



City of San Leandro

Meeting Date: February 16, 2016

Staff Report

File Number: 16-047

Agenda Section: ACTION ITEMS

Agenda Number: 10.A.

TO: City Council

FROM: Chris Zapata
City Manager

BY: Cynthia Battenberg
Community Development Director

FINANCE REVIEW: Not Applicable

TITLE: Staff Report for Resolution Authorizing the City Manager to Execute a Purchase and Sale Agreement with Sansome Pacific Properties, Inc. for Sale of the City-Owned Parking Lot at 1188 East 14th Street (APN 077-0447-007-01)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council approve the attached Resolution authorizing the City Manager to Execute a Purchase and Sale Agreement with Sansome Pacific Properties, Inc. for Sale of the City-owned Parking Lot at 1188 East 14th Street, thereby facilitating the development of this transit-oriented opportunity site and generating approximately \$1.2 million in revenue for the General Fund.

BACKGROUND

The adoption of the Downtown San Leandro Transit-Oriented Development (“TOD”) Strategy in 2007 included the identification of several opportunity sites that were determined to be well-suited to the high-density, walkable development characteristics envisioned in the plan. One of the opportunity sites is the block bounded by East 14th Street, Callan Avenue, Hyde Street, and Chumalia Street, which is comprised of a corner parcel and building owned by CVS Health (“CVS”), a mixed used property controlled by the Portuguese Fraternal Society of America (“PFSA”), and a City-owned parking lot. This block was selected because of its central location at the most significant intersection in Downtown San Leandro and because the existing development is relatively low density as it is made up of one- and two-story buildings and a large surface parking lot. By contrast, the TOD Strategy envisioned higher-density, mixed use development that would support a more vibrant and pedestrian-friendly downtown.

At the time of the adoption of the TOD Strategy there was little opportunity for new development at this location because CVS (then known as Long’s Drugs) was operating a pharmacy on the corner parcel and had a long-term lease for non-exclusive use of the

City-owned parking lot at no cost. When the City Council approved development entitlement for The Village retail center at 1550 East 14th Street in 2009, however, a pathway for development of this site was established. The Village project included a new CVS store which allowed CVS to close the store at 1188 East 14th Street. At the time of the approval for the Village, CVS committed to a plan to close their location at 1188 East 14th Street and to partner with the City on a joint sale that included the City-owned lot.

The CVS store at 1188 East 14th Street closed in November 2014 and the City and CVS began working to market the adjacent properties for sale early in 2015.

Analysis

Combined, the site comprised by the City- and CVS-owned parcels constitutes a 1.2 acre development opportunity that is centrally located in the center of Downtown San Leandro. The site has great potential to serve as a catalyst project that will positively impact the greater area and completion of a mixed use residential/retail project that will support the community in multiple ways.

Until the completion of The Village, Downtown San Leandro had not seen significant retail development in decades. The completion of that project, though, proved that desired retailers will locate in Downtown San Leandro if they can find suitable properties. Additionally, the entire Bay Area is currently facing an affordable housing crisis due to lack of housing supply. By supporting the construction of new housing units, the City can take an important step toward addressing that challenge. The addition of high-quality residential units in Downtown San Leandro also expands the market for similarly high-quality retail and restaurants. Just as office projects like the San Leandro Tech Campus will add to Downtown San Leandro's daytime population, this project will create additional residential population and spending power to support new retail options.

Zoning and Permitted Uses

As noted, the subject site has been identified as a transit-oriented opportunity site, which is reflected in the current zoning. The site is zoned Downtown Area (DA) 1. The DA-1 zone was adopted in conjunction with the City's TOD Strategy and represents the high-density section of E. 14th Street in Downtown San Leandro. The allowed uses include, but are not limited to:

- Mixed Use Residential: Retail uses required on ground floor on parcels fronting on East 14th Street. Residential density of 35-75 units per acre.
- Retail Sales: Tenants over 10,000 sq. ft. require a conditional use permit.
- Office, Business and Professional

The zoning code permits building heights in this zoning district between 24 and 75 feet.

Based on the current market and projected asking price for the site as well as the fact that the site is bordered on two sides by housing, staff determined at the outset of the sales process that a mixed use residential project was the most likely outcome. Residential mixed use is consistent with the goals of the TOD Strategy and provides much needed residential development at a time when large housing sites are not available.

In addition to the zoning code, which guides the potential uses, the City will have Design Review authority over the project through the entitlement process and will therefore be able to ensure that it meets community standards in terms of quality of design and construction and compatibility with surrounding uses.

The TOD zoning has been designed to support high density and encourage alternative means of transportation. Accordingly, parking minimums in the DA-1 zone are as follows:

- Residential: 1.5 spaces per unit (0.25 - 0.50 per unit may be unbundled)
- Retail and Office: 2 spaces per 1,000 square feet

This site also benefits from the presence of the Downtown Parking Garage immediately across the street. The garage has excess capacity and was designed, in part, to take pressure off the need for parking at nearby development sites.

The City is presently nearing the conclusion of a multi-year General Plan update process. Although major changes are not expected for the zoning or General Plan designations, it is possible that slightly higher residential densities will be permitted at this location. Sansome Pacific is aware of this possibility and may consider minor changes to the plans for the project if those modifications are ultimately adopted.

Marketing and Sale Process

In early 2015, both the City and CVS agreed to work with Larry Bell, a Vice President at Jones Lang LaSalle to serve as the listing agent and broker for the properties and assist in marketing them to potential developers. The goal of the process was to cast a wide net and ensure that a large number of qualified developers were aware of this opportunity site. The marketing materials included information of the zoning and allowed uses, which are consistent with the City's vision for the site. Potential buyers were also given the opportunity to request information from either listing agent or City staff. In addition to fielding inquiries from potential buyers, the listing agent reached out to over 40 Bay Area developers and City staff reached out directly to approximately 30 others.

