



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MAY 8, 2018**

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT **WARD: 1**

SUBJECT: PURCHASE AND SALE AGREEMENT WITH GREENS INV 10, LLC FOR THE DISPOSITION OF CITY-OWNED HISTORIC FORMER DOWNTOWN FIRE STATION NO. 1, LOCATED AT 3466 MISSION INN AVENUE, AND PARKING AUTHORITY-OWNED PUBLIC PARKING LOT 27, LOCATED AT 3398 MISSION INN AVENUE, FOR THE SALE AMOUNT OF \$1,000,000 TO FACILITATE DEVELOPMENT OF A HILTON HOTEL

ISSUE:

Approve a Purchase and Sale Agreement with Greens Inv 10, LLC for the disposition of City-owned former Downtown Fire Station No. 1, located at 3466 Mission Inn Avenue, and Parking Authority-owned Public Parking Lot 27, located at 3398 Mission Inn Avenue, for the sale amount of \$1,000,000 to facilitate development of a Hilton Hotel.

RECOMMENDATION:

That the City Council:

1. Approve a Purchase and Sale Agreement with Greens Inv 10, LLC for the disposition of City-owned former Downtown Fire Station No. 1, located at 3466 Mission Inn Avenue, and Parking Authority-owned Public Parking Lot 27, located at 3398 Mission Inn Avenue, for the sale amount of \$1,000,000, to facilitate development of a Hilton Hotel; and
2. Authorize the City Manager, or his designee, to execute the Purchase and Sale Agreement, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction and to expend up to \$10,000 for title, escrow and miscellaneous related closing costs.

DEVELOPMENT COMMITTEE RECOMMENDATION:

On February 22, 2018, the Development Committee met with Chair Gardner, Vice Chair Perry and Member MacArthur, and unanimously recommended that the City Council select the Greens Inv 3, LLC proposal for the disposition of the City-owned former Downtown Fire Station No. 1, located at 3466 Mission Inn Avenue, and Parking Authority-owned Public Parking Lot 27, located at 3398 Mission Inn Avenue (collectively, the "Property"), for the development of a Hilton Hotel and 2) directed staff to negotiate a Purchase and Sale Agreement (PSA) with Greens Inv 3, LLC (now Greens Inv 10, LLC) for disposition of the Property to be presented to City Council for final consideration.

BACKGROUND:

On July 14, 2015, the City Council approved a PSA with Encore Education Corporation, Inc., doing business as Western Arts University, for the historic former downtown Fire Station No.1 located at 3466 Mission Inn Avenue.

On October 3, 2016, the Development Committee recommended that the City Council approve a development proposal from Dos Lagos Asset, LLC for the disposition of Parking Authority-owned Public Parking Lot 27 for the development of a boutique hotel and directed staff to negotiate a PSA with Dos Lagos Asset, LLC for the disposition and development of the site to be presented to the City Council for final consideration.

In May of 2017, due to Encore Education Corporation, Inc.'s (Encore) inability to complete renovation and rehabilitation of the historic former downtown Fire Station No. 1, the City and Encore executed a Settlement Agreement and Conveyance of Fee Title. This agreement required Encore to convey title to the site back to the City in exchange for compensation, from the City, in the amount of \$250,000. The City Litigation Trust Fund was utilized to recapture the site.

In July of 2017, Dos Lagos Asset, LLC and Community & Economic Development Department staff mutually agreed to cancel PSA negotiations due to Dos Lagos Asset's inability to provide sufficient parking on the site to meet City parking code requirements.

On July 18, 2017, Community & Economic Development staff issued a Request for Qualifications (RFQ) for the Property, soliciting qualifications from development firms for the construction and operation of a hotel facility to incorporate the historic former Downtown Fire Station No. 1.

3466 Mission Inn Avenue is approximately 14,000 square feet of land and is currently operated by the Parking Authority as Public Parking Lot No. 27 (as shown in the yellow highlighted area below). Moreover, 3398 Mission Inn Avenue is approximately 24,932 square feet of land and is home to the 18,172 square foot historic former Downtown Fire Station No. 1 (as shown in the red highlighted area below), which was constructed in 1957 and is listed on the State Register of Historic Places.



As detailed in the RFQ, staff envisioned the new hotel to be an immediate economic enhancement to the surrounding facilities such as the Riverside Municipal Auditorium, Riverside Art Museum, the Historic Mission Inn Hotel and Spa, Riverside Convention Center, and the Fox Performing Arts Center (and downtown as a whole). Furthermore, staff also detailed that it expected development proposals to exemplify exceptional architecture (complimenting the surrounding buildings and compliance with the Downtown Specific Plan – Raincross District), preserve and incorporate the historic former downtown Fire Station No. 1, and incorporate environmentally sustainable technology.

