

Committee on Real Estate

February 22, 2022

A meeting of the Committee on Real Estate was held this date beginning at 3:36 p.m. over video conference call.

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

Present: Councilmember Appel, Chair, Councilmember Gregg, Councilmember Shahid, Councilmember Waring (arrived at 3:39 p.m.), and Mayor Tecklenburg. **Also Present:** Leigh Bailey, John Bleecker, Jr., Philip Clapper, Julia Copeland, Melissa Cruthirds, Matthew Frohlich, Rick Jerue, Geona Shaw Johnson, Christopher Morgan, Mallary Scheer, Velvett Simmons, and Amy Wharton.

Chair Appel called the meeting to order.

The meeting was opened with an invocation provided by Councilmember Gregg.

Approval of Minutes

On the motion of Councilmember Shahid, seconded by Councilmember Gregg, the Committee voted unanimously to approve the minutes of the February 7, 2022 meeting.

- a. **An ordinance to authorize the Mayor to execute on behalf of the City a lease between the City of Charleston and Marina Variety Store. The property is owned by the City of Charleston. (9 Lockwood Dr.) (TMS No. 460-14-00-016)**

Ms. Copeland said the initial term would be through March 30, 2027, following which the tenant would then have three 5-year term options upon request. It would term April 30, 2042. It would cost \$5,000/month in rent, which was what they were paying, with a 3% annual increase noted in the lease. The City also had a termination without cause provision in the lease, with a required 120 days' notice.

Councilmember Shahid introduced Former Councilmember John Bleecker.

Chair Appel recognized Mr. Bleecker.

Mr. Bleecker said he had represented the Marina Variety Store, which had been a tenant of the City, since they had built their building at the City Marina. They had been a good tenant and had always paid their rent. He was not aware of any trouble with the store.

On the motion of Councilmember Shahid, seconded by Councilmember Waring, the Committee voted unanimously to approve Item A.

- b. **Request the Mayor to execute the necessary documents for the purchase of 11 Cunnington Avenue, a 0.08 acre property, which includes a recently renovated building of 3,316 total square feet, located in the Neck Area of the City, for \$1,300,000 subject to the conditions outlined in the attached Agreement of Purchase and Sale. (TMS No, 464-14-00-118) (11 Cunnington Avenue, Charleston, SC 29405).**

Ms. Johnson said the property was a directly adjacent to properties the City currently owned at 3, 5, 7, and 9 Cunnington Avenue. The Committee had approved the purchase of a parcel, and the City had closed on it the previous year. That parcel was available to build permanent affordable rental housing. The property in Item B would be used to house the City's Hope Center. It would provide services to the unsheltered persons in the Charleston community, as well as those who were vulnerable and at risk of

becoming unsheltered. The City was currently leasing 529 Meeting Street, where their navigation center was located. They had been there since 2018, and the current owner had been asking more often where and when they would be relocating. They were asking for the acquisition of the site to help fulfill the need of the Hope Center, as they were planning to involve a number of community partners in that effort.

The funding for the acquisition would come from the "Homeless to Hope" funds, or funds that the Mayor's Commission on Homelessness and Affordable Housing was raising. There was a resource committee that worked to provide funds every year, as well. Further, there were ARPA funds that had been approved by Council that would go towards the purchase.

The agreement had a 60-day due diligence period. The City had been looking at the area anyway, due to an earlier property acquisition related to Stormwater, so a great deal of the due diligence had already been done. A phase 1 environmental assessment would need to be done, which they planned to do if the Committee and later Council approved the acquisition.

They had an appraisal that validated the \$1.3 million request.

They had looked for other locations, but were unsuccessful, either because of cost, location, or the need for excessive rehabilitation.

Mayor Tecklenburg said the current lease was only month to month, and, while they had not been given a notice of termination, the owner was exploring the possibility of turning the property into a grocery store, because he also owned the abandoned building next door. That would be a good thing for that area. Additionally, buying an existing building gave the City the ability to move at a moment's notice. Moreover, the major part of the funding would come from donated funds. There was a very firm offer from someone who would be donating \$1 million to the fund. Lastly, from his perspective, the more square feet of the properties they already owned that they could dedicate to affordable housing, the better.

Councilmember Shahid said he had some reservations about the property. It was \$1.3 million. He had looked at the appraisal to dissect it. He said Councilmember Waring had pointed out to him that it jutted against a Greek cemetery. He knew the other properties the City owned would be adjacent to the one under consideration. The others had been demolished. He asked Ms. Johnson if it was necessary to have the building located next to what they were going to construct.

