

Memorandum



DATE June 10, 2011

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen, Chair; Ann Margolin, Vice-Chair; Vonciel Jones Hill; Angela Hunt; Delia D. Jasso; Ron Natinsky, David A. Neumann

SUBJECT Surplus Property Auction

Attached is the briefing entitled, "Surplus Property Auction" that will be presented to you on June 13, 2011.

 If you have questions or need additional information, please let me know.

A.C. Gonzalez
Assistant City Manager

Attachment

c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge Municipal Court
Ryan S. Evans, First Assistant City Manager
Forest Turner, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Helena Stevens-Thompson, Assistant to the City Manager

SURPLUS PROPERTY AUCTION

Budget, Finance and Audit Committee
June 13, 2011





PURPOSE

- To propose a new method of selling the city's surplus properties
- To propose a list of potential surplus properties for sale

AUCTION

- Advantages of auction
 - Expertise of a professional auctioneering firm
 - Targeted marketing efforts to expand interest and boost sales
 - Potential cost reductions
 - Eliminate security and maintenance costs of surplus properties as sold
 - Staff administrative, processing and operational expenses reduced as surplus inventory is reduced
 - Revenue generation
 - Actual sales proceeds
 - Return of properties to the tax rolls
 - High Bids on auction day should be a better indicator of Fair Market Value



BACKGROUND

- City has many properties declared surplus by City Council
- Texas Local Government Code provides for the sale of real property by public auction or sealed bid by municipalities

BACKGROUND continued

- Current process – City conducts sealed bid sales
 - Advertisement in The Dallas Morning News (2)
 - “For Sale” signs placed on properties
 - Posted on City’s website
 - Notification sent to brokers and real estate agents in the area and to residents within 300 feet

BACKGROUND continued

- Success rate of sealed bid process has been low in recent years
- If property does not sell initially for appraised value, City Council has authorized advertisement for sale at reduced price
- Experienced buyers wait for reduced price

PROPOSED AUCTION

- Staff looked for creative ideas to boost sales and increase revenues
- Houston has had positive experience with private auction companies
- Local Government Code Section 253.008 and 272.01 requirements:
 - Specific advertisement requirements in newspaper before the auction date
 - Include description of the property, the address and the date, time and location of the auction

REQUEST FOR PROPOSAL

- RFP for Professional Real Estate Auction Services issued:
 - Advertised January 13 and 20, 2011
 - Posted on City's website January 14
 - As part of the vendor notification process, 1,050 electronic notices were sent by the City's web-based procurement system
 - Pre-Bid meeting held January 27
 - The solicitation was extended 1 week to allow for greater participation
 - Two bids received February 16
 - Post-bid presentations by bidders March 11

REQUEST FOR PROPOSAL

- A four member committee from the following departments reviewed and evaluated the proposals:
 - Housing/Community Services (1)
 - Sustainable Development and Construction (1)
 - Economic Development (1)
 - Business Development and Procurement Services(1)
- Evaluations resulted in the following scores:
 - Hudson & Marshall, LLC 95.7%
 - Williams & Williams
Marketing Services, Inc. 93.4%
- Contract for a three-year period

RECOMMENDED VENDOR

- Evaluation Committee and Buyer recommended selection of Hudson & Marshall (H&M)
 - Extensive experience selling for government agencies
 - City of Houston
 - Government Land Office of Texas
 - FDIC, Freddie Mac, Fannie Mae
 - Very familiar with Dallas, auctioned here since 1986

H&M PROPOSAL

- Single ballroom auction event
- Extensive targeted marketing
 - Aerial photographs taken and due diligence performed and posted on H&M website; marketing brochures prepared
 - Auction sign on each property
 - Ads in local and regional newspapers, on commercial and residential real estate websites, targeted billboards
 - Online/Internet advertising and targeted email and mailing campaigns

H&M PROPOSAL continued

- Open house for improved properties
- Call center available 24/7 to answer questions
- Day of Auction
 - Conducted by auctioneer, bid assistants
 - High Bid deposits taken
 - Purchase and Sales Agreements drafted
 - Affidavits signed by bidders, verified by staff

H&M PROPOSAL continued

- Post-auction
 - Unsold properties will be marketed for online sale by auction firm
 - Unsold properties will be also be placed into another auction
 - H&M will continue to aggressively market these properties
- Staff will verify that only eligible persons may be awarded the properties
 - No back taxes or liens owed
 - No code violations
 - No claims against the City or by the City against them

H&M PROPOSAL continued

- Winning bidders must close on the property within a specified timeframe (generally 45 days)

