



Midpeninsula Regional
Open Space District

R-17-90
Meeting 17-16
July 12, 2017

AGENDA ITEM 6

AGENDA ITEM

Proposed purchase of the Pearlman HIMY Los Altos LP Property as a potential new Administrative Office, located at 5050 El Camino Real, Los Altos in the County of Santa Clara (Assessor's Parcel Number 170-04-054).

GENERAL MANAGER'S RECOMMENDATIONS

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1. Determine that the recommended actions are categorically exempt from the California Environmental Quality Act (CEQA), as set out in the staff report.
2. Adopt a Resolution authorizing the entry into a purchase and sale agreement for the Pearlman HIMY Los Altos LP Property at a cost of \$31,550,100.
3. Authorize the General Manager to have full authority to make all property management decisions for the property after the close of escrow consistent with Board direction and the attached Resolution relating to the management of existing leases and upkeep of the property.
4. Authorize use of the General Fund Committed Infrastructure Reserve in an amount of \$31,805,100, with a corresponding authorization to increase the Fiscal Year 2017-18 Real Property Budget, to cover the purchase price (\$31,550,100), due diligence (\$65,000), and escrow/commission costs (\$190,000).
5. Authorize pursuit of financing options for \$15 million for the property.

SUMMARY

The Midpeninsula Regional Open Space District (District) has a rare opportunity to purchase a larger office property in the City of Los Altos to meet current and long-term business needs. This purchase opportunity would replace the existing administrative office, which is too small and constrained to house the current administrative functions, staff, and equipment. The General Manager recommends Board authorization to utilize funding set aside in the General Fund Committed Infrastructure Reserve to proceed with the Pearlman HIMY Los Altos LP Property (Property) purchase. In accordance with the District Fund Balance Policy, the General Fund Committed Infrastructure Reserve may be utilized for improvements to field and office facilities. As part of this proposed purchase, a line item budget increase to the Fiscal Year 2017-18 budget of \$31,805,100 for the purchase price, due diligence, and closing costs is required to proceed with the proposed acquisition. The General Manager further recommends seeking financing in an amount of \$15 million to maintain sufficient funding in the General Fund Committed Infrastructure Reserve after acquisition and prior to sale of the current Administrative Office on

330 Distel Circle. The following report presents a description of the Property, the District's environmental review, purchase terms, and financial considerations.

BACKGROUND

Over the last several years, the District has evaluated the options available to increase its current administrative office space to meet current and long-term business needs. The urgency for this evaluation increased with the organizational restructuring that has occurred since 2015 to accelerate project delivery, expand service delivery, and ensure sufficient resources to manage land and public access facilities. As part of the organizational restructuring, the District has increased its staffing capacity and outgrown its current 12,120 square foot administrative office building located at 330 Distel Circle, Los Altos. To accommodate staff, the District currently leases an additional 7,964 square feet of office space at an annual cost approaching \$380,000.

In 2015, as part of the evaluation of options for the administrative office, staff completed a staff facilities opportunities and constraint analysis and examined the current real estate market and the feasibility of building from the ground up at 330 Distel Circle. The following year, staff and the Facilities Ad Hoc Committee considered long-term options/solutions with the assistance of an architectural strategist (MKThink, Inc.). In January 2017 (R-17-08), the Board of Directors directed the General Manager to pursue building a new, three-story, 40,000 square foot building on site while continuing to monitor the real estate market for purchase opportunities. In May 2017, a viable real estate opportunity presented itself.

DISCUSSION

The Property for consideration is improved with a 39,010 square foot, two-story office building on a 63,162 square foot lot (1.45-acres). The Planning and Real Property Departments have inspected the property and confirmed that the available space and strategic location meet District needs. Staff quickly moved on bringing this opportunity before the Board for purchase consideration as this would be an "off the market" transaction.

Property Advantages

1. Maintains similar location that works for the public and employees (within 70 feet of current office).
2. Includes sufficient parking for staff and the public.
3. Expedites the new facility compared to a rebuild at the existing District site.
4. Less uncertainty than building a new office from the ground up.
5. Estimated to be less costly than new construction.
6. Allows for future expansion (if needed) and for an ongoing income stream by leasing out extra space in the meantime.
7. Allows maximum flexibility with minimal interruption of staff or constituents compared with building new on current site.
8. Most environmentally friendly option (remodel vs. new construction)
9. Ability to sell current administrative office building to help offset the purchase price.

Property Disadvantages

1. Purchase price is significant (but less than new construction).
2. At this time, remodel costs are preliminary and based on per square foot estimates.
3. ADA upgrades will be required.

4. Heating, ventilation, and air conditioning system may be reaching the end of useful life.
5. Addition of new green infrastructure/design features may be limited.
6. Sale of existing administrative office may not reach desired price/offset.