Ms. Johnson said their goal was to build a minimum of 55 units of rental housing, and were hoping to get more. They did not need to have their Hope Center located next to that land, but it would be convenient, as part of providing those services was helping to house those individuals. More importantly, they needed a facility for their Hope Center. They had been using 529 Meeting Street, which the City had invested money in, in the form of maintenance and property taxes, however, the owner did not want to sell the building to them, and they did not want to continue investing in repairs.

Councilmember Shahid asked what the building would be used for, apart from administrative purposes.

Ms. Johnson said the building would house the Hope Center. In their current center, they housed a non-profit, and a number others came in on a weekly basis to provide services to residents that were homeless and at risk of becoming homeless. The building would serve as administrative offices for those purposes. Unsheltered persons would come in to access those services to ideally move to a new level of living and socioeconomic status. They also wanted to add on to the building, so that they had a proper warming center. Thus far, they had depended on their faith partners for such services. The previous year, the City had done a warming center at the Arthur Christopher Center. The new property would allow for a permanent facility, with showers and a kitchen.

Councilmember Waring asked what they had paid for the adjoining property.

Ms. Johnson said they had paid \$1.425 million.

Councilmember Waring asked how large the tract of land was.

Ms. Johnson said it was around 1.2 or 1.3 acres.

Councilmember Waring said one could not find a bigger fan of affordable housing than him, but he thought purchasing the property would have been wasteful spending. He said he looked at the comparable properties, and three out of four of them fronted on either Meeting Street or Morrison Drive. Anyone who visited the site would have seen that it was not in a prime location, from the standpoint of an office building. They would be paying close to \$400/sq. ft. for a piece of property that had been renovated for someone else's needs. The property had sold on June 25th of 2019 for \$650,000. They were essentially saying that the property had grown 100% in value in less than 3 years, without being on a main thoroughfare and was not in a prime location. 3000 sq. ft. surrounded by graveyards did not appreciate 100% in less than 3 years.

They had not yet designed the new building. One of the reasons he had voted for the site that they did buy was because it was great value for the price they paid. They had bought 4 houses, which they did tear down, with somewhere between 5,000 and 6,000 sq. ft., and it went from one end of the block to the other. The property being examined was not the same.

One of the comparables they had used was "1115 of 2019." They had purchased the property right next door for \$1.45 million, and that comparable had not been included. They had closed on that deal the previous December. The sale was less than 90 days old and right next door, but the appraiser did not use it as a comparable. Taking that appraisal into consideration, it would bring down the cost per sq. ft. The property would not appraise for \$1.3 million if the property they already owned had been used as a comparable.

They could take that \$1.3 million and put it towards the design and construction of the new building, instead, accelerating the process of construction. He said neither him nor Mayor Tecklenburg would purchase an office building for almost \$400/sq. ft. in that location that they would then have to renovate for their needs, which would add to the costs. It would push them towards paying \$500 or \$600/sq. ft. for a building that was built in 1925 and recently renovated for another purpose. It was too difficult to get money for affordable housing to not spend frugally on those that needed it most.

He wanted to ask for a deferral, and wanted to know the appraiser's reasoning for not using the comparable he had outlined earlier.

Ms. Johnson said she knew that the property referred to had been appraised for \$1.625 million, and she would not have minded asking the appraiser his reasoning, either.

Councilmember Waring said there was no way the property in Item B was comparable to the ILA building on Morrison Drive. He said he hated to say it, but it seemed to him as though the numbers were manufactured. Their job was to have due diligence, and be stewards over others' money. If they overspent on the site, they would have less money to build on the main site.

If the property was indeed worth \$1.3 million, then it shouldn't have been taken off the tax rolls. That \$1.3 million should have been incorporated into the other property.

Ms. Johnson said the owners had invested about \$1.3 million into the property in 2020, which could have contributed to the appraisal, though she was not an appraiser and would not pretend to be. In light of what it offered and what their need was, it was their interest to purchase the property.

For purposes of clarity, she said that the funding that was being directed to this item could not have been directed to the affordable housing, because the Committee that had been established was raising money specifically for the Hope Center. As they looked at and discussed the building of the rental units, they had been advised that it was probably best to keep those two matters separate, as opposed to housing the Center in the same building as the units.

Councilmember Waring said the owners could have invested \$2 billion into the property, but that did not mean the property was worth \$2 billion.

