

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: OCTOBER 3, 2017

FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 3
DEPARTMENT

SUBJECT: PURCHASE AND DEVELOPMENT AGREEMENT WITH R.C. HOBBS COMPANY, INC. FOR THE SALE OF APPROXIMATELY 2.06 ACRES OF CITY-OWNED VACANT LAND LOCATED ON THE EASTERLY SIDE OF MAGNOLIA AVENUE BETWEEN ELIZABETH STREET AND THE ADJACENT RAILROAD RIGHT OF WAY FOR THE SALE PRICE OF \$1,211,193

ISSUE:

Approve a Purchase and Development Agreement with R.C. Hobbs Company, Inc. of the City of Orange for the sale of approximately 2.06 acres of City-owned vacant land located on the easterly side of Magnolia Avenue between Elizabeth Street and the adjacent railroad right of way for the sale price of \$1,211,193.

RECOMMENDATIONS:

That the City Council:

1. Approve the Purchase and Development Agreement with R.C. Hobbs Company, Inc. (Agreement – Attachment 1) for the sale of approximately 2.06 acres of City-owned vacant land located on the easterly side of Magnolia Avenue between Elizabeth Street and the adjacent railroad right of way, identified as Assessor's Parcel Numbers 225-052-005, 225-052-008, 225-052-009, 225-052-010, 225-052-019, 225-052-021, and 225-052-023 for the sale price of \$1,211,193.; and
2. Authorize the City Manager, or his designee, to execute the Agreement, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction and to expend up to \$15,000 for title, escrow and miscellaneous related closing costs.

DEVELOPMENT COMMITTEE RECOMMENDATION:

On April 20, 2017, the Development Committee with Chair Gardner, Vice Chair Davis, and Councilmember Souborius substituting for Member MacArthur, unanimously approved the development of approximately 2.06 acres of vacant land into a multi-story residential project located on the easterly side of Magnolia Avenue between Elizabeth Street and the adjacent

railroad right of way and directed staff to negotiate an agreement for the disposition of the Property and subsequent development of a multi-family residential project to be presented to City Council for consideration.

BACKGROUND:

Between 2008 and 2013, the Public Works Department acquired right-of-way for the Magnolia Avenue Grade Separation Project. The Magnolia Avenue Grade Separation Project provides for an underpass below the Union Pacific Railroad line and access to the Property from Magnolia Avenue as well as the rear public alleyway where the newly upgraded Plaza Substation is located. The Property is comprised of the remnant portions of seven adjoining parcels no longer needed by Public Works.

As a result of tetrachloroethylene, also known as PCE, in the soil from prior dry cleaning use on the Property, the Santa Ana Regional Water Quality Control Board, as the oversight agency, will require recordation of a land use covenant agreement (LUC) for future development. The LUC shall require a Vapor Intrusion Mitigation System (on the entire parcel; construction and testing of a vapor barrier system and associated piping prior to the construction of concrete slab and buildings. Monitoring devices on building roofs must include: a) Fan, b) Exhaust Cap, c) Flow Gauge, d) Test Port, and e) a System Failure Device.

On January 12, 2016, City Council declared the Property surplus. No interest was received from any Public Agencies during the following 60-day offering period to Public Agencies as required by government Code Section 54220, et seq.

On October 18, 2016, a Request for Proposals (RFP) for development of the Property as highlighted in yellow and depicted below in the shaded area was issued. On December 15, 2016, the RFP deadline, one responsive proposal from R.C. Hobbs Company, Inc. (Hobbs) for a multi-story residential project was received. The Property is located within the Magnolia Avenue Specific Plan – Magnolia Center District. Zoning is both Commercial General (CG) and Commercial Retail (CR) which does not allow the proposed residential land use. Therefore, the proposed residential project would require a General Plan Amendment and Re-zone at the sole cost and expense of Hobbs.

DISCUSSION:

The Hobbs Purchase and Development Agreement is summarized below:

1. Site Area: Approximately 2.06 acres
2. Sale Price: \$1,211,193 (\$13.50 per square foot) which is \$138,807 less than the current fair market appraisal of \$1,350,000 (\$15 per square foot) as determined by an independent third party appraiser
3. Proposed Project: Four 3-story multi-family buildings totaling 80 units with a 144 stall subterranean parking structure, and amenities as shown on the attached site plan and conceptual rendering (Attachment 2)
4. Total Anticipated Investment: \$19,828,000

Hobbs was founded in 1976 by Mr. Roger C. Hobbs. Hobbs has successfully sold, developed and managed nearly one billion dollars of commercial, industrial and residential real estate in California and Montana. Additionally, Hobbs has been recognized with local, state, and national awards.



Pursuant to the City's independent third party appraisal, the estimated cost for construction of the required soil vapor barrier ranges from \$5 to \$8 per square foot of ground floor building area. The appraiser assumed a 17% site coverage whereas Hobbs intends to construct on approximately 50% of the site. Additional development costs associated with installing the soil vapor barrier over a significantly larger portion of the Property to facilitate a multi-family residential project was not considered by the City's appraiser. Staff believes the reduction of \$1.50 per square foot between the City's independent third party appraisal of \$15.00 per square foot and the negotiated purchase price of \$13.50 is reasonable to account for these additional development costs and represents the current fair market value of the Property.

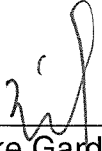
The Public Works Director concurs with the recommendations.

FISCAL IMPACT:

The Property is City owned and is being sold for \$1,211,193 less miscellaneous closing costs, title, and escrow fees not to exceed \$15,000. The estimated net proceeds from the sale in the amount of \$1,196,193 shall be prorated and deposited into Public Works accounts based on the source of funding used to acquire the Property. Parcels 225-052-005 and 225-052-009 sale proceeds will be deposited into Public Works account number 9589719-440315 (Magnolia Grade Separation – TUMF); sale proceeds from parcels 225-052-008, 225-052-010, 225-052-019, 225-052-021, and 225-052-023 will be deposited into Public Works account number 0000432-380010 (Measure A – Sale of Land & Buildings).

Prepared by:	Rafael Guzman, Community & Economic Development Director
Certified as to availability of funds:	Adam Raymond, Chief Financial Officer/Treasurer
Approved by:	Al Zelinka, FAICP, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Concurs with:

A handwritten signature in black ink, appearing to read 'Mike Gardner', is written over a horizontal line.

Mike Gardner, Chair
Development Committee

Attachments:

1. Purchase and Development Agreement
2. Site Plan and Conceptual Rendering