

COMMITTEE ON REAL ESTATE

June 17, 2019

A meeting of the Committee on Real Estate was held this date beginning at 3:03 p.m. at City Hall, 80 Broad Street, First Floor Conference Room.

Notice of this meeting was sent to all local news media.

PRESENT

Chairman Moody, Councilmember White, Councilwoman Jackson, Councilmember Waring, and Mayor Tecklenburg **Also Present:** Geona Shaw Johnson, Matt Frohlich, Matt Fountain, Amy Wharton, Stirling Halversen, Chip McQueeney, Christopher Morgan, Ernest Andrade, and Bethany Whitaker, Council Secretary

The meeting was opened with an invocation provided by Councilwoman Jackson.

Approval of Minutes

On the motion of Councilmember White, seconded by Councilwoman Jackson, the Board voted unanimously to approve the minutes of the May 28, 2019 Real Estate Meeting.

Approval to authorize the Mayor to execute, on behalf of the City, a Transfer Agreement conveying 105 Hanover Street to Charleston County Human Services Commission d/b/a Palmetto Community Action Partners for \$68,090.95 for the development of affordable rental housing subject to the City's HOME Investment Partnership Program Guidelines. (105 Hanover Street; TMS: 459-05-01-077) [Ordinance]

On the motion of Councilmember White, seconded by Councilwoman Jackson, the Committee voted unanimously to defer the above item.

Approval of a Management Agreement in the amount of \$225,000 between the City of Charleston and Charleston Digital Corridor Foundation, at property designated as 22 West Edge to manage and operate City's leased 8,000 sq. ft. office space for development of tech business, research investments, and jobs in the City. The property is owned by 22 West Edge Owner, LLC.

Mr. Frohlich stated that in May of 2018, City Council had approve a Governmental Real Estate Lease with 22 West Edge for 8,000 square feet on the fourth floor. The base rent was \$288,000 and escalated at 2.5% per year. When that was initially approved, there wasn't a definitive plan on what to do with the space, but there were conversations about an incubator accelerator. When the Real Estate Director left, she recommended for them to potentially engage Ernest Andrade and the CDC, because of their experience in working with companies that met the vision of what they wanted to do at 22 West Edge such as tech, bio-tech, and life sciences. He had sat down with Mr. Andrade and over a course of meetings, they came to the conclusion that it might make the most sense if they could actually find a way for them to operate the space. Mr. Andrade worked with them on that and in their packet, they had a few documents outlining the agreement. The first was a preliminary layout of the space. The second was an architectural rendering. The third was the proposed rents for the space. The fourth page was the rents that were currently being paid at the Bridge. The fifth page was a general summary of a few

options they had. The first was to engage the CDC. The second was turning the space into City offices, and the third was doing nothing and taking no action. They found that engaging the CDC, making an assumption of 100% rental collection, the cost was \$337,000 over the two years. Compared to that, turning it into City offices, they would collect no rent, and it didn't meet the vision of 22 West Edge. The number went up significantly. There was the option of doing nothing and not up-fitting, and they would still pay rent, and it was still more expensive. So, in his opinion, taking no action wasn't a feasible action either. The next page was the proposed budget. Those were the numbers that made up the actual management agreement. There were some initial soft costs that would have to be spent to get the space ready to use. For furnishings, there was a \$75,000 allotment in the management agreement that Mr. Andrade would get reimbursed from the City. The furniture would belong to the City at the end. Lastly, was the actual management agreement which was \$100,000 per year. Mr. Andrade would have to hire someone to operate that space. He couldn't manage the Bridge and 22 West Edge at the same time. He had mentioned the \$320,000 allotment at \$40 per square foot. The current City lease had a termination provision at 70%. So, when the lease numbers got to 70%, the City had the right to exercise an option to terminate early. With that early termination, there was a termination fee that was based on the up-fit allowance. It dropped down to 1/5th per year and there was a 5% interest on top of that.

Councilmember Waring asked if there was a charge for the upfit and who was designing the space. Mr. Frohlich said that would be for the City to engage how it would be laid out and designed. Councilmember Waring asked if they were paying someone to do that. Mr. Frohlich said they would be and it was part of the \$50,000 allotment. Mr. Frohlich said that the building was at 51% leased today. Primarily, the leases were MUSC, the City, and SCRA. Those were the three parties that originally agreed to help enter into leases to get the building out of the ground. The Harbour Club was the one big addition. Councilmember Waring asked if the City would still have an out if they hit the 70% before it was finished. Mr. Frohlich said they could. That would be up to the City and they would have to have that conversation with Mr. Andrade. The landlord was trying to start finalizing plans and wanted to move towards a permitting phase. They planned on having the building open in November or December of this year. Councilmember White asked if the 70% occupancy included the City's portion. Mr. Frohlich said it did. They would need about another floor taken up to get to the 70%.

