



## ADDENDUM NO. 2 May 18, 2010

### REQUEST FOR QUALIFICATIONS FOR DOWNTOWN SAN DIEGO OFFICE PROJECT, SB-140 (RFQ No. AMB – 2010-3-4)

#### **(1) SPECIAL PURPOSE ENTITY**

The March 4, 2010 Request for Qualifications (RFQ) is herein amended to reflect the addition of [Exhibit K](#). Exhibit K is a special purpose entity provision for a General or Limited Partnership or Limited Liability Corporation. Proposers will be required to execute Exhibit K as part of the Request for Proposal (RFP) process.

#### **(2) RESPONSE TO SUBMITTED QUESTIONS**

The following is a compilation of all questions submitted to the DGS as provided for in the RFQ dated March 4, 2010 on the above referenced project. The questions were submitted on or before April 27, 2010 as per the RFQ instructions. As questions were not consolidated or rephrased, there may be redundancy in which case the State's response may reference other questions.

Following each question is the DGS response to the submitted question. Unless otherwise defined herein, all defined terms will carry the same definition and meaning as indicated in the RFQ. It is the reader's responsibility to notify the State should any links in this addendum be invalid.

1. It was mentioned that this is the third time for the solicitation. Why were the previous solicitations cancelled?

A: The State had initiated a Capital Outlay project for a replacement office building on the State Property some time ago, but the project ran into both design and budgetary constraints that ultimately led to the project's termination.

2. What is the state currently paying for rent at 1350 Front Street? How does this rent compare to current market office rents in downtown San Diego?

A: \$1.61/sf full service. Existing rents have no relation to market rates or forthcoming RFP criteria.

3. What is the appraised value of the state owned land? If the property has not been valuated, when will this be done and who will do it?

A: An appraisal is not required at this time. Government Code Chapter 513, Statutes 2008, Section 14673.10(5)(c), (Authorizing legislation), states "Any exchange, lease, or sale of properties carried out pursuant to this section shall be for no less than fair market value, as determined by independent appraisal or pursuant to a competitive selection process". RFP respondents will be required to quantify the contributory value of the State property in their proposals.

4. How many stories is the current building?

A: Basement + 7 floors above street grade.

5. How many people are currently occupying the building?

A: Approximately 280

6. How many people will occupy the future office building?

A: Approximately 350

7. Please provide a list of current tenant agencies occupying 1350 Front Street?

A: This [link](#) provides a qualified list of current tenants in the State office building.

8. Is the State Building subject to Anti-Terrorism Force Protection Design Standards and/ or specifically any setback regulations?

A: To our knowledge, the building will not require Anti-Terrorism Force Protection Design Standards or related setback requirements. However, security is a concern to the State. Any security related requirements will be addressed in the RFP.

9. Has a fault study been conducted for this site? If so, please make the study public.

A: The Department of General Services is not aware of any fault studies on the State Property. Proposers will be responsible for their own due diligence.

10. Should it be proposed that the State Parking is in a shared parking structure with State Parking designated and reserved, can the State Parking be used after hours for public parking?

A: It can be.

11. What is the discount rate currently being used by the State?

A: A discount rate used for evaluation purposes only will approximate the State's cost on General Obligation bond debt (currently running between 5.5% and 6%).

12. At the pre-submittal meeting we heard that the State's current cost for office space is approximately \$1.87 per usable square foot, full service. Please confirm that number.

A: See Question No. 2.

13. To what standard will the State be evaluating the financial proposals? (i.e. Net Present Value, Year by Year Value, etc).

A: For the RFP responses received in the second phase of this project, the State will analyze and compare the true net occupancy cost for the office space required by the State. The RFP will outline the means of calculating net occupancy cost as well as the means of comparing the net occupancy costs. Other non-financial considerations will also be among the selection criteria detailed in the RFP.

14. Since we will be proposing a lease transaction in a fully completed office building, what qualifications will we need to submit? There will be no development team involved, just simple modifications to existing office space. Do we still need to address the entire RFQ?

A: The Design Guidelines and Performance Specifications to be provided at the time of RFP may include, but are not limited to, requirements for architectural, seismic, mechanical, electrical, structural, civil, landscape, LEED, etc. Proposers are responsible for responding to the RFQ with a team they deem appropriate for the type of project they intend to propose which will require compliance with all the RFP Design Guidelines and Performance Specifications. Insufficient information for the type of project identified in the Statement of Intended Deal Structure may impact the State's review of the submitted Statement of Qualifications.

