



DATE: May 17, 2016

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Lease of Unimproved Real Property
(no street address; APN 158-22-028)**

RECOMMENDATION

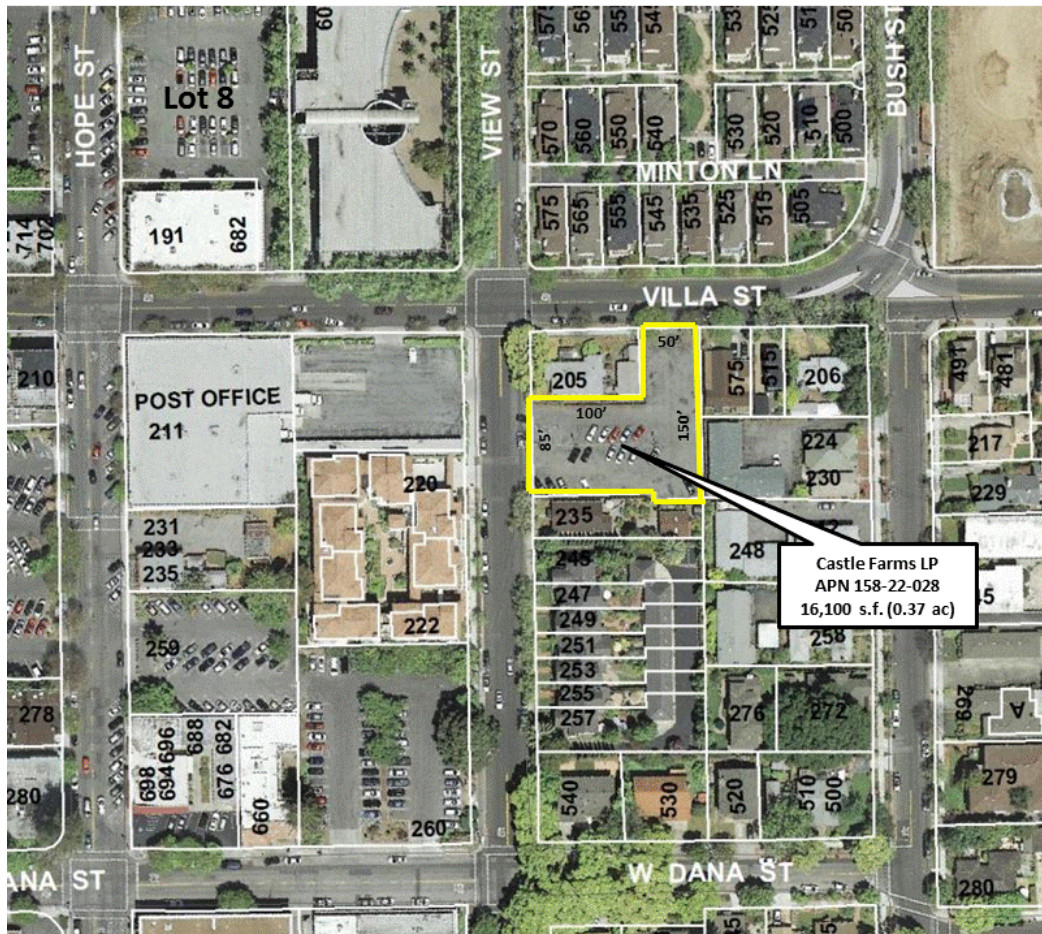
1. Approve the lease of a 16,100 square foot vacant parcel of land located near the intersection of Villa Street and View Street (APN 158-22-028) for temporary public parking and other purposes.
2. Authorize the City Manager, or his designee, to execute a five-year ground lease with Castle Farms, LP, a Nevada limited partnership.
3. Authorize the City Manager to sublet the property for periods of time when it is in the best interest of the City to do so.
4. Appropriate \$125,000 in the Strategic Property Acquisition Reserve Fund for the first-year rental payments. (Five votes required)
5. Appropriate and transfer \$50,000 from the Strategic Property Acquisition Reserve Fund to Street Resurfacing and Slurry Seal Program, Project 16-01, for future improvements to the parking lot. (Five votes required)