Chairman Moody asked what the City would do with the furnishings at the end. It looked like perfect furniture for 999 Morrison. Mr. Frohlich said that his understanding was that Mr. Andrade had a backlog of companies that were interested in space. So, the need was out there and they believed if the space was up-fitted and available, they would get people in there. The area would be laid out in a way that would be beneficial to who would be doing business there. Mr. Andrade would secure the furniture and seek reimbursement from the City. After two years, or 70%, if the City decided to get out of the lease, it would be up to the City as to what they chose to do with the furniture. It could remain the City's, or they could engage in a conversation with Mr. Andrade at that point if he expressed interest in it. A lot of that would depend on what they chose to do with the space after two years if the City was still in there. Chairman Moody said that the furniture looked like it was designed for that space and that it was a lot like a flagship, which were stark, but functional.

Mr. Andrade said they knew that this was a temporary arrangement, at best. The worst case scenario was that the City would just store the furniture. They would discuss that when the time came. Chairman Moody said he saw one parking spot for staff that would be managing the property.

Councilmember White said that he had been opposed to this from day one. It was nothing against Mr. Frohlich or Mr. Andrade. They had worked hard to get a 'bail-out' that would work. He hated doing nothing, but the option to do nothing could be the best solution. As soon as they did an up-fit on the facility, they immediately engaged in a termination fee, but without the up-fit, it would eliminate the termination fee. If they could get the rest of the percentage in the next 12 months, and the City did nothing, the worst case scenario was \$288,000 for rent. Subsequently, as soon as the up-fit began, that guaranteed plus or minus five years. They would spend a lot of money, and if they did that for five years, it would be pushing almost \$2 million over five years. Mr. Frohlich said that was assuming that Mr. Andrade would engage for the full five years, which he found doubtful with the CTC coming. Councilmember White said then they would have empty space. The City was not in the business of really managing and renting space. Mr. Andrade may be able to pull off a fairly quick 100% occupancy with the backlog, but when they exited to the new building, the likelihood that the City could do that was low. They would probably have to hire and pay someone to get that leased up. He didn't think he had wavered on that issue since the day it happened. He respected that they were trying to come up with the best solution, but he wouldn't vote in favor of moving forward with this. He would much rather leave the space empty, and try to walk away cutting the losses under \$300,000.

Mr. Frohlich said they were tied into the five year lease, but if they didn't elect to up-fit the space and use the allotment, all they were doing was paying rent on an empty space. So, if they terminated early, they had nothing to pay back as a termination fee. The City was part of the 59% right now. So, they had to get another 11%. Councilmember Waring asked what percentage the City's part was. Councilmember White said it was probably about 9%. Mr. Andrade said the total space of the whole building was 154,000 square feet. Chairman Moody said they were looking at the agreement like they needed to do it that day. Councilmember Waring said they didn't need to up-fit it right then. They could move forward with the lease and make that decision later. Chairman Moody asked if they could put it off a little bit. Mr. Andrade said that the developer put in a schedule to the City. They had 40% of their companies at their space who had expanded and needed more space. Chairman Moody said they were talking about dollars and cents, but there was a loss of opportunity that they might be missing, that wasn't being calculated. If they looked strictly at dollars, it would make sense to leave it like it was. His point was whether they needed to do it that day to move forward or if they could wait and if there would be any advantage to waiting. Mr. Andrade said there was a 60 day approval process. So, they wanted to be ready on the day they started paying rent. It was about more than cost though. It was about economic development.

Mayor Tecklenburg said that when they looked at all aspects of it, it would be a positive thing to do for a number of reasons. One was from the economic development point of view. There was an article that ran about a study done on the economy and it said that Charleston's economy was pumping. But, the one thing that was a concern was the need for further investment in technology and life sciences. That was just what they were doing with this. It went with the overall concept of West Edge from the very

beginning that the City had been committed to. If they looked at what their partners were doing, MUSC committed to over 40,000 square feet of space in the building. The SCRA committed to 16,000 and they had already attracted a tenant to take all of their space. In addition, he supported the Digital Corridor, which Councilmember White had championed after his visit to Florida. This came at perfect timing for supporting Mr. Andrade and his efforts because of what happened with the loss of Flagship 1 and 2. They were in the Bridge, which was a temporary space. He visited that space the last week and many of the businesses they spoke to said they were hiring more employees and they needed more space. So, if they were serious about the economic development aspect, now was the perfect time to continue to support his effort and support the City's partners at West Edge. It was his best solution in terms of absolute dollars. He asked how many feet they would have at Flagship 3 with subsidized rental costs. Mr. Andrade said it was about 16,000 square feet. Mayor Tecklenburg said they had 14,000 at the Bridge right now. This was only 8,000 square feet, and so he believed they would need to keep that space and he was hoping they would want to keep that space to continue to encourage technology and life science businesses in their City. He would fully support this and asked them to support it as well.