15. The RFQ states that the State can enter into a lease - is there a State required lease rate or is that up to the offeror to propose in the deal structure? Is there a required lease term? How quickly can the lease term begin?

A: There is no required lease rate or lease term. The economics of the project will be determined by the Proposer as part of a detailed deal structure to be submitted at RFP. It is the State's intention to occupy the Replacement Office Space as early as completion of the Replacement Space has occurred and the State's administrative process will allow. Details will be included in the RFP.

16. Can the Landlord's lease form be used to document the transaction or does the State require its own lease form?

A: No. The State will provide the lease form.

17. Does the State pay operating expenses overages like a private sector tenant or is the State structure similar to the Federal GSA structure?

A: The State does not pay operating expense overages. However, CPI escalators may be acceptable.

18. How do we determine the level of tenant improvements in the space? Are there finish guidelines available?

A: Tenant improvement build-out criteria will be included in the Design Guidelines and Performance Specifications to be provided at RFP. The State's estimated TI build-out is between \$75 and \$100/psf. Definitions of building core and TIs to be provided at RFP.

19. Is the value of the State property predetermined by the State or is it up to each offeror to determine its own value?

A: The value of the State Property is not pre-determined by the State. Each proposer will be required to establish a contributory value of the State Property at RFP.

20. What is the condition of the current buildings on the State property?

A: Proposers will be responsible for their own due-diligence on the State Property.

21. Is the State property on any known fault lines?

A: See Question No. 9.

22. Does the State property have any hazardous materials or contaminated soil that will need to be remediated?

A: The main office building has hazardous materials. This [link](#) provides the results of a Bulk Sample Analysis Report. Proposers will be responsible for their own due-diligence on the State Property.

23. Does a right of first offer to purchase or right of first refusal to purchase satisfy the State's requirement for an opportunity to secure an equity position?

A: No

24. Do existing office buildings that are being proposed as Replacement Office Space need to be LEED silver certified or does the LEED certification requirement only apply to new construction?

A: LEED Silver Certification NC (New Construction) will be required for new or existing Replacement Office Space. The appropriate LEED designation will be determined once a final project location has been determined. However a new construction and/or major renovation project will be required to meet the USGBC current LEED silver criteria.

25. Will the state consider an existing office building with approximately 40,000 square foot floor plates?

A: No. The RFQ indicates that the Replacement Office Space can have floor plates ranging from approximately 15,000 to 30,000 square feet.

26. Does the State have the ability to pay \$1.87/SF in rent (their current rental rate) for a lease within the Replacement Office Space from a separate source of funds than the potential rent or equity that an investor would be giving them to control or lease the State Property?

A: The State is not requiring any specific lease rate for the Replacement Office Space at this time. The Authorizing Legislation allows the State to enter into a lease for the Replacement Office Space, paid from sources other than the equity value of the State Property. The equity value of the State Property is the only capital that the State can contribute to the deal structure.

27. Can the State pay for parking from a source of funds other than the amount given to the State for the value of the State Property?

A: Monthly parking for State employees will be paid by employees unless otherwise negotiated. Parking for State owned vehicles will be included in the lease agreement. More information as to parking counts and requirements will be provided in the RFP.

28. Could the equity position be a Right of First Refusal or a Right of First Offer?

A: See Question No. 23.

29. Could the equity position be an interest in just the 120K SF of office space, with the parking and other improvements within the building structured on a long-term lease basis?

A: The equity position must cover the total State need (office, common area, parking, and other improvements comprising the Replacement Office Space).

30. Would the State consider extending the deadline to the RFQ given the importance of the answers and how the State's answers to the questions could affect the proposer's response?

A: The deadline for submitting Statements of Qualification (SOQ) has been extended to May 28, 2010. See Addendum No. 1, [RFQ, Downtown San Diego Office Building \(SB-140\)](#).

31. Is Exhibit A (proposer's project manager) to be filed prior to the RFQ submittal?

A: No. Exhibit A will not be required prior to the submittal of the SOQ as initially indicated in the RFQ. A completed Exhibit A will, however, need to be included in the SOQ. See Addendum No. 1, [RFQ, Downtown San Diego Office Building \(SB-140\)](#).

