AGENDA
IRVINE RANCH WATER DISTRICT
ASSET MANAGEMENT COMMITTEE
MONDAY, AUGUST 22, 2016

CALL TO ORDER 8:00 a.m., Committee Room, Second Floor District Office
15600 Sand Canyon Avenue, Irvine, California

ATTENDANCE Committee Chair: John Withers ____ Committee Member: Peer Swan ____

ALSO PRESENT

Paul Cook	____	Tanja Fournier	____
Rob Jacobson	____	_____	____
Cheryl Clary	____	_____	____
_____	____	_____	____

COMMUNICATIONS

1. Notes: Jacobson
2. Public Comments.
3. Determine the need to discuss and/or take action on item(s) introduced that came to the attention of the District subsequent to the agenda being posted.
4. Determine which items may be approved without discussion.

INFORMATION

5. REAL ESTATE QUARTERLY PERFORMANCE - JUNE 2016 – DAVIS/FOURNIER/JACOBSON/CLARY

   Recommendation: Receive and file.

ACTION

6. UNSOLICITED OFFER - SYCAMORE CANYON APARTMENTS – JACOBSON/CLARY

   Recommendation: That the Committee decline the purchase offer for the Sycamore Canyon Apartments from Tuttle-Nautilus, LLC, and authorize staff to notify Tuttle's broker of this decision.

OTHER BUSINESS

7. Directors' Comments:

8. Adjourn

* *

Availability of agenda materials: Agenda exhibits and other writings that are disclosable public records distributed to all or a majority of the members of the Irvine Ranch Water District Board of Directors in connection with a matter subject to discussion or consideration at an open meeting of the Board of Directors are available for public inspection in the District's office, 15600 Sand Canyon Avenue, Irvine, California ("District Office"). If such writings are distributed to members of the Board less than 72 hours prior to the meeting, they will be available from the District Secretary of the District Office at the same time as they are distributed to Board Members, except that if such writings are distributed one hour prior to, or during, the meeting, they will be available at the entrance of the Committee Room of the District Office. The Irvine Ranch Water District Committee Room is wheelchair accessible. If you require any special disability-related accommodations (e.g., access to an amplified sound system, etc.) please contact the District Secretary at (949) 453-5300 during business hours at least seventy-two (72) hours prior to the scheduled meeting. This agenda can be obtained in alternative format upon written request to the District Secretary at least seventy-two (72) hours prior to the scheduled meeting.

August 22, 2016
Prepared by: Jennifer Davis/Tanja Fournier
Submitted by: Robert Jacobson /Cheryl Clary
Approved by: Paul Cook

ASSET MANAGEMENT COMMITTEE

REAL ESTATE QUARTERLY PERFORMANCE – JUNE 2016

SUMMARY:

Staff will provide the Committee with an update on the financial performance of the District's real estate investments and other revenue generating properties for the quarter and fiscal year ended June 30, 2016. Additionally, staff will provide the Committee with recent appraisal information received for the District's five investment properties. The appraisals were completed to provide market value information required to comply with new accounting standards for fiscal year (FY) 2015-16. New government accounting standards require municipalities to report certain investments including real estate at fair market value beginning with the FY 2015-16 annual financial statements.

BACKGROUND:

For the quarter ended June 30, 2016, the net operating income (NOI) for the District's residential and commercial real estate investments was $2.5 million, which represents a 13.92% return for the period. For the fiscal year, the NOI was $9.7 million for an annual return of 13.32%. The quarterly and fiscal year income for Strawberry Farms Golf Course was $153,035 and $543,439, respectively. The lease revenue from the District's five cellular sites was $41,467 and $240,057 for the quarter and fiscal year, respectively. A report detailing the NOI and returns for the District's real estate investment properties, golf course and cell sites is attached as Exhibit "A".

Residential Investment Properties:

For the quarter ended June 30, 2016, the NOI for the Sycamore Canyon Apartments was $2.0 million, which is favorable to budget by approximately $100,600, primarily due to lower-than-anticipated vacancies and timing of budgeted expenses. For the fiscal year ended June 2016, NOI at the property was $7.6 million, which was favorable to budget by approximately $233,300 due to lower-than-anticipated vacancies, higher lease rates, and income from shared revenue from cable/internet services. The District's limited partnership investment in the Wood Canyon Villa property earned a preferred return of 9.00%, with a net return of 8.60% and 8.56% for the quarter and fiscal year periods ended June 30, 2016, respectively.

