

Poway Unified School District Potential Ground Lease of Black Mountain Ranch Southern Property (Santa Luz site) September 10, 2020



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Process Summary

- **1) Request for Proposal Waiver Process**
 - The CA State Board of Education waiver allows the District to identify the “most beneficial offer” through the Request for Proposal Process
 - Compare and consider proposals for purchase, lease, and exchange
- **2) Proposal Considerations**
 - Overall Payment /Revenues
 - Deposit Structure
 - Due Diligence and Closing Period
 - Entitlement Costs (Prop. A and all zoning & entitlement approvals)
- **3) Post- Request for Proposal Steps**
 - Compare proposals and negotiate an agreement with likely most beneficial Proposer to update and confirm terms in proposal
 - Board to formally declare “most beneficial” proposer/proposal
 - Board to approve final negotiated agreement(s)

Costco Lease Proposal

Background:

- Board reviewed Costco's first and second proposals & directed staff to negotiate given large Prop A process and development costs
- 8/13/20 - Board approved final Costco proposal (Letter of Intent)

• 1) Lease Term

- 40 year Initial Term with two extension options of 10 years each

• 2) Initial Rental Amount (years 1-10)

- Final Costco Proposal increased to \$2,114,690 / year

• 3) Rent Escalation (years 11-40)

- Final Proposal increased to 15% (from 8%) every 10 years
- With negotiated increases:
 - At 40 years, the total lease revenue over time increases by approximately \$15 million
 - At 60 years, the total lease revenue over time increases by approximately \$38 million

Costco Lease Proposal (continued)

- **4) Deposit**
 - Final Proposal = \$150,000 released after 180 day Feasibility Period
 - Prior Updated Proposal = No deposit due to huge development costs
- **5) Timeline**
 - Feasibility: 180 days + 30 day extension option
 - Projected Approvals: 540 days, plus two 120 Day extension options
 - Construction Permits: 180 days after Project Approval
- **6) Considerations**
 - Costco will have a “qualified Right of First Refusal” to purchase property subject to Prior Owners’ RFR option, and surplus property requirements
 - Costco is responsible for all entitlement, zoning, and approval costs
 - The only lease proposal received, and District maintains ownership, receives stream of income, and proceeds are not restricted to certain expenditures

Brookfield Proposal

Proposal to Purchase Property

- **1) Price**
 - \$47 million
- **2) Timeline**
 - Due Diligence Period: 90 Days
 - Closing Date: Not established but likely 24-36 months or longer
- **3) Deposit**
 - Initial Deposit = \$20,000
 - Additional Deposit = \$25,000 at end of Due Diligence
- **4) Considerations**
 - Proposal did not define closing date
 - Proposal did not indicate if deposits were refundable
 - A sales transaction, so proceeds would be restricted

The Cambridge School Proposal

Proposal to Purchase or Exchange Property

- **1) Price**
 - \$22 million
- **2) Timeline**
 - Due Diligence Period: 60 Days
 - Closing Date: 30 Days after Due Diligence
- **3) Deposit**
 - Initial Deposit = \$100,000
- **4) Exchange Alternative**
 - Pay District \$8 million and 12855 Black Mountain Road Property
- **5) Considerations**
 - Price lower than fair market, but fast closing
 - Exchange proceeds are not restricted to certain expenditures, sale proceeds are restricted

Summary Comparison

- **1) Costco (recommended “most beneficial”)**
 - The only lease proposal received: creates a large stream of income to the District, revenues increase over time, and are not restricted
 - District retains ownership of property
 - Costco is responsible for all entitlement, zoning, and approval costs
- **2) Brookfield**
 - Highest total sale price
 - Long and undefined closing period
 - Use of sale proceeds would be restricted
- **3) Cambridge**
 - Price dramatically lower than other offers and fair market price
 - Quick timeline, but does not justify lower price
 - Exchange option requires District to assess Property offered in exchange

Questions

