



REPORT

DATE: For the Agenda of September 21, 2001 **ITEM NO. 105**

REPORT NO.: HCR01-105

SUBJECT: Meeting Housing Commission Office Space Needs
(Citywide)

SUMMARY

Issue: How should the Housing Commission proceed to best meet its future office space needs?

Recommendation 1: That the Housing Commission approve, in concept, the recommendation of its subcommittee and staff that it pursue meeting its future office space needs through development of a new office facility, on a site located at the southwest corner of 12th Avenue and C Street, that it would own, subject to long term financing obligations, when complete. It is further recommended that the Commission facilitate development of affordable housing adjacent to the proposed office facility in cooperation with Centre City Development Corporation and the selected developer.

Recommendation 2: That the Housing Commission authorize the Chief Executive Officer to execute an Exclusive Negotiating Agreement, a draft of which is included as Attachment 1, with Lankford & Associates, Inc. to serve as developer of the proposed office facility. It is further recommended that the Housing Commission reject the submittal by the firm of Sonnenblick • Del Rio in response to a Request For Qualifications as described herein.

Fiscal Impact: None with this action other than expenses incidental to the negotiation process.

Previous Related Action(s): On July 14, 2000, the Housing Commission established an ad hoc subcommittee to work with staff to further investigate alternatives and return to the Commission with a recommendation of how to best meet its office space needs, and authorized a contract extension with Keyser Marston Associates to provide consultant services related to this effort.

Future Related Action(s): It is anticipated that, if approved, this item will be scheduled for consideration by the Housing Authority at its next available meeting. If negotiations are successful, it is anticipated that staff will present a proposed Purchase and Sale Agreement (PSA) for Housing Commission and Housing Authority consideration in early CY 2002.

BACKGROUND

In 1984, the Housing Commission relocated its main office from the Spreckles Building in the downtown area to its current location, a retrofitted warehouse facility located at 1625 Newton Avenue. Since 1984, the Commission has experienced significant growth in budget, from nearly \$21,500,000 to approximately \$120,000,000, and a corresponding increase in staff size, from 110 in 1984 to nearly 250 today, enabling it to provide housing assistance to about 50,000 San Diegans annually.

Despite significant improvements to the original warehouse building prior to occupancy, the transition from warehouse to office use has not been seamless. Proximity to public transportation, air circulation, temperature control and access to natural light have remained issues since 1984, augmented more recently by the issues of overcrowding, lack of private space in which to hold confidential meetings with clients and inadequate parking for clients and staff. Since 1984, the Commission has converted additional space at the Newton facility and leased off-site space to accommodate growth. Furthermore, existing systems (roof, heating and air conditioning/ventilation, floor coverings, etc.) have been repaired, replaced and/or augmented to enable the facility to continue meeting the needs of staff and clients. Major improvements are needed now and in the near future to address normal systems repair and replacement requirements, changing client and staff needs and to comply with changing federal regulations.

In July 2000, the Housing Commission established an ad hoc subcommittee comprised of Chairman Neal Arthur and Commissioner David Dick to work with staff to further investigate office space options. At that time, the Commission also authorized a contract extension for Keyser Marston Associates (KMA) to provide consultant services related to this effort. As part of the exploratory process, the subcommittee reviewed an analysis prepared by KMA, that depicted the relative cost of alternatives available to the Commission including, but not limited to, "Do Nothing" (Actual Base Cost), "Renovation", "Lease New", and "Build New". Relative costs are included as Attachment 2. Based on this review, the subcommittee determined that it was in the best interest of the Housing Commission to pursue the alternative of building a new office facility.

DISCUSSION

As part of the exploratory process, staff, in conjunction with the subcommittee, issued a Request For Qualifications (RFQ) in September 2000 inviting those who were interested in developing a headquarters facility for the Housing Commission and had access to a potential site for this development to respond. Two submittals, by Sonnenblick • Del Rio and Lankford & Associates, were received by the deadline in February 2001 (copies of the RFQ and submittals are available for review at the Housing Commission offices). Lankford & Associates also responded to the Request For Proposal (RFP) issued by CCDC, and synchronized with the Commission's RFQ, related to development of a site located on the southwest corner of 12th Avenue and C Street. That site was identified in a previous report (HCR00-104) as one possible option for a Housing Commission office facility.