Commercial Investment Properties:

The NOI for the quarter ended June 30, 2016 at the Irvine Market Place (230 Commerce) property was $123,921, which was favorable to budget by $2,018, due to a tenant extending its lease expiration date by one month. For the fiscal year ended June 30, 2016, the NOI was $409,804, which was unfavorable to budget by $44,711 primarily due to a vacancy not anticipated in the budget and higher expenses for HVAC and lighting repairs. Staff has completed lease negotiations with Optimum Professional Property Management for suite 250

(11,021 square feet – the former Alteryx suite). The lease has an eight-year lease term and will commence on January 1, 2017. There are two other spaces currently available for lease including suite 100 (5,032 square feet), and suite 110 (2,873 square feet).

The NOI for the Waterworks Way Business Park property for the quarter ended and fiscal year ended June 30, 2016 was $76,852 and $411,440, respectively. These amounts were unfavorable to budget by $33,577 and $37,500, respectively. The variance was primarily due to lease commissions, legal expenses, and rent concessions for an early lease renewal of unit 40 for present tenant Unirise, and its expansion to unit 32, which was not anticipated in the budget. The Waterworks Business Park is 100% leased with the next lease expiring in April 2018.

The NOI for the Sand Canyon Professional Center medical office property was $186,273 for the quarter ended June 30, 2016, which was in line with the budget. For the fiscal year ended June 30, 2016, the NOI at the property was $724,519, which was favorable to budget by $3,123, due to late fees from one tenant. The property is currently 100% occupied.

Strawberry Farms Golf Course and Cell Site Leases:

Land lease income for Strawberry Farms Golf Course for the quarter ended June 30, 2016 was $153,035, which is in line with budget. This compares with income of $136,804 for the same period last year, representing an 11.86% increase for the period. Income for FY 2015-16 was $543,439, which represented a 15.05% increase compared to the prior year. For the quarter and year ended June 30, 2016, lease revenues from the District's five cell sites was $41,467 and $240,057, respectively.

Investment Property Appraisals:

Recently, property appraisals were completed for the District's five investment properties. The appraisals were completed to provide required market value information necessary to comply with new accounting standards for FY 2015-16. New government accounting standards (GASB 72) require municipalities to report certain investments, including real estate, at fair market value beginning with the FY 2015-16 annual financial statements. District real estate investments have previously been reported at the depreciated book value. Staff will discuss the expected impact of the accounting change with the Committee at the meeting. A summary of the appraised values for the District's five investment properties is attached as Exhibit "B".

FISCAL IMPACTS:

For the quarter and fiscal year ended June 30, 2016, the District's commercial and residential real estate investments provided NOI of $2.5 million and $9.7 million, respectively. Strawberry Farms Golf Course land lease revenue was $153,035 for the quarter and $543,439 for the fiscal year end. District cell site revenue was $41,467 for the quarter and $240,057 for the fiscal year end.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental Quality Act (CEQA), Code of Regulations, Title 14, Chapter 3, Section 15378.

RECOMMENDATION:

Receive and file.

LIST OF EXHIBITS:

Exhibit "A" – Real Estate Performance Report
Exhibit "B" – Summary of Appraised Property Values

Exhibit "A"

Irvine Ranch Water District
Real Estate Investment Performance Report
as of June 30, 2016

INCOME PROPERTIES			FY 2015-16					FY 2015-16 RATE OF RETURN					3 Year Average Rate of Return	5 Year Average Rate of Return
Property Description	Capital Investment	Investment Inception	FY Q1	FY Q2	FY Q3	FY Q4	FY 2015-16 TOTAL	FY Q1	FY Q2	FY Q3	FY Q4	Average Fiscal YTD	FY 13/14 - 15/16	FY 11/12 - 15/16
Sycamore Canyon Apartments	$43,550,810	Dec-92	$ 1,847,582	$ 1,811,184	$ 1,942,370	$ 2,008,985	$ 7,610,121	16.97%	16.64%	17.84%	18.45%	17.47%	16.43%	15.15%
Wood Canyon Villa Apartments	$6,000,000	Jun-91	$ 136,110	$ 136,110	$ 134,263	$ 134,262	$ 540,745	8.53%	8.54%	8.58%	8.60%	8.56%	8.53%	8.45%
Irvine Market Place Office	$5,739,845	Jul-03	$ 67,116	$ 107,254	$ 111,513	$ 123,921	$ 409,804	4.68%	7.47%	7.77%	8.64%	7.14%	6.72%	7.38%
Waterworks Way Business Park	$8,630,577	Nov-08	$ 111,114	$ 113,205	$ 110,269	$ 76,852	$ 411,440	5.15%	5.25%	5.11%	3.56%	4.77%	4.54%	4.15%
Sand Canyon Professional Center	$8,648,594	Jul-12	$ 175,651	$ 183,499	$ 179,096	$ 186,273	$ 724,519	8.12%	8.49%	8.28%	8.62%	8.38%	8.05%	
TOTALS	$72,569,826		$ 2,337,573	$2,351,252	$2,477,511	$ 2,530,293	$ 9,696,629	12.84%	12.92%	13.63%	13.92%	13.32%	12.60%	10.87%