Although the site was not marketed with a formal asking price, the selling parties made clear to interested buyers that the City would need to recoup the appraised value for the parking lot and that CVS intended to recoup its full book value for their parcel. The City commissioned an appraisal from a licensed real estate appraiser in November 2014, which determined the market value for the parking lot is \$1,280,000. Because the CVS parcel contains a usable structure and is located on the corner of a busy intersection, it has a notably higher value. Combined, the City and CVS needed an offer of at least \$4,400,000 to facilitate a sale of the two properties.

Developer Selection

After several months of marketing the site, the City and CVS called for offers on July 1, 2015. Eight offers were received. After an initial review of the offers, four were eliminated from consideration. Of those, two were not viable in terms of price, one consisted only of ground

level retail without a mixed use component, and one was inconsistent with the zoning for the site.

Of the remaining offers, all four were competitive and came from experienced, reputable developers. All four of the finalists had plans to construct approximately 90 units of rental housing above ground floor retail, which is consistent with the zoning. City staff, a representative from CVS, and the listing agent held interviews with all four finalists to gain more information about their visions for the site and their development expertise. All four demonstrated the qualifications to complete a high quality project. After a careful review of the offers, interviews, and direction from the City Council, Sansome Pacific was selected to move forward in the process. Sansome Pacific was selected for the following reasons:

- A strong track record in both retail and residential properties, including numerous successful projects in the Bay Area;
- A retail component that was more ambitious than the others offers: Sansome Pacific is considering building as much as 20,000 square feet of retail on the ground level, whereas some other offers had as little as 4,000 square feet;
- A history of working successfully with numerous retailers that are desired by the San Leandro community;
- A partnership with a highly-regarded architect and a commitment to top-quality design and construction;
- A design plan that includes an exploration of acquiring the adjacent PFSA property but would still be successful with just the City and CVS properties.

Sansome Pacific also offered the highest price for the properties although all four finalists were very close in this regard and price was not the determining factor in the decision.

After the review of offers, the City Council directed staff to negotiate a Purchase and Sale Agreement with Sansome Pacific to establish terms of a sale and begin moving the project forward.

Terms of the Purchase and Sale Agreement

The proposed Purchase and Sale Agreement with Sansome Pacific is a relatively straightforward document. Unlike more complex Development Agreements that have been used for other projects in Downtown San Leandro, this document deals primarily with the timing and mechanics of the sale. This is largely because the current zoning for the site is sufficient to ensure a development project that is consistent with the community's goals and vision for the site. As with any developer, Sansome Pacific will have the option to pursue zoning and/or General Plan changes, but the current project concepts are permitted under the zoning code.

Key points from the proposed Purchase and Sale Agreement are as follows:

- A purchase price of \$1,290,000 for the City parking lot;
- An acknowledgement that Sansome Pacific will execute a parallel agreement for the purchase of the CVS property;
- An initial deposit of \$50,000 to be deposited into escrow within three days of executing

- the Agreement, refundable only until the close of a 60-day due diligence review period;
- A requirement to close escrow within 10 days after issuance of full entitlements for the project, but no later than June 30, 2017 unless the extensions are exercised;
 - The option, at the buyer's discretion, of one six-month extension and two subsequent three-month extensions; and
 - Additional deposit requirements of \$10,000 for the second and third extensions;
 - A requirement that the property will be conveyed by Seller to Buyer in an "As Is" condition, with no warranty as to the physical condition including, but not limited to, the soil, its geology, or the presence of hazardous materials.

Next Steps

Should the Purchase and Sale Agreement be authorized by the City Council, staff will work to execute the agreement concurrent with Sansome Pacific's parallel agreement with CVS. At that point, City staff and Sansome Pacific will work on developing more detailed plans. Sansome Pacific also intends to engage in further discussions with representatives from PFSA, which may or may not result in the inclusion of the adjacent parcels in the project.

The completion of the design and the issuance of entitlements are likely to take the majority of 2016. Although the pending General Plan update is not expected to significantly alter the zoning, it may result in slightly higher allowed residential density. If that occurs, Sansome Pacific will need to consider whether it wishes to consider an expanded number of units in the project.

As designs progress, Sansome Pacific will also increase outreach to potential retailers to occupy the ground floor spaces. At this point, staff is confident that the development team understands the types of retail uses that will advance community goals, but no specific agreements have been reached with any potential tenants.

Previous Actions

- On January 20, 2015 and July 20, 2015, the City Council held executive sessions to discuss Price and Terms of Payment related to the proposed sale of the property (APN 077-0447-007-01)

Environmental Review

An Environmental Impact Report, certified in conjunction with the adoption of the TOD Strategy, contained an assessment of the environmental impacts related to development throughout the study area including this project. Additional environmental review required, if any, will be determined as part of the entitlement process as plans for the proposed project are further defined in the coming months.

Legal Analysis

The Purchase and Sale Agreement with Sansome Pacific Properties, Inc. was reviewed by the City Attorney and approved as to form.

Fiscal Impacts

The sale of this City-owned property will result in new, unrestricted revenue to the City's General Fund once the transaction is completed. The revenue will be equal to the sale price (\$1,290,000) less a broker's commission and any applicable closing costs.

ATTACHMENT(S)

Attachment to Resolution

- Purchase and Sale Agreement with Sansome Pacific Properties, Inc.

