



CITY OF

NEWPORT BEACH

City Council Staff Report

November 15, 2022
Agenda Item No. 23

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Agreement for Purchase and Sale and Escrow Instructions with AG Dove Owner, L.P., for the Purchase of Real Property at 1201 Dove Street

ABSTRACT:

The City of Newport Beach (City) Police Department is currently headquartered on the City-owned property at 870 Santa Barbara Drive. The building is within 10 years of the end of its useful life, and Police Department operations have outgrown the existing facility. The replacement of the police facility is planned for in the Capital Improvement Program. The City's long-range strategic plan is to purchase property and manage it for the next 10 years or until the City is in a position to develop a new police station headquarters. Acquiring property now to develop a new police station will allow the City to capitalize on current real estate prices, avoid competing with residential developers seeking housing opportunity sites, and recoup a portion of the purchase price with the property's existing net income stream.

For the City Council's consideration is an Agreement for Purchase and Sale of Real Property and Escrow Instructions (Agreement) for the purchase of property located at 1201 Dove Street (Property) for a price of \$30.5 million, utilizing FY 2021-22 year-end General Fund surplus and unallocated capital project reserve funds. Given the limited number of parcels of a suitable size for a new police station and the upward trend of commercial real estate values in Newport Beach, staff proposes for the City to purchase the Property and to continue leasing the office spaces. The net income generated from the property will help offset the purchase price.

RECOMMENDATION:

- 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 AG Dove Owner, L.P., to purchase the property at 1201 Dove Street, for a price of \$30,500,000, in a form substantially similar to the agreement prepared by the City Attorney; and
- c) Approve Budget Amendment No. 23-028 to record a budget increase of \$30,775,000 as expenditure from the Police Facility Fund, a transfer of \$5,231,559 from the Facility Financing Plan Fund (FFP), a transfer of \$1,450,000 from the General Fund Capital Improvement Plan, and a budget increase of \$300,000 as revenue to the General Fund.

DISCUSSION:

The Newport Beach Police Department headquarters was acquired by the City in 1973 from The Irvine Company. The police station facility was constructed by the City and shares the four-acre parcel with Fire Station No. 3. While the building and site have been maintained and remodeled over the last 50 years, the Police Department operations have expanded and effectively outgrown its existing facility. The building is scheduled for replacement in the Capital Improvement Program in the next 10 years. The City has a need to replace the existing police station with a larger more modern facility that will meet the future needs of the Police Department.

Police Department Facility Needs

The Public Works Department completed a utilization survey of the spaces within the existing police station and conducted a needs assessment to determine the needs of a future police station. The survey determined the existing police headquarters includes 49,284 square feet of gross floor area of facilities. The needs assessment determined a future police facility will require a minimum of 73,000 square feet. The differences between the existing facility and the future needs of the Police Department include adequate space for the Patrol Division, and an appropriately laid-out firearms training and shooting range.

Structural Upgrades

When the current police station was constructed in 1973 it was built to the building code standards of that time. Since then, the seismic structural design requirements have changed for facilities considered “essential”. Police stations, fire stations, and hospitals are considered “essential” facilities and are designed to a much higher seismic standard than non-essential buildings. While it is possible to structurally upgrade the existing police station, it is more cost effective to replace the building due to the future facility space and utilization needs. A new police station facility will be structurally designed to the highest seismic standard required by the building codes.

Redeveloping the Existing Police Headquarters Location

Staff did consider replacing the existing police station at its current location but determined the replacement cost would outweigh the costs to relocate the facility to a new location. To redevelop at the existing location on Santa Barbara, the costs would not only include the cost of constructing a new building, but would also include the cost of temporarily relocating the entire police department operations during construction. All police department functions and services including telecommunications, jail, helicopter landing pad, and dispatch services would need to be temporarily relocated to another location while the new facility is being built. It is more cost effective for the City to purchase 1201 Dove Street, operate the Property in its current office building configuration and collect the net income revenue for at least the next 10 years, then develop a new modern police station that the Police Department can move into without any interruption in services.

1201 Dove Street - Property

The Property for consideration is located in the Airport Area of Newport Beach (Attachment C), and is a 3.59-acre site currently developed with an 82,868 square foot, six story office building. The building was constructed in 1973 and underwent a major renovation in 1989, with various system upgrades and maintenance and tenant improvements completed since then. The property was acquired by AG Dove Owner, L.P. (Seller), an institutional investor, in 2018.