BACKGROUND

On January 12, 2016, the City Council selected The Robert Green Company as the best-qualified developer to develop Lots 4 and 8 (Hope Street Lots) with a mixed-use hotel/office development under a long-term ground lease. One of Council's objectives in developing the Hope Street Lots was to increase the amount of public parking in the downtown. The Hope Street Lots currently provide a total of 149 parking stalls. The planned mixed-use development of the Hope Street Lots will include a minimum of 225 public parking stalls provided in underground parking facilities beneath the proposed hotel and office buildings. On May 3, 2016, the City Council approved the business terms for the long-term ground lease.

The current schedule for the development of the Hope Street Lots, assuming it is approved and proceeds as scheduled, anticipates construction to begin in approximately two years and to take approximately 18 months to complete. The existing 149 parking stalls will be replaced, but they will not be available during construction, further exacerbating an already impacted downtown parking situation.

Staff has been exploring alternatives to mitigate the temporary loss of the existing 149 parking stalls during construction. Staff contacted the owners (Castle Farms, LP) of the property shown on the following aerial to inquire about the availability of that property for lease. The property has been leased by the U.S. Postal Service for the past several years, but the owners have now indicated the property is available for lease after May 31, 2016, when the current lease expires. The U.S. Postal Service currently pays rent of \$150,000 per year.



Based on a standard of 300 square feet per parking stall, including circulation, staff estimates this 16,100 square foot parcel would yield approximately 50 parking stalls. To maximize parking efficiency, the lot would have to be chip sealed and parking stalls striped and brought into compliance with the Americans with Disabilities Act (ADA). The estimated one-time cost to the City to do this work is \$50,000.

ANALYSIS

While the Hope Street Lots project, if approved, would not begin construction for approximately two years, there is not much unimproved property within at least three blocks of Castro Street that would be suitable for replacement parking. In addition, the property is currently available for lease and there are no assurances the property would be available in two years, when it would be needed to temporarily replace the parking during the construction of Lots 4 and 8. In the interim, the lot could be used for supplemental public parking to alleviate current parking demand, or subleased, in whole or in part, for construction staging for private developments that may be scheduled to begin construction in the downtown in the near term.

Staff has reached a negotiated agreement in principle, subject to City Council approval, for the lease of the property under the following terms and conditions:

- Five-year lease with annual options to extend by mutual agreement.
- Lease to commence July 1, 2016.
- Beginning annual rent of \$125,000 with 3 percent escalations on each anniversary date of the lease (including option years).
- City has the right to sublet the property without prior approval of the lessor with assurances any sublet rent would not exceed the City's contract rent.
- City has the right to terminate the lease upon giving ninety (90) days' written notice.
- City has the right of first refusal to purchase the property if the lessor decides to sell the property.

Staff recommends approval of these lease terms and conditions.

With minimal work, including removing weeds and erecting parking signage, the property can be available for public parking around the end of July 2016.

FISCAL IMPACT

The financial obligations of the City in the first year of the lease include an annual rent of \$125,000, payable in monthly installments, and a one-time cost of \$50,000 to chip seal and stripe the lot and bring it into compliance with the ADA. Staff recommends appropriating \$175,000 from the Strategic Property Acquisition Reserve (SPAR) Fund for the lease payments and improvements. Future-year rental obligations will be set aside during each annual fiscal year budget. There is currently a balance of \$6.7 million in the SPAR.

There may be opportunities to defray all or part of the City's rental obligations during certain periods of the lease term by subletting the property to private developers for construction staging for downtown projects.

ALTERNATIVES

1. Direct the Real Property Program Administrator to seek revised terms and conditions.
2. Appropriate funds in a source other than the SPAR Fund.
3. Do not lease the property identified as APN 158-22-028.

PUBLIC NOTICING

Agenda posting and a copy of report to Castle Farms, LP, the Central Business Association, and the Old Mountain View Neighborhood Association.

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