Councilwoman Jackson said that she knew the answer that they weren't appropriating anything beyond the one year agreement of management fee for \$100,000 and the two one-time costs of design work and furnishings. So, this time next year they would be looking at \$100,000 and asked if they had an escalator for the management fee. Mr. Frohlich said no. Councilwoman Jackson said that would be the sum total for the additional costs beyond the lease they were already committed to.

Councilmember White asked how long they thought it would take to get to 100% occupancy if they took the space. Mr. Andrade said it depended. On a net basis, they only had 6,700 square feet to work with. There was a corridor, and hallways. One company wanted 5,000 and he said they couldn't do that. So, the idea was to support multiple companies. Looking at history, they were fully tenanted at Flagship 1 in three months. At Flagship 2, they were 100% tenanted at dedication. He would say that within three-four months, they should be fully tenanted at West Edge. They had knowledge now that they didn't used to have.

Councilmember Waring stated that the City did step up and help MUSC. When SCRA decided to step out of the three-way agreement, the City was the one that stepped up. He asked if anyone had thought about putting a presentation room in the space. Mr. Andrade said that the developer of the building had said that if they shared a lobby, they would give a big conference room. He had asked himself how much they would use a conference room. Their audience was completely different. Councilmember Waring said that economic development went beyond technology and the City didn't have a presentation room. It seemed like an opportunity. Mayor Tecklenburg stated that he had met with MUSC, Mr. Andrade, the Charleston Regional Development Alliance, SCRA, South Carolina Bios, and some others. Other people in the building were planning to have a presentation room. Everyone was anticipating having a conference area to showcase the building. Councilmember Waring asked if there was an agreement to use that. Mayor Tecklenburg said there wasn't a formal agreement, but it was presented as a very cooperative deal. He thought they would get to the 70% lease within a year. Part of the mission of supporting economic development was to move forward and do this.

On the motion of Councilwoman Jackson, seconded by Mayor Tecklenburg, the Committee voted to approve the above item. The vote was not unanimous. Councilmember White voted nay.

Request approval of the Third Amendment to Commercial Lease Agreement to extend the lease term for the James Island CPD substation for an additional five-year period with a two year option. The property is owned by Ann. H. O'Brien as Trustee of Trust B u/w Paul H. O'Brien (102 Wappoo Creek Drive, Unit B-5)

On the motion of Councilwoman Jackson, seconded by Councilmember Waring, the Committee voted unanimously to approve the above item.

Request approval of a Facility Use Agreement whereby the City allows the Charleston Area Regional Transit Authority (CARTA) to utilize 43 Sumar Street for the purpose of conducting bus driver training and testing. (TMS: 352-08-00-006; 43 Sumar Street)

Mr. Frohlich stated that this was an agreement with CARTA for use of the site. They approached the City requesting use of it. It was a result of the North Charleston parking lot going under a renovation for a significant amount of time. It would be in 90 day increments with four extensions allowed. They would use it every other week, Monday-Thursday, 6 a.m.- 9 p.m. They had said that they could be off the site with a 30-minute notice.

Councilmember Waring asked whose idea this was and Mr. Frohlich said that CARTA had approached the City. Councilmember Waring said that this was the gateway to West Ashley, the birthplace of South Carolina. They paid a premium for that property and he thought it appraised at \$2.7 million. The City had owned it for a number of years and the first time they would use it, they would use it as a bus-driver training site. CARTA had been around for at least 15 years. He asked where they had trained them before. Mr. Frohlich said they had been training in North Charleston. He thought this ranked up there as bad as parking cars on fairways. He thought this was the wrong message to send for revitalization in West Ashley. He had googled Sumar Street and it came up as the indicator for Charlestowne Landing, Birthplace of South Carolina. There had been a rumor going around about it being a park and ride lot. That wasn't on the agenda, but this could be prelude to that. He thought that would be a terrible use for that space, as it didn't send a positive message for West Ashley Revitalization. They needed to go somewhere else to learn how to train.