Property Description and Regional Context (see attached map)

The building on the property was constructed in 1982 and operates as a multi-tenant office building that is 100% leased to 25 tenants. The overall condition of the property is fair to good. The property has ample parking for an office building with 153 parking spaces (51 are underground) or a parking ratio near 4 spaces per 1,000 square feet. The underground, single-level parking garage is secure with drop down gates and contains lockable storage areas.

The Property is located at the southeast corner of El Camino Real and Distel Circle in the City of Los Altos. The adjacent property uses are office and retail. The Property is within 70 feet of the District's current administrative office. This Property would continue to act as a central location within District boundaries and continue to allow good access to the District's preserves.

Office Market

This Property presents a rare opportunity to purchase an office building in an extremely tight and competitive market. Over the last couple of years, there have only been a handful of office transactions that could meet the District's needs. The purchase price is considered fair market value for an owner user. Below is a chart of comparable office sales that have occurred within the last two years:

	Location	Date Sold	Building Size	Sale Price
1.	490 S. California Avenue, Palo Alto	July 2015	23,868 square feet	\$27,750,000 or \$1,162 per square foot
2.	530 Lytton Avenue, Palo Alto	September 2015	57,400 square feet	\$60,650,000 or \$1,056 per square foot
3.	2465 Latham Street, Mountain View	November 2015	42,622 square feet	\$33,350,000 or \$782 per square foot
4.	100 View Street, Mountain View	April 2016	42,876 square feet	\$55,000,000 or \$1,282 per square foot
5.	445 Sherman Avenue, Palo Alto	June 2016	23,215 square feet	\$24,300,000 or \$1046 per square foot
	Subject Property 5050 El Camino Real, Los Altos	N/A	39,010 square feet	\$31,550,100 or \$808 per square foot

The above comparable office sales are the most similar to the Property based on location, size, date sold and property type. As indicated on the above chart, the subject Property is at the lower end of the price scale based on a price per square foot comparison. This is mainly due to the superior locations of most of the comparable properties. Comparable sale number three (3) at 2465 Latham Street is the best comparable for the subject property as it is similar in size and location. Based on the sale date of 2465 Latham Street and the other comparables, the value of the subject property at \$808 is supportable. The income approach to valuation also supports the value of the subject property.

The Los Altos, Palo Alto, and Mountain View office markets are some of the tightest and most expensive in the State and Country. The above chart provides an indication of the prices that the District would need to pay if it was to pursue purchasing another similar scale office building within this market area. Moreover, it is worth noting the extreme difficulty of a government agency competing with private entities in the open market. As additional context, the early and now dated estimates for the District to construct a new 40,000 square foot office building at 330 Distel Circle ranged from \$35 to \$40 million.

The purchase of 5050 El Camino would allow the District to sell its Administrative Office at 330 Distel Circle, Los Altos to help offset the cost of the new office building. The District's current Administrative Office has an estimated market value of approximately \$7,500,000.

Land Use and Improvements

The property is located within the City of Los Altos' Commercial Thoroughfare zoning area, which permits office use as a right.

USE AND MANAGEMENT

Not applicable

TERMS AND CONDITIONS

The purchase price and terms are as follows:

- Purchase Price: \$31,550,100
- Deposit: \$3,100,000
- Contingency period: 20 days for general conditions, environmental, etc. (as a good faith effort and to accommodate our Board approval process, the seller has provided the District early access (since June 7, 2017) to review all of its property records and documents for a total of 56 days)
- Closing costs: District would cover all closing costs (document transfer tax is generally one of the largest closing costs, but as a government agency the District is exempt)
- Commission: 1% of purchase price (excluding the prepayment penalty) to Colliers International with the District and Seller splitting the cost 50/50 (District's share: \$155,000).
- Escrow: 30 to 360 days with two, 90 day extensions and a 10 day call to close escrow (the seller requires maximum flexibility)
- Property Management: The seller would continue to manage the property after the close of escrow on behalf of the District per a property management agreement under the General Manager's authority until the District is able to take over management.

The purchase price is regarded as fair market value for the property considering both the sale comparison and income approaches. The Property's close proximity (70 feet) to the District's administrative office building is an ideal location as the public and employees are accustomed to this location and it can accommodate the District's larger field vehicles when needed. The purchase price of this property, including the prepayment penalty, is \$806 per square foot based on the building square footage. This property falls within the comparable sales range of \$782 to \$1,282 per square foot for like properties in the surrounding Los Altos, Palo Alto, and Mountain View markets.

The property currently has a strong income stream from the existing tenants, the District could take advantage of this income stream in the short term as the District plans and seeks permits for remodel work and waits for the leases to expire. Depending on the extent of the remodel work and square footage needs there may be an opportunity for a long-term income stream if the District desires to lease out extra space within the building. At this time, remodel costs are unknown, but an estimate of \$6,000,000 (30,000 square feet at \$200 per square foot) has been made by outside consultants.

