

# SAN LUIS OBISPO COUNCIL OF GOVERNMENTS

## STAFF REPORT

<b>MEETING DATE:</b>	<b>April 8, 2009</b>
<b>SUBJECT</b>	<b>Real Property Acquisition: 1114 Marsh Street</b>

### SUMMARY

On February 4<sup>th</sup> the SLOCOG Board authorized the SLOCOG President to sign the documents to proceed with the purchase of a 5015 square foot building at 1114 Marsh Street for \$2.275 million. The Board also authorized the Executive Committee to have the discretion to make decisions as they arise, in regard to the finalization of the purchase. SLOCOG/Ridesharing staff will begin occupancy in mid-July and move out of its current leased space at 1150 Osos Street.

Capital funding for the building is a combination of building reserve funds (\$317K), Regional State Highway Account (\$1.05M) and an assumable loan of \$968K. The purchase of this building will reduce SLOCOG's current annual lease/mortgage by \$45,903 subject to operating costs. SLOCOG's pay-off of the second mortgage on the property will save approximately \$192K versus paying off that loan over 8 years.

SLOCOG also owns a 7000 square foot property at 1041 Mill Street which it will be sold when market conditions are more favorable.

### RECOMMENDATION

Staff: Confirm all actions and authorize tenant improvements

### BACKGROUND

Staff surveyed downtown properties to evaluate alternative office space possibilities and opportunities since it was at the end of its lease agreement.

SLOCOG owns a 7000 square foot property at 1041 Mill Street and could initiate the planning, design and engineering services to build a new office building. However, opportunities to purchase an existing building were pursued because of the soft real estate market and all the various uncertainties of building a new building.

The asking price was \$2.7 million and an offer at \$2.2 million was made. The Seller made a counter-offer at \$2.275 million with conditions subject to further negotiations. The conditions are acceptable and the purchase agreement is scheduled to close escrow on May 15<sup>th</sup>.

### DISCUSSION

It has been a goal of the agency for a long time to own its own office space. It makes financial sense, and it is good public policy to have government agencies conveniently located in the downtown government services zones. Overall, the building requires very few tenant improvements and is easy to move in to. There are several elements to the purchase agreement, some of the highlights are listed below:

#### Existing Assumable Loan

The current assumable loan is at 6% with a monthly principal and interest payment of \$6,444 and can remain in place until April 2027 at the option of SLOCOG. Each 5 years beginning April 2012 the rate is adjusted by the lender proposing a new interest rate for the next 5 years. SLOCOG may accept or reject the new rate. In the event it is rejected new financing will have to be obtained.

### Other Capital Funds

SLOCOG has been setting aside a building reserve since July 2001. The purchase of 1041 Mill Street exhausted most of those resources (\$1M), but they can be recaptured upon the sale of the Mill Street property. Capital funding for the building is a combination of building reserve funds (\$317K), Regional State Highway Account (\$1M) and an assumable loan for about \$968K.

**Parking spaces/ Pass sales/"Car-sharing":** There are more parking spaces available for advisory committee meeting at this building. It appears that Ridesharing may sell bus passes at this building since RTA is moving to Cross Street. Discussions are underway to determine if parking will be made available for a car-sharing program now being started by Ride-On.

**Exterior building design:** The building must retain its current exterior or if it is to be changed by SLOCOG then it will be required to obtain approval of the seller. Also the seller can remodel the exterior of the building at the seller's expense in the event the seller constructs a project on the adjacent property which is owned by the seller. The obvious purpose of this is to make certain that the SLOCOG property is well maintained and consistent in design with a future project on the adjacent property.

**Water meter allocation.** The property currently has a water meter that will accommodate a restaurant and the seller will provide SLOCOG water needed for its use and retain the unnecessary water entitlements for seller's possible future development of adjacent property which it owns.

**Tenant Improvements –** The building requires some minor modifications to non-bearing walls to create a conference room, replace the carpet, add doors, bathroom modifications and other miscellaneous ADA upgrades. Total costs are expected to be less than \$75,000 and will be funded out of the SLOCOG building reserve set-aside, which utilizes \$21,400 from general reserve account 3300000 and remaining amounts as needed from designated building fund balance account 3250060. (Note: Details for County Auditor)

**Financing details –** Capital funding for the building purchase will come from the remaining portion of the SLOCOG general fund building reserve (\$217K), Regional State Highway Account (RSHA) (\$1.05M) and assumption of an existing loan for the property (\$968K). (Note: Totals do not add due to estimated closing costs, points, and other fees. The entire \$317K in RSHA should be shifted from reserves to 8/9 budget) The original offer did include an option from the seller, for an additional loan of \$532,000 however after calculating an interest savings of (\$139K) plus a 10% discount offered by the seller of \$53,200 for increasing cash at closing by \$532,000 there is substantial savings for the agency of \$192K.

#### Purchase Summary:

Asking Price:	\$2,700,000	
Purchase Price:	\$2,275,000	
Seller discount:	(53,200)	Resulting from increased cash at closing
Down payment (initial offer):	(775,000)	Reserve (\$217K) / SHA (\$558K)
Additional Down (counter offer):	<u>(478,800)</u>	SHA (\$532,000 less 53,200) 10% disc
Assumable Loan Balance:	\$ 968,000	

### 1041 Mill Street Property

SLOCOG owns a 7000 square foot vacant lot that could allow construction up to a 6,830 square foot building. The cost estimate for a building of this size is **\$1.73 million**. This would only be possible if the City would allow parking in lieu (currently outside of the zone).

SLOCOG staff would recommend selling this parcel at some point in the future when market conditions improve.

*Peter Rodgers prepared this staff report*