Councilwoman Jackson said she wanted to know the rest of the story. She knew they were studying that whole area to create something wonderful. They were talking about the ways to reroute traffic at the 'suicide merge'. She thought everyone thought of that location as a coming attraction and something they would all be behind. She asked if anyone had asked Councilmember Shahid what he thought and what his constituents were saying. Her take on it was that it was temporary. It was being a supportive partner to a relationship that they were trying to grow and make more robust as a public transit answer to the needs that everyone needed. She would like to be a friend to CARTA. If it would turn out to be a permanent use, that would be terrible. But, it seemed like they were in growing pains where nothing had evolved yet to its final destination. So, why shouldn't they make use of building the relationships they would need to rely on in the coming years. Councilmember Waring asked if there was a place on James Island where they could practice. Councilwoman Jackson said that Walmart was already used as a

park and ride lot. She couldn't think of a space off the top of her head. Chairman Moody said it would have to be public property. He was thinking about the space where the fire tower was in the Neck area. He thought there was some land around that. He didn't think it was a good idea to practice in that area of West Ashley.

Councilmember White said he agreed with Councilmember Waring. The message it would send to the West Ashley community was terrible. He would not be supportive about it. He had heard the same thing about the park and ride. Everyone in that community was waiting to see what would happen in that lot, and he didn't think they wanted to send the message that the first thing they could come up with was a bus-driver training facility. Mayor Tecklenburg said he agreed. This came to the City from CARTA. It wasn't proposed by the City. He would be happy to help them find another place. They hoped they were close to a selection by the County as to what they would do with the roads. They had been telling people that they were waiting on that, so that they knew how much real estate they had to develop. Both of the alternatives at this point had the same ingress-egress out of the property. There was half of the property that was set and DOT was recommending the driveways to be the same regardless. The only thing that would change was how much of the property they could stretch out towards the merge area. They had a lot of public input about a year ago, but never really had a public review, so it was time to bring that back out. He would vote against this.

Councilmember White asked why the Mayor hadn't killed this right away if he thought it was a bad idea. Legal staff had gone through the exercise of drafting this up and spend time working on it. CARTA had probably done the same thing. When there were things like this, and it was a 'no-fly' zone, he thought it was in the Mayor's purview to say that they didn't like it and they wouldn't support it. Mayor Tecklenburg said that in the spirit of cooperating with their partner, it moved along the process. It hadn't come to him until about the time it was on the agenda because people may not have considered it that big of a deal.

On the motion of Mayor Tecklenburg, seconded by Councilwoman Jackson, the Committee voted to consider approval of the above item. The motion failed. All Councilmembers and Mayor Tecklenburg voted nay. The item was not approved.

Request authorization for the Mayor to execute a memorandum of agreement ("MOA") between the City and Leucadia Coast Properties LLC ("LCP") and all necessary documents associated with the relocation of an existing 48" corrugated metal pipe ("CMP") draining the 30-acre Queen Street basin, currently located along the boundary of the City's property known as Riley Waterfront Park (Charleston County TMS No. 458-09-04-051) (the "City Property") and the LCP's adjacent property (Charleston County TMS No. 459-00-00-276) (the "LCP Property"); the abandonment of the existing drainage easement on the LCP property; and the construction of a new system consisting of two (2) 48" Pipes and check valves with outfalls into the Cooper River within a new easement area located on the City Property, with the City to reimburse LCP for a portion of the improvement expenses.

On the motion of Councilwoman Jackson, seconded by Councilmember Waring, the Committee voted unanimously to defer the above item.

Discussion and request approval of acquisition of Washington Park HOA Property (Forest Acres Phase II)

Ms. Herdina stated that they had talked about this at the last meeting in Executive Session. They had reached an agreement with the HOA to resolve this for \$45,000, which was within the authority that the Committee had given them. So, now they were asking for formal approval of that number.

Councilmember Waring asked if they could go into Executive Session, as he wanted to discuss some additional information pertaining to this.

On the motion of Councilmember Waring, seconded by Mayor Tecklenburg, the Committee voted unanimously to go into Executive Session at 3: 51 p.m.

On the motion of Councilmember Waring, seconded by Councilmember White, the Committee voted unanimously to come out of Executive Session at 4:06 p.m.

Chairman Moody stated that they were in Executive Session regarding a legal matter and no action had been taken.

Councilwoman Jackson said they already had the permission granted to the Legal Department that was sufficient. Chairman Moody said that they had up to a number and were requesting that staff would bring back a contract within that number that was approved previously.

Consider the following annexations:

- *1732 Elm Road (TMS #: 355-11-00-120) 0.49 acre, West Ashley (District 10). The property is owned by Carol L. Jackson-Powell.*
- *1617 Jessamine Road (TMS #: 351-12-00-081) 0.14 acre, West Ashley (District 9). The property is owned by Albert Peter Shahid, III & Sarah Assemany Shahid.*

Councilwoman Jackson asked why they asked for race on these applications. Mr. Morgan said it was information that went to the Justice Department, as they formed reports on the annexations.

On the motion of Councilmember Waring, seconded by Councilmember White, the Committee voted unanimously to approve the above two annexations.

Having no further business, the Committee adjourned at 4:09 p.m.

Bethany Whitaker
Council Secretary