



*Good Neighbors*

**San Diego  
Housing Commission**

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- ◆ San Diego, California 92113-1038
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# REPORT

**DATE ISSUED:** March 23, 2005

**ITEM 104**

**REPORT NO.:** HCR05-27  
For the Agenda of May 6, 2005

**SUBJECT:** The Sale and Leaseback of the Property Located at 1625 Newton Avenue  
(District 8)

**NOTE: THIS ITEM WAS ALSO DISCUSSED AT THE APRIL 8, 2005  
HOUSING COMMISSION MEETING. ORIGINAL REPORT ATTACHED.**



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**DATE ISSUED:** March 23, 2005

**ITEM 105**

**REPORT NO.:** HCR05-27  
For the Agenda of April 8, 2005

**SUBJECT:** The Sale and Leaseback of the Property Located at 1625 Newton Avenue (District 8)

## SUMMARY

**Issue:** Should the San Diego Housing Commission recommend to the Housing Authority of the City of San Diego that the Housing Commission be authorized to sell to Concordia Communities, LLC, or approved affiliate the main Housing Commission office facility located at 1625 Newton Avenue, and that the Housing Commission be further authorized to lease back the facility until its new offices at the Smart Corner are completed and ready for occupancy?

**Recommendations:** That the Housing Commission recommend to the Housing Authority approval of the following actions:

1. Authorize the Housing Commission to sell the office facility located at 1625 Newton Avenue to Concordia Communities, LLC, or approved affiliate for Six Million Fifty Thousand Dollars (\$6,050,000) pursuant to the Purchase and Sale Agreement (Attachment 1);
2. Authorize the Housing Commission to enter into a fifteen (15) month Leaseback Agreement (including options to extend lease) with Concordia, or approved affiliate to continue to occupy the office facility located at 1625 Newton Avenue (Attachment 2);
3. Authorize the President and Chief Executive Officer (CEO) to execute all documents, receive funds and make any expenditures necessary to implement these agreements, including lease extensions if needed.

**Fiscal Impacts:** Proceeds of Six Million Fifty Thousand Dollars (\$6,050,000) from the sale of the Newton Avenue property will be used toward the purchase of the Housing Commission's new office at the Smart Corner, as previously approved. Monthly lease payments of Thirty Four Thousand Dollars (\$34,000) are not to exceed Five Hundred Ten Thousand Dollars (\$510,000) for the fifteen (15) month term, with an additional

contingency amount of (\$408,000) for nine (9) lease extensions (the first six extensions would be at the same monthly rate of Thirty Four Thousand Dollars (\$34,000) and the last three monthly extensions would be at Sixty Eight Thousand Dollars (\$68,000).

Auditors Certificate: 05-096  
Amount of Compensation: Maximum compensation to be paid over the 15 month leaseback agreement shall not exceed Five Hundred Ten Thousand Dollars (\$510,000) with an additional contingency amount of Four Hundred Eight Thousand Dollars (\$408,000) for lease extension options.  
Revenue Source: Facilities Management  
Division: Programs  
Line Item: Building Rent

**Equal Opportunity Statement:** Concordia Communities, LLC is not a certified Disadvantaged, Women Owned or Disabled Veteran Business Enterprise. A Certificate of Compliance and a Workforce Analysis has been provided and shows that this vendor is in compliance with the San Diego Housing Commission Equal Opportunity Program. Information on the Workforce Analysis (Attachment 3) indicates that 19% of the company's workforce is minority.

**Previous Related Actions:** On July 18, 2003, the Housing Commission voted to recommend the Housing Authority approve a Purchase and Sale Agreement (PSA) with Lankford & Associates, Inc. for the Housing Commission's proposed office building (Report HCR02-063).

On July 29, 2003, the Housing Authority approved the PSA with Lankford & Associates, Inc. (HAR03-004).

**Environmental Review:** This project has been reviewed by City Environmental Analysis Staff and determined to be exempt from CEQA pursuant to CEQA Guidelines Section 15301. See Determination of Exemption which is attached as Attachment 6.

