

Presentation to the Government Audit and Oversight Committee

Performance Audit of the San Francisco Real Estate Division

July 19, 2017

Budget & Legislative Analyst's Office



Audit Scope

Scope included an evaluation of:

- ❑ Planning for the City's property needs
- ❑ Purchase, sale and lease transactions
- ❑ Status of active leases
- ❑ Uses of City property
- ❑ Industry standards and best practices



Real Estate Functions

- ❑ Property transactions
- ❑ Facilities management
- ❑ Custodians, building trades, stationary engineers
- ❑ Markets

Prior to 2008 – Property transactions

In 2008 – Facilities management and maintenance

Out of a staff for more than 240 – 5 are assigned to property transactions



Portfolio

- ❑ 1,100 buildings within San Francisco and outside of San Francisco
- ❑ 2,000 parcels within City limits = 6,000 acres
- ❑ 215 active leases
 - 117 – City as landlord
 - 98 – City as tenant



Authority

Administrative Code Chapter 23

- ❑ Purchase & sale of property
- ❑ Determining fair market value for purchase & sale
- ❑ Identify and negotiate leases
- ❑ Manage City property

Administrative Code amendment in July 2016:

- ❑ Appraisal required if:
 - Value of property > \$10,000
 - Value of lease > \$45 per square foot



Appraisals

36 recent lease transactions

- All had fair market value determinations: industry contacts or market survey data

22 purchase & sales transactions since FY 2013-14: all but 2 had appraisals

- Parcel P in Market Octavia:
 - 2009 - Board authorized sale of 12 parcels without further approval
 - 2013 – Real Estate report sale price of \$187 = fair market value
- 555 Selby & 1975 Galvez
 - 2016 – Real Estate determined that purchase price comparable to other industrial properties



Long Term Planning

- ❑ Insufficient process to plan for space needs over long term
- ❑ Managed on a case-by-case basis
- ❑ Long term decisions coordinated through Capital Planning
 - Real Estate Director does not have seat on committee
 - Capital Planning not involved in sales or leases
- ❑ If department budget has funding
 - Limited oversight & scrutiny of real estate requests
 - Limited Real Estate authority to deny or curtail requests



Long Term Planning

Informal working groups to discuss space/real estate needs

- ❑ Brainstorming group w/ Controller, Mayor, Capital Planning
- ❑ Monthly group w/ SFUSD, OEWD, Rec & Park HSA, DPH, OCII, SFMTA
- ❑ Meetings with Capital Planning & Public Works

Informal process does not result in a long-term real estate plan



Long Term Planning

Inefficient Costs

- ❑ Lack of shared department space
 - Sheriff & Adult Probation - programs by same nonprofits but no shared space
 - General Fund cost of \$1.3 m per year
- ❑ Exposure to market for essential services
 - Increase in rent for Medi-Cal applicants from \$1.2 million to \$3.6 million
- ❑ Costly tenant improvements to private property
 - \$5.9 million for DT's Public Safety Division



Long Term Planning

Recommendation

Real Estate & Capital Planning need to recommend Administrative Code provisions for long-term planning

- (a) Define the respective roles of Real Estate and Capital Planning in the long term planning process, including appointing the Director of Real Estate to the Capital Planning Committee;
- (b) Align this long term planning process with the City's capital and financial plans; and
- (c) Establish criteria and priorities for leased and City-owned properties



Asset Management

- ❑ Prior to 2008, Real Estate only handled purchases, sales, leases
- ❑ Current systems are inadequate for portfolio asset management
 - ❑ Stationary engineers monitor day-to-day and preventive maintenance needs
 - ❑ Capital Planning tracks long-term capital needs for building systems
 - ❑ Real Estate maintains a property database
- ❑ 2018 – new Facility System of Record
 - ❑ Replace real property database
 - ❑ Fix data integrity issues
 - ❑ Not owned by Real Estate – run by Capital Planning



Asset Management

- ❑ No single system reports on portfolio-level property conditions and needs
 - ❑ Reliance on institutional knowledge and manual reporting prepared by admin staff

- ❑ **Recommendation:**
 - The Director of Real Estate should collaborate with the Capital Planning Program to build on the reporting capabilities of the Facility System of Record to incorporate information relevant to long-term planning.



Public & Private Market Roles

- ❑ Private real estate industry
 - Not subject to public disclosure
 - Reliance on confidential and proprietary information
 - Little documentation of process
- ❑ Public function in private market
 - Need to protect public assets and public interest
 - Transactions require public disclosure and approval
 - Private transactions concluded at a quicker pace than public transactions



Public & Private Market Roles

- ❑ Need to incorporate City goals in public transactions
 - Maximizing sale proceeds is not always the primary goal
 - Not incorporating policy goals puts transactions at risk
- ❑ Sale of 30 Van Ness
 - Private broker recommended sale to highest bidder at public auction without final Board approval
 - Proposed sale not approved by Board
 - 15% affordable housing goal
 - 33% goal subsidized by City
 - Subsidy to reach 33% goal > developers' development impact fees



Public & Private Market Roles

Expansion of Real Estate role into development

- ❑ Central Shops development managed by Real Estate
 - Private developer managed by Real Estate in coordination w/ Public Works
 - Cost increase from \$55 m to \$60.2 million due to unforeseen site conditions
- ❑ 1500 Mission
 - Public private development
 - Formal MOU between Public Works & Real Estate



Public & Private Market Roles

- ❑ Reliance on institutional knowledge
 - No formal training requirements
 - Reliance on staff experience and informal industry relationships
- ❑ **Recommendation:**
 - Real Estate consult with the Board:
 - Identify policy priorities
 - Incorporate policy priorities in the purchase & sale
 - Establish written protocols on role of Real Estate and Public Works
 - Formally mentor staff with less expertise



Non-City Uses of City Property

- ❑ No policy for leases to private businesses without government purpose:
 - Twin Peaks gas station
 - Renewed w/out competitive process
 - Highest & best use – mixed use commercial/residential
 - Value = \$1.9 million

- ❑ No policy for leasing to non profits:
 - 400,000 sf at no rent
 - 130,000 sf at market rent
 - Both no rent & market rent leases are to nonprofits providing public benefits & cultural contributions



Non-City Uses of City Property

- ❑ No consistent rents for cell sites
 - Monthly rent from \$2,724 to \$5,800
- ❑ **Recommendation:**
 - Recommend policies to Board:
 - Uses of City property for nongovernment purposes and
 - Criteria for nonprofits: when subsidized
 - Develop rate sheet for cell sites



Conclusion

Thank you to the management and staff of the City's
Real Estate Division

Questions?