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JANUARY 11, 2005

IGNACIO DE LA FUENTE, PRESIDENT
CITY COUNCIL
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

SUBJECT: AGENCY AND CITY RESOLUTIONS AUTHORIZING THE SALE OF REAL PROPERTY LOCATED AT 1728 SAN PABLO AVENUE FOR \$1.3 MILLION TO SILVER SOUND ELECTRONICS INC., FOR REHABILITATION AS A RETAIL AND OFFICE PROJECT, AND AUTHORIZING A DISPOSITION AND DEVELOPMENT AGREEMENT FOR THE PROJECT.

PURPOSE AND SCOPE

In accordance with the Measure H Charter Amendment, which was passed by the voters at the General election of November 5, 1996, we have made an impartial financial analysis of the accompanying Proposed Resolutions, Agenda Report, and attachments.

In making our analysis we also obtained and analyzed copies of the appraisal report dated August 24, 2004, as well as Resolution No. 01-59 C.M.S., passed July 10, 2001, which authorized the purchase of the subject property.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Since the Measure H Charter Amendment specifies that our impartial financial analysis is for informational purposes only, we did not apply Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States. Moreover, the scope of our analysis was impaired by Administrative Instruction Number 137, effective May 21, 1997, which

provides only one (1) week for us to plan, perform and report on our analysis. Due to this time constraint, we did not attempt to verify staff's estimated annual increase in next tax increment revenue.

SUMMARY

The two Resolutions would authorize the Redevelopment Agency and the City to sell the property located at 1728 San Pablo Ave. (known as the Cal-Art property) to Silver Sound Electronics, Inc. for \$1,300,000. In turn, the buyer agrees to develop and rehabilitate the existing building to provide approximately 8,000 to 9,000 square feet of retail space for sport-related clothing and shoes, together with 2,000 to 3,000 square feet of associated office space.

The Cal-Art property is one of two noncontiguous parcels that the Agency purchased on January 11, 2002 from the same owner for \$2,000,000:

- 1728 San Pablo Avenue (the Cal-Art property)
- 568 - 18th Street (vacant lot used for parking at the Cal-Art property)

FISCAL IMPACT

The Agency's purchase price for the two properties was based on an uncompleted appraisal. By letter dated June 26, 2001 to the Agency, an independent licensed appraiser estimated the combined value of the two parcels at \$2,030,000. Staff told us that the appraiser died suddenly, without completing the appraisal or stating the value of each of the two parcels. Based on the limited information that is available, we have computed the value of the Cal-Art property when the Agency acquired it to be \$1,711,400:

<u>Description</u>	<u>Computed Cost</u>
1728 San Pablo Ave. (Cal-Art property)	\$ 1,711,400
568 -18th St. (Parking lot for Cal-Art property)	<u>288,600</u>
Total	<u>\$ 2,000,000</u>

Based on the sales price of, \$1,300,000, we have computed the Agency's loss on the proposed sale to be \$411,400. Our computations, together with our analysis of the August 24, 2004 appraisal report, are shown on Exhibits I, II and III to this report.

Although the Agency received offers of \$1,500,000 and \$1,400,000 for the Cal-Art property from two potential buyers in 2003, neither of the buyers could arrange the financing. Therefore, the Agency now proposes to sell the property to Silver Sound Electronics for its appraised value of \$1,300,000, as determined by a City staff appraiser on August 24, 2004. According to staff, all offers to buy the property have occurred through very limited advertising -- the City's website and signage on the Cal-Art building. This creates a non-open market condition.

Upon close of escrow, which is anticipated to take place in March of 2005, \$1,300,000 will be reallocated for redevelopment projects in the next budget cycle. Moreover, staff estimates that the Project will produce approximately \$13,000 per year in net tax increment revenue.

CONCLUSION

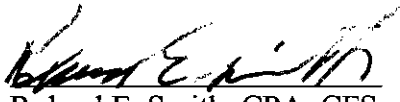
Although it appears that the Agency paid too much to acquire the Cal-Art property, its acquisition enabled the Agency to acquire the vacant lot at 568-18th Street, which was necessary for the success of the Uptown Project.

Prepared by:

Issued by:



Jack McGinity, CPA



Roland E. Smith, CPA, CFS

Report completion date:
December 30, 2004

Enclosures (3)

EXHIBIT I**HISTORY OF 1728 SAN PABLO AVENUE**

	Subject		
	<u>1728 San Pablo</u>	<u>568-18th St.</u>	<u>Total</u>
<u>Computation of Acquisition Cost</u>			
Asking price May 18, 2001	\$ <u>2,100,000</u>	\$ <u>354,000</u>	\$ <u>2,454,000</u>
	85.57%	14.43%	100.00%
Land size in square feet	<u>9,970</u>	<u>5,900</u>	<u>15,870</u>
Appraised value June 26, 2001	N/A	N/A	\$ <u>2,030,000</u>
Purchase price January 11, 2002	N/A	N/A	\$ <u>2,000,000</u>