Notes/Assumptions:

- Wood Canyon cash flows represent partnership cash distributions from Western National Group.

- The 9.00% Preferred Return for Wood Canyon accrues on the original $6 million investment amount along with any accrued preferred return. The current total monthly accrual is approximately $45,000/month.

- Capital Investment does not include depreciation; Sycamore Canyon 2007-08 renovation costs included in Capital Investment total.

- Irvine Market Place capital investment amount includes land cost of $871,396; Waterworks Business Park capital investment includes land cost of $2,420,213.

Irvine Ranch Water District
Real Estate Investment Performance Report
Strawberry Farms Golf Course & Cell Site Income
as of June 30, 2016

Property Description	2015-16 NET INCOME				
	FY Q1	FY Q2	FY Q3	FY Q4	NET INCOME 2015-2016
Strawberry Farms Golf Course	$ 136,894	$ 132,075	$121,435	$153,035	$543,439
TOTALS	$ 136,894	$ 132,075	$121,435	$153,035	$543,439
Change From Prior Year Period	$ 8,527	$ 12,691	$ 15,732	$ 16,231	$53,181
	6.64%	10.63%	14.88%	11.86%	15.05%

Property Description	2015-16 NET INCOME				
	FY Q1	FY Q2	FY Q3	FY Q4	NET INCOME 2015-2016
Cell Sites	$ 46,264	$ 40,256	$112,070	$41,467	$240,057
TOTALS	$ 46,264	$ 40,256	$112,070	$41,467	$240,057
Change From Prior Year Period	$ (246)	$ (10,862)	$ (6,272)	$ 3,879	$ (13,501)
	-0.53%	-21.25%	-5.30%	1.53%	-6.25%

***February Cell Site NOI includes revenue share.**

Irvine Ranch Water District
Real Estate Investment Performance Report
Cell Site Terms
as of June 30, 2016

Location:	Rattlesnake (Portola) Reservoir 4883 Portola Parkway, Irvine	Central Zone 1 Reservoir 13826 Sand Canyon Avenue, Irvine	Santiago Canyon Head Quarters 7431 Santiago Road, Santiago Canyon
Licensee/Lessee	**712223** Crown Castle (839428) Site# 321620	**712224** Crown Castle (839459) Site# 321757	**712221** AT&T Wireless LA3212
Type:	Master Lease	Master Lease	Lease
Date:	1/14/02	11/22/99, #1 1/14/02	11/22/04
Contract Monthly Rent:	Greater of $1,500 + 3% annual escalation or 40% of gross rents (March)	Greater of $1,500 + 3% annual escalation or 40% of gross rents (July)	3% annual escalation(July)
Current Monthly Rent:	$2,203	$2,203	$2,492
Annually	$69,448	$46,081	$29,899
	10276818 10276843	10276843 10276818	(Faux Tree)
Contract Term & notice	15 yrs+; Termination upon 1 yr notice	15 yrs+; Termination upon 1 yr notice	5 yrs + 4 5 yr extensions

Location:	Lake Forest Zone II West Reservoir 26001 Dimension, Lake Forest		
	712228	**712227**	**712222**
Licensee/Lessee	T- Mobile LA02308A	Sprint PCS 0G03XC113	AT&T R086/FoothillCorridor1
Type:	License	License	License
Date:	12/16/96	9/8/97	9/9/98, #1 9/5/01
Contract Monthly Rent:	$1,500 No escalation	$1,500 No escalation	$1,500 3% annual escalation (October)
Current Monthly Rent:	$1,500	$1,500	$2,337
Annually	$18,000	$18,000 (Antennas on Tank)	$28,043
Contract Term & notice	Termination upon 6 months notice	Termination upon 6 months notice	Termination upon 6 months notice