## **BACKGROUND**

The San Diego Housing Commission moved into its current main offices at 1625 Newton Avenue in 1984, when its staff consisted of less than half of the current number of employees, thousands fewer families were assisted, and the budget was \$21.5 million compared to today's \$200+ million. The Housing Commission owns this retrofitted warehouse facility outright and historically has utilized its own revenues (no City General Funds are involved) to provide for all administrative needs, including office space. Over the past 20 years, renovations have been made to the site and warehouse space has been built out in increments to accommodate the need for more employees. Two other office facilities off site are leased to accommodate the growing menu of programs and number of staff employed.

In July of 2000, the Housing Commission established an ad hoc subcommittee of the Board to work with staff and Keyser Marston & Associates (KMA) to investigate options including renovation, lease of new offices, or purchase of a new facility. KMA's analysis eliminated leasing elsewhere as an option because of the expense and lack of equity appreciation, verified that renovation would yield a poor return on investment and leave the Agency with transportation issues, and suggested further investigation into purchase opportunities.

In the meantime, Center City Development Corporation (CCDC), which had purchased a city block at 12<sup>th</sup> Avenue and "C" Street, sought a developer for a transit-oriented, mixed-use development to help meet redevelopment plan goals. CCDC issued a Request for Proposals and, at the same time, the Housing Commission issued a Request for Qualifications for developers interested in developing an office facility for the Agency.

Lankford and Associates, Inc. successfully responded to both solicitations and, on November 27, 2001, the Housing Authority authorized the Housing Commission to enter into an Exclusive Negotiating Agreement (ENA) with Lankford & Associates. Extensive negotiations followed and in the summer of 2003, the San Diego Housing Commission and Housing Authority of the City of San Diego approved a Purchase and Sale Agreement (PSA) with Lankford and Associates, Inc. (Developer/Seller) which was subsequently executed on July 29, 2003. Under the terms of the PSA, the Developer/Seller is to construct for the Housing Commission a five story office building, consisting of one floor, the ground floor, for lease to retail establishments; one floor for office space to be leased to other non-profit or government organizations; three floors for the Housing Commission's offices and a four level subterranean parking garage. Two floors of parking are assigned to the adjacent condominium development that will share the site. These facilities will be constructed for a fixed guaranteed maximum price of \$23,846,160. The total project budget sources and uses approved by the Housing Commission and Housing Authority on July 23, 2003 and July 29, 2003, respectively, are as follows:

SOURCES

Loan Proceeds	\$ 20,441,260
SDHC Equity	\$ 1,500,000
SDG&E Credit	\$ 150,000
Value of existing Headquarters	<u>\$ 4,441,250</u>
	\$ 26,532,510

USES

Acquisition Cost	\$ 23,846,160
Leasing Commissions	\$ 270,000
Furniture, Fixtures and Equipment	\$ 2,050,000
Financing Costs	\$ 271,350
Moving Expenses	<u>\$ 95,000</u>
	\$ 26,532,510

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The Housing Commission entered into an agreement with US Bank for the loan proceeds portion of the budget and the equity is held in Housing Commission reserves for this purpose. Staff is continuing to work with SDG&E on securing the credits and the sale of Newton Avenue, as proposed herein, would ensure that the required monies are available to fund the project.

Completion of the new facility was originally scheduled for November of 2005. The project has experienced initial time delays necessitating the granting of both six month time extensions allowed for under the terms and conditions of the PSA with the Developer. Excavation is now underway and the completion of construction and availability of the new facility for occupancy is scheduled for November of 2006.

## **DISCUSSION**

Transition to the new office facility is complex. Given the structure of the purchase transaction, the primary risk involves sale of the current office property for the anticipated price in time to make the sale proceeds available to the purchase transaction. In this case, staff, in consultation with members of the Commission's Ad Hoc Office Building Sub-Committee, chose to act early to solicit purchasers for the real estate. If a transaction to sell the property is consummated prior to completion of the new facility, it is necessary for the Commission to lease back the building from the buyer. Furthermore, options to extend the lease are important so that potential delays in delivery of the new building can be accommodated by staying longer at Newton Avenue.

With these constraints in mind, the Housing Commission issued a Request For Proposals (RFP) on October 22, 2004, for the purchase and leaseback of the property and building located at 1625 Newton Avenue, San Diego, California. The Commission sought experienced, qualified businesses with adequate net worth and proven track records of successful closings to submit proposals. Note: This is not considered a sale of Government "surplus property" as the property continues to be utilized as the Housing Commission's main offices.