PREPARED BY: Jeff Kay, Business Development Manager, Community Development Department



City of San Leandro

Meeting Date: February 16, 2016

Resolution - Council

File Number: 16-046

Agenda Section: ACTION ITEMS

Agenda Number:

TO: City Council

FROM: Chris Zapata
City Manager

BY: Cynthia Battenberg
Community Development Director

FINANCE REVIEW: Not Applicable

TITLE: RESOLUTION Authorizing the City Manager to Execute a Purchase and Sale Agreement with Sansome Pacific Properties, Inc. for Sale of the City-Owned Parking Lot at 1188 East 14th Street (APN 077-0447-007-01) at a Price of \$1.29 Million

WHEREAS, the City of San Leandro wishes to facilitate private development of the opportunity site located at the northeast corner of East 14th Street and Callan Avenue (the "Project Site"); and

WHEREAS, the City of San Leandro and CVS Health jointly made two properties located at the Project Site available for sale to a developer and marketed the Project Site publicly; and

WHEREAS, Sansome Pacific Properties, Inc. submitted an offer to purchase the two properties from CVS Health and the City of San Leandro; and

WHEREAS, City staff has determined that Sansome Pacific Properties, Inc. possesses the resources and experience necessary to complete a successful development at the Project Site consistent with the vision established in the Downtown San Leandro Transit-Oriented Development Strategy; and

WHEREAS, the City of San Leandro commissioned an appraisal of the City-owned Parking Lot which determined the market value of the parcel to be \$1,280,000; and

WHEREAS, the City of San Leandro and Sansome Pacific Properties, Inc. have negotiated a purchase price for the City-owned parking lot of \$1,290,000; and

WHEREAS, Sansome Pacific Properties, Inc. also intends to execute a Purchase and Sale Agreement with CVS Health to acquire the adjacent parcel that comprises the remainder of the Project Site; and

WHEREAS, a draft agreement between the City of San Leandro and Sansome Pacific Properties, Inc. has been presented to this City Council; and

WHEREAS, the City Council is familiar with the contents thereof; and

WHEREAS, the City Manager recommends approval of said agreement.

NOW, THEREFORE, the City Council of the City of San Leandro does RESOLVE as follows:

1. The sale of the City property at 1188 East 14th Street is approved; and
2. That said agreement substantially in the form presented is hereby approved and execution by the City Manager is hereby authorized; and
3. That the City Manager is authorized to make non-substantial revisions to said agreement, subject to the approval of the City Attorney; and
4. That an original executed agreement shall be attached to and made a part of this resolution.

**PURCHASE AND SALE AGREEMENT
AND JOINT ESCROW INSTRUCTIONS**

THIS PURCHASE AND SALE AGREEMENT AND JOINT ESCROW INSTRUCTIONS (this “**Agreement**”) is made and entered into as of _____, 2016 (the “**Effective Date**”), by and between the City of San Leandro, a California charter city (the “**City**” or “**Seller**”), and Sansome Pacific Properties, Inc., a California corporation (“**Buyer**”). Seller and Buyer are collectively referred to herein as the “**Parties**.”

RECITALS

A. City is the owner of that certain real property located in the City of San Leandro at 1188 E 14th Street, known as Alameda County Assessor’s Parcel No. 077-0447-007-01 and more particularly described in Exhibit A attached hereto and incorporated herein (the “**Property**”).

B. Concurrently upon execution of this Agreement, Buyer and the individuals and/or entities (the “**Adjacent Seller**”) owning that certain real property, together with all improvements located thereon, commonly known as 1188 E 14th Street, San Leandro, California, APN: 077-0447-014-06 (the “**Adjacent Property**”), have entered into a Purchase Agreement for the Adjacent Property (the “**Adjacent Purchase Agreement**”).

C. The City hired a company with expertise in real estate appraisal, the Schmidt-Prescott Group, Inc., to appraise the Property. The appraisal valued the Property at One Million Two Hundred Eighty Thousand Dollars (\$1,280,000.00) on November 11, 2014.

D. The City has decided that the sale of the Property would benefit the health and welfare of the City.

E. Buyer desires to purchase the Property and has agreed to pay One Million Two Hundred Ninety Thousand Dollars (\$1,290,000.00) (the “**Purchase Price**”) to Seller for the purchase of the Property.

F. Buyer agrees to purchase the Property from Buyer, and Seller agrees to sell the Property to Buyer, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained in this Agreement, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged by the parties, Seller and Buyer hereby agree as follows:

1. INCORPORATION OF RECITALS AND EXHIBITS. The Recitals set forth above and the Exhibits attached to this Agreement are each incorporated into the body of this Agreement as if set forth in full.

2. PURCHASE AND SALE.

2.1. Agreement to Buy and Sell. Subject to the terms and conditions set forth herein, Seller agree to sell the Property to Buyer, and Buyer hereby agrees to acquire the Property from Seller.

2.2. Purchase Price. The purchase price for the Property to be paid by Buyer to City is One Million Two Hundred Ninety Thousand Dollars (\$1,290,000.00) (the “**Purchase Price**”).

2.3. Payment of Purchase Price. The Purchase Price will be paid in immediately available funds to Buyer at Closing (defined in Section 5.1 below).

3. ESCROW.

3.1 Escrow Account. Seller has opened an interest-bearing escrow account No. NCS-653858-SM (the “**Escrow**”) maintained by First American Title Company at the address specified in Section 11.8 (the “**Escrow Holder**”), with interest accruing to the benefit of Buyer. Escrow Holder shall perform all escrow and title services in connection with this Agreement.

3.2 Opening of Escrow. Within three (3) business days after the execution of this Agreement by Buyer, Buyer will deposit into Escrow the Deposit as provided in Section 3.3. The date such installment is received by Escrow Holder will be deemed the “**Opening of Escrow**” and Escrow Holder will give written notice to the Parties of such occurrence.

3.3 Buyer’s Deposit. As set forth in Section 3.2, the Buyer shall deposit Fifty Thousand Dollars (\$50,000.00) in Escrow (the “**Deposit**”). Borrower shall increase the deposit in the event Buyer exercises the Second Extension and Third Extension to the Closing Date, as set forth and defined in Section 5.1 below.

