



City of San Antonio

Agenda Memorandum

File Number:16-3708

Agenda Item Number: 13.

Agenda Date: 6/30/2016

In Control: City Council A Session

DEPARTMENT: Center City Development & Operations

DEPARTMENT HEAD: John Jacks

COUNCIL DISTRICTS IMPACTED: 1

SUBJECT:

Sale of Real Estate: 889 East Market Street

SUMMARY:

An Ordinance declaring an approximately 0.801 acre improved tract of land located at 889 East Market Street in Council District 1 as surplus and authorizing the negotiation and execution of real estate contracts, deeds and other associated instruments to complete the sale of the tract to HMH Rivers L.P. for a total not less than \$6,000,000.00.

BACKGROUND INFORMATION:

The subject property is located at 889 East Market Street and is improved with the 512 room Marriott Riverwalk Hotel. This property has been leased since 1978 to a hotel operator who built the current improvements including a 162 car parking structure located on land under the existing Convention Center Garage and is presently an entity associated with Host Hotel & Resorts. The property has been ground leased to the hotel operator for a period that is set to expire in 2053. In addition to the sale of the land upon which the hotel presently sits, the City will also provide an instrument to the buyer that will allow parking for 162 cars under the adjacent Convention Center Garage along with allocation of five parking spaces in the garage to satisfy exiting requirements from the hotel's ballroom. There will be other associated easements granted as a condition of this sale to allow public access to the adjacent Riverwalk and account for utility infrastructure located on the property and adjacent property that will continue to be owned by the City.

An appraisal conducted by HVS, a market expert in hotel valuation, has appraised the value of the leasehold including the 162 space parking facility at \$5,400,000.00 of which \$173,555.00 is attributable to the value of

the five spaces in the garage used by the hotel to provide a clear path of exit from their ballroom. Staff is presently negotiating the terms and conditions of the sale including use restrictions on the properties and final price with the buyer with the expectation that the sale will be for \$6,000,000.00.

The direct sale of the disposed property is authorized by Tax Code Chapter 311 and Local Government Code Chapter 272.001 subsection (b)(6) which authorizes sale of property located in a reinvestment zone. The disposed property is located in the Inner City Tax Increment Reinvestment Zone.

The disposition has been canvassed throughout City departments and utility agencies and has been conditionally approved. Additionally the Inner City Tax Increment Reinvestment Zone Board and the Planning Commission have considered this sale at public hearings and have adopted resolutions in compliance with State law and City Charter.

ISSUE:

The existing lease for the subject property will expire in April 2053 after accounting for all extension options. This term length is not sufficient for the operator to justify the investment of several million dollars of improvements to the hotel property to make it competitive in the marketplace; consequently they approached the City about the potential to purchase the property. The initial objective for development of the property has been accomplished and the property is successfully operating as a hotel. Beyond the income produced by the leasehold, continued ownership of the property by the City and the associated liability is not in the best interest of the City.

ALTERNATIVES:

The City could decide not to sell the property and continue the ground lease through its expiration in April 2053. The payment proposed can be used to invest in further redevelopment in the downtown area, thereby leveraging additional opportunities for economic vitality and property tax income.

FISCAL IMPACT:

In FY 2016 it is projected that the City will collect \$142,000.00 in income from this ground lease, which increases on average 2.3% annually and \$16,425.00 for the lease of five parking spaces. Selling the property for \$6,000,000.00 will eliminate this annual income stream that is now deposited into the General and Parking Funds. However, by investing these proceeds judiciously to leverage additional development in the downtown area, the City will yield a greater return on investment from an increased property tax base that will easily offset this loss of income. Through a funding agreement with Hemisfair Park Area Redevelopment Corporation (HPARC) which will be considered separately by Council funds will be allocated so that a \$3,000,000.00 portion of the sales proceeds will be used for design and associated expenses for the Hemisfair Park Project and a \$2,400,000 portion will be used towards housing in the Northwest quadrant of Hemisfair. Funds in excess of \$5,400,000.00 will be used to reimburse the Parking Fund for a value attributable to a grant of an easement in the amount of \$173,555 with the remainder to be used towards other downtown development projects.

RECOMMENDATION:

Staff recommends approval of this ordinance authorizing the negotiation and execution of sale documents related to the sale of the approximately 0.801 acre tract of land located at 889 East Market Street including the

grant of easements for 162 parking spaces and access in the adjacent Convention Center Garage along with public access to the river and any existing utility infrastructure along with any negotiated use and development restrictions placed on the affected properties to HMM Rivers L.P. for a sum of \$6,000,000.00 and authorizing the allocation of proceeds up to \$5,400,000.00 in accordance with a separately approved funding agreement between the City and the HPARC with any excess proceeds used to compensate the Parking Fund \$173,555.00 and any funds remaining towards other downtown development projects.