The Property is professionally managed by Lincoln Property Company Commercial, Inc. (Lincoln Property) and is currently 84 percent leased; 13,540 square feet is currently available for rent, with five spaces ranging in size from 1,020 – 5,835 square feet. The 21 existing tenants include finance, healthcare, real estate, legal, and other users in spaces ranging from approximately 950 to 7,500 square feet and have leases expiring in 2023 to 2028 and beyond.

Staff Review

Staff from the Police Department, Community Development Department, Public Works Department, and the City Manager conducted a site tour in March 2022, and determined the general location, size, and configuration of the Property to be sufficient and appropriate for development of a new police station. Access to the Property is located on Dove Street, and staff will work with the adjacent property owners to determine if a secondary point of access to Quail Street can be obtained to create operational efficiencies for the Police Department. The Seller's agent has offered to facilitate discussions regarding a potential additional point of access.

Opening - Closing Escrow and Due Diligence

Upon execution of the Agreement and opening of escrow, staff will proceed with a 120-day due diligence period to investigate the condition of the Property. Staff anticipates due diligence to cost approximately \$75,000 and will likely include, but not be limited to, a Phase I environmental report, geotechnical investigation, survey of the property and improvements, a hazardous materials survey of the building, a building condition inspection, and an ADA compliance inspection. Due diligence will be handled by professional consultants that specialize in tenant lease review, property inspection, and geotechnical reviews.

After due diligence is completed and staff is satisfied with the condition of the property, the close of escrow will be scheduled within 30 days after due diligence approval. The close of escrow is anticipated to be April, 2023.

Purchase Price and Closing Costs

Over the last six months the City and the Seller have negotiated the terms of a Purchase and Sale Agreement. The negotiated purchase price is \$30.5 million. Staff proposes to use the FY 2021-22 year-end General Fund surplus of \$24.1 million and \$6.7 million from available funds in the Facilities Financial Planning Fund (FFP) and General Fund Capital Improvement Plan Fund to fund the purchase and associated closing costs. It is anticipated the FFP and General Fund Capital Improvement Plan Fund will be replenished from General Fund surplus at the end of FY 2022-23. The FY 2021-22 year-end General Fund surplus is being transferred to the Police Facility Fund under separate City Council action, also on November 15, 2022.

In addition to the purchase price of the Property and due diligence costs, staff anticipates closing costs of less than \$10,000, an owner's policy of title insurance policy premium cost of approximately \$15,000, and prorated property taxes of \$175,000 or less (which will be refunded by the County of Orange after closing).

Income Generated

If the City were to purchase and manage the Property for the next 10 to 15 years, the projected net income to the City would be \$15 million to \$25 million respectively. The net income is based on projected rental revenues minus all operating expenses and building management costs. The income revenue from the property will be deposited in the City's general fund account.

Property Management

The Property is currently managed by Lincoln Property. If purchased, the property management agreement will be assigned to the City, with the management fee set at 2.5% of the effective gross revenue, which expense is factored into the estimated net revenues. Staff proposes to continue to utilize the services of Lincoln Property until their agreement expires in August 2023. Before the expiration of the agreement, staff will release an RFP to competitively bid out the services of property management for the building. An agreement with the selected property manager will be presented to City Council for their consideration at a future meeting.

Proposed Agreement

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

The proposed terms of the sale are summarized below:

1. City will pay the Seller a purchase price of \$30,500,000;
2. City will deposit \$305,000 in initial earnest money; which money will become non-refundable after the expiration of the due diligence period;
3. City will have a 120-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. City will deposit an additional \$305,000 in earnest money, which money will become immediately non-refundable, after expiration of the due diligence period and City approval of the condition of the Property;
5. Escrow will close 30 days from the City's approval of due diligence; and
6. City and Seller will each pay half of the closing costs, and City will pay for its own owner's title insurance policy.

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 (Attachment A).

FISCAL IMPACT:

Approval of this item will result in an increase in expenditures to the Police Facility Fund for purchase of the Property, due diligence investigations, the City's share of closing costs and recording fees, an owner's policy of title insurance, and payment of prorated property taxes. Upon purchase of the Property, the City will increase General Fund revenues and collect approximately \$1,200,000 in rental income each year from existing tenants. The Budget Amendment No. 23-028 (Attachment B) records a \$30,775,000 expenditure that will be posted to the Police Facility New CIP – Capital Project account in the Police Facility Fund – 521-52101-911047, and \$300,000 in Fiscal Year 2022-23 revenue will be posted to the Rental of Property account in the Community Development Department – 01050505-551115.

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
Attachment B – Budget Amendment No. 23-028
Attachment C – Map