H&M PROPOSAL continued

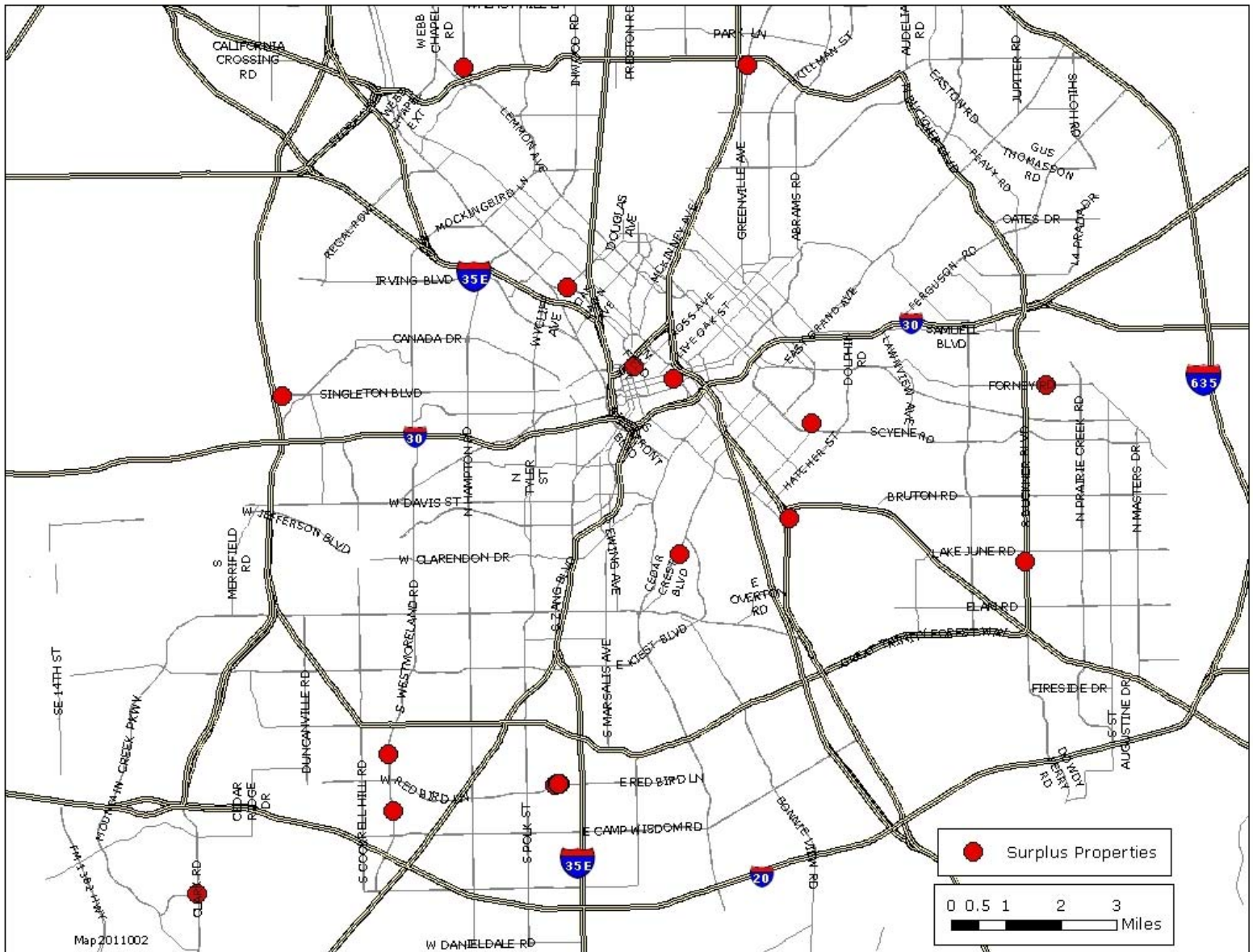
- No out-of-pocket cost consideration to the City
- H&M will charge a buyer's premium based on value of winning bids
 - 8% for \$300,000 or less
 - 7% between \$301,000 and \$600,000
 - 5% for greater than \$600,000
- Buyer's premium will reduce amount of revenue City receives for sold properties

H&M PROPOSAL continued

- H&M will absorb all marketing and expenses associated with the auction
 - Marketing expenses ~ \$109K +/-
 - Commissions paid to Buyer's Agents
- If City pulls a property from the auction after list provided to H&M, City is responsible for reimbursing H&M for any marketing costs that were expended on that property
- Reimbursement not to exceed \$1,200 will be paid from revenues received on other auctioned properties
- City will ensure statutory ads properly placed

SURPLUS PROPERTIES

- 22 properties currently available for auction
 - 3 improved with buildings
 - 3 downtown parking lots
 - 16 unimproved
- 6 properties previously advertised for sale between 1 and 9 times (average 4)
- 16 properties not advertised for sale previously



NOTE: Some locations so close together, dots overlap; 22 properties represented



IMPROVED PROPERTIES

- 5221 S. Westmoreland (shell-only building acquired for district offices)
- 3636 Almazan at Marsh (old library)
- 1125 Buckner (old library)



