



Date: October 25, 2007

Committee Meeting Date: _____

Board Meeting Date: November 1, 2007

BOARD MEMORANDUM

ACTION X DISCUSSION _____ INFO _____

TO: Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: John H. Ristow
Chief CMA Officer

SUBJECT: Purchase of First Market Plaza Property

Policy-Related Action: Yes

Government Code Section 84308 Applies: Yes

RECOMMENDATION:

Authorize the General Manager to execute a Purchase and Sale Agreement and all other documents necessary to purchase the property in downtown San Jose being offered for sale as the First Market Plaza property, more commonly known as the Mitchell Block, bounded by First, Santa Clara, Market and West St. John Streets, consisting of approximately 3.6 acres, at a purchase price of \$39,563,250.

BACKGROUND:

The Silicon Valley Rapid Transit project would extend BART from Fremont to Silicon Valley. VTA is advancing the 65% engineering and federal environmental clearance phases of the project and recently received \$364 million in State Transportation Congestion Relief Program (TCRP) funds from the California Transportation Commission for this effort.

The Supplemental Environmental Impact Report (SEIR) approved by the VTA Board of Directors in June 2007, described the need for a construction staging site to facilitate building the proposed downtown BART station. The 3.6-acre Mitchell Block site is included in the draft SEIR as such a construction staging area. The site would also provide a northern portal to the downtown station and offers a key location for future transit oriented development adjacent to mass transit. Attachment A summarizes the benefits of acquiring the property.

DISCUSSION:

The property consists of 3.633 acres (158,250 s.f.), located between North First, West Santa Clara, West St. John and North Market Streets, within the Downtown Core Area of the City of San Jose. The site has access to, and exposure on, all four street frontages and it extends through the block from N. Market Street to N. First Street. These factors are superior site characteristics. In addition, its overall size can accommodate numerous uses allowed by the General Plan and Zoning designations. Thus, the development potential and utility of the subject property is excellent.

The site is improved with a 58,810 s.f. two-story office building (the Gross & Holmes Building), two billboard signs and a paved parking lot. According to the City of San Jose, the site can support a Floor Area Ratio (FAR) that exceeds 5.0, and thus could support approximately 791,250 s.f. of building improvements. The property owner's Offering Memorandum for the property describes a potential development plan consisting of 400 residential units, 550,000 s.f. of office, 25,000 s.f. of retail and 1,100 parking stalls. The City Planning Department agrees that this type of mixed-use development on the site would conform to the Downtown Core General Plan and Zoning.

The First Market Plaza property was offered for sale in March 2007. The offering listed the property as unpriced and subject to negotiation. The Board authorized the General Manager to submit a letter of interest and begin discussions with CB Richard Ellis, the exclusive real estate broker for the property owners, regarding the purchase of the property

VTA engaged an independent outside certified appraiser to value the property. The value was established at a range between \$35,600,000 (\$225/s.f.) and \$39,600,000 (approx. \$250/s.f.). The appraisal was subsequently reviewed by another independent appraiser who concurred with the recommended values. Attachment B lists sales of comparable properties.

On June 7, 2007 VTA submitted an initial offer to purchase the property for \$30,900,000. The offer was rejected. VTA then submitted a Revised Offer on August 7, 2007 for \$38,016,000, which was also rejected by the owners.

After further discussions, VTA submitted a Second Revised Offer on August 22, 2007 for \$39,563,250 (\$250/s.f), under the same terms and conditions of the initial offer. On September 24, 2007, the sellers accepted VTA's offer, subject to satisfactory results of VTA's due diligence and an all-cash sale.

The proposed Purchase and Sale Agreement contains normal terms and conditions attendant to an all-cash sale and provides for an anticipated close of escrow by the end of the year.

Due diligence review to date has revealed the following:

- There are no encumbrances of concern in the Preliminary Title Report, and none that would affect the value of the property.

- A draft 1998 Phase I and Phase II Environmental Assessment of the property, shows no significant contamination to either the soil or groundwater.
- There is some asbestos in the spray-on acoustic ceiling in a portion of the Gross & Homes Building. A 1998 estimate to abate the asbestos is \$3,000.

As part of its due diligence, however, VTA will perform its own environmental assessment of the property prior to a final commitment to purchase.

The Gross & Holmes Building is currently leased on a month-to-month basis to four different tenants. The current rental income is approximately \$63,000/year.

The remainder of the property is a paved parking lot operated by Victory Parking. The annual net income from this operation for calendar year 2006 was \$434,604.00. The seller proposes that VTA assume the parking contract and continue the operation of the parking lot, with the existing company and staff, until VTA has a need for the property. VTA will review the contract document and terms and conditions prior to such a commitment.