Location:	Lake Forest Zone II East Reservoir 20696 Regency Lane, Lake Forest
	712230
Licensee/Lessee	Verizon SCAL North Lake Forest
Type:	License
Date:	10/11/95
Contract Monthly Rent:	$1,500 No escalation
Current Monthly Rent:	$1,500
Annually	$18,000
Contract Term & notice	Termination upon 6 months notice

EXHIBIT "B"

ANNUAL REAL ESTATE MARKET VALUE COMPARISON - June 30, 2016

Commercial Real Estate Market Value

	Initial Appraisal[1]	Growth Factor[2]
		102.00%
	6/30/2015	6/30/2016
General Office - 230 Commerce, Irvine	$9,200,000	$9,384,000
Medical Office - 15500 Sand Canyon, Irvine	$10,400,000	$10,608,000
R & D Buildings - 30-48 Waterworks, Irvine	$7,500,000	$7,650,000

Apartment Real Estate Market Value

	Initial Appraisal[1]	Growth Factor[3]
		102.50%
	6/30/2015	6/30/2016
Sycamore Canyon Apartments	$140,400,000	$143,910,000
Wood Canyon Villas	$25,751,000	$27,296,298

[1] Initial valuation as of June 30, 2015

[2] Growth based on assumed annual increase of 2.0%

[3] Wood Canyon growth based on fixed increase % per the Limited Partnership Agmt

Portfolio Total @ 6/30/16 $198,848,298

August 22, 2016
Prepared by: Robert Jacobson
Submitted by: Cheryl Clary
Approved by: Paul Cook

ASSET MANAGEMENT COMMITTEE

UNSOLICITED OFFER – SYCAMORE CANYON APARTMENTS

SUMMARY:

Staff has received an unsolicited offer to purchase the Sycamore Canyon Apartments property. The offer was submitted by Lincoln Consulting Group, LLC on behalf of Tuttle-Nautilus, LLC (Tuttle) for $127.5 million. Staff recommends that the Committee decline the purchase offer.

BACKGROUND:

Tuttle is a private equity firm located in Michigan, specializing in investment and renovation of multi-family properties for its partners and other investors. Tuttle's letter of intent to purchase the property is attached as Exhibit "A". The offer is more than previous unsolicited offers received by the District, with the highest previous offer being $120 million (February 2007).

Based on Sycamore Canyon's annual net operating income (NOI) of $7.6 million as of June 30, 2016, the offer represents a capitalization rate of approximately 5.96%. Cap rates for similar "Class-A" apartment property transactions recently completed in Orange County have averaged 4.5% to 5.0%. Assuming a recent conservative market appraisal as well as capitalization rates given the property's current NOI, the sale price of the property could range from a low of $143.9 million to as high as $168.9 million with a competitive sale process.

The Sycamore Canyon Apartments property continues to provide excellent cash flow to the District. Sycamore Canyon's NOI of $7.6 million for the fiscal year ended June 30, 2016 represents an annual return on cash of 17.47%. Additionally, the property is the only Class-A apartment property in its immediate competitive market area, has average occupancy rates of approximately 95%, and has experienced annual lease rate increases of more than 3.5% per year since early 2011.

Staff recommends that the offer to purchase be declined and that any eventual sale be conducted through a formal competitive bid process. This recommendation is consistent with the Committee's prior decisions to continue to hold the apartment property as a long-term investment.

FISCAL IMPACTS:

For the fiscal year ended June 30, 2016, the NOI for the Sycamore Canyon property was $7.6 million. The offer from Tuttle represents a cap rate of 5.96%. Cap rates for recent comparable "Class-A" apartment property transactions have averaged 4.5% to 5.0%.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental Quality Act (CEQA), Code of Regulations, Title 14, Chapter 3, Section 15378.

RECOMMENDATION:

That the Committee decline the purchase offer for the Sycamore Canyon Apartments from Tuttle-Nautilus, LLC, and authorize staff to notify Tuttle's broker of this decision.