32. Does the State have more detailed information on the RFP timeline?

A: No. Details of the timeline provided in the RFQ are currently under development.

33. What is the amount of the current rent commitment for the State divisions in the building?

A: See Question No. 2.

34. Is the rent inclusive of operating expenses? If yes, how much are they paying for operating expenses?

A: Operating expenses will be included in the Rent that is paid by State. Any items for which the State will be responsible will be specified in the RFP.

35. Are there contracted increases on the rent? What will the rent be for 2011?

A: See Question Nos. 15, 17, 26.

36. Is the rent paid on useable area or rentable square feet? Since the current building is ~175,000 usf and the new requirement is ~120,000 usf, is the original occupancy cost (i.e. 175,000 \* rent rate) available for rent in the new, smaller space?

A: Rent will be paid on Net usable square feet as defined in the RFQ

37. Does the current lease rate exclude taxes? Would the State and the building they occupy be exempt from real estate taxes going forward?

A: The State does not currently pay property taxes on the State Property. It is not known at this time whether the Replacement Office Space will be exempt from property taxes.

38. Does the State or other agencies currently pay parking charges? If yes, how much do they currently pay and are they willing to continue the practice?

A: The lease will provide some parking for State owned vehicles. The exact number as well as the treatment of employee and visitor parking will be specified in the RFP.

39. Is the State willing to enter into a bondable lease and qualify for tax exempt financing?

A: As of the date of this addendum, the State's preference is for this project to be privately financed. More detail will be provided in the RFP. To the extent the bond financing meets the definition contained in Government Code Section 5700, pursuant to Government Code Section 5702, the State Treasurer would serve as agent for sale on the transaction.

40. Is the lease an operating or capital lease? Is there a preferred lease structure?

A: Can be either depending on the type of deal structure proposed. The preferred lease structure is one that maximizes the State's economic position as demonstrated at RFP.

41. What is the requested term of the lease?

A: There is no required term of any proposed lease.

42. Please clarify the historical designation of the buildings currently located on the site.

A: The Department of General Services does not have any documentation regarding cultural resources at or near the site. Proposers will be responsible for completing the necessary environmental due diligence.

43. How does the State expect its equity position to be structured?

A: At this time, there is no expectation or requirement as to how the equity position is to be structured. At RFP, Proposers will be responsible for providing the structure and economics of the required equity position.

44. Would the State consider a purchase option of the improvements leaving a long term ground lease not controlled by the State?

A: No. This does not satisfy the equity position as defined in the RFQ.

45. Would the State consider a right of first refusal to serve as opportunity for equity positions?

A: See Question No. 23.

46. When does the State expect to take delivery of the Replacement Office Space?

A: The State's anticipated delivery of the Replacement Office Space will be more thoroughly described in the RFP and will depend on the type of deal structure ultimately selected (i.e., new construction, renovation). Initial estimates are no earlier than 18 months from executed contracts / agreements to no later than 3 to 4 years.

47. Will the State be attempting to structure their Lease to be an "Operating Lease" (versus "Capital Lease") and will the State be attempting to have their Lease be "off credit"?

A: The equity position requirement will likely result in a Capital Lease structure.

48. If a "mixed use" project is proposed, are there any types of tenants or "neighbors" who the State would want to prohibit?

A: Building naming requirements have not yet been determined. More information will be provided at RFP.

49. Can the State include any other State agencies such as the Attorney General in their office space requirement?

A: Yes.

50. Does the State have any unique "security" requirements (blast proof materials etc.)?

A: See Question No. 8.

51. Will it be acceptable for there to be construction activity immediately surrounding the building in which State's new office space will be located after State's occupancy of its new office space?

A: Yes, to the extent the construction activity does not interrupt the operation of and parking for the Replacement Office Space.

52. Will the building in which the State's new office space is to be located (or any portion of State's office space) need to be built to the "Essential Services" standard?

A: No, there are no occupancy requirements at this time that require Essential Services criteria.

53. Will the State need to have the building named as the "State of California" building or some other name and will the State require building-top or major exterior building signage?

A: Building naming requirements have not yet been determined. More information will be provided at RFP.

54. Can the State accept a lease structure which requires the State to pay separately for metered electricity serving the State's office space?

A: The State's lease structure has not yet been determined. More information will be provided at RFP.