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Public Real Estate Advisor

SCOPE

This report assesses the reuse potential of the property located at 12640 Loma Rica Drive. The property is currently used as the Nevada County's Corporation yard, which the County is vacating next year. The property is approximately 4.13 acres in size and is located along Loma Rica Drive, adjacent to the county airport. The property is part of a larger parcel occupied by the airport, as shown on the next page as "Department of Transportation Area," and covered by the attached Title Report (Attachment 1). The County owns all of the property shown as the Department of Transportation Area except for a triangular notch on the center of the northern boundary, which is owned by the Airport.

This report identifies the regulatory framework within which new uses would be approved, the attributes of the property, the most likely alternative uses for the property, the costs associated with clearing and developing the site, and the approximate value of converting the site to a private industrial use. This report also includes information from the airport regarding how it would use the property if the County chooses to reuse the entire site for the airport.

We have attached a number of the more significant background and support materials for convenience purposes.

REGULATORY FRAMEWORK

1. <u>Key Policy Documents</u>. The County's Loma Rica Drive Industrial Area Plan and the Nevada County Airport Land Use Compatibility Plan incorporate the local, State, and Federal regulatory requirements effecting the reuse of the property for purposes other than aeronautical.

A. Loma Rica Drive Industrial Area Plan ("Area Plan") – The 474-acre area that is subject to the Area Plan is considered one of the most important industrial business regions of the unincorporated areas of the county.

The current zoning designation for the property is for Public use. Therefore, a rezone would be required except for uses "limited to those services or functions typically provided by a public agency," which would include an airport use. In light of the Area Plan and the pervasive M-1 zoning elsewhere in the area, the two alternative scenarios would require the County or new user to seek a change in zoning to make it consistent with the intended use and the rest of the area.

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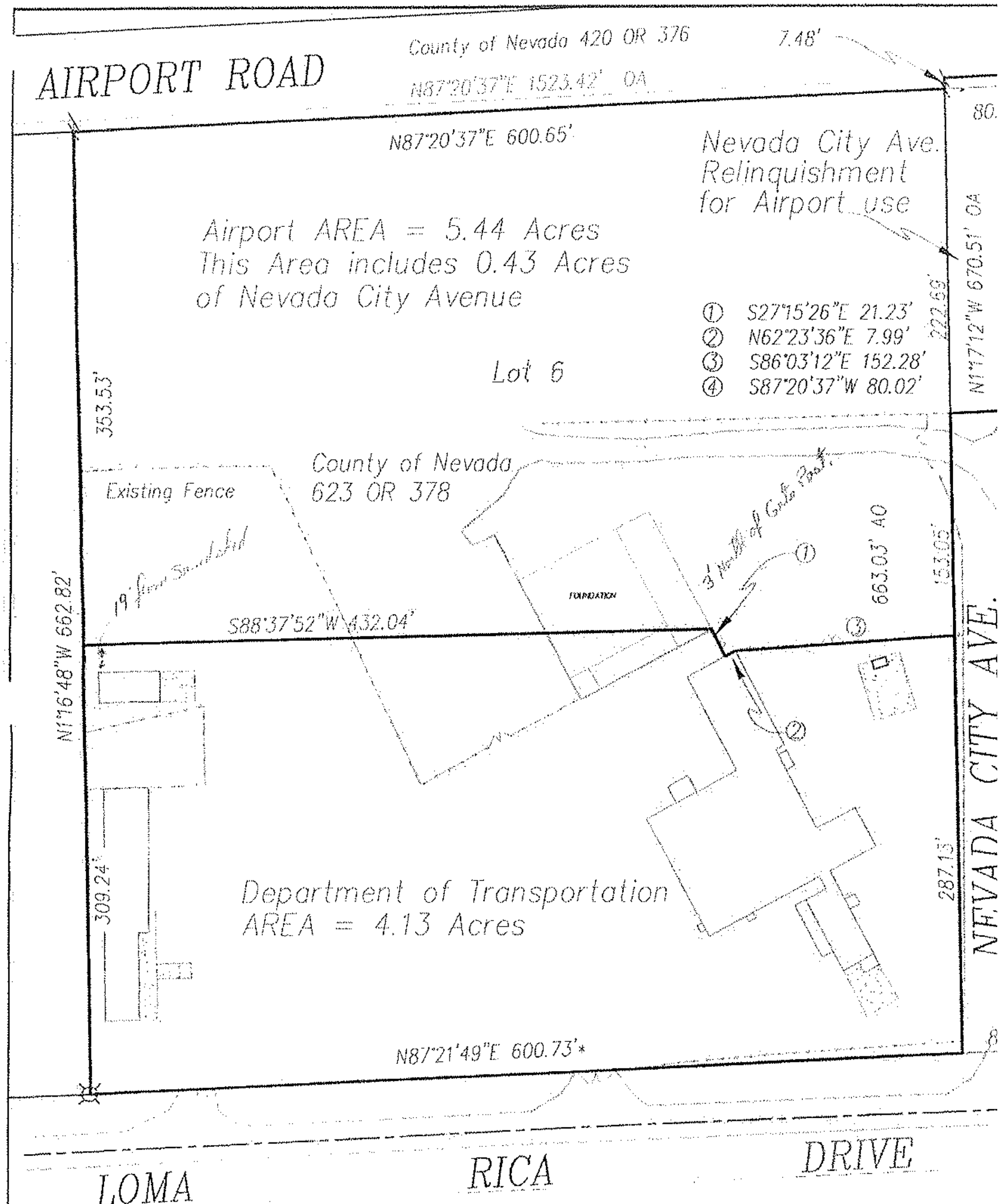


Acceptance Statement:

The line shown between the Aipport Area and Department of Transportation Area, has been accepted and approved by the Federal Aviation Administration and the County of Nevada.

