SUBJECT

2016 Commercial Property Disposition

BACKGROUND

At its February 16, 2016 regular meeting, the State Board of Land Commissioners (Land Board) approved the Idaho Department of Lands' (Department) recommendation to dispose of twelve commercial properties and four parking lots as specified in the business plan (Plan) prepared by the Land Board's Commercial Real Estate Advisor, CenturyPacific, LLLP (CenturyPacific). With that approval, the Department represented that it would update the Land Board prior to the first auction (Attachment 1).

The Plan recommended disposal of twelve of the properties during 2016 and four parking lots in 2017. Due to the expedited nature of the recommendation, the Department requested the Land Board's approval for the use of CenturyPacific as its Commercial Real Estate Advisor and to retain a Real Estate Broker to assist in the sale process. Shortly thereafter, Thornton Oliver Keller (TOK) was approved by the Land Board to serve as the Real Estate Broker.

According to the Plan's recommendation to capitalize on the strong real estate market, the Department, Idaho Attorney General's Office, CenturyPacific, and TOK (collectively, the Disposition Team) have been preparing to offer the twelve properties for sale during 2016 (Attachment 2).

Due to state law regarding the sale requirements of endowment property, the Disposition Team developed a disposition process that would allow for the properties to be disposed of in a commercially reasonable manner, including the availability of specific property information. The Disposition Team assisted in the procurement of contractors to perform due diligence services so as to deliver reports that interested parties could use in determining whether to pursue property purchases in advance of live, decisive auctions.

The following services and associated deliverables were performed on the properties: building inspections, environmental assessments, surveys, and title review. In addition, the Disposition Team is awaiting the completion of final appraisals and valuations. Finally, the Idaho Attorney General's Office, as a member of the Disposition Team, participated in the preparation of the auction and administration documents for the sale. The culmination of the aforementioned due diligence and auction documents will be accessible through a link on the Department's website or directly at TOK's website as indicated in the schedule below.
DISCUSSION

Currently, eleven of the twelve 2016 properties are ready to be offered for auction application.¹ The following is an outline of the schedule of events and estimated dates:

- Land Board information update (schedule, marketing, and process) - 8/16
  - County notice update
  - Plan
  - Marketing
- Marketing - Open Client Portal: marketing materials, property information available online - 8/16
  - Marketing materials to include the due diligence work product (except appraisals), transaction documents, and preliminary title commitments
  - TOK will provide potential buyers with information regarding the properties
  - TOK will provide potential buyers with information regarding the auction process and requirements
- Review appraisals complete - 9/9 (review appraiser to complete review appraisal reports)
- Land Board final approval to proceed - 9/20 (final plan and approval to proceed with all dispositions)
- Properties open for Application - 9/20
- Receive application - 9/20
  - The applications will not act as firm "offers", but will provide IDL with some assurance that the applied-for property has enough interest for competitive bidding. An application will not require a deposit.
- Buyer due diligence period for the applied-for properties - Open until auction
  - Bidders can perform their own due diligence prior to the auction
- Legal notices (5 weeks) as required by statute – 10/10-11/4
- Auction 11/18/16 (continued as needed for future applied-for properties)
  - Auction will be live in the county where the property is situated and/or Ada County
  - Bidders will be required to post a bid deposit of 3% of appraised value
  - A buyer's premium (property specific) will be added to the successful bid price to partially offset costs
  - Minimum purchase price must be greater than or equal to appraised value. Appraised value is equal to market value.
  - Successful bids are final, as there will be no contingencies
  - Buyer is responsible for all escrow costs and title insurance
- Closing - 12/30 (anticipated)

¹ The property identified as 1021 O St., Heyburn, Idaho has been delayed due to questions regarding ownership, use, title insurance, and, as a result, appraised value. The Disposition Team anticipates this property will be available and offered for auction in 2017.
In the spring of 2016, the Idaho Department of Administration inquired into the potential purchase of three properties identified in the Plan for disposition in 2016. Pursuant to state law, any potential purchase of endowment property must be through the public auction process. As such, to participate in the opportunity to bid, the Department of Administration has requested the Department consider deferring the offering of three properties located at 800 W State Street, 590 W Washington, and 602 N 5th Street, for auction until an appropriation has been approved.

ATTACHMENTS

1. Approved February 16, 2016 Land Board Memo
2. Commercial Properties for 2016 Auction
STATE BOARD OF LAND COMMISSIONERS
February 16, 2016
Regular Agenda

SUBJECT

Commercial Real Estate Business Plans

BACKGROUND

At its September 2015 meeting, the Land Board approved a contract with CenturyPacific, LLLP, as the Commercial Real Estate Advisor to the Land Board. Under the terms of the contract, CenturyPacific would complete business plans and provide recommendations regarding management and prudent disposition of the commercial properties. Pursuant to their existing contract, CenturyPacific would revise the plans annually upon request and be available for ongoing consultation on the implementation of the business plans for additional fees.