3.4 Satisfaction of Due Diligence Contingency. Buyer shall have the right, in its sole discretion, to determine the suitability of the Property for Buyer’s needs, and may terminate this Agreement for any reason prior to the expiration of the Due Diligence Contingency Period (as defined in Section 5.2(a) below). Buyer hereby agrees to provide written notice to Seller prior to the expiration of the Due Diligence Contingency Period if Buyer approves the physical and environmental condition of the Property, and all documents and due diligence items provided by Seller and/or generated by Buyer, all pursuant to Section 5.2(a) below. If Buyer fails to deliver such approval notice, or if Buyer delivers written notice to Seller of its disapproval of any due diligence items, matters or documents, then this Agreement shall terminate, and all amounts deposited by Buyer into escrow (except the Independent Consideration as defined in Section 3.5 below), together with interest thereon, if any, will be returned to Buyer, and neither party shall have any further rights or obligations hereunder except those which expressly survive the termination hereof.

3.5 Independent Consideration. As independent consideration for Seller's entering into this Agreement to sell the Property to Buyer, Buyer shall deliver the sum of Ten Dollars (\$10.00) to Seller through Escrow ("**Independent Consideration**"). In the event that Buyer terminates this Agreement in accordance with Section 3.4 above, Seller shall retain the Independent Consideration and shall refund the Deposit to Buyer; in the event that Buyer does not terminate this Agreement as aforesaid, the Independent Consideration shall be applied to the Purchase Price at Closing.

4. PROPERTY DISCLOSURE REQUIREMENTS.

4.1. Condition of Title/Preliminary Title Report. Escrow Holder has delivered a Preliminary Title Report for the Property (the "**Preliminary Report**") to Buyer. Within thirty (30) days of the execution of this Agreement, Buyer shall review and approve the Preliminary Report and all exceptions to title contained in the Preliminary Report. Buyer shall have the right to approve or disapprove, as a condition to the Close of Escrow, any exceptions to title to the Property.

4.2. Environmental and Natural Hazards Disclosure. California Health & Safety Code section 25359.7 requires owners of non-residential real property who know, or have reasonable cause to believe, that any release of hazardous substances are located on or beneath the real property to provide written notice of same to the buyer of real property. Other applicable laws require Seller to provide certain disclosures regarding natural hazards affecting the Property. Seller agrees to make all necessary disclosures required by law.

5. CLOSING AND PAYMENT OF PURCHASE PRICE.

5.1. Closing. The closing (the "**Closing**," "**Closing Date**" or "**Close of Escrow**") will occur on or before the date which is ten (10) days after Buyer's receipt of the Approvals (as hereafter defined) and removal of the Entitlements Contingency (as hereafter defined).

5.2. Buyer's Conditions to Closing. Buyer's obligation to purchase the Property is subject to the satisfaction of all of the following conditions or Buyer's written waiver thereof (in Buyer's sole discretion) on or before the Closing Date:

(a) Buyer has approved the condition of the Property and the due diligence documents. Buyer will have sixty (60) calendar days from the Opening of Escrow (the "**Due Diligence Contingency Period**") to complete physical inspections of the Property, review the due diligence documents, and complete due diligence related to the purchase of the Property. Seller shall provide to Buyer copies of all reasonably available and known documents relating to the ownership and operation of the Property, including but not limited to plans, permits and reports (environmental, structural, mechanical, engineering and land surveys) that Seller has in its possession not later than two (2) business days following the execution and delivery of this Agreement.

Buyer shall have the right to conduct such tests, engineering and such feasibility and other studies regarding the Property, including an environmental audit, as it considers prudent at a mutually convenient time upon at least two (2) business days' notice to

Seller. Buyer hereby agrees to indemnify and hold Seller harmless for any damage to the Property caused (but not merely revealed) by Buyer's inspections. Buyer shall name Seller, or cause Buyer's consultants and inspectors to name Seller, as an additional insured on a One Million Dollars (\$1,000,000.00) combined, single limit, comprehensive general public liability policy issued by a licensed insurance company reasonably acceptable to Seller.

(b) Subject to the provisions of this Section 5.2(b), Buyer shall have until June 30, 2017 (the "**Entitlements Contingency Date**") to obtain all required governmental land use approvals, site plans and architectural approvals, all environmental approvals, and any other discretionary governmental approval necessary for the construction and operation on the Property and Adjacent Property of a mixed use project with retail and residential components to the Buyer's specifications and criteria (the "**Project**"). All such approvals, including any zoning change approvals, zoning variance approvals, Engineering and Transportation Department approvals, parcel, plat or other map approvals (including, without limitation, all lot line adjustments and/or mergers in connection therewith) and other land use entitlements (including, without limitation, any Easement and Restriction Agreements, Declarations of Restrictive Covenants, and/or Covenants, Conditions and Restrictions, or the like) necessary or desirable for the construction and operation of the Project shall be collectively referred to in this Agreement as "**Approvals**," or, individually, as an "**Approval**," and the contingency contained in this Section 5.2(b) shall be referred to in this Agreement as the "**Entitlements Contingency**." Buyer agrees to provide Seller with copies of all written applications and/or submittals delivered by Buyer to any governmental agency in connection with the Approvals. Seller acknowledges that the Approvals will be processed while the Property is in escrow, and thus the Approvals will require written authorization from Seller as the owner of the Property. Accordingly, Seller agrees to reasonably cooperate with Buyer as necessary in Buyer's attempt to obtain the Approvals.

In the event that Buyer has not received the Approvals by the Entitlements Contingency Date, Buyer shall have the right to extend the Entitlements Contingency Date for one six (6) month extension (the "**First Extension**"), and two subsequent, consecutive three (3) month extensions (the "**Second Extension**" and the "**Third Extension**," respectively) to secure the Approvals. Buyer must provide City with written notice at least ten (10) days prior to the Entitlements Contingency Date to exercise the First Extension. In order to exercise the Second Extension, and subsequently the Third Extension, Buyer must increase the Deposit by an additional Ten Thousand Dollars (\$10,000.00) for each such extension (collectively, the "**Extension Deposits**"), at least ten (10) days prior to the expiration of the First Extension or the Second Extension, as applicable, in addition to providing ten (10) days prior written notice to the City of Buyer's intent to further extend the Entitlements Contingency Date. If Buyer fails to provide the notice and deposit increases required by this Section 5.2(b), this Agreement will terminate as of the Entitlements Contingency Date, or the expiration date of any exercised extension thereof, and neither Seller nor Buyer will have any further obligation or responsibility to the other to perform under this Agreement.

