



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 15-0480, Version: 1

REPORT TO COUNCIL

SUBJECT

Approve Sale of City-owned Property at 263 Jackson Street with Net Proceeds Going to the Park Dedication Fund's Land Acquisition Reserve

BACKGROUND

On July 14, 2009, City Council considered the "Parks of the Future" study that addressed Sunnyvale's parks and open space needs for the next twenty years (RTC 09-183). The part of the study that pertained to three City-owned homes on Jackson Street, located at 263, 239, and 279 Jackson Street, evaluated how well those properties met the open space priorities to determine if they were still needed for expansion of Murphy Park. At that meeting, Council authorized the City Manager to sell the Jackson Street properties at a future time when the housing market improved.

By 2012, staff determined that the market had improved enough to warrant sale of these homes in accordance with the 2009 Council direction. Around the same time, Habitat for Humanity East Bay/Silicon Valley (Habitat), a self-help affordable housing provider, learned that these properties might be sold by the City and expressed interest in acquiring them. On August 28, 2012, Council directed staff to negotiate with Habitat regarding its interest in purchasing three City-owned single-family homes on Jackson Street (RTC 12-199) with financial assistance from the City's Housing Fund. The Council motion also stipulated that if the City could not come to an agreement with Habitat on proposed terms of sale of one or more of the homes, they would be declared surplus, and sold on the open market pursuant to Government Code Section 54222. Council also directed staff to deposit any proceeds from the sale of these homes into the Park Dedication Fund to be used to address other park and open space priorities.

On April 9, 2013, Council approved sale of the homes located at 239 and 279 Jackson Street to Habitat (RTC 13-074), with financing from the Housing Mitigation Fund. At that time, Habitat had rescinded its offer to purchase the third home, located at 263 Jackson Street, because it was occupied by tenants, and Habitat did not want to displace them. Council directed staff to continue discussions with Habitat or another affordable housing provider on potential purchase of this home, and to return to Council with any offers received. This motion also included the same back-up provision as the 2012 direction, i.e., if price and terms could not be reached with an affordable housing provider, then staff was to surplus the property through the standard process.

On February 11, 2014, City Council approved a relocation assistance package for the tenant at 263 Jackson Street and directed staff to provide a minimum six months' notice to vacate. The relocation assistance package was contingent upon the home being vacated by the deadline set by the notice to vacate.

Property Details

- 1,090 square foot, three-bedroom, one-bath home
- Built circa 1955
- 5,677 square foot lot
- Purchased in 1989 for \$257,000

Staff recommends Alternatives 1 and 3: to approve the sale of the property at 263 Jackson Street on the open market with a sale price not less than the current fair market appraised value with net proceeds being deposited to the Park Dedication Fund's Land Acquisition Reserve to acquire and develop additional open space and/or park property; also to authorize the City Manager to complete required documents for closing on the sale of the property.

EXISTING POLICY

Council Policy 1.2.7 Acquisition, Leasing and Disposition of City-Owned Real Property -

Section 3. Disposing of surplus property shall be done in a manner to maximize the benefit to the community and should be done whenever real estate market conditions are favorable to the City.

Section 3.E. Costs associated with the disposition of property shall come from proceeds of the sale or charged to the fund which owns the property. Unless otherwise directed by the City Council, net proceeds from disposition of surplus property owned by the General Fund shall be placed into the General Fund Reserve for Capital Improvements.

Council Policy 2.3.3 Strategies for Affordable Housing and the Use of Housing Mitigation Fees

The Housing and Community Revitalization Sub-Element of the General Plan sets housing policy for the City. However, the City's ability to accomplish all its goals is limited by both financial and land availability constraints. As Federal and other sources of funding diminish, it is important to develop a long-term strategy for the effective use of limited funds.

ENVIRONMENTAL REVIEW

The project is categorically exempt from CEQA pursuant to Guideline 15312, which exempts the sale of surplus government property.

DISCUSSION

The tenant at 263 Jackson Street was provided a 120-day notice to vacate and vacated within the timeframe stipulated, by early July 2014. Relocation assistance was provided to the tenant as approved by City Council and staff also referred the tenant to several local agencies for various forms of assistance related to the move. Staff confirmed that the tenant was able to obtain another rental unit in Sunnyvale as desired. After the property was vacated, staff initiated the standard surplus property notice to other public agencies and affordable housing providers as required by Government Code Section 54222.

An appraisal of the property was performed in July 2014 which appraised the home at \$680,000. Home values on the market have increased since the time of that appraisal. In late April 2015, staff obtained a broker's estimated value of the home at \$800,518. The property remains vacant in preparation of a sale. Previously the property was maintained as a rental unit with annual revenue of approximately \$18,600 that ended at FY 2013/14 year end.

