

**SUMMARY REPORT PURSUANT TO  
SECTION 33433  
OF THE  
CALIFORNIA COMMUNITY REDEVELOPMENT LAW  
ON AN  
OPTION AGREEMENT BY AND BETWEEN  
THE SAN JOSE DIRIDON DEVELOPMENT AUTHORITY  
AND  
ATHLETIC INVESTMENT GROUP LLC**

The California Health and Safety Code, Section 33433, requires that if a redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the agency must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. A copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transaction will be available for public inspection prior to the public hearing. As contained in the Code, the following information will be included in the summary report:

1. The cost of the agreement to the redevelopment agency , including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency , plus the expected interest on any loans or bonds to finance the agreement;
2. The estimated value of the interest to be conveyed, determined at the highest and best use permitted under the redevelopment plan;
3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement , i.e., the reuse value of the site;
4. An explanation of why the sale of the property will assist in the elimination of blight; and
5. If the sale price is less than the fair market value of the interest to be conveyed, determined at the highest and best use consistent with the redevelopment plan, then the agency will provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the Option Agreement for the Sale of Property from the San Jose Diridon Development Authority (the "Authority") to Athletics Investment Group, LLC (the "Optionee"). The Authority is a Joint Powers Authority created by the San Jose

Redevelopment Agency (“Agency”) and the City of San Jose empowered to finance, develop, redevelop, implement, and operate future projects for the purposes of considering and facilitating future redevelopment in the Diridon area.

The properties under consideration for sale through the Option were purchased for redevelopment purposes by the Agency with tax increment revenues and subsequently transferred to the Authority. The Joint Powers Agreement creating the Authority provides that the Authority follow the procedures set forth in the Health and Safety Code for the disposition of any property acquired with tax increment. Therefore, this Summary Report has been prepared for the proposed sale of the properties by the Authority.

This report is based upon information in the proposed Agreement and is organized in six sections:

- I. **Summary of the Proposed Agreement** – This section includes a description of the site, the proposed development and major responsibilities of the Authority and the Optionee.
- II. **Cost of the Agreement** – This section outlines the cost of the Agreement to the Authority for costs associated with the Agreement between the Authority and the Optionee.
- III. **Estimated Value of the Interest to be Conveyed** – This section summarizes the value of the interest to be conveyed to the Optionee.
- IV. **Consideration Received and Reasons Therefore** – This section describes the consideration to be paid by the Optionee to the Authority. It also contains a comparison of the consideration and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.
- V. **Elimination of Blight** – This section includes an explanation of why the sale of the property will assist in the elimination of blight and the supporting facts and materials.
- VI. **Conformance with Five-Year Implementation Plan** – This section describes how the Agreement is in conformance with the Agency’s Five-Year Implementation Plan.

## I. SUMMARY OF THE PROPOSED AGREEMENT

The San Jose Diridon Development Authority and the Athletics Investment Group, LLC (the "Optionee") plan to execute an Option Agreement for the sale of property currently owned by the Authority. Under the Agreement, the Authority grants the Optionee an irrevocable, exclusive option ("Option") to purchase six (6) sites in the Diridon area.

### A. Description of the Property

#### *Property*

The Property ("Property") consists of six (6) individual sites as described below. These sites are located in the Diridon Area section of the Strong Neighborhoods Redevelopment Project Area and were acquired by the Agency over the past several years before being transferred to the Authority in March 2011. These sites are surrounded by urban uses, including a mix of retail, commercial businesses and residential uses.

**105 S. Montgomery Street** is approximately one (1) acre (43,585 sq. ft.) and is bounded by W. San Fernando Street, S. Montgomery Street, and Otterson Street. The property is the former Stephen's Meat site. Its current use consists of a surface parking lot serving the HP Pavilion during large events. This site consists of APN: 261-35-003, 006, and 010.

**102 S. Montgomery Street** is approximately 0.25 acres (10,731sq. ft.) and is bounded by W. San Fernando Street and S. Montgomery Street. This property is currently occupied by a one-story 1,530 sq. ft. retail space and supporting parking. This site consists of APN: 259-48-012.

**510 W. San Fernando Street** is approximately 0.84 acres (36,780 sq. ft.) and is bounded by W. San Fernando Street, S. Montgomery Street, and S. Autumn Street. The site is vacant and consists of APN 259-48-011.