FISCAL IMPACT

The property purchase amount is \$31,550,100. In addition, approximately \$65,000 is needed for the following due diligence activities: building assessment, \$25,000; Phase 1 environmental study, \$5,000; ALTA (American Land Title Association) survey, \$15,000; and a contingency, \$20,000. If the District closes escrow, the District will secure an ALTA extended title policy for the property at a cost of approximately \$25,000 and escrow costs of approximately \$10,000. Finally, the District will need to compensate Colliers International a \$155,000 commission at the close of escrow.

The total estimated cost for the purchase with due diligence and closing costs is \$31,805,100. If the purchase of the Subject Property is approved, the General Manager requests Board authorization to use \$31,805,100 from the General Fund Committed Infrastructure Reserve.

5050 El Camino Real Acquisition Budget	
Item Description	Cost
Purchase Price	\$31,550,000.00
Additional Consideration	\$100.00
Purchase Price Total	\$31,550,100.00
Building Condition Assessment	\$25,000.00
Phase 1 Environmental Study	\$5,000.00
ALTA Survey	\$15,000.00
Due Diligence Contingency	\$20,000.00
Due Diligence Total	\$65,000.00
Real Estate Commission	\$155,000.00
ALTA Title Policy	\$25,000.00
Escrow Costs	\$10,000.00
Escrow Costs Total	\$190,000.00
Total Transaction Costs	\$31,805,100.00

To ensure adequate funding in the General Fund Infrastructure Reserve, the General Manager recommends seeking \$15 million in financing after the close of escrow. This is to ensure the Reserve remains adequately funded while the property is acquired and remodeled, and before the proceeds of the sale of the current Administrative Office at 330 Distel Circle are received. The financing would be for approximately 10 years with a possible option of a 5-year call provision to enable the District to pay down on the principal before the final maturity date. Annual debt

service would be approximately \$1.5 to \$1.6 million, partially offset by rent proceeds and future reduced rent expense for the current District leased office space.

Staff Facilities	Total Cost
5050 El Camino Real Property Purchase Amount	\$31,805,100
240 Cristich Lane Property (Board approved March 22, 2017)	\$3,285,000
Total Facility Purchases (if approved)	\$35,090,100

The District Controller has reviewed the financial viability of the proposed purchase, found that it is consistent with the District's long-term financial model and infrastructure reserves, and has approved the purchase.

If purchased, additional funds for site improvements and office redesign would need to be allocated at a later date. It is difficult to accurately budget for these costs now, but based on per square footage estimates are expected to be approximately \$6,000,000. If the District enters into contract, planning, design, and permitting would commence while in escrow and continue after the close of escrow while the District waits for leases to expire.

BOARD COMMITTEE REVIEW

Due to the short timeframe of this proposed purchase, a Board Committee did not previously consider this item.

PUBLIC NOTICE

All notice required by the Brown Act has been provided.

CEQA COMPLIANCE

Project Description

The project consists of the purchase of a 39,010 square foot, two-story office building located on a 63,162 square foot site, at 5050 El Camino Real in the City of Los Altos. The property has a General Plan designation of Commercial Thoroughfare, with a zoning designation of CT (Commercial Thoroughfare).

This potential purchase would provide the District with the opportunity to address long-term needs for a larger administrative office. For purposes of compliance with the California Environmental Quality Act (CEQA), the project is limited to the transfer of ownership at this time. Any activities such as remodeling is subject to as-yet unprepared planning and design work. Such work would be evaluated for CEQA as the project description takes shape. This approval to pursue acquisition of the site would result in no direct or indirect changes to the environment triggering CEQA.

CEQA Determination

The District concludes that this project will not have a significant effect on the environment. It is exempt from the California Environmental Quality Act (CEQA) under Article 19, Sections 15061 as follows:

Section 15061(b)(3) exempts projects where it can be seen with certainty that there is no possibility the activities may have a significant effect on the environment. The project is limited to the transfer of ownership. No plans for the occupancy of the property or redevelopment of this site have been developed. Any future redevelopment of the site would be subject to a separate review for compliance with CEQA and approval by the District and the City of Los Altos.

NEXT STEPS

Upon approval by the Board of Directors, staff would proceed with due diligence investigations. After the close of escrow, staff would begin planning the site improvements and design plans and return to the Board at different phases of design for review and direction.

