**File #:** 17-0843, **Version:** 1

# REPORT TO COUNCIL

**SUBJECT**
Reject Two Offers for the City-Owned Property Located at 1484 Kifer Road (Unilever) and Approve Budget Modification No. 12

**BACKGROUND**
On February 28, 2017, by resolution, Council declared for surplus the City-owned property at 1484 Kifer Road, commonly known as the Unilever Margarine Plant (RTC No. 17-0191). The Unilever site was gifted to the City without consideration in 1979 and has not been used for City services and there are no future plans for use in this capacity.

For several fiscal years, the City's 20-year Financial Plan included projected revenues from the sale of the Unilever property at various values based on estimates or appraisals of the property. The FY 2017/18 Budget includes the most recent appraisal value of $17.6 million. It is important to note that as part of the funding discussions for the Civic Center Modernization Project, the Unilever property was included as a potential funding source for Civic Center improvements.

The Unilever site is also now part of the Lawrence Station Area Plan (LSAP). The LSAP allows industrial and research and development uses, up to 50% floor area ratio (FAR). In addition, the City Council has directed staff to evaluate additional opportunities for allowing residential development in the LSAP area; the Unilever site could be considered for residential or flexible mixed uses.

As a result of the surplus process, the City received two offers (ROEM Development and Fore Properties), and over the last few month's staff has been negotiating with the two developers. The City Council held two closed sessions, on July 25, 2017 and August 22, 2017, to review the offers and provide direction to staff.

**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.D: The City may use any of the following methods or combination thereof to maximize the benefit to the community. Methods of disposition should be determined on a case-by-case basis and may include:

- Auction
- Negotiated Sale
- Exchange
- Lease

- Request for Proposal

Discounts will not be negotiated unless an extraordinary need or circumstance is recognized by the City Council prior to negotiation, setting forth the amount of the discount and the justification for it. The purpose of this requirement is to demonstrate to the community that the City is not making a gift of public assets.

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. Proceeds from the sale of land or facilities originally purchased with monies from a specific fund shall be returned to that fund, except when a fund no longer exists, it will be at the direction of City Council.

**Council Policy 7.1E Reserve Policies, Policy E.1.2:** The sale of surplus property owned by the General Fund and any other one-time revenues shall be placed into a Reserve for Capital Improvement Projects to be used for capital improvement or expansion.

**ENVIRONMENTAL REVIEW**

Declaring City-owned real property as surplus property for sale does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Any future development shall be subject to the CEQA requirements.

**DISCUSSION**

As part of the surplus process, the City is required to offer the property to affordable housing developers and other governmental agencies. City Housing staff was contacted by several affordable housing agencies, but after hearing that the property was not zoned residential, and after mapping the property to screen for 9% tax credit scoring, no offers were submitted by those agencies. ROEM and Fore were the only two written offers received. They both proposed residential developments and neither of those agencies contacted Housing staff before submitting their offers. Since both offers were for residential development, staff procured a new appraisal evaluating the site for residential use. The residential appraisal valued the property at $27.0 million, assuming 45 dwelling units per acre (DU/AC), compared to $17.4 million for industrial uses.

Negotiations

Staff negotiated with both developers during the 90-day negotiation period required by state law and communicated and received direction from Council as part of two closed sessions. The developers modified their offers several times during the negotiation process. A summary of the latest offers considered by Council is included as Attachment 1, and copies of the most recent Letters of Intent (LOI) are included as Attachment 2. The key areas of concern associated with the offers are:

- The value of the property - While an updated appraisal has been completed, it is difficult to fully know the value with only two proposals. The property is currently zoned Industrial, which staff assumed dissuaded additional affordable residential developers from submitting offers.
- Contingencies - Both proposals require that the rezoning from industrial to residential and entitlement process are completed prior to closing escrow. Staff estimates that will take 2-3

years.

- Is this an appropriate location for residential - the Council recently funded a study to determine if there are additional locations within LSAP that should be considered for residential. It is estimated this study will require approximately two years.

