECLARE THE 13,045 SQUARE FOOT 150 TERRAINE STREET PROPERTY APN 259-32-083 SURPLUS, NEGOTIATE AND EXECUTE A PURCHASE AND SALE AGREEMENT WITH URBAN MARKETS LLC FOR PURCHASE OF CITY PROPERTY LOCATED AT 150 TERRAINE STREET, AND AUTHORIZE THE DIRECTOR OF ECONOMIC DEVELOPMENT OR DESIGNEE TO EXECUTE ALL SALES DOCUMENTS TO COMPLETE THE TRANSACTION.

## RECOMMENDATION

Adopt a resolution to:

1. Declare the vacant 13,045 square foot 150 Terraine Street City-owned Parcel (APN 259-32-083) surplus to the needs of the City
2. Authorize the City Manager to negotiate and execute a Purchase and Sale Agreement for City owned property located at 150 Terraine Street;
3. Authorize the Director of Economic Development or designee to execute all sales documents and deeds necessary to complete the transaction.

## OUTCOME

Sale of the 13,045 square foot property located at 150 Terraine Street will ultimately allow Urban Markets LLC to build expansion space for the San Pedro Urban Market project. During the option period Urban Markets LLC will use the Terraine Street property to hold events that will further enliven the San Pedro Historic District.

## **BACKGROUND**

Urban Markets LLC is in the final stages of development of the San Pedro Urban Markets project. The Urban Market project includes the renovation of the El Dorado Bakery Building located at 87 N. San Pedro Street, renovation of the Lusardi Building located at 196 W. St. John Street and the construction of a new building at the corner of W. St. John and N. San Pedro Streets. Urban Markets is also improving the Plaza around the Peralta Adobe and will provide kiosk vendors on the sidewalks around the Market. Initial businesses in the Market are scheduled to open in the late summer of 2011. Urban markets have been successful downtown revitalization tools in many cities including the Ferry Building in San Francisco, Rockridge Hall in Oakland, and the Emery bay Public Market in Emeryville. It is the intention of Urban Market's LLC that the visitors of the Public Market will also visit the Peralta Adobe and the Fallon House and experience an important part of San Jose's rich history.

Urban markets, like any successful shopping district, are most successful when there is a variety and critical mass of shops restaurants and other offerings that provide on-going interest to visitors. Prior memorandum documented Urban Markets LLC's interest in securing 150 Terraine Street as future expansion space for the Urban Market project. The remainder of this memorandum will outline the business terms associated with the sale of City-owned property located at 150 Terraine Street.

## **ANALYSIS**

San Pedro Square is a well-established activity center with many restaurants that offer sidewalk cafes and patio dining areas. The "Square" is comprised of a collection of historic buildings and serves as a primary Downtown amenity. Within the heart of the San Pedro Square area is the Peralta Adobe and just north of the Adobe is the Fallon House. At present, the Peralta Adobe is somewhat hidden and underutilized. The project will draw many more visitors to the Peralta Adobe and Fallon House. Urban Markets LLC is in the process of structurally retrofitting the vacant El Dorado and Lusardi buildings as well as constructing a new market building on the southwest corner of W. St. John and N. San Pedro Streets. Urban Markets LLC intends to enhance San Pedro Square's existing amenities and develop a vibrant urban market that creates a lasting special place within Downtown San Jose.

Urban Markets LLC is seeking to purchase the 13,045 square foot City owned Property located at 150 Terraine Street that is known as the Fallon House Parking lot. Urban Markets LLC wants to construct an additional market building on the property to expand the offerings of the Urban Markets project. Prior to construction of an additional Market building, Urban Markets intends to use the property to stage events and activities in the San Pedro Square area like the two successful San Jose Eats Gourmet Food Truck events held at San Pedro Square in recent months. Over 10,000 visitors attended the first event and over 5,000 attended the second. Nearby restaurants benefitted from the large turnout.

Municipal Code Chapter 4.20 permits the sale of City-owned surplus property upon Council finding and determining that the property is not needed for municipal purposes.

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Section 4.20.100 of the City Municipal Code allows the City to negotiate and sell land directly to individual buyers for the purpose of economic development. Regular use of the 150 Terraine Street property will help build an identity for the Urban Markets project, enhancing the economic value of the Urban Market project to the City.

The 150 Terraine Street Property is currently used by History San Jose. History San Jose brings children to experience San Jose's living history. The Terraine Street property provides parking and a loading area for History San Jose's activities. Urban Markets, LLC intends to continue to work cooperatively with History San Jose to ensure that even more patrons of all ages will have access to both the Peralta and Fallon House historic resources. The City's current Agreement with History San Jose incorporates the Fallon House parking lot. Staff will return to Council with an amendment eliminating the Terraine Street property from the History San Jose agreement, prior to finalizing the Purchase and Sale Agreement for the 150 Terraine Street Property. Individual uses in the Downtown are not required to provide associated parking spaces and the Market Street Garage located immediately east of San Pedro Square provides ample parking. As such, declaring the property surplus will not have a negative impact on the Fallon House, for Fallon House visitors.