If Buyer fails to deliver written notice removing the Entitlements Contingency by the Entitlements Contingency Date, as may be extended, or if Buyer delivers notice to Seller that Buyer has been unable to obtain the Approvals, or if Buyer fails to timely deliver any notice and/or deposit increase required by this Section 5.2(b) pursuant to exercise of the Second or Third Extension, then this Agreement shall be deemed terminated. Such

termination will be immediate, neither Seller nor Buyer will have any further obligation or responsibility to the other to perform under this Agreement, and Escrow Holder will return promptly to Buyer the Deposit.

(c) Seller has performed all obligations to be performed by Seller pursuant to this Agreement.

(d) Seller's representations and warranties herein are true and correct in all material respects as of the Closing Date.

(e) The Title Company is irrevocably committed to issue a CLTA Title Policy to Buyer, effective as of the Closing Date, insuring title to Buyer in the full amount of the Purchase Price.

5.3. Seller's Conditions to Closing. The Close of Escrow and Seller's obligation to sell and convey the Property to Buyer are subject to the satisfaction of the following conditions or Seller's written waiver (in Seller's sole discretion) of such conditions on or before the Closing Date:

(a) Buyer has performed all obligations to be performed by Buyer pursuant to this Agreement before Closing Date.

(b) Buyer's representations and warranties set forth herein are true and correct in all material respects as of the Closing Date.

5.4. Conveyance of Title. Seller will deliver marketable fee simple title to Buyer at the Closing, subject only to the Permitted Exceptions. The Property will be conveyed by Seller to Buyer in an "AS IS" condition, with no warranty, express or implied, by Seller as to the physical condition including, but not limited to, the soil, its geology, or the presence of known or unknown faults or Hazardous Materials or hazardous waste (as defined by Section 10); provided, however, that the foregoing shall not relieve Seller from disclosure of any such conditions of which Seller have actual knowledge.

5.5. Deliveries at Closing.

(a) Deliveries by Seller. Seller shall deposit into the Escrow for delivery to Buyer at Closing: (i) a grant deed; (ii) an affidavit or qualifying statement which satisfies the requirements of paragraph 1445 of the Internal Revenue Code of 1986, as amended, any regulations thereunder (the "**Non-Foreign Affidavit**"); and (iii) a California Franchise Tax Board form 590 to satisfy the requirements of California Revenue and Taxation Code Section 18805(b) and 26131.

(b) Deliveries by Buyer. No less than one (1) business day prior to the close of escrow, Buyer shall deposit into escrow (i) the Purchase Price in immediately available funds; (ii) funds in the amount of the escrow fees and recording fees; (iii) the cost of the Title Policy, and (iv) any other costs that are the responsibility of Buyer under this Agreement.

(c) Closing. Upon Closing, Escrow Holder shall: (i) record the grant deed; (ii) deliver to Seller the Purchase Price, less any costs of escrow due by Seller under this Agreement; (iii) deliver to Buyer the Non-Foreign Affidavit, and the original recorded Grant Deed; (iv) pay any commissions and other expenses payable through escrow; and (v) distribute to itself the payment of escrow fees and expenses required hereunder.

(d) Closing Costs. Buyer will pay all escrow fees, recording fees, one-half of City transfer taxes, if applicable, and all costs of title insurance. Seller will pay all county transfer taxes and one-half of City transfer taxes, if applicable.

(e) Pro-Rations. At the close of escrow, the Escrow Agent shall make the following prorations: (i) property taxes will be prorated as of the close of escrow based upon the most recent tax bill available, including any property taxes which may be assessed after the close of escrow but which pertain to the period prior to the transfer of title to the Property to Buyer, regardless of when or to whom notice thereof is delivered; and (ii) any bond or assessment that constitutes a lien on the Property at the close of escrow will be assumed by Buyer. Seller does not pay ad valorem taxes.

5.6. Closing Contingency. Subject to Section 7.3 below, Buyer and Seller acknowledge and agree that as a condition for the benefit of both Buyer and Seller, the Closing hereunder is contingent upon, and will be simultaneous with, the closing under the Adjacent Purchase Agreement.

6. REPRESENTATIONS, WARRANTIES AND COVENANTS.

6.1. Seller' Representations, Warranties and Covenants. In addition to the representations, warranties and covenants of Seller contained in the other sections of this Agreement, Seller hereby represents, warrants and covenants to Buyer that the statements below in this Section 6.1 are each true and correct as of the Effective Date and as of the Closing Date, and shall be deemed to have been repeated by Seller as of the Closing, provided however, if to Seller' actual knowledge any such statement becomes untrue prior to Closing, Seller will notify Buyer in writing and Buyer will have three (3) business days thereafter to determine if Buyer wishes to proceed with Closing. If Buyer determines it does not wish to proceed, then the terms of Section 8.2 will apply.

(a) Authority. Seller is a charter city, lawfully formed, in existence and in good standing under the laws of the State of California. Seller has the full right, capacity, power and authority to enter into and carry out the terms of this Agreement. This Agreement has been duly executed by Seller, and upon delivery to and execution by Buyer is a valid and binding agreement of Seller.

(b) Encumbrances. Seller has not alienated, encumbered, transferred, mortgaged, assigned, pledged, or otherwise conveyed its interest in the Property or any portion thereof, nor entered into any Agreement to do so, and there are no liens, encumbrances, mortgages, covenants, conditions, reservations, restrictions, easements or other matters affecting the Property, except as disclosed in the Preliminary Report. Seller will not, directly or indirectly,

alienate, encumber, transfer, mortgage, assign, pledge, or otherwise convey its interest prior to the .

(c) Agreements. There are no leases, licenses, concessions, or other oral or written agreements affecting the Property, except those which have been disclosed by Seller or are disclosed in the Title Report. There are no agreements that will be binding on the Buyer or the Property after the Close of Escrow.