Based on these outstanding questions, staff has concerns with accepting either proposal. From a value perspective, only one option exceeded the $27.0 million appraised value (Fore at 27.5 million); however, that offer proposes 87 DU/AC. Based on an evaluation of the appraisal, staff believes the value of the property at that density would be closer to $31 million. The residential rezoning and entitlements will require 2-3 years, and the offers would be at City risk until the process is completed (and if successful). Lastly, if there is an interest for affordable or market rate housing, it might be more appropriate to complete the rezoning first, which would raise the interest of other residential developers. It is important to note that under the Surplus Lands Act, if the City ultimately decides to sell the property for residential uses, a minimum 15% affordable component will be required.

Near Term Sale

If the current offers are rejected, and as the City has complied with the Surplus Lands Act, the City has the option to market the property in the open market. The City could simply sell the property with the current zoning, which is estimated to take approximately six month or consider other options discussed below.

Options

The City has several options on how to proceed. If residential is to be considered, the City could allow the current LSAP process to proceed to determine how the property fits within the overall residential plan. This approach could provide some direction as it relates to the best density and possible amenities required, such as parks. The City could also do a separate rezoning outside of the LSAP process. Lastly, the City could market the property with its current industrial zoning. Marketing the property as industrial, in parallel to the LSAP process, would allow the City to understand the current value of the property while allowing the residential analysis to continue. If the City is not satisfied with any of the offers as an industrial use, all offers could be rejected, and the LSAP process to consider residential uses could be completed before marketing the property.

Real Estate Services

As part of the sale for Onizuka, the City released an RFP for services related to the sale of City property. Cushman & Wakefield from San Jose, CA was selected based on their expertise and successful track record in the Silicon Valley real estate market. Staff proposes to use them for this sale if the Council selects that alternative.

A draft scope of work was submitted by Cushman & Wakefield (Attachment 3) for the sale of the Unilever property. Staff is finalizing the scope of work and anticipates that the cost will be below $70,000 plus a 10% contract contingency. Since the scope of work is not final, and could still change in the next few weeks, staff is requesting approval of Budget Modification No 12 in the amount of $80,000 to assure sufficient funding for the agreement.

## FISCAL IMPACT

Proceeds for the sale of the property were assumed in the FY 2017/18 Adopted Budget and allocated to the Capital Improvement Projects Reserve. Project 832560 - Sale of City Property - 1484 Kifer

Road (Unilever) currently has funding of $15,000 allocated to fund an updated appraisal, Phase I Environmental Assessment, and other required tests and reports. The appropriation of an additional $80,000 is recommended from the Capital Projects Improvement Reserve to fund the real estate broker services agreement recommended in this report.

**Budget Modification No. 12**
**FY 2017/18**

| | Current | Increase/ (Decrease) | Revised |
|---|---|---|---|
| **General Fund** | | | |
| Reserves | | | |
| Capital Improvement Projects Reserve | $41,039,649 | ($80,000) | $40,959,649 |
| Expenditures | | | |
| Project 832560 - Sale of City Property - 1484 Kifer Road (Unilever) | $15,000 | $80,000 | $95,000 |

**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. Reject the offers from Fore Property Company and ROEM Development.
2. Accept the offer from Fore Property Company.
3. Accept the offer from ROEM Development.
4. Direct staff to start a rezoning process for residential uses for the properties.
5. Approve Budget Modification No. 12 in the amount of $80,000

**STAFF RECOMMENDATION**

Alternative 1 and 5: 1) Reject the offers from Fore Property Company and ROEM Development; 5) Approve Budget Modification No. 12 in the amount of $80,000.

The LSAP process to consider additional residential is currently underway. Marketing the property now with the existing Industrial zoning will allow the Council to fully understand its current value and determine if a near-term sale would be more appropriate than delaying the sale for 2-3 years until the rezoning is complete.

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Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Summary of the Latest Offers
2. Letters of Intent
3. Draft Scope of Work by Cushman & Wakefield