DOWNTOWN PARKING LOTS

- 1206 and 1210 Corbin
 - Month-to-month lease
 - \$84,500 annual revenue
- 2100 Commerce



UNIMPROVED PROPERTY

- 8414 Forney Road (old animal shelter)
- 6701 Westmoreland
- 2317 Lowery
- 3709 Spring
- 7001 Wheatland
- 6501 Greenville
- 2911 Mike
- 2127 and 2203 Wycliff
- 1229 Dalview
- 7 SF lots in the 500 block of W. Laureland

TOTAL ASSESSED VALUE

○ \$1.1M	Improved Properties
○ \$1.3M	Downtown Parking Lots
○ <u>\$1.3M</u>	<u>Unimproved Properties</u>
○ \$3.7M	TOTAL

- DCAD value only; some properties may sell for less, others more
- City of Houston realized an average return of 85% of value for properties sold at auction by H&M in 2009

COST BENEFIT

- Assuming an 85% average return on value, potential revenue would be approx. \$3.2M
- Annual maintenance savings:
 - Secured boarding: \$11,000
 - Mowing/Cleaning: \$10,700
- Processing and marketing savings:
 - Staff salaries: \$40,900
 - Annual marketing: \$5,700
- Total annual savings: \$68,300

SALES AUTHORIZATION

- City Council previously authorized surplus properties for sale by sealed bid two ways:
 - With No Minimum Bid specified
 - With Minimum Bid specified
 - Determined by independent appraisal, or
 - Lower minimum bid if not sold
- Council action required to authorize sale by auction
- If minimum bid received, Purchase and Sales Agreement will be prepared

SALES AUTHORIZATION cont.

- If minimum bid not received, staff would reject bid
- Local Government Code Section 272.001(b) states:
 - The appraisal or public auction price is conclusive of the fair market value of the land or interest, regardless of any contrary provision of a home-rule charter.
- Question: What reserves (minimum bids) should be provided to auctioneer for select properties? (Executive Session)

RECOMMENDATIONS

- Two separate Council actions:
 - Authorize 3-year contract with H&M
 - Authorize sale of surplus properties by auction and authorize use of Purchase and Sales Agreements for high bidders that meet minimum bids



APPROXIMATE SCHEDULE

- June 13 – Brief BFA Committee
- June 22 – Authorization of contract
- June 22 – Authorization by separate resolution of properties for sale by auction
- June 24 – City provides list of available properties to H&M
- August – Auction conducted
- October – Properties close



APPENDIX

List of Properties

COUNCIL
SURPLUS PROPERTY **DISTRICT** **ACREAGE** **ZONING** **EST. VALUE**

IMPROVED PROPERTIES (INCLUDES STRUCTURE)

5221 S. WESTMORELAND	8	1.6829	IM	\$880,340
9495 MARSH LN.(also known as 3636 ALMAZAN)	6	0.6548	NO(A)	\$104,260
1125 BUCKNER (also known as 1124 Gardenview)	5	1.056	PD366	\$129,240

DOWNTOWN PARKING LOTS (month-to-month lease on Corbin lots; annual revenue \$84,566)

1206 CORBIN* (approximately 60 spaces combined)	2	0.2378	CA-1	\$673,340
1210 CORBIN*	2	0.1662	CA-1	\$470,670
2100 COMMERCE (approximately 15 spaces)	14	0.1193	PD 357	\$130,000

UNIMPROVED LAND

8414 FORNEY ROAD	4	4.8689	LI	\$425,190
6701 WESTMORELAND	8	5.145	R-10(A)	\$223,990
2317 LOWERY	7	0.1148	PD R-5(A)	\$4,000
3709 SPRING	7	0.9137	PD MF-2(A)	\$39,800
7001 WHEATLAND	3	1.7657	NS(A)	\$231,000
6501 GREENVILLE	14	0.219	MU-3	\$190,800
2911 MIKE	6	0.1126	R-5(A)	\$19,280
2127 & 2203 WYCLIFF	2	0.3167	TH-3	\$120,000
1229 DALVIEW	4	0.1532	R-7.5(A)	\$6,650
550 W. LAURELAND	5	0.3732	R-7.5(A)	\$12,000
562 W. LAURELAND	5	0.3532	R-7.5(A)	\$12,000
507 W. LAURELAND	5	0.2583	R-7.5(A)	\$12,000
511 W. LAURELAND	5	0.1722	R-7.5(A)	\$12,000
515 W. LAURELAND	5	0.4304	R-7.5(A)	\$12,000
531 W. LAURELAND	5	0.4304	R-7.5(A)	\$12,000
523 W. LAURELAND	5	0.4304	R-7.5(A)	\$12,000

TOTAL ASSESSED VALUE

\$3,732,560