Proposals Received from Affordable Housing Providers

Staff issued a surplus property notice to all required parties on September 16, 2014. The City received two letters of interest by the close of the surplus property noticing period. One of the interested parties, a counseling agency that operates several group homes in San Jose for at-risk youth, later withdrew its letter of interest, stating that it was not prepared to submit a complete proposal for financing the purchase and rehabilitating the home. The other letter of interest was from Habitat. Habitat subsequently revised its letter of interest, following discussions with staff regarding some modifications to the proposed terms (See Attachment 1).

Habitat's first letter of interest offered to buy the home for \$510,000, which was 25% less than the appraised value at that time, and requested that the purchase price, closing costs, and down-payment assistance for the ultimate buyer be fully financed by the Housing Fund. This proposal would have reduced the proceeds to the Park Dedication Fund (PDF) by \$170,000 (at that time). The PDF is not the appropriate fund for assisting housing projects therefore staff asked Habitat to revise its proposal with a proposed purchase price at the then-current appraised value of \$680,000. The revised letter of interest offered to purchase the home for \$680,000 and requested nearly \$735,000 in financing from the Housing Fund for the same items, of which nearly \$330,000 would have to be a permanent grant to Habitat in order to make the project feasible.

Shortly after receiving the updated value estimate in April, staff contacted Habitat staff to see if Habitat was still interested in acquiring the home at the new estimated value of approximately \$800,500. Habitat management staff discussed the matter internally and provided written communication to withdraw their proposal as the project was no longer feasible for Habitat at the current estimated value.

Staff Evaluation of Proposal

The project does not appear feasible, even at the July 2014 value of \$680,000 according to staff's underwriting analysis, as it would require a substantial permanent grant to Habitat that would be passed on to the eventual homebuyer. Should Council consider selling the home to Habitat, at the current value of \$800,500, the project would require an even greater permanent grant of nearly \$450,000. This is far more subsidy than the City typically provides for an affordable homeownership unit.

The permanent grant to Habitat in 2013 for the purchase of the two other homes on Jackson Street was just \$66,000 per unit. The primary reason why a smaller grant was feasible in 2013 was that the appraised value of the two homes was considerably less (\$440,000 per unit) than the current appraised value of the third home.

Open Market Sale

Should Council decide to move forward with sale of the property on the open market, based on the broker's estimate of value received in late April, the City anticipates the net proceeds being approximately \$800,518 minus closing costs, including any real estate agent commission (approximately 5%-6% of the sales price), to be realized in the Park Dedication Fund as previously directed by Council.

FISCAL IMPACT

The sale of the City-owned single-family home at 263 Jackson Street was projected to generate

\$440,000 in revenues to the PDF in the FY 2014/15 Adopted Budget. As mentioned above, the latest appraisal for the home is \$800,518. Revenues from the proceeds of this sale, less closing costs and real estate agent fees, will be deposited to the Park Dedication Fund's Land Acquisition Set-Aside Reserve, similar to the \$870,000 proceeds from the sale of the first two properties at 239 and 279 Jackson Street (RTC 13-074). Funds in the Land Acquisition Set-Aside Reserve are earmarked for the acquisition of additional open space and/or park property in the future.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES

1. Approve the sale of the City-owned property at 263 Jackson Street on the open market with a sale price not less than the current fair market appraised value with the one-time net proceeds, minus closing costs and real estate agent fees, deposited to the Park Dedication Fund's Land Acquisition Reserve to acquire and develop additional open space and/or park property.
2. Provide other direction to staff.
3. Authorize signatory authority to the City Manager on required documents for closing on the sale of the City-owned property at 263 Jackson Street.

STAFF RECOMMENDATION

Alternatives 1 and 3: 1) Approve sale of the City-owned property at 263 Jackson Street on the open market with a sale price no less than the current fair market appraised value with the one-time net proceeds, minus closing costs and real estate agent fees, deposited to the Park Dedication Fund's Land Acquisition Reserve to acquire and develop additional open space and/or park property; and, 3) Authorize signatory authority to the City Manager on required documents for closing on the sale of the City-owned property at 263 Jackson Street.

Sale of the home to Habitat as discussed would provide a substantial subsidy for the benefit of one household and would not be consistent with best practices regarding housing subsidies and management of public funds. Additionally, a sale for significantly less than its current market value would be a detriment to the Park Dedication Fund, therefore staff is recommending 263 Jackson Street be sold on the open market.

Prepared by: Christina Uribe, Acting City Property Administrator
Reviewed by: Suzanne Isé, Housing Officer
Reviewed by: Manuel Pineda, Public Works, Director
Reviewed by: Hanson Hom, Community Development, Director
Reviewed by: Grace K. Leung, Finance, Director
Reviewed by: Robert A. Walker, Assistant City Manager
Approved by: Deanna J. Santana, City Manager

ATTACHMENT

1. Letters of Interest from Habitat for Humanity EB/SV