They had not yet designed the building, so they could design a multi-story building that had the Hope Center in it. They had built the Gaillard Center, which had a world class performing arts center, a building services part, and the Planning and Zoning Department all in one building. It would be difficult to say that they could not put multiple uses into what they planned to build.

Councilmember Shahid asked what would have been accomplished by deferral.

Councilmember Waring said he wanted to see if they could get a better price. The adjoining property was a better price. If they couldn't get a better price, then they couldn't, but he thought they should try.

Mayor Tecklenburg showed a diagram, and said that the building in question was on the corner, and the little building next to it was intended to be an addition. He wanted to point that out because they were not planning on any extensive renovation to the building, as they needed office-type space, and they believed that the building was suitable for that function of the Hope Center. The additional building would be for such things as showers, extra bathroom capacity, laundry, and flexible space in the event that they needed a warming space. Those kinds of uses were different from office use, and so it made sense that they be in separate buildings.

He was hoping that the design of the building would be donated to them. He had made a request to an architectural firm, and they would let the City know if they would do that.

They were proposing to buy the property for the building, not the land. The appraiser had chosen properties that had a building on them rather than just land cost. The building had been fully renovated.

For full disclosure, he had been in the building about 10 years ago, when Mark Smith owned it, and it had been a crematorium at that time. He had used it in his funerary business. All of that had been removed and modern office space was put in. Further renovations were not necessary.

There wasn't enough room for everything they needed, so they would be constructing another building next to it. He had reviewed the appraisal, and said he understood the appraiser stood by it.

The seller had originally asked for a higher price before the appraisal was done, so there already had been some negotiation.

In terms of tax rolls, 529 Meeting Street would be much more valuable, by multiple factors, once it was moved out of and added to the tax rolls, than the property under discussion. He asked Ms. Johnson how long they had on the contingency or inspection period in the contract.

Ms. Johnson said they had 60 days.

Mayor Tecklenburg said there would be time to get a second appraisal, if it were the will of Council.

The property was in an odd location, but that was one of the reasons why they liked it. Generally speaking, a property was more valuable to its neighbor than to someone else. He did not feel they were paying a premium, but they were instead paying its appraised value.

Ms. Johnson said she had spoken with Bridge Commercial, and they would be working with them on looking at site acquisition to confirm that they were not paying excess, and they had indicated that the price they were going to pay was in line with the community, in light of what they were going to use it for.

It was possible that they could include it in the building with the housing, but it was recommended that they did not in order to achieve their goals.

Councilmember Waring said the City already owned the property they were going to build on. They could therefore take the \$1.3 million for offices and immediately start constructing a building for a warming center, showers, and such things. It would ramp up their ability to get to their objective sooner.

Mayor Tecklenburg said that if they bought the building, they could take possession immediately, and things like bathrooms and showers could be temporarily handled by trailers. Catholic Charities was looking to provide such facilities. If they were starting from scratch, they would be 18 months out before they could have the building.

Councilmember Waring asked why they were rushing to spend the \$1.3 million.

Ms. Johnson said there was no rush, but they needed office space for the Hope Center. They were currently in a lease space month-to-month, and the owner had been gracious. But more often, his representative was calling her to find out where they would be locating. The places they had looked at in the past two years were not possible to move into, due to the cost of renovations. The Hope Center needed a place to locate before they were asked to get out, and they did not have such a place. The property in question was attractive because it was next door to property already owned by the City, and because it offered a nice office space.

Councilmember Waring asked if they had a “plan b” beyond the proposed property.

Ms. Johnson said they did not. They had their eyes and ears open, but they wanted to be sensitive to the needs of people, relative to the location to a bus line, being easily accessible, and not too far away from where they could access the services.

Councilmember Gregg asked if they had the details of the transactions for 3, 5, 7, and 9 Cunnington Avenue. He knew they were not included as comparables in the appraisal report, but he asked if they had a rough idea about them. Secondly, he asked after the condition of those properties.

Ms. Johnson said they were dilapidated buildings, one having both lead and asbestos. They were not salvageable due to the cost to renovate. They would easily be in excess of \$200/sq. ft. on residential, so they looked at renovating one as a temporary location, but they were discouraged from doing so. They had paid a little over \$1.4 million, and the value of the site had been about \$1.625 million.

Mayor Tecklenburg said they were almost done tearing them down.

Councilmember Gregg said they had spent \$1.4 million, and it was for land only.

Mayor Tecklenburg said almost another \$80,000 had to be added to the cost for the cost of demolition.

Councilmember Gregg asked how many acres that was.

Mayor Tecklenburg said it was about 1.2 acres.

Ms. Johnson agreed.