**115 S. Autumn Street** is approximately 0.16 acres (7,020 sq. ft.) It is located directly adjacent to 510 W. San Fernando Street and is bounded by S. Autumn Street to the east. This site vacant and consists of APN: 259-48-013.

**150 S. Montgomery Street** is approximately 1.0124 acres (44,100 sq. ft.) It is located at the intersection of S. Autumn Street and S. Montgomery Street. The site is currently occupied by a 9,710 sq.ft. building. The site consists of APN: 259-48-053.

**645 Park Avenue** is approximately 1.6129 acres (70,260 sq. ft.). It is located on the northwest corner of Park Avenue and S. Montgomery Street. The site is currently improved with a 15,000 sq. ft. commercial building. This site consists of APN 261-35-014.

The cumulative land area for the six sites is approximately 212,476 sq.ft., or approximately 4.88 acres.

### ***Potential Redevelopment***

Under the proposed Agreement, the Authority grants the Optionee an irrevocable, exclusive option to purchase the Property. If the Optionee exercises this right, the reuse of the Property is restricted to a Major League Baseball park and to uses incidental to the Major League Baseball Park, including hosting other ticketed events and use by the City of San Jose.

### **B. Authority Responsibilities**

As a condition to the Optionee's exercise of the Option, the Authority may require a majority vote of the voters of San Jose approving the City, Agency, and Authority participation in the building of the ballpark.

Upon execution of the Option Agreement, the Authority will negotiate with the Optionee a purchase and sale agreement (Purchase Agreement) for the Property. The Authority will provide a first draft of the Purchase Agreement within 90 days after the execution of the Option Agreement. The Authority and the Optionee will thereafter negotiate to complete a definitive Agreement that is ready to be executed by the Authority and Optionee within 15 days after the exercise of the Option by Optionee. The Agreement will:

1. Restrict development of the Property for use as a Major League Baseball park and uses incidental to the Major League Baseball Park, including hosting other ticketed events and use by the City of San Jose.
2. Include a Transportation and Parking Management Plan and Construction Management Plan.
3. Be consistent with the Negotiating Principles established by City Council Resolution No. 75567.
4. May also include additional sites if acquired by the Authority for a Major League Baseball Park and uses incidental to the Major League Baseball Park, including hosting other ticketed events and use by the City of San Jose.

The Authority will make available any and all reports and any other information it has in its possession or control regarding the hazardous materials which may have been identified on the Property.

### **C. Optionee Responsibilities**

Upon execution of the Option Agreement, the Optionee will:

1. Pay the Authority \$50,000 for the irrevocable, exclusive option to purchase the Property. This Option is effective for two years from the execution of the Option Agreement. With the consent of the Authority, the Optionee may extend the Option Period for one additional year with the payment of an additional \$25,000
2. Negotiate with the Authority a Purchase And Sale Agreement for the Property. The Optionee will receive from the Authority a first draft of the Agreement within 90 days after the execution of the Option Agreement. The Authority and the Optionee will thereafter negotiate to complete a definitive Agreement that is ready to be executed by the Authority and Optionee within 15 days after the exercise of the Option by Optionee.

The Purchase Agreement negotiated between the Authority and the Optionee will include the provisions described in Section I B of this report.

Optionee is not allowed to assign this Agreement without the Authority's prior written approval, with the exception of an assignment that is preapproved for any entity controlled by the owners of the Oakland Athletics or any entity to whom the Oakland Athletics are transferred.

Optionee is accepting the Property "AS IS" without any warranties by the Authority as to the nature and condition of the title of the Property and the fitness for the Optionee's intended use.

If Optionee acquires the Property, the Optionee waives any rights which it might have to seek contribution from the Authority under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act 42 U.S.C paragraph 9601, or any other toxic waste or hazardous waste clean-up statute or regulation now or hereafter in existence.

Optionee understands and agrees that the Agreement does not and shall not be construed to include or imply that the City, Agency or Authority, acting as regulatory or permitting authority, has hereby granted or is obligated to grant any approval or permit required by law for the development of the Property as contemplated in the Agreement.

## II. COST OF THE AGREEMENT

This section presents the total cost of the Agreement, as well as the “net cost” after consideration of revenues from the sale of the Property.