DISCUSSION

CenturyPacific has completed draft business plans for nineteen commercial properties. The Land Board’s Investment Subcommittee met on January 5, 2016, to review the business plans. The Investment Subcommittee found that the analysis was sound and that the plans met the requirements of the scope of work. The Land Board was briefed in executive session at its January 2016 meeting.

The plans recommend disposal of twelve of the properties during 2016 and four parking lots during 2017, and that the Land Board retain the Capitol Park Plaza building and adjacent parking lot and the Hoff parking lot. A summary of the CenturyPacific analysis and recommendations is included as Attachment 1.

Part of the basis for the recommended disposal timeline is the current strength of the commercial real estate market. To maximize the value of the assets, every effort should be made to rapidly proceed with the disposal process.

The Department has evaluated the use of existing staff and continued use of the Land Board’s Commercial Real Estate Advisor (Advisor) under the existing contract to manage the disposal process.

Use of existing staff to manage the disposal process would increase their workload and would impact the commercial property disposal process and/or the cottage site auction process. Without additional resources, the Department would not expect to be able to prepare twelve properties for auction this year. As a result, there is risk of missing the current strong real estate market. Using existing staff, the Department expects that 2-4 properties could be prepared for auction this year.

Alternatively, use of the Advisor would allow a third party expert to manage preparation of the properties for disposal. The Advisor would work cooperatively with Department staff and an assigned Deputy Attorney General on tasks described in Attachment 2. The demand on...
existing staff would be reduced and the impacts on the commercial property disposal process and cottage sites auction process would be decreased. With the Advisor, the Department could strive to prepare twelve properties for auction in 2016. As a result, there is a better chance of capitalizing on the strong real estate market. The Advisor would coordinate the selection of service providers such as appraisers, title companies, environmental review services, surveyors, brokers, auctioneers, and others.

The Department recommends continued use of the Advisor to facilitate the commercial real estate disposal process. The Advisor will represent the Land Board and the Department in facilitating the disposal process. The Advisor has limited conflicts of interest and will act as a liaison between the Land Board and the Office of the Attorney General, the investment sales broker(s), property/parking management, and the selected service providers. In addition, the Advisor will act as a fiduciary and will work with the Department and the Office of the Attorney General to establish sale policies for buyer underwriting, pre-auction feasibility and post-auction closing periods as well as buyer qualification requirements.

Pursuant to CenturyPacific’s recommendation, separate and apart from the Advisor role to avoid potential conflicts of interest, the Department recommends hiring a qualified investment sales broker(s) with significant experience in the relevant geographic markets and a firm grasp of the unique characteristics of the various property types.

RECOMMENDATION

The Department recommends approval of the following items related to the Land Board’s commercial real estate portfolio:

1. Acceptance of the final commercial real estate business plans as developed by the Commercial Real Estate Advisor.

2. Disposal of the twelve commercial properties and four parking lots as specified in the business plans using a process consistent with the Idaho Constitution and Idaho Code.

3. Retention of the Capitol Park Plaza building, the adjacent parking lot, and the Hoff parking lot.

4. The Department will use the Land Board’s Commercial Real Estate Advisor to manage the disposal process and provide continued assistance and expertise.

5. The Department and/or the Commercial Real Estate Advisor will procure other real estate service providers, including broker(s), needed to complete the disposal process.

6. The business plans and the disposal strategy will be reviewed annually or when changing real estate market conditions may dictate.

7. The Department will update the Land Board on the status of the disposals prior to the first auction and at other significant times during the process.
BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 2 of 3 of agenda item 5. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. Commercial Portfolio Executive Summary
2. Commercial Real Estate Advisor Tasks
3. Broker Scope of Work
**Commercial properties prepared for auction in 2016:**

- Affordable Storage, 448-450 S. Maple Grove Rd., Boise
- Garro Building, 816 W. Bannock St., Boise
- Garro Building lot, 816 W. Bannock St. (parking lot), Boise
- Sherm Perry Building, 826 W. Bannock St., Boise
- Former Bank Building, 800 W. State St., Boise
- Central Washington Place, 602 N. Fifth St., Boise
- Office Building, 590 W. Washington St., Boise
- Pleasant Valley, 7050 South Pleasant Valley Rd., Boise
- Commercial Buildings, 961-965 E. Lincoln Rd., Idaho Falls
- Commercial Lot, E. Lincoln Rd., Idaho Falls
- Commercial Lot, 1021 O St., Heyburn (2017 Auction)
- Office Building, 595 University Blvd., Idaho Falls