The Commission's RFQ included site selection guidelines for prospective developers in selecting the most appropriate site for the Commission's central office facility. Among guidelines listed were those related to accessibility to public transportation, proximity to community services, and the ability to accommodate possible future growth. Additionally, proposals that included the provision of on-site or off-site affordable housing were encouraged. Staff and KMA analyzed submittals from both respondents and, in March 2000, the subcommittee interviewed representatives from Sonnenblick • Del Rio and Lankford & Associates.

The subcommittee had a favorable view of Lankford's submittal based, in large part, on the developer's track record, "site control" resulting from their participation in CCDC's RFP process, proximity of the subject site (the corner of 12th Avenue and C Street) to public transportation and community services, the potential for the Housing Commission to play a pivotal role in the redevelopment project, and development of affordable, and possibly market rate, housing as part of the project. While impressed by Sonnenblick • Del Rio's track record as office developer for other public entities, the subcommittee was troubled by their inability to obtain site control (their initial effort was unsuccessful) and their refusal to disclose projected cost figures during the interview process. Based on a review of written submittals and personal interviews, the subcommittee directed staff to pursue preliminary discussions with Lankford & Associates to determine if costs included in their proposal could be trimmed to a level that the Housing Commission could afford (closer to its current \$1.25/sq. ft. charge for office space and related costs).

Currently under discussion is a "build to suit" proposal that involves Lankford & Associates building a 5-story office facility totaling approximately 112,000 sq. ft. for sale at completion to the Housing Commission (or Housing Authority). The Commission would finance the purchase of the office building through proceeds

from the sale of its current offices on Newton Avenue and the sale of tax-exempt bonds. Adjacent to the office building, Lankford also plans to build a 22-story 344,000 sq. ft. residential tower. Both buildings and the adjoining plaza are to be built above 4 levels of subterranean parking providing approximately 545 parking spaces. Lankford and the Commission will seek to pre-lease the approximately 31,500 sq. ft. of non-Commission office space and 13,000 sq. ft. of ground floor retail space prior to execution of a Purchase and Sale Agreement. If the Housing Authority becomes the owner of the office building, it would lease space, on a long-term basis, to the Commission.

Preliminary discussions with Lankford & Associates have been promising in terms of trimming costs to approach the Commission's range of affordability. The initial total occupancy cost figure of \$2.57/sq. ft. has now been reduced to as low as \$1.52/sq. ft. based on modifications in projected cost, financing, ownership structure, parking arrangements, and other features. Staff and the developer are somewhat optimistic that further discussion could yield additional cost reductions/savings.

Recognizing the benefits of the office and affordable housing developments proposed by Lankford & Associates and the progress achieved, to date, toward a development plan and budget that meets the Commission's needs, it is now appropriate to enter into formal negotiations with the developer with the goal of crafting a fair agreement related to development of an office facility for the Housing Commission. Toward that end, staff recommends that the Housing Commission authorize execution of an Exclusive Negotiating Agreement (ENA), covering a period of 120 days, with Lankford & Associates. If negotiations are successful, it is anticipated that staff will present a development plan and proposed Purchase and Sale Agreement (PSA) for Housing Commission and Housing Authority consideration in early CY 2002.

Approval of the staff recommendations will allow for continued progress toward meeting future Housing Commission office space needs.

Alternatives

Direct staff to pursue another course of action to meet Housing Commission office space needs.

Respectfully submitted, **Signature on File**
With Original Document Approved by,

Steven Mikelman
Director of Operations
Attachments

Elizabeth C. Morris
Chief Executive Officer

1. Draft Exclusive Negotiating Agreement
2. 30 Year Cost of Alternatives
3. Current and Projected Occupancy Costs
4. Proposed Office Development Cost
5. Projected Rental Income

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