In order to determine an appraised value for the proposed sale of the 150 Terraine Street property staff generated appraisal instructions reflecting the desire to see the ultimate build-out of a two-story structure that respects the height, massing, and set-backs of the Fallon House in order to preserve the historic character and context of the Fallon House and adjacent San Pedro Square buildings. Three appraisals were conducted to determine the valuation of the property; one by Carneghi and Associates for the City of San Jose, one by CBRE for the Redevelopment Agency, and one by Hulberg and Associates for Urban Markets LLC. All three appraisals arrived at a value of approximately \$40 - \$50 for the 150 Terraine Street property.

#### Business Terms

Urban Markets LLC have agreed upon the following business terms to guide the negotiation of a Purchase and Sale Agreement for the 150 Terraine Street property, APN No. 259-32-083.

#### Price

Urban Markets LLC will have a five-year option period in which to purchase the Terraine Street property. If the option is exercised within the first three years of the option period, Urban Markets LLC will pay a purchase price of \$40 per square foot for the property, or \$521,800. If the option is exercised in the later two years of the option period, Urban Markets will pay \$50 per square foot for the property, or \$652,250. The proposed sale of this property implements the Mayor's March 2009 Budget Message item 1h. Asset Management, Investment Strategies. The sale of this property will provide one time revenue and eliminate the city's potential liability and maintenance costs for this site.

### Option Payments

Urban Markets LLC will pay \$15,000 annually for the first three years of the option period. The option price will increase to \$20,000 per year in the last two years of the option period. Option payments are not applicable to the purchase price. If Urban Markets purchases the Terraine Street property within two years, the associated option payments will be applicable to the purchase price.

### Resale of Property or Reconfiguration of Project

If for any reason Urban Markets LLC seeks approval to construct a building that is taller and/or larger than the proposed two-story market building that is currently envisioned, Urban Markets LLC will pay the City any increased value attributed to the land in such a transaction and the funds will revert to the City prior to commencement of the project. If for any reason Urban Markets, LLC seeks to sell the property to another party who will seek to build a project different than the two-story market building currently envisioned, Urban Markets LLC will pay the City any enhanced value derived from the land and the funds will revert to the City prior to construction of the alternate project.

### Time to Construction

Time is a relevant consideration in the sale of the 150 Terraine Street property to Urban Markets LLC. Urban Markets seeks to immediately utilize the property to conduct street fairs and other activities in the San Pedro Square area. Urban Markets also seeks to own the property to minimize the time required to construct an additional market building. The City is providing a five-year option period for Urban Markets to purchase the property. The parties agree that if Urban Markets LLC has not initiated construction of the building within five-years of purchase, or after ten years of control of the property, the City may repurchase the property for the price paid without interest or reevaluation.

### History San Jose Coordination

Urban Markets acknowledges the value of the work History San Jose does to educate the public about San Jose's historic assets in the San Pedro Square area. Urban Markets will work closely with History San Jose to ensure that the 150 Terraine Street property continues to support History San Jose's educational and operational requirements.

## CONCLUSION

The proposed sale of the 13,045 square foot City property located at 150 Terrain Street will facilitate the growth and expansion of the Urban Markets project. Successful growth of the Urban Markets project will enhance the continued development of Downtown San Jose. Interim use of the Terraine Street property will provide additional opportunity for street fares and events.

### **EVALUATION AND FOLLOW-UP**

Staff from the Office of Economic Development will continue to work with Urban Markets, LLC and History San Jose representatives throughout final construction and operation of the Urban Markets project. Real Estate staff will ensure the timely payment of option payments and coordinate with General Service's staff as they interface with History San Jose representatives to ensure timely, effective access to the 150 Terraine Street property when needed to support children's educational activities and other activities by History San Jose at the Peralta Adobe and Fallon House.

### **POLICY ALTERNATIVES**

**Alternative:** An alternative to selling the property would be to retain the property for the exclusive use of the City and History San Jose.

**Pros:** Retention of the land may result in a higher sales price if another interested party sought to purchase the land in the future.

**Cons:** The City would not recognize some near-term funding from option payments on the property and help to spur further economic development through expanded and enhanced street fair related activities at the site.

**Reason for not recommending:** Given the property's adjacency to the Fallon House it is likely the City would seek to restrict development of the site in order to preserve the character and context of one of the City's most important historical structures, likely limiting the additional future price increase of the property. Additionally, the City supports the development of the Urban Markets concept. Withholding the sale and use of the property to Urban Markets LLC would somewhat restrict the future capacity of the Urban Market.

### **PUBLIC OUTREACH/INTEREST**

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

The potential sale of the 150 Terraine property does not meet any of the criteria specified above. Nevertheless this memorandum will be posted on the City's website to encourage the public to share viewpoints about the potential sale of City property.

### **COORDINATION**

This memorandum was coordinated with the City Attorney's Office and the Budget Office.

### **FISCAL/POLICY ALIGNMENT**

The proposed action aligns with Goal #2 of San Jose's Economic Development Strategy: Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Vitality and Goal #10: Continue to Position Downtown as Silicon Valley's City Center.

### **COST SUMMARY/IMPLICATIONS**

Option payments in the amount of \$15,000 annually for the first three years of the option period will increase to \$20,000 annually for the final two years of the option period. Sale of the property within the first three years of the option period will result in a purchase price of \$521,000. Sale of the property in the final two years of the option period will result in a sales price of \$652,000.

### **CEQA**

Resolution No. 72767, File No. CP 09-054



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Chief Strategist

For questions please contact Nanci Klein, Deputy Director, Office of Economic Development at (408)535- 8184.