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Title:	Staff Report for Resolution Authorizing the City Manager to Execute a Purchase and Sale Agreement with Sansome Pacific Properties, Inc. for Sale of the City-Owned Parking Lot at 1188 East 14th Street (APN 077-0447-007-01)				
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Staff Report for Resolution Authorizing the City Manager to Execute a Purchase and Sale Agreement with Sansome Pacific Properties, Inc. for Sale of the City-Owned Parking Lot at 1188 East 14th Street (APN 077-0447-007-01)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council approve the attached Resolution authorizing the City Manager to Execute a Purchase and Sale Agreement with Sansome Pacific Properties, Inc. for Sale of the City-owned Parking Lot at 1188 East 14th Street, thereby facilitating the development of this transit-oriented opportunity site and generating approximately \$1.2 million in revenue for the General Fund.

BACKGROUND

The adoption of the Downtown San Leandro Transit-Oriented Development ("TOD") Strategy in 2007 included the identification of several opportunity sites that were determined to be well-suited to the high-density, walkable development characteristics envisioned in the plan. One of the opportunity sites is the block bounded by East 14th Street, Callan Avenue, Hyde Street, and Chumalia Street, which is comprised of a corner parcel and building owned by CVS Health ("CVS"), a mixed used property controlled by the Portuguese Fraternal Society of America ("PFSA"), and a City-owned parking lot. This block was selected because of its central location at the most significant intersection in Downtown San Leandro and because the existing development is relatively low density as it is made up of one- and two-story buildings and a large surface parking lot. By contrast, the TOD Strategy envisioned higher-density, mixed use development that would support a more vibrant and pedestrian-friendly downtown.

At the time of the adoption of the TOD Strategy there was little opportunity for new development at

this location because CVS (then known as Long's Drugs) was operating a pharmacy on the corner parcel and had a long-term lease for non-exclusive use of the City-owned parking lot at no cost. When the City Council approved development entitlement for The Village retail center at 1550 East 14th Street in 2009, however, a pathway for development of this site was established. The Village project included a new CVS store which allowed CVS to close the store at 1188 East 14th Street. At the time of the approval for the Village, CVS committed to a plan to close their location at 1188 East 14th Street and to partner with the City on a joint sale that included the City-owned lot.

The CVS store at 1188 East 14th Street closed in November 2014 and the City and CVS began working to market the adjacent properties for sale early in 2015.

Analysis

Combined, the site comprised by the City- and CVS-owned parcels constitutes a 1.2 acre development opportunity that is centrally located in the center of Downtown San Leandro. The site has great potential to serve as a catalyst project that will positively impact the greater area and completion of a mixed use residential/retail project that will support the community in multiple ways.

Until the completion of The Village, Downtown San Leandro had not seen significant retail development in decades. The completion of that project, though, proved that desired retailers will locate in Downtown San Leandro if they can find suitable properties. Additionally, the entire Bay Area is currently facing an affordable housing crisis due to lack of housing supply. By supporting the construction of new housing units, the City can take an important step toward addressing that challenge. The addition of high-quality residential units in Downtown San Leandro also expands the market for similarly high-quality retail and restaurants. Just as office projects like the San Leandro Tech Campus will add to Downtown San Leandro's daytime population, this project will create additional residential population and spending power to support new retail options.

Zoning and Permitted Uses

As noted, the subject site has been identified as a transit-oriented opportunity site, which is reflected in the current zoning. The site is zoned Downtown Area (DA) 1. The DA-1 zone was adopted in conjunction with the City's TOD Strategy and represents the high-density section of E. 14th Street in Downtown San Leandro. The allowed uses include, but are not limited to:

- Mixed Use Residential: Retail uses required on ground floor on parcels fronting on East 14th Street. Residential density of 35-75 units per acre.
- Retail Sales: Tenants over 10,000 sq. ft. require a conditional use permit.
- Office, Business and Professional

The zoning code permits building heights in this zoning district between 24 and 75 feet.

Based on the current market and projected asking price for the site as well as the fact that the site is bordered on two sides by housing, staff determined at the outset of the sales process that a mixed use residential project was the most likely outcome. Residential mixed use is consistent with the goals of the TOD Strategy and provides much needed residential development at a time when large housing sites are not available.

In addition to the zoning code, which guides the potential uses, the City will have Design Review

authority over the project through the entitlement process and will therefore be able to ensure that it meets community standards in terms of quality of design and construction and compatibility with surrounding uses.

The TOD zoning has been designed to support high density and encourage alternative means of transportation. Accordingly, parking minimums in the DA-1 zone are as follows:

- Residential: 1.5 spaces per unit (0.25 - 0.50 per unit may be unbundled)
- Retail and Office: 2 spaces per 1,000 square feet

This site also benefits from the presence of the Downtown Parking Garage immediately across the street. The garage has excess capacity and was designed, in part, to take pressure off the need for parking at nearby development sites.

The City is presently nearing the conclusion of a multi-year General Plan update process. Although major changes are not expected for the zoning or General Plan designations, it is possible that slightly higher residential densities will be permitted at this location. Sansome Pacific is aware of this possibility and may consider minor changes to the plans for the project if those modifications are ultimately adopted.

Marketing and Sale Process

In early 2015, both the City and CVS agreed to work with Larry Bell, a Vice President at Jones Lang LaSalle to serve as the listing agent and broker for the properties and assist in marketing them to potential developers. The goal of the process was to cast a wide net and ensure that a large number of qualified developers were aware of this opportunity site. The marketing materials included information of the zoning and allowed uses, which are consistent with the City's vision for the site. Potential buyers were also given the opportunity to request information from either listing agent or City staff. In addition to fielding inquiries from potential buyers, the listing agent reached out to over 40 Bay Area developers and City staff reached out directly to approximately 30 others.

