



CITY OF

NEWPORT BEACH

City Council Staff Report

August 26, 2025
Agenda Item No. 37

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Agreement for Purchase and Sale and Escrow Instructions with 3848 Campus L.P. for the Purchase of Real Property at 3848 Campus Drive

ABSTRACT:

The City of Newport Beach owns a variety of real estate assets that support public facilities, municipal operations, and community amenities. With significant redevelopment activity in the area surrounding John Wayne Airport (Airport Area), including the addition of new housing units, the City anticipates an increased need for publicly owned properties to meet future operational demands.

The property at 3848 Campus Drive presents an opportunity to secure a centrally located site in the Airport Area for future municipal use, including the potential relocation of the Newport Transportation Center in partnership with the Orange County Transportation Authority (OCTA). For the City Council's consideration is an Agreement for Purchase and Sale of Real Property and Escrow Instructions (Attachment A) to acquire the property for \$11.5 million, funded through the Fiscal Year 2024–25 year-end General Fund surplus.

RECOMMENDATIONS:

- a) Determine this action exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and Section 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because this action will not result in a physical change to the environment, directly or indirectly;
- b) Authorize the City Manager and City Clerk to execute the Agreement for Purchase and Sale of Real Property and Escrow Instructions, and all associated documents necessary to complete the purchase transaction, with 3848 Campus L.P., to purchase the property at 3848 Campus Drive, for a price of \$11,500,000 in a form substantially similar to the agreement attached to the staff report; and
- c) Approve Budget Amendment No. 26-018 to appropriate \$11,936,500 in increased expenditures from the unappropriated General Fund balances.

DISCUSSION:

The Airport Area of Newport Beach is a less than one-square-mile section in the northernmost quadrant of the city, bounded by John Wayne Airport to the west, Campus Drive to the north, Jamboree Road to the east, and State Highway 73 to the south, as shown in the map in Figure 1 below. The area is mostly commercial, zoned under several planned communities approved by the City since the 1970s. The Airport Area submarket has historically been home to many office buildings, car dealerships, light industrial uses, hospitality uses and commercial retail businesses.



Figure 1 – A map showing the Airport Area submarket.

Significant changes to State law in recent years and a push to develop housing led to the City's approval of the 6th Cycle Housing Element in 2022. As part of the Housing Element and in response to the Regional Housing Needs Assessment's requirement to plan for an allocation of 4,845 new housing units, properties all over the city were identified as potential housing opportunity sites, including over 2,800 dwelling units in the Airport Area.

With the potential of new residential units in this area of the city, staff has closely tracked property sales for opportunities that will support the City's needs.

Staff identified an opportunity to acquire the site at 3848 Campus Drive in the Airport Area, which can be operated in its current condition and redeveloped at a future time to address the City's needs for transportation. Providing public transportation routes through the Airport Area will be important as that part of the city is built with additional housing.

3848 Campus Drive – Property

3848 Campus Drive (Property), located at the southeast corner of Campus Drive and Quail Street across from the southern end of John Wayne Airport (Attachment C), is a 53,297-square-foot (1.22-acre) site currently developed with a 32,283-square-foot two-story multi-tenant mixed-use building with surface parking. The building was constructed in the mid-1960s and has undergone various upgrades and maintenance projects, and tenant improvements since then. The zoning designation for the Property is Office-Airport (OA). The Property is owned by 3848 Campus L.P. (Seller), who acquired the site in 2003.

Staff commissioned an appraisal of the fair market value of the Property from Curtis-Rosenthal, Inc. The appraiser, using several assumptions about the development limits for the site, returned an estimated value at \$9,860,000 (Attachment D).

Orange County Transit District (OCTA)

The City has discussed with the Orange County Transportation Authority (OCTA) the potential relocation of the Newport Transportation Center (NTC) from 1550 Avocado Avenue to 3848 Campus Drive. In a letter to the City dated August 5, 2025, OCTA expressed interest in partnering on a feasibility study, provided it evaluates all potential relocation sites including 3848 Campus Drive, and the study is jointly managed and equally cost-shared (Attachment E).

OCTA also emphasized compliance with State and federal environmental review processes, the need for public input, and the OCTA Board of Directors' approval. Because the current NTC was developed with federal funds and is subject to restrictions under an agreement with The Irvine Company, any relocation will require Federal Transit Administration compliance and the Irvine Company's concurrence.

Opening - Closing Escrow and Due Diligence

Upon execution of the Agreement and opening of escrow, staff will proceed with a 180-day due diligence period to investigate the condition of the Property. Staff anticipates due diligence to cost approximately \$150,000 and will likely include, but not be limited to, a Phase I environmental report and a Phase II assessment, a survey of the property and improvements, a building condition inspection, a hazardous materials survey of the building, an ADA compliance inspection, and preparation of a relocation plan. Due diligence will be handled by professional consultants that specialize in tenant lease review and property inspections.

Subject to working with OCTA on a feasibility study, the soonest that escrow may close is the first quarter of calendar year 2026. If further time is needed, closing may be extended for up to two consecutive 90-calendar-day periods, at the City's election, by depositing additional earnest money in escrow at \$86,000 per extension. The funds would be applicable to the purchase price of the Property.