ALTERNATIVES:

The Board may elect not to approve the purchase of this property. However, without the benefit of the close proximity of this property to the construction site, the cost of construction of the SVRT Project would increase by \$15 - \$25 million and add up to a one year delay to the project. Additionally, if VTA were not to purchase the property at this time, the sellers would most likely continue to market the property for sale. Any future development, or development plans would result in additional acquisition cost to VTA in the future. It is prudent that this property be purchased at this time to protect against future development.

FISCAL IMPACT:

Funding for strategic property acquisition associated with the Silicon Valley Rapid Transit project is included in the FY08/FY09 project budget as part of the 2000 Measure A Transit Improvement Program. No operating cost impact is associated with this action. If it were necessary to dispose of the property, or any portion of it, in the future, it is expected that VTA would recover all of its investment. Based on a conservative estimate of escalating real estate costs, (a 5% compounded appreciation factor) the property would be worth approximately \$61 million in 10 years, which is approximately \$21 million in appreciation over 10 years. The current carrying cost for the purchase price is approximately \$2 million per year, or a net of \$1.5 million after current revenue. At a minimum, market value escalation would cover VTA's carrying cost, plus save VTA between \$15 - \$25 million in construction costs.

Prepared by: Roberta Notrangelo, Manager, Real Property Acquisition and Management



ATTACHMENT A

Benefits of Acquisition of First Market Plaza Property

Advantages if Purchased

- Provides a northern portal to the downtown station and offers a key location for future transit oriented development adjacent to mass transit.
- Reduce the construction impacts on downtown businesses and surrounding community by limiting roadway closure durations and truck traffic on downtown streets
- Maximize the potential to recover purchase cost with future re-sale of the property or joint development providing a long term revenue stream to help offset BART operating costs
- Remove or mitigate need for eminent domain exercise
- Maximize development opportunities on-site to support ridership

Disadvantages if Not Purchased

- Miss opportunity to acquire the only large undeveloped downtown site with direct access to the job site that meets construction needs
- Increase construction costs by approximately \$15-25 million due to additional handling of excavated and supplied materials and equipment
- Delay Downtown Station completion by up to one year. Longer road closures for vehicular traffic on Santa Clara Street between Market and 3rd Streets extends duration of station construction for up to an additional year with associated construction impacts on downtown businesses and traffic
- Will require finding alternate construction staging areas with additional cost and additional business and traffic impacts

Summary of Impacts

Cost increase due to Double Handling	Schedule Delay	Street Closure of Santa Clara	Impact on Downtown Businesses/ Surrounding Community
\$15-25 million	1 year	Additional full road closures	Major

ATTACHMENT B

Table A:
Comparable Sales Provided by VTA Appraiser in May 2007

Proposed purchase price of First Market Plaza property is \$39,563,250 for 158,250 s.f. or \$250.05 s.f.

	Location	Date Sold	Grantor/Grantee	Total S.F	Sale Price	Price S.F.
A1	North Second Street, North First Street and East Saint John Street	Pending	Marshall Sq. LLC to Northpoint Development	60,984 SF	\$15,250,000	\$250.07
A2	284 South First Street	Pending	Redevelopment Agency to Urbanwest	87,991 SF	\$22,009,000	\$250.13
A3	369 South Market Street and 361 South First Street	06/21/05	Redevelopment Agency to Mesa of San Jose	44,257 SF	\$10,000,000	\$225.95
A4	50 North First Street	04/29/05	Fa and Associates to Marshall Square Partners	25,700 SF	\$2,900,000	\$112.84

Table B:
Additional Pending Transaction Information Provided By Brokerage Community in October 2007

	Location	Date Sold	Grantor/Grantee	Total S.F	Sale Price	Price S.F.
B1	San Pedro Square at Santa Clara Street	In Escrow	Farmers Union to KT Properties	43,996 SF	\$13,200,000	\$300.03
B2	One South Market Street	In Escrow	Tom Haury and Ogier Associates to KT Properties	42,340 SF	\$8,500,000	\$200.76
B3	345 South Second Street	In Escrow	Valley Title Company to KT Properties	108,900 SF	\$32,670,000	\$300.00
B4	300 South Second Street	In Escrow	Renzel Family to Northpoint Development	43,996 SF	\$12,978,820	\$295.00

In compliance with Government Code Section 84308

Property Owners:

Kitty Hawks

Anastasia D. Rutenberg

Taren Tyler

Jocelyn Rutenberg

Gross & Holmes Properties LLC, a California limited liability company, consists of the following principles:

Greg Mitchell

Jeff Kuhn

Diana Schindler

Barry Swenson

Gary A. Schenck

Erika Schenck

Holly Schenck

Linda A. Schenck

Real Estate Brokers:

Erik Doyle, Senior Vice President, Investment Properties

Mark Russell, First Vice President, Brokerage Services

Greg Poncetta, MAI, Senior Vice President, Brokerage Services

CB Richard Ellis

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