### A. Estimated Cost

The sites that comprise the Property under consideration were originally acquired by the San Jose Redevelopment Agency (“Agency”). The sites were then transferred to the Authority at no cost. Nevertheless, for purposes of this analysis, the costs to the Agency for the acquisition of these six sites, as provided by City staff and including the cost of relocating former tenants, are summarized in the following table. The costs include the payment for land with improvements that had an economic value. Therefore, the payments are higher than the cost of purchasing land as if it were cleared and vacant.

	<u>Acquisition Cost</u>
105 S. Montgomery Acquisition	\$5,690,000
150 S. Montgomery St. Acquisition <sup>1</sup>	\$5,950,000
150 S. Montgomery St. Relocation	\$224,975
510 W. San Fernando St. Acquisition	\$5,940,000
102 S. Montgomery St. Acquisition	\$855,486
102 S. Montgomery St. Relocation	\$500,000
645 Park Ave. Acquisition	<u>\$6,000,000</u>
Total	\$25,160,461

The Agency’s purchases of the six sites were funded using bond proceeds. Interest on \$25.16 million is estimated to be approximately \$23.94 million over 30 years at an assumed interest rate of 5%. Principal and interest will be repaid over a 30-year period.

### B. Estimated Revenues

Upon execution of the Option Agreement, the Optionee will pay the Authority \$50,000 for the irrevocable, exclusive option to purchase the Property. This Option is effective for two years from the execution of the Option Agreement. With the consent of the Authority, the Optionee may extend the Option Period for one additional year with the payment of an additional \$25,000.

If the Option is exercised by the Optionee, the Authority will sell the Property to the Optionee for \$6,975,227 provided the use of the Property is restricted as described above.

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<sup>1</sup> Includes acquisition costs for 115 S. Autumn Street.

	<b><u>Revenues</u></b>
Option <sup>2</sup>	\$50,000
Purchase Price	<u>\$6,975,227</u>
Total	\$7,025,227

**C. Estimated Net Cost**

As a result, the net cost is estimated to be \$18,135,234 and is as follows:

	<b><u>Net Cost</u></b>
Estimated Cost	\$25,160,461
Estimated Revenues	<u>(\$7,025,227)</u>
Estimated Net Cost	\$18,135,234

**III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED**

***Fair Reuse Value***

The fair reuse value is directly a function of a very specific development program as specified in the terms and conditions of the Agreement. For the Property, the Agreement requires that the use of the Property be limited to a Major League Baseball Park and uses incidental to the Major League Baseball Park.

In September 2010, the San Jose Redevelopment Agency commissioned Colliers International (“Colliers”) to conduct an appraisal of the collective parcels for the proposed major league baseball park, an approximately 13.36 acre assemblage. The subject site assemblage included sites that were owned by the San Jose Redevelopment Agency and also sites that are still in private ownership and are yet to be acquired. Colliers estimated a value with the use restriction for the overall site assemblage of \$19,100,000. The estimated value per square foot of land area is \$32.83. As noted on the appraisal, “use value focuses on the real estate’s contribution to the business occupying the real property and does not take into consideration its highest and best use or its potential value in the market if it were sold.”

The land area for the six sites being conveyed under this Agreement is approximately 212,476 sq.ft., or approximately 4.88 acres. Using the estimated value with the use restriction of \$32.83 per sq.ft., the reuse value for the Property is \$6,975,227.

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<sup>2</sup> Excludes optional \$25,000 payment for additional one-year extension.

### ***Value at Highest and Best Use***

In the same appraisal, Colliers estimated the value of the collective parcels for the proposed major league baseball park based on their highest and best use (i.e. legal use allowed by property zoning restrictions for vacant land and existing use for improved property). Colliers concludes that the highest and best use of the subject site is to hold for the future construction of a mixed-use office/retail development. The estimated market value of the subject site, assuming that a 13.36 acre site is vacant, assembled and available for development to its highest and best use, was \$38,250,000. The estimated value per square foot of land area is \$65.75. Using the estimated value for the highest and best use of \$65.75 per sq.ft., the highest and best use value for the Property is approximately \$13,970,000. If the Property were sold individually and not held for future construction of a mixed use office/retail development, the value would be less.