Councilmember Shahid said everyone on the Commission was “in tune” with affordable housing, and they were all trying to be conservative with spending the limited resources they had on affordable housing. He asked Ms. Copeland how many days for a due diligence period were in the contract.

Ms. Copeland said they had 60 days.

Councilmember Shahid asked if that gave them enough time to reevaluate and ask for a second appraiser to perhaps renegotiate the price.

Ms. Copeland said they certainly could, and it was an option.

Councilmember Waring asked if they had to sign a contract to be able to do that.

Ms. Copeland said that was correct.

Councilmember Waring asked if they could pull out of the agreement within 60 days for any reason.

Ms. Copeland said she believed that was correct. They could approve it, but they did not have to sign it until after the due diligence period.

Councilmember Waring asked why they would sign off on anything if they felt the price was too high. He asked what the size of the property in question was.

Councilmember Gregg said it was .08 acres. If property was about \$1 million/acre, based on the previous Cunnington Avenue purchases, the land value would be \$80,000, and with 3,100 sq. ft., they would be at \$400/sq. ft. He felt that was close to the deal they already had. If they started from scratch, he believed they would come to a similar conclusion as to the value of the property. Given that the property was there and ready, it was perhaps the best use of the funds.

Chair Appel asked if what he was saying was essentially that what value they did not receive in land size would instead be in the structure.

Councilmember Gregg said that was correct. By the time they built a new structure at \$400/sq. ft., multiplied by the 3,100 sq. ft., it would be very close to what they would pay for the completed structure.

Mayor Tecklenburg said there may have been a delta, but there would not have been a big delta. The appraiser believed it was worth that much, and it was next to their existing property. Adding it all up, it was not a bad deal.

Councilmember Waring said that the reality was that none of them were appraisers. The Mayor had a ton of experience in Real Estate, and so did he. He said the fact that the appraiser did not consider the adjoining property, sold less than 90 days before, was abhorrent.

Mayor Tecklenburg said he would argue those properties were for a different use.

Councilmember Waring said he could not list the amount of houses downtown that used to have lead and asbestos in them, but were beautiful today. They were iconic houses. If the houses had not been “in the shadows of Charleston,” the Historic Charleston Foundation would have said they couldn’t tear those houses down. The speed at which they were able to tear those houses down was surprising to him. He asked if the contract to tear them down had gone through Council, and if they could go back and check. He had not realized they had demolished them. They were iconic.

When the property was bought, it had four houses, which probably came close to having 6,000 sq. ft. In need of repair, of course, but the valuation was more than simply a land valuation.

On the motion of Councilmember Waring, seconded by Councilmember Gregg, the Committee on Real Estate considered deferring Item B on the agenda.

The motion failed. The vote was not unanimous. Councilmember Gregg and Councilmember Waring voted in favor of the motion.

Councilmember Waring said that Mayor Tecklenburg had a conflict of interest. He could not debate the issue.

Mayor Tecklenburg said he did not.

Councilmember Waring said that Mayor Tecklenburg had told him the previous day that he did have a conflict.

Mayor Tecklenburg said he had told him that he did not have a conflict.

Councilmember Waring said that he had told him that he did.

Mayor Tecklenburg said he did not.

Councilmember Shahid said they could debate the item again at the Ways and Means Committee.

On the motion of Councilmember Shahid, seconded by Councilmember Gregg, the Committee voted to approve Item B.

The vote was not unanimous. Councilmember Waring voted nay.

Mayor Tecklenburg said he apologized for any misunderstanding. What he had explained to Councilmember Waring over the phone the previous day was that his son was a tenant in the building, and so he would be inconvenienced by having to move if they sold the property. However, he had no ownership interest in the building, and therefore there was no personal conflict. He did not benefit from the selling of the business. As a matter of fact, he would be inconvenienced.

Councilmember Waring said Mayor Tecklenburg could not determine his own conflict, somebody else needed to do so.

Mayor Tecklenburg said that was not the case.

Councilmember Waring asked if Mayor Tecklenburg alone was the one who determined his own conflicts of interest.

Mayor Tecklenburg said it could be challenged.

c. Please consider the following annexation:

- (i) 1939 Piper Drive (0.25 acre) (TMS# 350-09-00-067), West Ashley, (District 5). The property is owned by Susan J. Vigen.**

On the motion of Councilmember Shahid, seconded by Councilmember Waring, the Committee voted to approve Item C.

Having no further business, the Committee adjourned at 4:23 p.m.

Philip Clapper
Clerk of Council's Office