

STAFF REPORT



CITY OF OCEANSIDE

OCEANSIDE MOBILE HOME PARK FINANCING AUTHORITY

DATE: March 21, 2012

TO: Honorable Chair and Board Members of the Oceanside Mobile Home Park Financing Authority

FROM: Property Management

SUBJECT: **RECONSIDERATION OF THE SALE OF LEASEHOLD INTEREST IN LAGUNA VISTA MOBILE HOME ESTATES AND DIRECTION TO STAFF**

SYNOPSIS

Staff recommends that the Authority reconsider the sale of its leasehold interest in Laguna Vista Mobile Home Estates and provide staff direction to: 1) issue a request for proposals for the sale of the leasehold interest; or 2) negotiate a sale of the leasehold interest to a specific buyer.

BACKGROUND

Laguna Vista Mobile Estates ("Laguna Vista") located at 276 North El Camino Real was built in 1978 on approximately 43.77 acres of land leased by Laguna Vista Associates, Ltd., from Jugoro Ishi, Inc., with the term of the ground lease running through August 2052. The mobile home park consists of 272 mobilehome spaces, a 9,800 square foot recreation center, shuffleboard court, swimming pool, covered spa, lighted tennis court, craft shop, recreational vehicle storage area, dump tank station, carwash, several lakes and other water features, and common area improvements.

In March 1998, the Oceanside Mobile Home Park Financing Authority (the "Authority") with the proceeds from tax-exempt Mobile Home Park Revenue Bonds in the aggregate principal amount of \$8,725,000 bearing interest of five-percent (5%) purchased the ground lease for Laguna Vista from Kirkco Partnership, LP, a California limited partnership, successor in interest to Laguna Vista Associates, Ltd. The outstanding principal sum on the Bonds as of March 2012 is \$6,360,000 with the maturity date of March 1, 2028.

At its meeting on February 23, 2011 the Authority directed staff to return with a request for proposals ("RFP") to look into selling the Authority's leasehold interest in Laguna Vista. Following this directive, staff sought advice from bond counsel as to the effect the outstanding Bonds would have on such a sale and whether the sale could be accomplished through another tax-exempt bond issue.

The bond counsel's response was that a sale of Laguna Vista to a 501(c)(3) organization (i.e., a non-profit corporation organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code) might be financed with tax-exempt bonds, but would require renegotiating the Ground Lease to modify the "percentage overage rent" provision or, in the alternative, the purchasing 501(c)(3) organization obtaining a determination from the IRS that the "percentage overage rent" provision does not violate the federal tax requirements for tax-exempt bonds.

The Bonds mature in 2028, but are currently payable at any time. As long as the Bonds are outstanding, the Authority may not sell or otherwise dispose of Laguna Vista since the revenues from Laguna Vista are the sole source of payment on the Bonds; except, however, the Authority may transfer all its right, title and interest in Laguna Vista to a 501(c)(3) organization and obtains an opinion of bond counsel that such transfer will not adversely affect the tax-exempt status of the Bonds.

To transfer the bonds to another entity the consent by owners of two-thirds of the principal amount of the Bonds outstanding is required. Obtaining bondholder consent may not be possible because of difficulty in identifying the owners of the outstanding Bonds. This could invalidate a transfer of the Bonds under the timing requirement of the landlord's first right of refusal provision in the Ground Lease, which establishes a 120-day deadline for the transfer of the Authority's interest in Laguna Vista should the landlord opt to not accept the terms and price of the sale negotiated with the potential buyer/transferee.

The Ground Lease allows an assignment or transfer of the lease in whole or part without the prior consent of the lessor provided the assignee assumes in writing the obligations of lessee under the lease, and that the new lessee has a comparable financial status to that of the lessee.

As previously stated, the Bonds may be paid in full at any time prior to the maturity date. An early payoff on the Bonds would allow the Authority to sale, transfer and assign its leasehold interest in Laguna Vista, subject only to the lessor's first right of refusal.

At its special meeting on August 24, 2011, a proposed RFP for the sale of the leasehold interest in Laguna Vista was presented to and considered by the Authority. The RFP was drafted to address two types of sales that include the prepayment of the outstanding Bonds: 1) an all cash transaction, and 2) a 501(c)(3) bond funded transaction. The motion to issue the RFP failed in a deadlocked vote.

Prior and subsequent to the August 24, 2011 meeting, staff has been receiving unsolicited offers and letters of interest from parties to purchase the leasehold interest in Laguna Vista.