(d) Accuracy of Documents. To Seller's actual knowledge, all of the documents and records provided to Buyer by Seller in connection with the transaction contemplated herein are complete copies of such documents and/or records.

(e) Litigation. To Seller's actual knowledge, there are no claims or lawsuits filed or pending against Seller relating in any manner to the Property.

(f) Hazardous Materials. Except as otherwise disclosed to Buyer by Seller, Seller has received no notice from any local, state or national governmental entity or agency or other source of any hazardous waste condition existing with respect to the Property.

(g) Condition. From the date of Buyer's inspections through close of escrow, Seller will maintain the Property in the same condition as existing on the Effective Date, reasonable wear and tear excepted.

(h) New Agreements. From and after the date hereof, Seller shall not renew, extend or enter into any new lease or service or management contract, or other agreement that affects the use of the Property without the prior written consent of Buyer, which consent shall not be unreasonably withheld or delayed.

(i) Foreign Person. Seller is not a foreign person or entity under the Foreign Investment in Real Property Tax Act of 1980, as amended, and no taxes or withholding under the Foreign Investment in Real Property Tax Act of 1980, as amended, shall be assessed or applied to Buyer in connection with the transaction contemplated hereby.

The truth and accuracy of each of the representations and warranties, and the performance of all covenants of Seller contained in this Agreement are conditions precedent to Buyer's obligation to proceed with the Closing hereunder. The foregoing representations and warranties shall survive the expiration, termination, or close of escrow of this Agreement and shall not be deemed merged into the deed upon closing.

6.2. Buyer's Representations and Warranties. In addition to the representations, warranties and covenants of Buyer contained in other sections of this Agreement, Buyer hereby represents, warrants and covenants to Seller that the statements below in this Section 6.2 are each true as of the Effective Date, and, if to Buyer's actual knowledge any such statement becomes untrue prior to Closing, Buyer shall so notify Seller in writing and Seller shall have at least three (3) business days thereafter to determine if Seller wishes to proceed with Closing.

(a) Buyer is a California corporation. Buyer has the full right, capacity, power and authority to enter into and carry out the terms of this Agreement. This Agreement has been duly executed by Buyer, and upon delivery to and execution by Seller shall be a valid and binding agreement of Buyer.

(b) Buyer is not bankrupt or insolvent under any applicable federal or state standard, has not filed for protection or relief under any applicable bankruptcy or creditor protection statute, and has not been threatened by creditors with an involuntary application of any applicable bankruptcy or creditor protection statute.

The truth and accuracy of each of the representations and warranties, and the performance of all covenants of Buyer contained in this Agreement are conditions precedent to Seller's obligation to proceed with the Closing hereunder.

7. DEFAULT, REMEDIES, TERMINATION.

7.1. Failure of Condition. Should the conditions set forth in Section 5.2 of this Agreement not be satisfied on or prior to the Closing Date, or upon breach by Seller of any of its obligations hereunder, or upon the inaccuracy of any of Seller's representations in Section 6.1, Buyer shall (i) have the right to terminate this Agreement, in which case the Deposit shall be refunded to Buyer; or (ii) seek specific performance from Seller, in which case Buyer shall have the right to recover from Seller its actual expenses (including legal fees) incurred in securing Seller's performance.

7.2. Condemnation and Casualty. If before the Closing, either party receives notice of any condemnation or eminent domain proceeding, any proceeding in lieu of condemnation being initiated against the Property, or the damage or destruction of all or a part of the improvements located at the Property, the party receiving the notice shall promptly notify the other party in writing of that fact. Buyer may elect to either proceed with the sale of the Property or to terminate this Agreement within thirty (30) days from the date that the notice is received. If Buyer elects to proceed with the sale of the Property, then Buyer may, solely at its own discretion, accelerate the Closing to any time prior to the closing date set forth hereinabove. If Buyer proceeds with the purchase in accordance with the terms of this Agreement, all condemnation and insurance proceeds shall be paid to Buyer. If any proceeds have not been collected as of the closing, then all rights to those proceeds shall be assigned to Buyer at the closing.

7.3. Adjacent Purchase Agreement. Notwithstanding anything to the contrary contained herein, in the event of a breach or default by Adjacent Seller under the Adjacent Purchase Agreement, Buyer may elect, in its sole discretion, to proceed as follows: (i) terminate this Agreement and the Adjacent Purchase Agreement; (ii) waive the default, if such default can be waived, and proceed with Closing under this Agreement and the Adjacent Purchase Agreement; (iii) proceed with Closing under this Agreement and terminate the Adjacent Purchase Agreement; (iv) proceed with Closing under this Agreement and pursue a specific performance action against Adjacent Seller under the Adjacent Purchase Agreement, if appropriate; or (v) extend the Closing of this Agreement, at no additional cost to Buyer and no additional deposits thereafter required of Buyer, until resolution of a specific performance action

against Adjacent Seller under the Adjacent Purchase Agreement, such that this Agreement and the Adjacent Purchase Agreement close simultaneously. In the event Buyer elects to proceed under subsection (v) of the preceding sentence, then (a) Buyer shall bring such specific performance action within ninety (90) days after the date of Adjacent Purchaser's breach under the Adjacent Purchase Agreement (as evidenced by written notice of such breach from Buyer), and Buyer shall diligently pursue such specific performance action to conclusion, and (b) Buyer may, at any time thereafter prior to conclusion of the specific performance action, elect to dismiss the specific performance action and terminate this Agreement and, at Buyer's option, the Adjacent Purchase Agreement. In the event Buyer terminates this Agreement pursuant to this Section 7.3, Buyer shall retain and be immediately refunded the Deposit and the Extension Deposits, if any.