Attachments:

1. Resolution Authorizing Acceptance of Offer and Entry Into a Purchase and Sale Agreement, Authorizing use of the General Fund Committed Infrastructure Reserve, Authorizing General Manager or Other Officer to Execute Certificate of Acceptance of Grant to District, Authorize General Manager or General Manager Designee to have full authority to make all property management decisions after the close of escrow, Authorizing General Manager to Execute any and all Other Documents Necessary or Appropriate to Closing of the Transaction.
2. Location Map

Responsible Department Manager:
Michael Williams, Real Property Manager

Prepared by:
Allen Ishibashi, Senior Real Property Agent
Tina Hugg, Senior Planner

Contact person:
Allen Ishibashi, Senior Real Property Agent

Graphics prepared by:
Jaime Hawk, GIS Data Analyst I
Nathan Greig, GIS Technician

RESOLUTION 17-__

RESOLUTION OF THE BOARD OF DIRECTORS OF MIDPENINSULA REGIONAL OPEN SPACE DISTRICT AUTHORIZING ACCEPTANCE OF OFFER AND ENTRY INTO A PURCHASE AND SALE AGREEMENT, AUTHORIZING USE OF THE GENERAL FUND COMMITTED INFRASTRUCTURE RESERVE, AUTHORIZING GENERAL MANAGER OR OTHER APPROPRIATE OFFICER TO EXECUTE CERTIFICATE OF ACCEPTANCE OF GRANT TO DISTRICT, AUTHORIZING GENERAL MANAGER TO EXECUTE ANY AND ALL OTHER DOCUMENTS NECESSARY OR APPROPRIATE TO CLOSING OF THE TRANSACTION (5050 EL CAMINO REAL, LOS ALTOS, CA), AND AMENDING THE BUDGET FOR FISCAL YEAR 2017-18.

The Board of Directors of Midpeninsula Regional Open Space District does hereby resolve as follows:

SECTION ONE. The Board of Directors of Midpeninsula Regional Open Space District (District) does hereby accept the offer contained in that certain Purchase and Sale Agreement between PEARLMAN HIMY LOS ALTOS LP, a California limited partnership, and the Midpeninsula Regional Open Space District, a copy of which purchase and settlement agreement is attached hereto and by reference made a part hereof, and authorizes the President of the Board of Directors, General Manager, or other appropriate officer to execute the Agreement and all related transactional documents on behalf of the District to acquire the real property described therein (“Subject Property”).

SECTION TWO. The Board of Directors of Midpeninsula Regional Open Space District authorizes the expenditure of \$31,550,100.00 covering the purchase of the Subject Property, including a deposit of \$3,100,000.00.

SECTION THREE. The Board of Directors of Midpeninsula Regional Open Space District authorizes the use of the General Fund Committed Infrastructure Reserve, and amending the Fiscal Year (FY) 2017-18 Budget and Action Plan for the Midpeninsula Regional Open Space District by increasing the budget in the amount of \$31,805,100.00. Except as herein modified, the FY 2017-18 Budget and Action Plan, Resolution No. 17-14, shall remain in full force and effect.

SECTION FOUR. The General Manager, President of the Board of Directors, or other appropriate officer is authorized to execute a Certificate of Acceptance for the Grant Deed on behalf of the District.

SECTION FIVE. The General Manager or the General Manager’s designee is authorized to provide notice of acceptance to the seller, sign all escrow documents and to extend escrow if necessary.

SECTION SIX. The General Manager or the General Manager’s designee is authorized to expend up to \$255,000.00 to cover the cost of the real estate commission, title insurance, escrow fees, due diligence consultants and other miscellaneous costs related to this transaction, and included in the total transactions costs of \$31,805,100.00.

SECTION SEVEN. The General Manager or the General Manager’s designee is authorized to have full authority to make property management decisions for the Subject Property after the close of escrow such as modifying the terms of existing leases, entering into new leases, terminating leases, approving and executing property management contracts, modifying or entering into new property management agreements, etc. for the Subject Property in order to best prepare the Subject Property for District occupancy and to maintain a strong income stream.

SECTION EIGHT. The General Manager and General Counsel are further authorized to approve any revisions to the attached Agreement and documents, which do not involve any significant change to any term of the Agreement or documents, which are necessary or appropriate to the closing or implementation of this transaction.

* * * * *

PASSED AND ADOPTED by the Board of Directors of the Midpeninsula Regional Open Space District on _____, 2017, at a regular meeting thereof, by the following vote:

- AYES:**
- NOES:**
- ABSTAIN:**
- ABSENT:**

ATTEST:

APPROVED:

Secretary
Board of Directors

President
Board of Directors

APPROVED AS TO FORM:

General Counsel

I, the District Clerk of the Midpeninsula Regional Open Space District, hereby certify that the above is a true and correct copy of a resolution duly adopted by the Board of Directors of the Midpeninsula Regional Open Space District by the above vote at a meeting thereof duly held and called on the above day.

District Clerk

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5050 El Camino Real, Los Altos

- 5050 El Camino Real
- Administrative Office

Midpeninsula Regional
Open Space District
(MROSD)
May 2017



While the District strives to use the best available digital data, these data do not represent a legal survey and are merely a graphic illustration of geographic features.