Although the site was not marketed with a formal asking price, the selling parties made clear to interested buyers that the City would need to recoup the appraised value for the parking lot and that CVS intended to recoup its full book value for their parcel. The City commissioned an appraisal from a licensed real estate appraiser in November 2014, which determined the market value for the parking lot is \$1,280,000. Because the CVS parcel contains a usable structure and is located on the corner of a busy intersection, it has a notably higher value. Combined, the City and CVS needed an offer of at least \$4,400,000 to facilitate a sale of the two properties.

Developer Selection

After several months of marketing the site, the City and CVS called for offers on July 1, 2015. Eight offers were received. After an initial review of the offers, four were eliminated from consideration. Of those, two were not viable in terms of price, one consisted only of ground level retail without a mixed use component, and one was inconsistent with the zoning for the site.

Of the remaining offers, all four were competitive and came from experienced, reputable developers. All four of the finalists had plans to construct approximately 90 units of rental housing above ground floor retail, which is consistent with the zoning. City staff, a representative from CVS, and the listing

agent held interviews with all four finalists to gain more information about their visions for the site and their development expertise. All four demonstrated the qualifications to complete a high quality project. After a careful review of the offers, interviews, and direction from the City Council, Sansome Pacific was selected to move forward in the process. Sansome Pacific was selected for the following reasons:

- A strong track record in both retail and residential properties, including numerous successful projects in the Bay Area;
- A retail component that was more ambitious than the others offers: Sansome Pacific is considering building as much as 20,000 square feet of retail on the ground level, whereas some other offers had as little as 4,000 square feet;
- A history of working successfully with numerous retailers that are desired by the San Leandro community;
- A partnership with a highly-regarded architect and a commitment to top-quality design and construction;
- A design plan that includes an exploration of acquiring the adjacent PFSA property but would still be successful with just the City and CVS properties.

Sansome Pacific also offered the highest price for the properties although all four finalists were very close in this regard and price was not the determining factor in the decision.

After the review of offers, the City Council directed staff to negotiate a Purchase and Sale Agreement with Sansome Pacific to establish terms of a sale and begin moving the project forward.

Terms of the Purchase and Sale Agreement

The proposed Purchase and Sale Agreement with Sansome Pacific is a relatively straightforward document. Unlike more complex Development Agreements that have been used for other projects in Downtown San Leandro, this document deals primarily with the timing and mechanics of the sale. This is largely because the current zoning for the site is sufficient to ensure a development project that is consistent with the community's goals and vision for the site. As with any developer, Sansome Pacific will have the option to pursue zoning and/or General Plan changes, but the current project concepts are permitted under the zoning code.

Key points from the proposed Purchase and Sale Agreement are as follows:

- A purchase price of \$1,290,000 for the City parking lot;
- An acknowledgement that Sansome Pacific will execute a parallel agreement for the purchase of the CVS property;
- An initial deposit of \$50,000 to be deposited into escrow within three days of executing the Agreement, refundable only until the close of a 60-day due diligence review period;
- A requirement to close escrow within 10 days after issuance of full entitlements for the project, but no later than June 30, 2017 unless the extensions are exercised;
- The option, at the buyer's discretion, of one six-month extension and two subsequent three-month extensions; and
- Additional deposit requirements of \$10,000 for the second and third extensions;
- A requirement that the property will be conveyed by Seller to Buyer in an "As Is" condition, with no warranty as to the physical condition including, but not limited to, the soil, its geology, or the

presence of hazardous materials.

Next Steps

Should the Purchase and Sale Agreement be authorized by the City Council, staff will work to execute the agreement concurrent with Sansome Pacific's parallel agreement with CVS. At that point, City staff and Sansome Pacific will work on developing more detailed plans. Sansome Pacific also intends to engage in further discussions with representatives from PFSA, which may or may not result in the inclusion of the adjacent parcels in the project.

The completion of the design and the issuance of entitlements are likely to take the majority of 2016. Although the pending General Plan update is not expected to significantly alter the zoning, it may result in slightly higher allowed residential density. If that occurs, Sansome Pacific will need to consider whether it wishes to consider an expanded number of units in the project.

As designs progress, Sansome Pacific will also increase outreach to potential retailers to occupy the ground floor spaces. At this point, staff is confident that the development team understands the types of retail uses that will advance community goals, but no specific agreements have been reached with any potential tenants.

Previous Actions

- On January 20, 2015 and July 20, 2015, the City Council held executive sessions to discuss Price and Terms of Payment related to the proposed sale of the property (APN 077-0447-007-01)

Environmental Review

An Environmental Impact Report, certified in conjunction with the adoption of the TOD Strategy, contained an assessment of the environmental impacts related to development throughout the study area including this project. Additional environmental review required, if any, will be determined as part of the entitlement process as plans for the proposed project are further defined in the coming months.

Legal Analysis

The Purchase and Sale Agreement with Sansome Pacific Properties, Inc. was reviewed by the City Attorney and approved as to form.

Fiscal Impacts

The sale of this City-owned property will result in new, unrestricted revenue to the City's General Fund once the transaction is completed. The revenue will be equal to the sale price (\$1,290,000) less a broker's commission and any applicable closing costs.

ATTACHMENT(S)

Attachment to Resolution

- Purchase and Sale Agreement with Sansome Pacific Properties, Inc.

PREPARED BY: Jeff Kay, Business Development Manager, Community Development Department