### **Sale of Newton Avenue**

Advertisements were placed in the *San Diego Union*, the *San Diego Daily Transcript*, *La Prensa*, *San Diego Business Journal*, *Wall Street Journal* and the *Voice and Viewpoint* and mailings were sent to ninety three (93) commercial real estate brokers. During the thirty two (32) day proposal period a total of thirty six (36) solicitation packages were provided to interested businesses.

At the closing date of November 22, 2004, only Concordia Communities, LLC submitted a proposal. Their response included a purchase price of Six Million Fifty Thousand Dollars (\$6,050,000) and a leaseback rate of Thirty Four Thousand Dollars (\$34,000) a month. Since that time, Concordia has completed its due diligence and has submitted a best and final offer in which the sale and lease terms remained the same. Staff has determined that the proposed lease rate of seventy five cents (\$.75) per square foot is reasonable for the existing Newton Avenue offices.

On January 15, 2005, staff received an Updated Restricted Appraisal by Ohrmund Land Company for the Newton Avenue property. The previous appraisal, completed in December 2002 was for Four Million Six Hundred Seventy Five Thousand Dollar (\$4,675,000). The updated appraisal indicates a value for the property between Six and Seven Million Dollars which supports Concordia's offer, particularly because the sale is being handled by staff and General Counsel and no real estate commission, estimated at Five percent (5%) or Three Hundred Thousand Dollars (\$300,00), is being paid.

Concordia has obtained a Conditional Financing Commitment (Attachment 4) and their deposit of Two Hundred Fifty Thousand Dollars (\$250,000) has been received. The only remaining contingency to the transaction is the approval of the San Diego Housing Commission and the Housing Authority of the City of San Diego. Concordia has agreed to provide an additional Two Hundred Fifty Thousand Dollars (\$250,000) deposit upon receipt of the Housing Authority approval. Should Concordia not close the transaction by July 31, 2005, they will forfeit the entire Five Hundred Thousand Dollars (\$500,000).

Concordia Communities, LLC is a residential developer with offices in Carlsbad, California. Staff analysis indicates that Concordia Communities, LLC (Attachment 5) has adequate experience and net worth to complete this transaction.

### **Leaseback of Newton Avenue**

Concordia has proposed a leaseback of the Newton Avenue property to the Housing Commission until the new building is available for occupancy. Under terms of the lease, Concordia would be responsible for maintaining the structural integrity of the property and for any property taxes. The Commission would be responsible for interior maintenance and utilities.

A Twenty Thousand Dollar (\$20,000) security deposit is required and the proposed rate of Thirty Four Thousand Dollars (\$34,000) per month is within the Housing Commission's budget for this purpose. The term of the initial lease would be through October 31, 2006, to coincide with the anticipated availability of the Smart Corner office building. Six monthly extensions are allowed at the same rate and, in addition, up to three more monthly extensions are authorized at a monthly rate of Sixty Eight Thousand Dollars (\$68,000).

Should these extensions be necessary, Lankford & Associates Inc. is required under the terms and conditions of the Purchase and Sale Agreement (PSA) to pay for all costs in excess of the San Diego Housing Commission's base occupancy costs at the Newton Avenue office.

Staff is recommending the sale of the property to Concordia, or approved affiliate and the leaseback of the property to the Housing Commission.

**Alternative:** Do not sell to Concordia and hire a broker to seek a purchaser at a higher price. This is not recommended as it creates uncertainty in the Commission's ability to fund the move in a timely manner and risks not securing a sufficient offer to pay additional broker fees and return substantially more than the current offer.

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Respectfully submitted,

Approved by

Steve Snyder  
Director of Facilities

**Signature on File  
With Original Document**

Elizabeth C. Morris  
President and Chief Executive Officer

G. Gelbman 578-7524

Attachment: 1- Purchase and Sale Agreement  
2- Leaseback Agreement  
3- Workforce Analysis  
4- Conditional Financing Commitment  
5- Concordia Disclosure Statement  
6- Notice of Exemption