



August 13, 2021

TO: CADA Board of Directors

**SUBJECT: August 20, 2021 Board Meeting
AGENDA ITEM 7
Property Acquisition Evaluation Policy**

CONTACT PERSON: Todd Leon, Development Director (CADA)
Wendy S. Saunders, Executive Director (CADA)

RECOMMENDED ACTIONS:

Staff recommends the CADA Board of Directors adopt a resolution approving of a policy regarding preliminary evaluation of properties for potential acquisition.

SUMMARY

In December 2020, CADA issued tax allocation revenue bonds to fund existing project commitments and to pursue future development projects. Since the bond issuance, CADA staff has been monitoring land opportunities in the Sacramento Central City in order to acquire property and develop additional affordable housing projects. In pursuing and monitoring potential properties, it has become clear, in the competitive urban real estate climate, that CADA lacks a sufficient process and staff authority to pursue prospective properties in a timely and competitive manner.

Properties that CADA would be interested in purchasing tend to have multiple interested parties when they hit the market. In order to secure sites and conduct a proper due diligence, staff needs the ability to make nonbinding offers in order to gain access to proprietary information on the properties, conduct on-site investigations, and gain exclusivity. The Executive Director does not currently have this authority. Thus, staff is proposing a new CADA policy and requesting authority for the Executive Director to do the following:

1. Upon identifying an available property that CADA might be interested purchasing for development of a housing project, the Executive Director shall have the authority submit to the seller a non-binding Letter of Intent (LOI) or similar non-binding offer to purchase property.
2. The LOI may include a proposed purchase price and specified deposits as necessary for CADA to secure exclusive access to the site and conduct essential preliminary investigations and proper due-diligence.
3. LOI non-refundable deposits and the cost of preliminary investigation of may not exceed the amount of Executive Director's current contracting authority (\$50,000) on a per-site basis.
4. The letter of intent may include preliminary or proposed terms that would be included in an eventual legally binding Purchase and Sale Agreement (PSA).
5. After staff has completed a preliminary site investigation and concludes that CADA proceed to acquire a property, staff shall present and seek Board approval of a Purchase and Sales

Agreement, CEQA, a project budget and any other necessary actions or documents in order to purchase a property and begin a project.

ANALYSIS

Adopting this policy allows the Executive Director to make offers and take the first steps to secure available property. LOI's are typically non-binding documents intended to establish acceptable transaction terms including sales price, deposit amounts, milestones, and target dates for closing. If accepted, a letter of intent precedes the signing of a Purchase and Sales Agreement, which is the official contract to purchase a property.

Although non-binding, if a seller accepts an LOI, this typically indicates the parties have mutually agreed to take steps toward finalizing a sales contract and transaction. However, depending on the details of the LOI, a seller may usually be allowed to accept back up offers and keep advertising the site as available. A LOI accepted by the seller, along with a deposit, will normally allow the proposed buyer to gather property information, analyze the site, and conduct any other site investigations for 60 days before signing a formal contract. A typical LOI term is 60 days. If after expiration of the term, the buyer does not want to purchase the property, the seller must either return or retain the deposit depending on the terms of the LOI.

Staff believes the ability to submit LOIs to investigate potential acquisition targets will allow CADA to pursue available properties more swiftly rather than waiting for Board approval to act on a potential site.

FINANCIAL IMPACT

Financial impacts to this policy will be nominal. A small deposit is typically required to secure an offer on a potential property. Deposits during an initial due diligence period are usually refundable and range between \$10,000 and \$25,000. If lengthier due diligence is required, deposits typically become more significant and are usually non-refundable. This compensates the seller for the loss of seeking other buyers during the exclusive period. Additionally, some due diligence items may require third party assistance. For example, a contaminated site may require that staff retain the services of an environmental firm to analyze the property conditions and provide guidance on associated risks. The estimated consultant costs during the initial evaluation period will typically range from \$5,000 to \$20,000. All costs associated with an initial 60-day site evaluation period should easily be within the Executive Director's contracting authority of \$50,000.

ENVIRONMENTAL CONSIDERATIONS

Not applicable. This is an administrative policy and is not subject to the requirements of the California Environmental Quality Act (CEQA).



RESOLUTION NO. 21 – 33

Adopted by the Capitol Area Development Authority

August 20, 2021

RESOLUTION APPROVING A POLICY REGARDING PRELIMINARY EVALUATION OF PROPERTIES FOR POTENTIAL ACQUISITION

WHEREAS, CADA wishes to pursue the purchase of private property in Sacramento for the purpose of developing affordable housing; and

WHEREAS, the real estate market in the Sacramento Central City is competitive and requires potential buyers to act quickly to secure properties for potential purchase; and

WHEREAS, the Executive Director does not currently have the authority to make offers on property without Board Approval, which limits staff's ability to make offers in a timely manner.

NOW, THEREFORE, BE IT RESOLVED, by the Capitol Area Development Authority that the Board of Directors hereby adopt the following as Policy regarding the purchasing of property:

1. Upon identifying an available property that may be suitable for purchase by CADA for development of an affordable housing project, the Executive Director shall have the authority submit to the seller a non-binding Letter of Intent (LOI) or similar offer to purchase the property.
2. The LOI may include a proposed purchase price and specified deposits as necessary for CADA to secure the site and conduct essential preliminary investigations and proper due-diligence.
3. The LOI deposit and third party costs for a given property may not exceed the Executive Director's contracting authority.
4. The letter of intent may include preliminary or proposed purchase terms that would be included in a legally binding Purchase and Sale Agreement.
5. After staff has completed a preliminary site investigation and concludes that CADA should proceed with actions necessary to purchase a property, staff shall seek Board approval of a Purchase and Sales Agreement, CEQA, a project budget and all other necessary actions to purchase the property.

ATTEST:

Ann Bailey, Chair

Tara Gandara
Secretary to the Board of Directors