



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Richard A. Keit
Managing Director

SUBJECT: SEE BELOW

DATE: April 23, 2012

Approved

Date

4/26/12

COUNCIL DISTRICT: ALL

SUBJECT: APPROVAL OF THE REAL PROPERTY DISPOSITION STRATEGY

RECOMMENDATION

It is recommended that the City Council, acting as the Successor Agency to the Redevelopment Agency of the City of San Jose, adopt a resolution approving a strategy and process for the disposition of real property assets of the Successor Agency and directing staff to present the Disposition Strategy to the Oversight Board for approval.

OUTCOME

Approval of the recommended action will ensure that the City, in its capacity as the Successor Agency for the Redevelopment Agency, disposes of its real property assets expeditiously and in a manner aimed at maximizing value as required by AB X1 26.

BACKGROUND

Pursuant to AB X1 26, successor agencies are required, among other things, to wind down the affairs of the former redevelopment agencies. On January 24, 2012, the City Council, on behalf of the City, affirmed its decision to serve as the Successor Agency for the Redevelopment Agency of the City of San Jose. On February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB X1 26. Since that date, the City, acting as the Successor Agency to the Redevelopment Agency, has been engaged in winding down the affairs of the former Redevelopment Agency. In connection with winding down the affairs of the former Redevelopment Agency, the Successor Agency is required to dispose of the assets and properties of the former Redevelopment Agency. AB X1 26 requires that the disposal is done

expeditiously and in a manner to maximize value. Successor Agency staff has developed a strategy and process for the sale of real property assets to satisfy those requirements. AB 1 X 26 allowed the City to retain the housing assets of the former Redevelopment Agency. On January 24, 2012, the City Council elected to retain those assets. Therefore, the housing assets are not included as part of this Disposition Strategy. The Strategy will be presented to the Oversight Board at its May 3rd meeting for discussion and approval.

ANALYSIS

The Successor Agency's real property assets are categorized into five classifications:

- A. properties that are unencumbered and are available to sell;
- B. properties that are under contract to be sold;
- C. properties that are encumbered as collateral for a line of credit or settlement agreement with the County of Santa Clara;
- D. property using Section 108 HUD Collateral; and
- E. properties that are in the Public Realm and have minimal or no market value.

The attached spreadsheet lists each property by classification and proposes a distribution strategy. Successor Agency staff recommends disposing of these properties through a solicitation process similar to the solicitation process previously used by the former Redevelopment Agency.

In order to maximize the value of these assets, staff will use a solicitation process which advertises the availability of these properties for purchase to a wide and diverse group of individuals and entities. The Successor Agency will accomplish this by posting sale information for the assets on the Successor Agency's website, advertising in newspapers and posting to commercial real estate listing services such as Loopnet.com.

The regular solicitation process will provide a sixty (60) day due diligence period, during which prospective bidders may perform environmental, soils or other test and studies on the properties. A form of purchase and sale agreement will be included as part of the solicitation. The purchase and sale agreement will contain no contingencies and will require a close of escrow within thirty (30) days after submission of the bids. As evidence of their bid, prospective bidders will be required to sign and return a purchase and sale agreement containing the purchase price to be paid for the property. The solicitation will require that interested bidders submit a separate bid for each property and each sale will be subject to Oversight Board approval. Successor Agency staff will handle all sale listings and asset dispositions in-house. Properties will be released for solicitation as shown on the attached Successor Agency Real Property Disposition Strategy. If Successor Agency staff determines the need to deviate from the regular solicitation process to accommodate unique circumstances with a property, Successor Agency staff will propose an altered solicitation process for approval by the Oversight Board.

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Subject: Real Property Disposition Plan

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The disposition of the sales proceeds from the eighteen (18) encumbered properties will require negotiations with the lien holders. These properties are encumbered with a first lien held by JP Morgan as collateral for a line of credit that is required for the Agency's variable rate bonds. In addition, these properties are encumbered by a second lien with the County of Santa Clara as collateral for monies owed to the County under a settlement agreement entered into in March 2011.

The Jose Theater (62 South Second Street), is encumbered with a deed of trust to HUD to secure a HUD Section 108 Loan which was used to fund portions of the Plaza de San Jose Shopping Center at the southeast corner of Story and King Roads. Staff will need to get approval from HUD to remove the deed of trust. HUD will require substitute collateral to secure the HUD 108 Loan.

As shown on the attached Successor Agency Real Property Disposition Strategy, there are six (6) assets being considered for release in the first round of disposition in June 2012. This includes the East Santa Clara Street Development Site (193 East Santa Clara Street) which is currently under contract for sale. The East Santa Clara Street Development Site will be included with the first round of assets if either the Oversight Board does not approve an extension of the Purchase and Sale Agreement, or if the sale of the property does not close by May 31, 2012.

The properties were selected for the individual rounds based on the following criteria: unencumbered properties, vacant properties, properties with complex development agreements, and whether the properties are occupied. This prioritization allows for the sale of vacant, unencumbered properties first while Successor Agency staff negotiates the release of the encumbered properties and works with its tenants to find solutions for their space needs. None of the tenants occupying these properties is entitled to relocation assistance.

The Successor Agency also owns eight (8) properties that are in the Public Realm that have minimal or no value. Staff recommends these properties be transferred to the City of San Jose at no cost by December 31, 2012. One property in the Public Realm is a landscaping strip, which could be developed along Almaden Boulevard and which the Successor Agency will attempt to sell in Round Four. If the Successor Agency is unsuccessful in selling the property, staff recommends the property be transferred to the City of San Jose.

