



THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: May 15, 2007 REPORT NO: 07-093

ATTENTION: Council President and City Council
Docket of May 22, 2007

ORIGINATING DEPT.: Real Estate Assets Department

SUBJECT: Sale of Excess City Real Estate

COUNCIL DISTRICT(S): Multiple

STAFF CONTACT: B. Lane MacKenzie – X66050 or Jim Anthony – X36509

REQUESTED ACTION:

Authorize the sale of 19 properties deemed to be excess to City needs.

STAFF RECOMMENDATION:

Approve the requested actions.

COMMUNITY PLANNING GROUP RECOMMENDATION: N/A

SUMMARY:

As part of an overall portfolio management plan for the City's Real Estate Assets, the Mayor's staff is reviewing the City's property inventory to determine which properties are no longer needed and whose disposition will provide a greater public benefit. A City-owned property may be designated for disposition if:

- The property is not currently used by a City department or supports a municipal function.
- The property is vacant and has no foreseeable use by the City.
- The property is a non-performing or under-performing asset and greater value can be generated by its sale.

Nineteen properties that have been analyzed and determined by the Mayor's staff to be excess to City needs and would best serve the City and its citizens if they were sold*. The attached Property Information Summary Packages that contains all pertinent information about each property including its value as determined by a current appraisal and the reason for

recommending its sale. The benefits to the City of disposing of these surplus properties are as follows:

- The City will be relieved of potential liabilities and the cost of maintaining property that does not generate income or provide public benefit.
- Property tax increment will be created by returning the properties to the tax rolls.
- Stimulation of the economy by providing opportunities for private sector investment.
- Generation of revenue for the Capitol Outlay Fund.

Although Municipal Code and the City Charter allow for a number of ways for the City to dispose of its property, current Council policy states that the preferred method is sale by auction. The auction process has the following drawbacks:

- Property sold at auction typically does not receive a very wide exposure to qualified buyers.
- The pool of potential buyers is limited to those that are in the market on the day of the auction.
- A great number of buyers will not participate because they normally do not purchase property by auction and are not comfortable with the process.
- Auctions give the impression that properties can be bought at distress sale prices.

To maximize the revenue generated by the sale of the City's excess properties, the following method for their disposition is being proposed:

- City-owned properties that have been identified as excess will be presented to Council for approval to be sold at a price not less than a minimum price that has been established by a current (less than six month old) appraisal.
- If Council determines that the property may be sold, it shall authorize the Mayor to sell the property by negotiation, public auction, sealed bid or any combination of these methods at the discretion of the Mayor or his designee as long as price is either equal to, or greater than, the Council Approved Minimum Price. The proposed method of sale for each property will be included in the authorizing resolution. The authorization to sell the property will be valid for twelve months from the date of Council action.
- Properties approved for disposition will receive the widest exposure to the market place. Real estate brokers may be engaged to market the properties, and the payment of a real estate commission relating to the sale of the property is authorized, at the discretion of the Mayor or his designee, in accordance with San Diego Municipal Code section 22.0905.
- The Mayor or his designee may enter into a purchase and sale agreements, close escrows, and execute and deliver grant deeds to the purchasers of the properties at a price equal to or greater than the Council Approved Minimum Price on terms and conditions deemed reasonable and in the City's best interests by the Mayor or his designee.
- The Mayor will report out on the price, terms and conditions of all transaction.

- Properties that cannot be sold at a price equal to or greater than the Council Approved Minimum Price will be returned to Council for further consideration prior to their disposition.

This method for selling property is generally consistent with the best practices of highly successful private sector institutions. It has two distinct advantages over the City's current method of sale:

- More buyers will be willing to pursue City properties knowing that if their offer is accepted, they will have a deal, and not undergo the risk of having their transaction disapproved by Council. The reduction of risk will lead to more aggressive offers.
- By utilizing real estate brokers, when appropriate, the City's properties will receive maximum exposure to qualified buyers, increasing the probability of multiple offers which, in turn, will drive up selling prices.

A proposed revision of Council Policy 700-10 governing the procedures for the sale of City owned real estate will be presented to The Land Use and Housing Committee on June 13, 2007. Included will be revised leasing policies, as well. As CP 700-10 is currently written, the policies controlling the leasing and sale of City owned property are so intertwined, it would be cumbersome to revise sale policies without revising leasing policies at the same time.

Attached (Attachment "B") is a legal opinion from the City Attorney stating that by Council Policy and Municipal Code, the Mayor must take every property intended for sale to Council, justify each sale, and seek direction as to how the property will be sold. Because all questions regarding the right to sell and manner of sale will be predetermined by an enabling resolution, the proposed process for the sale of the City's properties does not conflict with the Municipal Code and the City Charter.

*As of the date of the requested Council action, all but four of the properties will have been cleared for use by local public agencies as required by California Government Code Sections 54220-54232. These four properties, identified on Attachment "A" as Site No. 1, *World Trade Center*, Site No. 2, *Crabtree Building*, Site No. 17, *Morena Commercial – West*, and Site No. 18, *Terminix Lease Site*, will clear this process on May 30, 2007. The resolutions authorizing their sale will contain a contingency that the properties will be cleared prior to their disposition

BACKGROUND: N/A

FISCAL CONSIDERATIONS:

All proceeds from the sale of the properties, net of costs related to their sale, will be deposited in the Capital Outlay Fund as per City Charter Article VII unless otherwise noted in the summary sheet for the individual property. The total proceeds from these sales are estimated to be in excess of \$35 million dollars.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The proposed method for the sale of City properties was presented as an information item to the Land Use and Housing Committee on February 7, 2007 and to Rules and Open Government Committee on April 25, 2007.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

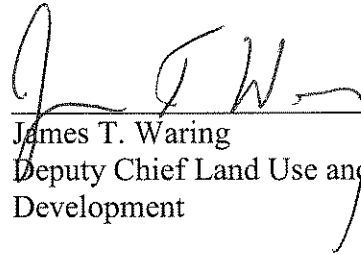
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The key stakeholders would be the City of San Diego which will benefit by: receipt of the sale proceeds; relief from future liability and maintenance expenses associated with the ownership of these properties; and additional property taxes from the return of these properties to the tax roles.

Respectfully Submitted,



James F. Barwick
Real Estate Assets Director



James T. Waring
Deputy Chief Land Use and Economic
Development

Attachment "A"

Attachment "B"