7.4. DAMAGES. SELLER AND BUYER AGREE THAT IF BUYER BREACHES ITS OBLIGATIONS HEREUNDER, SELLER SHALL RETAIN, AS SELLER'S SOLE AND EXCLUSIVE REMEDY, THE AMOUNTS DEPOSITED WITH ESCROW HOLDER PURSUANT TO THIS AGREEMENT, TOGETHER WITH ANY ACCRUED INTEREST THEREON AS OF THE TIME OF DEFAULT AS LIQUIDATED DAMAGES, IT BEING AGREED THAT UNDER ALL THE CIRCUMSTANCES EXISTING AT THE TIME OF THIS AGREEMENT, THIS PROVISION LIQUIDATING DAMAGES IN THE EVENT OF THE BUYER'S DEFAULT IS REASONABLE, THE DAMAGES RESULTING TO SELLER BY REASON OF SUCH BREACH ARE NOW, AND THEN WOULD BE, DIFFICULT AND IMPRACTICAL TO DETERMINE AND THAT THE BEST ESTIMATE, BASED ON ALL OF THE CIRCUMSTANCES EXISTING ON THE DATE OF THIS AGREEMENT, OF THE TOTAL DAMAGES THAT SELLER WOULD SUFFER IS AND SHALL BE AN AMOUNT EQUAL TO THE SUMS DEPOSITED BY BUYER WITH ESCROW HOLDER AS OF THE TIME OF DEFAULT. IN PLACING THEIR INITIALS IN THE SPACES PROVIDED BELOW, THE PARTIES CONFIRM THAT THEY HAVE READ, UNDERSTAND AND AGREE TO THIS PROVISION.

BUYER

SELLER

8. BROKERS. Seller is represented by Larry Bell, through JLL, and Buyer is represented by Colby Mikulich & John Sechser, through Transwestern. At the Close of Escrow, Seller shall pay all brokerage fees due to either JLL or Transwestern. Buyer shall indemnify, hold harmless and defend Seller from any and all claims, actions and liability for any breach of non-payment of brokreaage fees due, and any commission, finder's fee, or similar charges arising out of Buyer's conduct.

9. ASSIGNMENT. Buyer shall have the right to assign its rights under this Agreement to a trust or other entity owned or controlled by Buyer or the principals of Buyer. Seller shall, upon written request from Buyer, execute a deed directly in favor of Buyer's assignee. No permitted assignment of any of the rights or obligations under this Agreement shall result in a novation or in any other way release the assignor from its obligations under this Agreement.

10. HAZARDOUS MATERIALS; DEFINITIONS.

10.1. Hazardous Materials. As used in this Agreement, “**Hazardous Materials**” means any chemical, compound, material, mixture, or substance that is now or may in the future be defined or listed in, or otherwise classified pursuant to any Environmental Laws (defined below) as a “hazardous substance”, “hazardous material”, “hazardous waste”, “extremely hazardous waste”, “infectious waste”, “toxic substance”, “toxic pollutant”, or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, or toxicity. The term “Hazardous Materials” shall also include asbestos or asbestos-containing materials, radon, chrome and/or chromium, polychlorinated biphenyls, petroleum, petroleum products or by-products, petroleum components, oil, mineral spirits, natural gas, natural gas liquids, liquefied natural gas, and synthetic gas usable as fuel, perchlorate, and methyl tert butyl ether, whether or not defined as a hazardous waste or hazardous substance in the Environmental Laws.

10.2. Environmental Laws. As used in this Agreement, “**Environmental Laws**” means any and all federal, state and local statutes, ordinances, orders, rules, regulations, guidance documents, judgments, governmental authorizations or directives, or any other requirements of governmental authorities, as may presently exist, or as may be amended or supplemented, or hereafter enacted, relating to the presence, release, generation, use, handling, treatment, storage, transportation or disposal of Hazardous Materials, or the protection of the environment or human, plant or animal health, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. § 9601), the Hazardous Materials Transportation Act (49 U.S.C. § 1801 *et seq.*), the Resource Conservation and Recovery Act (42 U.S.C. § 6901 *et seq.*), the Federal Water Pollution Control Act (33 U.S.C. § 1251 *et seq.*), the Clean Air Act (42 U.S.C. § 7401 *et seq.*), the Toxic Substances Control Act (15 U.S.C. § 2601 *et seq.*), the Oil Pollution Act (33 U.S.C. § 2701 *et seq.*), the Emergency Planning and Community Right-to-Know Act (42 U.S.C. § 11001 *et seq.*), the Porter-Cologne Water Quality Control Act (Cal. Water Code § 13000 *et seq.*), the Toxic Mold Protection Act (Cal. Health & Safety Code § 26100, *et seq.*), the Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code § 25249.5 *et seq.*), the Hazardous Waste Control Act (Cal. Health & Safety Code § 25100 *et seq.*), the Hazardous Materials Release Response Plans & Inventory Act (Cal. Health & Safety Code § 25500 *et seq.*), and the Carpenter-Presley-Tanner Hazardous Substances Account Act (Cal. Health and Safety Code, Section 25300 *et seq.*).

11. MISCELLANEOUS.

11.1. Attorneys’ Fees. If any party employs counsel to enforce or interpret this Agreement, including the commencement of any legal proceeding whatsoever (including insolvency, bankruptcy, arbitration, mediation, declaratory relief or other litigation), the prevailing party shall be entitled to recover its reasonable attorneys’ fees and court costs (including the service of process, filing fees, court and court reporter costs, investigative fees, expert witness fees, and the costs of any bonds, whether taxable or not) and shall include the right to recover such fees and costs incurred in any appeal or efforts to collect or otherwise enforce any judgment in its favor in addition to any other remedy it may obtain or be awarded. Any judgment or final order issued in any legal proceeding shall include reimbursement for all

such attorneys' fees and costs. In any legal proceeding, the "prevailing party" shall mean the party determined by the court to most nearly prevail and not necessarily the party in whose favor a judgment is rendered.