Purchase Price and Closing Costs

The City and the Seller have negotiated a Purchase and Sale Agreement for the Property at a price of \$11.5 million. Staff proposes to fund the acquisition, along with related closing and relocation costs, using the FY 2024-25 year-end General Fund surplus.

In addition to the purchase price, estimated costs include \$150,000 for due diligence, \$15,000 in closing costs, \$11,500 for title insurance policy endorsements, and approximately \$35,000 for prorated property taxes for the remainder of the fiscal year. The prorated property taxes will be refunded to the City after closing by the County of Orange.

Relocation Costs

In accordance with the California Relocation Assistance Law (Government Code §7260 et seq.), the City must provide relocation assistance when the acquisition of property for a public project displaces existing commercial tenants. Once the City takes possession of the Property and a final use and implementation timeline is established, staff will retain a relocation planning consultant to prepare the required relocation plan, issue formal notices, document and administer relocation payments, and coordinate the vacating of the premises. Consultant fees are estimated at \$175,000.

Relocation assistance for current tenants will include support for moving expenses and leasing costs for a comparable commercial space. A formal relocation plan will be presented to the City Council for approval prior to its implementation and before any relocation payments are made.

Proposed Agreement

The City and Seller have negotiated terms of an Agreement for Purchase and Sale of Real Property and Escrow Instructions, for the City to purchase the Property from the Seller.

The proposed terms of the purchase are summarized below:

1. City will pay the Seller a purchase price of \$11,500,000;
2. City will deposit \$180,000 in initial earnest money upon the opening of escrow, which money will become non-refundable as outlined below, unless of an event of default by the Seller as outlined in the Agreement;
 - a. \$50,000 of the initial deposit will become non-refundable, but remain applicable to the purchase price, and will be released to the Seller

45 calendar days after opening of escrow;

- b. The remaining \$130,000 of the initial deposit will become non-refundable, but remain applicable to the purchase price, and will be released to the Seller 90 calendar days following the opening of escrow;
3. City will have a 180 calendar day due diligence period from the opening of escrow and receipt of all existing agreements and reports related to the Property, to inspect the Property and perform any tests to determine its condition;
4. Escrow will close one business day from the City's approval of or expiration of the due diligence period;
5. City has the option to extend the closing for two consecutive periods of 90 calendar days each by depositing an additional \$86,000 in earnest money with escrow, per extension. This money will be applicable to the purchase price and become immediately non-refundable unless of an event of default by the Seller as outlined in the Agreement;
6. City and Seller will each pay half of the closing costs; and
7. The Seller will pay for a standard owner's policy of title insurance for the City, with the cost of an upgraded policy and endorsements paid for by the City.

The Agreement has been prepared by the City Attorney's Office and has been approved as to form. The Seller reviewed and approved the proposed Agreement, and their signatures are included on Attachment A.

Expenditure and Total Budget Amendment

The capital outlay for the first six months is the cost of earnest money deposit and due diligence for a total of \$330,000. If escrow is extended for an additional 90 to 180 days, then an additional \$86,000 to \$172,000 will need to be spent. As part of this staff report, a budget amendment is included for the City Council's consideration. Staff is also requesting additional funds of \$50,000 for unanticipated expenses during the escrow and due diligence process. The total budget amendment for the final purchase of the Property is as follows:

Purchase Price	\$11,500,000
Due Diligence	\$ 150,000
Relocation Consultant	\$ 175,000
Closing Costs	\$ 61,500
Unanticipated Expenses	<u>\$ 50,000</u>
TOTAL	\$11,936,500

FISCAL IMPACT:

Approval of this item will increase General Fund expenditures to cover the purchase of the property, due diligence investigations, the City's share of closing costs and recording fees, an owner's policy of title insurance, prorated property taxes, and tenant relocation costs. Upon purchase, the City will increase General Fund revenues by collecting rental income from existing tenants during the relocation process.

Budget Amendment No. 26-018 (Attachment B) requests an appropriation of \$11,936,500 in increased expenditures from unappropriated General Fund balances to fund the purchase of the property utilizing a portion of the General Fund surplus for Fiscal Year 2024-25.

The third quarter budget update reflected a General Fund operating surplus of approximately \$19 million for Fiscal Year 2024-25. Of this amount, about \$2 million is required to fully fund the contingency reserve, leaving roughly \$17 million available for City Council appropriation. As in prior years, additional savings are anticipated, which are expected to increase the final year-end surplus.

If approved, the budget amendment will appropriate \$11.94 million from the General Fund Operating Fund (Fund 10) and transfer it to the General Fund Capital Improvement Fund (Fund 12). The purchase of the property and related expenditures will be recorded in account no. 01201925-911047-26F12. Rental income from the property in FY 2025-26 will be posted to the Rental of Property account in the Community Development Department (01050505-551115) and included in future fiscal year budgets.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENTS:

- Attachment A – Agreement for Purchase and Sale of Real Property and Escrow Instructions
- Attachment B – Budget Amendment No. 26-018
- Attachment C – Location Map
- Attachment D – Appraisal Report
- Attachment E – OCTA Letter