Staff will return to the City Council with a process for disposing of the Successor Agency's other non-real estate assets.

EVALUATION AND FOLLOW-UP

Staff will notify the City Council of the results of the solicitation process.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 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)**
- Criteria 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)**

This action does not meet any of the criteria listed above, however, this memorandum will be posted on the City's website for the May 1, 2012 City Council agenda.

COORDINATION

This item was coordinated with the City Manager's Office, the Housing and Finance Departments, and the City Attorney.

FISCAL IMPACT

Once approved by the Oversight Board, implementation of the Real Property Disposition Strategy will enable staff to begin disposing of the former Redevelopment Agency's assets as required under AB X1 26. The sale of these assets will provide the Successor Agency with additional funds to pay enforceable obligations.

CEQA

Exempt, File No. PP10-069(a) Staff reports.



Richard A. Keit, Managing Director
Successor Agency to the
Redevelopment Agency

For questions, please contact Richard Keit at (408) 795-1849.

Successor Agency Real Property Disposition Strategy

Site Description	Address	Property Type	Estimated Asset Market Value	Proposed Disposition Round	Solicitation Release	Zoning
Agency Controlled						
Hilton Hotel	300 S. Almaden Boulevard	Ground Lease	Unknown	1	June 1, 2012	DC
Market Gateway Housing	525 S. Market Street	Ground Lease	Unknown	1	June 1, 2012	DC
Hoffman via Monte	5647 Gallup Drive	Vacant Lot	\$200,000	1	June 1, 2012	A(PD)
Hoffman via Monte	1171 Mesa Drive	Vacant Lot	\$200,000	1	June 1, 2012	R-M
Century Residential	33 S. 3rd Street	Ground Lease	Unknown	1	June 1, 2012	R-M
Central Place Garage	88 E. San Fernando Street	Parking Garage	Unknown	2	October 1, 2012	A(PD)
Properties Under Contract						
E.SC. Development Site	193 E. Santa Clara Street	Car Wash/vacant lots	\$3,500,940	1	June 1, 2012	GC, RM
N. San Pedro Housing Site	14 Properties located in the Julian/Stockton Project Area	Vacant lot/vacant blds for Prop. 1C Infill Grant	\$31,000,000	Proceeds split 50/50 with County	Not Applicable	DC,PD
Encumbered Properties (JP Morgan/County)						
Marriott Hotel	301 S. Market Street	Business Interest	\$9,700,000	2	October 1, 2012	DC
Balbach/Almaden Parking Lot	Balbach/Almaden	Parking Lot	\$1,200,000	2	October 1, 2012	DC-NT1
Old Foxtail Bar Site	551 W. Julian Street	Vacant Lot	\$250,000	2	October 1, 2012	HI
Hanchett Parking Lot	1343 The Alameda	Parking Lot	\$350,000	2	October 1, 2012	A(PD)
Parking Lot	30 Eastwood Court	Parking Lot	\$50,000	2	October 1, 2012	R-2
Westinghouse Site	292 Stockton Avenue	Vacant Lot	\$1,585,000	3	February 1, 2013	HI
Plaza Hotel	96 S. Almaden Avenue	Hotel Building	\$250,000	3	February 1, 2013	DC
Vacant Lot/Guadalupe River	501 Locust Street	Vacant Lot/River	Unknown	3	February 1, 2013	DC
Anti-Graffiti Office (PRNS)	501 Vine Street	House/Office	\$500,000	3	February 1, 2013	DC
Vacant Lot	75 Bassett Street	Concrete Lot	\$200,000	3	February 1, 2013	DC
Mexican Heritage Retail Site	1770 Alum Rock Avenue	Vacant Lot	\$300,000	4	May 1, 2013	A(PD)
Movie Theater (Camera 12)	201 S. 2nd Street	Ground Lease	Unknown	4	May 1, 2013	DC
Miraido Apartments	280 Jackson Street	Ground Lease	\$5,000,000	5	October 1, 2013	A(PD)
Two Fish	366 S. 1st Street	Commercial Building	\$500,000	5	October 1, 2013	DC
Old Fire Station #1	201 N. Market Street	Fire Station Building	\$1,000,000	5	October 1, 2013	DC
San Jose Stage	490 S. 1st Street	Theater Building	\$1,200,000	5	October 1, 2013	DC
Billy De Frank Center	938 The Alameda	Commercial Building	Unknown	5	October 1, 2013	CG
HUD 108 Collateral						
Improv (Jose Theater)	62 S. 2nd Street	Theater Building	\$2,000,000	5	October 1, 2013	A(PD)
Properties in the Public Realm						
Landscaping Strip	Almaden Boulevard	Sidewalk/Landscaping	Unknown	4	May 1, 2013	DC-NT1
Land (McEnery Park)	W. San Fernando Street	Park Land	\$0	Transfer to City	December 1, 2012	
Land (Guadalupe Trail)	Park Avenue	Park Land	\$0	Transfer to City	December 1, 2012	
Landscaping Strip/Street	255 Balbach Street	Landscaping/Street	\$0	Transfer to City	December 1, 2012	
Land (Guadalupe Trail)	298 W. San Carlos Street	Pathway	\$0	Transfer to City	December 1, 2012	
Land (Landscaping strip)	360 W. San Carlos	Landscaping/Street	\$0	Transfer to City	December 1, 2012	
Land (Guadalupe Trail)	St John Street	Guadalupe River	\$0	Transfer to City	December 1, 2012	
Public Right of Way	Paseo de San Antonio	Paseo 1, 2 & 4	\$0	Transfer to City	December 1, 2012	