ANALYSIS

Based on the growing interest to purchase the Ground Lease, an appraisal of the market value of the leasehold was obtained indicating the fair market value with and without rent control. An analysis of the fair market value with vacancy decontrol was not made because of the extreme uncertainty of the factors involved in such a valuation approach and would make this analysis a hypothetical basis of value.

By having the appraiser analyze the value of the leasehold interest with and without rent control should not be construed as a particular stance (pro or con) on the issue of rent control. It merely provided a means of evaluating market trends in the sale and purchase of mobile home parks in the region.

The appraiser's conclusion of value for the leasehold interest for the remaining term of the Ground Lease, which expires August 31, 2052, is greater than the outstanding debt service on the Bonds with rent control and substantially higher without rent control. Staff recommends that the appraised value remain confidential at this time for negotiation purposes.

Should the Authority decide to proceed with the RFP process, staff is prepared to solicit proposals in a relatively short time frame, as minor modifications to the draft presented to the Authority on August 24, 2011, would be required. The proposed RFP will be directed towards qualified persons and entities with expertise in the ownership, management and operation of mobile home parks or large-scale multifamily residential rental properties. The proposals will be reviewed by panel composed of City staff and Laguna Vista HOA representatives. Scoring by the review board will identify the proposer most likely to meet the City's needs and will be presented to the Authority for consideration.

ALTERNATIVES

As stated in the background section above, the City has been contacted and received offers and letters from parties stating their interest in buying the Ground Lease. An alternative to issuing a RFP could be the Authority directing staff to negotiate the sale of the Ground Lease with one of the parties showing an interest in buying Laguna Vista. Copies of letters of interest are attached for reference and are summarized below:

- Beitler Commercial Realty Services: Letter of Interest - Broker
- Al Gausewitz Investment Property Group: Mailer - Broker
- Hometown America Communities: Letter of Interest - For-profit Buyer
- Millennium Housing: Letter of Interest and Offer - Non-profit Buyer
(Bond Financing; Affordable Rents; Resident Participation)
- Peter and Adelia Pozzuoli: Letter of Interest - For-profit Buyer
- Saunders & Amos LLC: Letter of Intent and Offer – For-profit Buyer
(Cash Transaction; Affordable Rents; Resident Participation)
- Thomsen Properties: Letter of Intent and Offer - For-profit Buyer

By accepting the offer in hand from Millennium Housing or Saunders & Amos LLC and negotiating the terms of the sale of the leasehold interest in Laguna Vista would provide stabilized space rents for the remaining term of the Ground Lease. These potential buyers are familiar with the operation of mobile home parks under affordable rent restrictions and have expressed the willingness to lease and operate Laguna Vista under such conditions. Both of them would allow resident participation in park management, capital improvement decisions, and other community interest matters. There are uncertainties whether the other interested parties would provide these opportunities to Laguna Vista residents.

Maintaining affordable rents at Laguna Vista under the purchase, ownership and management of the park by either Millennium or Saunders & Amos, as indicated in the offers, would allow the City to apply credits for the affordable rents towards meeting its mandated goals for low-income housing.

FISCAL IMPACT

If the Authority chooses to issue an RFP, neither the Authority nor the City will pay costs incurred by the proposer in proposal preparation. All such costs shall be borne by the proposer. All submitted materials shall become the property of the City of Oceanside.

Should the Authority opt to sale of its interest held in Laguna Vista with any of the interested parties, the starting price for negotiations purposes would be the fair market value of the leasehold estate as determined by the independent third party MAI appraiser. The appraiser is experienced in the appraisal of mobile home parks in the San Diego County and Southern California area. The cost of the appraisal was paid as a non-operational expense of Laguna Vista.

If a sale of Laguna Vista is financed through bond proceeds, all costs associated with the sale of bonds to fund the purchase of the leasehold estate shall be borne by the buyer. Neither the Authority nor the City shall be called upon or obligated to assist in funding the issuance of the bonds, without exception to the nature of such cost, including, but not limited to, bond counsel, disclosure counsel, financial advisor, and underwriter.

RECOMMENDATION

Staff recommends that the Authority reconsider the sale of its leasehold interest in Laguna Vista Mobile Home Estates and provide staff direction to: 1) issue a request for proposals for the sale of the leasehold interest; or 2) negotiate a sale of the leasehold interest to a specific buyer.

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