11.2. Interpretation. This Agreement has been negotiated at arm's length and each party has been represented by independent legal counsel in this transaction and this Agreement has been reviewed and revised by counsel to each of the Parties. Accordingly, each party hereby waives any benefit under any rule of law (including Section 1654 of the California Civil Code) or legal decision that would require interpretation of any ambiguities in this Agreement against the drafting party.

11.3. Survival. All indemnities, covenants, representations and warranties contained in this Agreement shall survive Close of Escrow.

11.4. Successors. Except as provided to the contrary in this Agreement, this Agreement shall be binding on and inure to the benefit of the Parties and their successors and assigns.

11.5. Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

11.6. Integrated Agreement; Modifications. This Agreement contains all the agreements of the Parties concerning the subject hereof any cannot be amended or modified except by a written instrument executed and delivered by the parties. There are no representations, agreements, arrangements or understandings, either oral or written, between or among the parties hereto relating to the subject matter of this Agreement that are not fully expressed herein. In addition there are no representations, agreements, arrangements or understandings, either oral or written, between or among the Parties upon which any party is relying upon in entering this Agreement that are not fully expressed herein.

11.7. Severability. If any term or provision of this Agreement is determined to be illegal, unenforceable, or invalid in whole or in part for any reason, such illegal, unenforceable, or invalid provisions or part thereof shall be stricken from this Agreement, any such provision shall not be affected by the legality, enforceability, or validity of the remainder of this Agreement. If any provision or part thereof of this Agreement is stricken in accordance with the provisions of this Section, then the stricken provision shall be replaced, to the extent possible, with a legal, enforceable and valid provision this is in keeping with the intent of the Parties as expressed herein.

11.8. Notices. Any delivery of this Agreement, notice, modification of this Agreement, collateral or additional agreement, demand, disclosure, request, consent, approval, waiver, declaration or other communication that either party desires or is required to give to the other party or any other person shall be in writing. Any such communication may be served personally, or by nationally recognized overnight delivery service (i.e., Federal Express) which provides a receipt of delivery, or sent by prepaid, first class mail, return receipt requested to the party's address as set forth below:

To Buyer: Sansome Pacific Properties
303 Sacramento Street, 4th Floor
San Francisco, CA 94111
Attn: David J. Gustafson, Director

To Seller: City of San Leandro
835 E. 14th Street
San Leandro, CA 94577
Attn: Jeff Kay, Business
Development Manager

If to Escrow Holder: First American Title Company
National Commercial Services
1850 Mt. Diablo Boulevard
Suite 300
Walnut Creek, CA 94596
Attn: Pam Nicolini

Any such communication shall be deemed effective upon personal delivery or on the date of first refusal to accept delivery as reflected on the receipt of delivery or return receipt, as applicable. Any party may change its address by notice to the other party. Each party shall make an ordinary, good faith effort to ensure that it will accept or receive notices that are given in accordance with this section and that any person to be given notice actually receives such notice.

11.9. Time. Time is of the essence to the performance of each and every obligation under this Agreement.

11.10. Days of Week. If any date for exercise of any right, giving of any notice, or performance of any provision of this Agreement falls on a Saturday, Sunday or holiday, the time for performance will be extended to 5:00 p.m. on the next business day.

11.11. Reasonable Consent and Approval. Except as otherwise provided in this Agreement, whenever a party is required or permitted to give its consent or approval under this Agreement, such consent or approval shall not be unreasonably withheld or delayed. If a party is required or permitted to give its consent or approval in its sole and absolute discretion or if such consent or approval may be unreasonably withheld, such consent or approval may be unreasonably withheld but shall not be unreasonably delayed.

11.12. Further Assurances. The Parties shall at their own cost and expense execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to carry out the intent and purposes of this Agreement.

11.13. Waivers. Any waiver by any party shall be in writing and shall not be construed as a continuing waiver. No waiver will be implied from any delay or failure to take

action on account of any default by any party. Consent by any party to any act or omission by another party shall not be construed to be consent to any other subsequent act or omission or to waive the requirement for consent to be obtained in any future or other instance.

11.14. Signatures/Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any one of such completely executed counterparts shall be sufficient proof of this Agreement.

11.15. Date and Delivery of Agreement. Notwithstanding anything to the contrary contained in this Agreement, the parties intend that this Agreement shall be deemed effective, and delivered for all purposes under this Agreement, and for the calculation of any statutory time periods based on the date an agreement between parties is effective, executed, or delivered, as of the Effective Date.

11.16. Representation on Authority of Parties. Each person signing this Agreement represents and warrants that he or she is duly authorized and has legal capacity to execute and deliver this Agreement. Each party represents and warrants to the other that the execution and delivery of the Agreement and the performance of such party's obligations hereunder have been duly authorized and that the Agreement is a valid and legal agreement binding on such party and enforceable in accordance with its terms.

11.17. Exchange. The parties, or either of them, shall have the right to secure a trade or exchange of properties of like kind of the parties' respective choices (pursuant to Section 1031 of the Internal Revenue Code as amended), as long as the obligations imposed on the other party shall not be greater than the terms and conditions of this Agreement, nor shall such obligations delay the Closing Date beyond that allowed by this Agreement. Nothing in this Section 11.17 shall require either party to take title to any other real property as part of its obligation to cooperate in any such trade or exchange.

[Remainder of page intentionally blank – Signatures on following page]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

SELLER:

CITY OF SAN LEANDRO

By: _____
Chris Zapata
City Manager

ATTEST:

By: _____
Tamika Greenwood
City Clerk

APPROVED AS TO FORM:

By: _____
Richard Pio Roda
City Attorney

BUYER:

SANSOME PACIFIC PROPERTIES, INC.,
a California corporation

By: _____

Title: _____

Exhibit A

LEGAL DESCRIPTION

Real Property in the City of San Leandro, County of Alameda, State of California, described as follows:

PARCEL 3 OF PARCEL MAP NO. 553, FILED MAY 15, 1970, BOOK 64 OF PARCEL MAPS, PAGE 30,

APN: 077-0447-007-01