On September 18, 2017, staff received four (4) proposals, which are summarized as follows:

	<u>Greens Inv 3, LLC</u>	<u>Bailey California Properties</u>	<u>Havadija Holdings, Inc.</u>	<u>Sonnenblick, LLC</u>
Proposed Development:	Hotel & Upscale Restaurant	Bowling Alley, Bar, Dining & Micro Hotel	Corporate Office, Restaurant & Bar & Future Hotel	Hotel & Restaurant
Hotel Brand:	Hilton Hotel	Not Provided	None	Hotel Indigo
Hotel Manager:	Greens Inv 3, LLC	Not Provided	None	HMG Hospitality
Architect:	Axis Architecture	Ricki Kline Design	Ruhnau Ruhnau Clarke	Ruhnau Ruhnau Clarke
Hotel Rooms:	161	7	Not Provided	109
Number of Stories:	7	2	2	5
Parking Spaces:	203	Not Provided	Not Provided	142
Proposed Purchase Price:	\$1,000,000	\$650,000	\$2,100,000	\$973,300*
Encompasses both Properties:	Yes	No	Potentially	Yes
Anticipated TOT (Year 1):	\$920,656	Not Provided	Not Provided	\$550,000 - \$675,000
* requires TOT sharing agreement				

After careful review and scoring of the development proposals, the evaluation committee, comprised of Community & Economic Development Department and Convention Bureau Management staff, unanimously concluded that the Greens Inv 10, LLC (Greens) proposal is the most responsive to the noted RFQ and interviewed them on October 23, 2017, which confirmed the evaluation committee's conclusion regarding the proposed development.

Greens has successfully built, renovated and repositioned over fifty-five (55) real estate properties, including fifteen (15) hotel properties, in its 30-year history. Hotel development examples include, but are not limited to: Comfort Inn – St. George, Utah; Country Inn – Chandler, Arizona; Best Western Desert Oasis – Ehrenberg, Arizona; Quality Inn – Needles, California; Hampton Inn – Parker, Arizona; Quality Inn – San Diego, California; and Super 8 – Chandler, Arizona.

In addition, as noted above, the RFQ specifically sought hotel development proposals that incorporate and adaptively reuse the historic former downtown Fire Station No. 1 for future generations to enjoy. The Greens proposal fully complies with this requirement by adaptively reusing the entire historic structure as the lobby and restaurant for the Hilton Hotel. Moreover,

Greens estimates the cost associated with preserving, adaptively reusing, and adequately parking the historic structure is \$435,000.

Also, as required by the RFQ, the successful proposer must provide, during construction, the City with eight (8) temporary parking stalls within two blocks of the site, at the proposers, sole cost and expense, for the exclusive use of the City's Fire department. Following completion of the construction, the RFQ further stipulated that the successful proposer must provide the City with an exclusive easement for eight (8) parking stalls, at no cost to the City, in perpetuity, within the hotel parking structure. Greens estimates the cost associated with this requirement is \$315,000.

The appraised value for the Property is \$2,025,000. While the Greens purchase offer is lower than the appraised value, staff believes it represents the current fair market value for the Property based on the significant costs, as previously noted, with preserving the historic former Downtown Fire Station No. 1 (\$435,000) and providing the Fire Department with an exclusive easement for eight (8) parking stalls (\$315,000). Other than the purchase offer from Havadija Holdings, Inc. which was deemed non-responsive since it did not include an immediate hotel development, the \$1 million purchase price is the highest responsive offer received.

DISCUSSION:

As directed by the Development Committee, staff has developed a PSA, which includes the following notable provisions:

1. Intention: Greens shall: 1) Adaptively re-use the Historic Downtown Fire Station No. 1, which shall be used as a lobby for guests checking into the developed hotel, dining, and associated entertainment and 2) develop an upscale Hilton hotel or Hilton affiliated hotel (or a similar hotel franchise that is acceptable to the City) on the Parking Authority property, which shall include, at a minimum, 7-stories, 161 rooms (or such lower number of rooms that are approved as part of the City's design review process and is acceptable to Greens), and a second level pool deck with ample seating and fire pit amenities.
2. Concurrent Development: Greens shall develop both properties concurrently and they cannot be constructed, rehabilitated or developed independently.
3. Incorporation of Public Art: Greens shall: 1) Install and maintain, at Greens' sole cost and expense, a sign, above the Historic Downtown Fire Station No.1, stating "Riverside Arts District", on behalf of the City, which shall demarcate a defined "arts" district within the downtown area of the City and 2) permit the operator of the Riverside Art Museum, adjacent to the Property, to install and maintain on-site public art throughout the external portion of the project (specifically along Mission Inn Avenue and Lime Street).
4. Fire Dept. Parking: At all times during construction, Greens shall provide the City with eight (8) temporary parking stalls within two (2) blocks of the Property, at Greens' sole cost and expense, for the exclusive use of the City's Fire Department. Following completion of the Project, Greens shall provide the City with an exclusive easement for eight (8) parking stalls, at no cost to the City, in perpetuity.
5. Fire Station Replacement Parking: Greens shall replace and incorporate, in perpetuity, twenty-one (21) parking stalls within the hotel parking structure. Said twenty-one (21) stalls shall be available to the future employees, agents and invitees of Historic Downtown Fire Station No. 1, but shall be in common with other users of the hotel parking structure.

6. Due Diligence Period: Greens shall have 180 days from the Effective Date of the PSA to perform, in its sole discretion, its due diligence review of the physical and legal condition of the Property.
7. Purchase Price: The collective purchase price for the Property shall be \$1,000,000 and shall be allocated as follows: City property: \$750,000 and Parking Authority property: \$250,000.
8. Developer Approval Period: Greens' shall have 270 days, from the effective date of the PSA, to submit to the Planning Division an application for project design to include site plan and preliminary elevations.
9. Close of Escrow: Escrow shall close on or before 720 days following the effective date of the PSA.
10. Construction Commencement: Greens shall obtain the required permits and commence construction of the Project no later than 180 days after Close of Escrow, subject to permitted delays.
11. Construction Completion: Greens shall complete construction of the project within 48 months after the commencement of construction of the project.
12. Right to Repurchase Option: In the event Greens has: (a) has not obtained all required permits and commenced construction on the project no later than 180 days after Close of Escrow, subject to permitted delays, (b) has not completed the completed construction of the project within 18 months after close of escrow, subject to permitted delays, or (c) has informed the City by written notice that Greens is either unable or has not elected to proceed with the project, for any reason, then the City shall have the option (to be exercised within ninety (90) days after the event giving rise to such right) to repurchase the Property from Greens at a purchase price equal to the original purchase price of the Property paid by Greens at the time of close of escrow.
13. Historic Preservation: Greens must execute a Historic Façade Easement Agreement, as part of the PSA, which stipulates that Greens must conserve the Historic Former Downtown Fire Station No.1's facade in accordance with plans approved by the City and its Cultural Heritage Board or its staff per Title 20 of the Riverside Municipal Code in compliance with the Secretary of the Interior's Standards for Treatment of Historic Properties, and shall throughout the term of the agreement maintain the building facade in good repair and condition per Title 20 of the Riverside Municipal Code as determined by the City, including review by the Cultural Heritage Board or its staff.

The Public Works Director has reviewed this report and concurs with the recommendations.

FISCAL IMPACT:

Future development of Lot 27 would result in an estimated parking revenue loss to the Parking Fund of approximately \$5,600 annually. However, upon close of escrow, approximately \$750,000 will be deposited into General Fund account no. 0000101-380010 (Sale of Land and Buildings) and approximately \$250,000 will be deposited into Parking Fund account no. 0000570-380010 (Sale of Land and Buildings), less miscellaneous, title, escrow and closing costs anticipated not

to exceed \$10,000. Of the \$750,000 deposited into the General Fund, approximately \$250,000 will be allocated to the Liability Fund to recover costs from the Encore settlement.


Revenue from the proposed sale was included in the Proposed FY 2018-2020 Two-Year Budget projections. At the close of escrow, based on budget to actual revenues, staff may return to the City Council with a request to appropriate a portion of the sale proceeds for specific projects, in accordance with the City's one-time revenue fiscal policy.

Based on the proposed project, the City's General Fund will receive increased annual revenue from transient occupancy tax (TOT), sales tax, and property tax. From the completion date of the proposed project, the five-year revenue projections total approximately \$7.8 million:

	Transient Occupancy Tax	Sales Tax	Property Tax
Year 1:	\$920,656	\$469,481	\$49,500
Year 2:	\$989,153	\$486,176	\$50,490
Year 3:	\$1,008,936	\$504,238	\$51,499
Year 4:	\$1,029,115	\$522,613	\$52,530
Year 5:	\$1,049,696	\$541,687	\$53,580
Totals:	\$4,997,556	\$2,524,195	\$257,599

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

Concurs with:



Mike Gardner, Chair
Development Committee

Attachment: Purchase and Sale Agreement