



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Approve the Purchase and Sale Agreement Between the City of Sunnyvale and Zhen Zhen Li for the Sale of 1484 Kifer Road; Formerly, the Unilever Margarine Plant

BACKGROUND

On February 28, 2017, Council adopted Resolution No. 810-17 declaring 1484 Kifer Road, the "Unilever Property" surplus and authorizing its sale in accordance with Government Code Section 54220, et seq. (Surplus Lands Act) (Report to Council (RTC) No. 17-0191). The Unilever Property was gifted to the City without consideration in 1979 and has never been used for City services. The Unilever Property is about 4.74 acres, improved with an industrial building of about 96,348 square feet. The property is part of the Lawrence Station Area Plan (LSAP), which allows for research and development, office, and industrial uses up to 50% floor area ratio (FAR). The LSAP is currently under study to possibly allow more residential and flexible mixed uses.

In accordance with City Council Policy 1.2.7 and the Surplus Lands Act (Act), the City of Sunnyvale received two offers from low income housing developers and negotiated with both for 90 days. On September 26, 2017, Council rejected the two offers from low income housing developers, thus completing its obligations under the Act. Council directed staff to offer the Unilever property for sale on the open market and authorized funding of \$80,000 for professional real estate broker services to be provided by Cushman & Wakefield for the sale of 1484 Kifer Road (RTC No. 17-0843).

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 in a Reserve for Capital Improvement Projects to be used for capital improvement or expansion.

ENVIRONMENTAL REVIEW

Approving a Purchase and Sale Agreement for the disposition of City-owned real property 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

On February 16, 2018, the Unilever Property was offered on the open market for sale as-is by an offering memorandum completed by Cushman & Wakefield acting on behalf of the City. The sale was advertised on the websites of Co-star and LoopNet, well known commercial real estate networks for five to six weeks, also a list of targeted potential buyers was contacted directly by the broker. The City received 11 offers from 11 different proposers (listed in alphabetical order):

1. Divco West Acquisitions, LLC
2. Everwest Real Estate Investors, LLC
3. Four Corners Properties
4. LBA Inc.
5. Prologis, L.P.
6. SFF Realty Fund III
7. Simeon LLC
8. Summerhill Apartment Communities
9. Toeniskoetter Development
10. Youland Smarthome LLC
11. Zhen Zhen Li

All proposals were somewhat similar in terms, with purchase prices ranging from approximately \$16,000,000 to \$30,000,000.

On April 24, 2018, during closed session, staff was directed to commence negotiations with the highest proposer, Zhen Zhen Li. A mutually agreed price and terms was negotiated and a Purchase and Sale Agreement between the City of Sunnyvale and Zhen Zhen Li has been drafted and attached for Council's approval (Attachment 1).

Summary of Terms and conditions:

- Purchase price is \$33,000,099.88 and will be sold in “as-is” condition.
- A deposit of \$1,000,000 will be received upon both parties signing the Purchase and Sale agreement.
- The buyer shall have a 30-day due diligence period.
- Closing will be 45 days after expiration of the due diligence period, but no later than August 23, 2018.
- Buyer to credit the City up to \$65,000 towards its closing costs.

FISCAL IMPACT

Completing the sale will eliminate expenses associated with security and maintenance for the property. Longer term redevelopment of the property by the buyer will result in higher property tax and business tax revenues to the City.

Proceeds from the sale will be appropriated to Project 831340 - Civic Center Modernization as part of the adoption of the FY 2018/19 Budget. The FY 2018/19 Recommended Budget included an estimated \$17.6 million based on the most recent appraisal. The FY 2018/19 Recommended Budget will be updated to reflect the actual sale for the public hearing in June.

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. Authorize the City Manager to execute the Purchase and Sale Agreement, in substantially the same form as Attachment 1, between the City of Sunnyvale and Zhen Zhen Li for the sale of 1484 Kifer Road (Unilever Property).
2. Do not authorize the City Manager to execute the Purchase and Sale Agreement as presented and direct staff to go back to Zhen Zhen Li and negotiate different terms as determined by Council.
3. Do not authorize the City Manager to execute the Purchase and Sale Agreement between the City of Sunnyvale and Zhen Zhen Li and provide staff direction to market the property for sale again on the open market, or select another proposer from the list of offers.

STAFF RECOMMENDATION

Alternative 1: Authorize the City Manager to execute the Purchase and Sale Agreement, in substantially the same form as Attachment 1 of the report, between the City of Sunnyvale and Zhen Zhen Li for the sale of 1484 Kifer Road (Unilever Property).

Prepared by: Sherine Nafie, City Property Administrator
Reviewed by: Charles Taylor, Director, Public Works
Reviewed by: Timothy J. Kirby, Director, Finance
Reviewed by: Teri Silva, Assistant City Manager
Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (non-residential) - Purchase and Sale Agreement between the City of Sunnyvale and Zhen Zhen Li