LIST OF EXHIBITS:

Exhibit "A" – Tuttle-TBG, LLC Letter of Intent

Lincoln Consulting Group, LLC
Apartment Advisors and Investors

July 7, 2016

Sent Via Email to: jacobson@irwd.com

Mr. Robert Jacobson
C/O Ernest M. Reyes
Lincoln Consulting Group LLC

Re: Sycamore Canyon Apartments (450 Units)
8201 Blackwillow Circle
Anaheim, CA 92808

Dear Rob,

I am submitting to you the following Letter of Intent for Tuttle-Nautilus, LLC or assignee, to acquire the above referenced property "free and clear" from your group. This letter is to clarify the purchase price they are prepared to pay and the general terms which will be further delineated in a formal Purchase and Sale Agreement and Escrow Instructions ("PSAEI"). Tuttle-Nautilus, LLC's acquisition is based upon the following:

Purchase Price:	$127,484,743 all cash
Deposit to Escrow:	Buyer to deposit $640,000.00 into escrow, upon execution of formal Purchase Agreement and Escrow Instructions. At the conclusion of Due Diligence, Buyer shall deposit additional $640,000.00 that shall remain in escrow and entire deposit shall then be nonrefundable upon removal of all Buyer's contingencies. All deposits and payment ($1,280,000.00) are applicable to Purchase Price.
Due Diligence:	30 days to review, inspect, and approve or disapprove "Documents to Buyer" (specified herein), the Property, and title matters.

Documents to Buyer (To the extent that these exist and are available from the Seller, or available at site):

1. Current and prior three years Annual & Monthly Operating Statements, Audits and Budgets.
2. Copies of Current Rent Roll and all Tenant Rental Agreements.
3. Copies of any Regulatory Agreements or Contracts impacting the property or its operations.
4. Utility Account Numbers and prior monthly detail for recent twelve months.
5. Current year's and last year's bills for Taxes and Insurance.
6. A detailed list of all recent improvements completed by Seller and their cost along with the warranties still in effect for any of the major items.
7. Copies of all current service and vendor contracts.
8. Copy of Blueprints/original construction plans.
9. Certified pest/termite clearance and report.
10. Phase One Environmental Report, ALTA survey, and MAI appraisal.
11. Property Title Report and all exceptions.
12. Inventory Lists (office, maintenance, and grounds).
13. Staffing Information: names, dates, compensation, length of service and employment agreements.
14. Other necessary items to be delineated during drafting of PSAEI.

1400 Quail Street, Suite 240 • Newport Beach, California 92660
Tel: 949-863-1388 Fax: 949-955-1388
ww

Closing Costs:	All transfer taxes, title, escrow and other costs and fees shall be paid as is customary in the county in which the Property is located.
Escrow and Closing:	Opening to occur within three (3) business days of execution of formal PSAEI, with closing to occur on or before Thirty (30) days after satisfaction of all of Buyer's contingencies. Title and Escrow Insurance to be provided by First American Title Company (Ted Bigornia). Proration at close for any reserves, rents, security deposits, any prepaid contracts or onetime incentive fees for laundry service, telephone, utilities, cable/satellite services, etc. received by Sellers, during their ownership.
Extensions to Escrow:	Seller shall grant Buyer one (1) Thirty (30) day extension to the close of escrow, for which Buyer shall deposit an additional $100,000.00 in escrow for a total of $1,380,000.00. Said funds will apply to the Purchase Price, and shall be nonrefundable at time of deposit.
Representations/Warranties:	Buyer is buying property "As is, where is", however, Seller represents and warrants that they will disclose all of their knowledge and findings of the property and its operations to Buyer. Buyer will spend money on third party inspections based upon Seller's representations and disclosures.
Consulting Fee:	Seller to pay Lincoln Consulting Group, LLC a consulting fee of one percent (1.00%) of the Purchase Price due in cash at close of escrow. Fee to be paid out of Seller's proceeds directly from escrow.

This is a Letter of Intent only and it shall not form a binding agreement even if the terms of this letter are acceptable to both Buyer and Seller. Rather, it is intended as merely an expression of the general terms upon which Buyer and Seller will consider entering into a binding contract, which will only come into effect upon the mutual execution of the Real Estate Sales Contract. In the event that such a formal agreement is not signed within 10 days of mutual execution of this Letter of Intent, then there is and will be no binding agreement between the Buyer and Seller. Kindly sign and return this letter to James R. Reed on or before expiration time via facsimile 949-955-1388 with an original via U.S. Mail.

Time is of the essence. This letter shall be valid until Friday, August 5, 2016 at 5:00 p.m. PST.

Sincerely,
Lincoln Consulting Group, LLC

James R. Reed
Director

Agreed (Buyer):
Tuttle-Nautilus, LLC

Timothy Tuttle Date
Managing Member

Agreed (Seller):
Bardeen Partners, Inc.

Robert Jacobson Date