<u>Allocation of Cost</u>	\$ <u>1,711,400</u>	\$ <u>288,600</u>	\$ <u>2,000,000</u>
[See percentages above.]	85.57%	14.43%	100.00%

History

Offered price August 28, 2003	\$ <u>1,500,000</u>
Offered price September 5, 2003	\$ <u>1,400,000</u>
Appraised value August 24, 2004 per City staff appraiser	\$ <u>1,300,000</u>

Proposal

Proposed sales Price	\$ <u>1,300,000</u>
Cost	<u>1,711,400</u>
Loss	\$ <u>(411,400)</u>

Exhibit II

1728 San Pablo Ave. Value Analysis

Property	Date	Unimproved			Improved		
		sf	Value	Price/sf	sf	Value	Price/sf
<u>Subject Property - 1728 San Pablo</u>							
Est. purchase price by Redev. Agency [See Exhibit I]	1/11/02	9,970	\$ 1,711,400 (estimated)	\$ 171.65	18,400 12,500	\$ 1,711,400 (estimated)	\$ 93.11 \$ 136.91
Offered price	8/28/03		\$ 1,500,000				
Offered price	9/5/03		\$ 1,400,000				
Appraised value by City staff appraiser	8/24/04	9,970	\$ 1,300,000	\$ 130.39	18,400 12,500	\$ 1,300,000 \$ 1,300,000	\$ 70.65 \$ 104.00
<u>Comparable Properties per City staff appraiser</u>							
4030 International Blvd.- Retail	4/9/04	81,864	\$ 4,100,000	\$ 50.08	33,624	\$ 4,100,000	\$ 121.94
380 17th St.- Retail/Office	1/29/04	6,920	\$ 1,560,000	\$ 225.43	13,500	\$ 1,560,000	\$ 105.00
2400 Webster St.-Retail	9/16/03	5,900	\$ 385,000	\$ 65.25	5,782	\$ 385,000	\$ 53.00
1511 Franklin St.- Retail	8/5/03	10,100	\$ 1,600,000	\$ 158.42	10,049	\$ 1,600,000	\$ 151.00
2410 Webster St.- Retail	7/25/03	13,560	\$ 1,451,000	\$ 106.30	12,200	\$ 1,451,000	\$ 106.00
464 19th St.- Retail/Office	4/4/03	5,670	\$ 1,250,000	\$ 220.46	10,650	\$ 1,250,000	\$ 107.00
5652 San Pablo Ave.- Retail	4/1/03	5,000	\$ 489,000	\$ 97.80	5,000	\$ 489,000	\$ 98.00

EXHIBIT III

1728 San Pablo Ave. Value Analysis

Property	Date	Unimproved			Improved		
		sf	Value	Price/sf	sf	Value	Price/sf
Subject Property - 1728 San Pablo							
Est.purchase price by Redev. Agency [See Exhibit I]	1/11/02	9,970	\$ 1,711,400 (estimated)	\$ 171.65	18,400 12,500	\$ 1,711,400 (estimated)	\$ 93.11 \$ 136.91
Offered price	8/28/03		\$ 1,500,000				
Offered price	9/5/03		\$ 1,400,000				
Appraised value by City staff appraiser	8/24/04	9,970	\$ 1,300,000	\$ 130.39	18,400 12,500	\$ 1,300,000 \$ 1,300,000	\$ 70.65 \$ 104.00
Nearby Properties Appraised by Redevelopment Agency							
565 - 20th St. - Commercial	9/3/04	2,200	\$ 270,000	\$ 122.73	2,178	\$ 270,000	\$ 123.97
571 - 20th St.- Commercial	9/3/04	3,967	\$ 295,000	\$ 74.38	1,972	\$ 295,000	\$ 149.59
1972 San Pablo - Commercial/Residential	9/3/04	4,995	\$ 475,000	\$ 95.10	4,167	\$ 475,000	\$ 113.99
Hotel Westerner:							
1920 San Pablo - Residential	4/17/03	5,477	\$ 620,000	\$ 113.30	10,008	\$ 620,000	\$ 61.95
1954 San Pablo - Pants Factory	4/17/03	5,122	\$ 750,000	\$ 146.43	9,205	\$ 750,000	\$ 81.48
		10,599	\$ 1,370,000	\$ 129.26	19,213	\$ 1,370,000	\$ 71.30
610 William St. - Vacant lot	4/17/03	2,200	\$ 88,000	\$ 36.36	0	\$ -	\$ -
585 - 20th St. - Commercial	3/3/03	3,967	\$ 480,000	\$ 121.00	1,611	\$ 480,000	\$ 297.95
609 - 20th St.- Office	11/6/02	10,200	\$ 900,000	\$ 88.24	4,344	900,000	\$ 207.18
1960 San Pablo - Commercial/Residential	10/17/02	2,874	\$ 325,000	\$ 113.08	2,967	\$ 325,000	\$ 109.54

FINANCE & MANAGEMENT CMTE