### **IV. CONSIDERATION RECEIVED AND REASON THEREFORE**

The consideration being paid to the Authority for the Property is not less than the fair reuse value at the use and with the covenants and conditions imposed by the Authority. The consideration being paid to the Authority is less than the fair market values that the Authority could expect to receive for the Property at their highest and best use.

As a condition to the Optionee's exercise of the Option, the Authority may require a majority vote of the voters of San Jose approving the City, Agency, and Authority participation in the building of the ballpark. Furthermore, Optionee understands and agrees that the Agreement does not and shall not be construed to include or imply that the City, Agency or Authority, acting as regulatory or permitting authority, has hereby granted or is obligated to grant any approval or permit required by law for the development of the Property as contemplated in the Agreement.

In the event that the Property is sold for the development of a Major League Baseball Park, the Authority would have determined that such a use offers the best complementary uses for the Diridon Area and will best further the overall goals of the Authority's plan for the Area and to promote the long term vitality of the City.

### **V. ELIMINATION OF BLIGHT**

The Property under consideration is located in the Diridon Area of the Strong Neighborhoods Redevelopment ("SNI") Project Area. Given its central location in Santa Clara County, its proximity to Downtown San Jose, and its integrated connectivity to regional inter-modal transportation systems, the Diridon Area is of regional significance to Silicon Valley and is one of the most critical components of the Agency's citywide redevelopment strategies. Given these physical and economic assets, the Diridon Area is underutilized today. The Diridon Area is burdened by many blighting conditions that hinder the redevelopment and economic viability of the area.

The primary objectives of the Diridon Station Area Plan are to:

- establish a land use plan and policy framework that will guide future development and redevelopment toward land uses that support transit ridership and economic development and create a world-class cultural destination;
- improve pedestrian, bicycle, motorized and transit connectivity between the station site and existing adjacent commercial and residential areas;
- develop and implement urban design standards that promote walkable, livable, and business supportive environments within the Diridon Station Area;
- provide a variety of commercial and mixed-use development opportunities, ranging from large-scale corporate or institutional sites to smaller infill development sites;
- create a highly active and lively pedestrian and bicycle friendly environment with excellent connectivity to downtown destinations and regional transit;

In order to address blight, the Agency has taken proactive measures to acquire sites in the area that can be positioned and marketed for development. In the event that it is decided by the Authority to sell the Property, it would be done with the expectation that the sale enables the City of San Jose to eliminate blight at the site by facilitating the development of a Major League Baseball park.

A report prepared by Conventions, Sports & Leisure in 2009 presents the economic benefits of a major league baseball park. Redevelopment and economic development of the Diridon Area will provide significantly enhanced public amenities and attractions for the region and benefit not just the SNI Redevelopment Project Area but all of the Agency's Downtown redevelopment areas, creating a major catalyst for increased private investment in neighboring project areas with the attraction of event goers; and increased ridership of public transit systems.

## **VI. CONFORMANCE WITH FIVE-YEAR IMPLEMENTATION PLAN**

The Diridon Area is located within the southwest portion of the SNI Redevelopment Project Area, which was established by the San Jose Redevelopment Agency in 2002 for the purpose of preserving and revitalizing older residential neighborhoods in the City.

The most recent (2007) Five-Year Implementation for the SNI Redevelopment Area ("Implementation Plan") describes specific programs, including potential projects, for the various neighborhoods within its jurisdiction. According to the Implementation Plan, one of the goals of the Agency is to create economic development opportunities for business and property owners to strengthen the economic viability of the neighborhoods. This is to be achieved by:

- Encouraging development of vacant buildings/lots.
- Working with property owners, developers and business owners to market underutilized or unattractive sites for revitalization, redevelopment and private investment.

- Initiating mixed-use development.
- Using public investment to attract and stimulate private investment.
- Promoting development opportunities in commercial areas of the neighborhoods with mixed-use, housing and/or residential serving retail.
- Developing economic development strategies for commercial areas.

The redevelopment of the Property as a Major League Baseball Park, as dictated by the Option Agreement, will eliminate the blighting conditions imposed by these vacant lots and underutilized buildings. It will also improve the economic capacity of the area, and attract new businesses and patronage to the area. Therefore, the proposed transfer of Property will conform to the Implementation Plan, and will achieve the goals specifically defined in the Implementation Plan.