Lot 6, Loma Rica

Being a portion (
Township 16 North,
Mount Diablo

Other than the acreage designated for public use, the Area Plan is primarily for industrial use with an M-1 zoning designation. Unlike the commercial use designation, industrial use allows for enclosed and outdoor industrial development. While retail and office uses may be permitted in the area, they are only to be developed in conjunction with industrial uses, and then only up to 10% of the industrial use on a given site.

Indeed, one of the strengths of the area is its mostly homogenous industrial zoning that minimizes the chances of conflicts with residential or commercial uses. A study by the Sierra Economic Development District (SEDD) in 2005 identified manufacturing and light industrial activity as the highest and best use in the area. There is no significant reason to believe that this conclusion has changed. The report further states, "Any development infringing on industrial use, such as retail and residential, could cause loss not only of future business expansion but could lead to business leaving the community seeking room to grow". Another study, "A Western Nevada County Economic Development Strategy", commissioned by the County in 2007 concurred with this focus of encouraging manufacturing companies to remain and expand their businesses in the County.

The epicenter of Loma Rica industrial area is the 123-acre Nevada County Air Park in which the property is located. The Air Park is surrounded by light industrial and warehouse uses to the south and southeast, residential to the north and southeast, and the 425-acre Loma Rica Ranch property to the west and northwest of the airport.

Since the County airport is the only one in western Nevada County, it plays an integral aeronautical role for private parties, state and federal fire safety operations, law enforcement, and search and rescue.

B. Nevada County Airport Land Use Compatibility Plan ("Compatibility Plan") – The current Compatibility Plan (Attachment 2) was adopted in 2011 by the Nevada County Airport Land Use Commission (NCALUC), which consists of representatives of the Nevada County Board of Supervisors, mayors of the county's cities, airport manager and general public. The NCALUC is responsible for ensuring that new development surrounding the airport is consistent with the Compatibility Plan.

The Compatibility Plan organizes the area surrounding the airport into zones with different allowable uses and development conditions. The corporation yard property is located in two similar zones, B1 and B2. The following chart from the Compatibility Plan summarizes the prohibited uses, allowable uses, special conditions for development, and other factors to consider when locating new development in these two zones.

Zone	Residential (du/ac)	Other Uses (people /ac) Avg/Sgl ac	Req'd Open Land	Prohibited Uses	Other Dev't. Conditions	Noise and Over-flight Factors	Safety and Airspace Protection Factors
B1	.1 (avg parcel size > 10 ac)	50/100	30%	• Schools, day care center (>15 children, libraries • Hospitals, nursing homes • Buildings with > 2 habitable floors above ground • Highly noise-sensitive uses • Above ground bulk storage of hazardous materials[1] • Critical community infrastructure facilities[2] • Hazards to flight[3]	• Locate structures max distance from extended runway centerline • Minimum NLR of 25 dB in residences[4] • NCALUC airspace review required for object >3,106 feet MSL west of airport and 3,192 feet MSL east of airport[5] • Avigation easement dedication	• Noise Impact: High • Typically above CNEL 60 dB • Single-event noise sufficient to disrupt wide range of land use activities including indoors if windows open	• Risk Level: High • Areas overflown by aircraft at low altitudes – typically only 200 to 400 feet above the runway • 10%-20% of off-runway general aviation accidents near airports take place here • Object heights restricted to <35 feet in some areas
B2	.33 (avg parcel size >3 ac)	100/300	N/A	Same as B1	• Locate structures max distance from runway • Minimum NLR of 25	• Noise Impact: Moderate to High • Mostly above CNEL 60 dB	• Risk Level: Low to Moderate

					dB in residences[4] • NCALUC airspace review required for object >3,106 feet MSL[5] • Avigation easement dedication	• Exposed to loud single-event noise from takeoffs and jet thrust-reverse on landing; also from pre-flight run-ups	

. [1] Storage of aviation fuel and other aviation-related flammable materials on the airport is exempted from this criterion. Storage of up to 6,000 gallons of nonaviation flammable materials is also exempted. See Policy 5.2.5(c) for details.

. [2] Critical community facilities include power plants, electrical substations, and public communications facilities. See Policy 5.2.5(d) for details.

. [3] Hazards to flight include physical (e.g., tall objects), visual, and electronic forms of interference with the safety of aircraft operations. Land use development that may cause the attraction of birds to increase is also prohibited. See Policy 5.3.7 for details.

. [4] NLR = Noise Level Reduction, the outside-to-inside sound level attenuation that the structure provides. See Policy 5.1.5 for NLR requirements for other noise-sensitive uses.

[5] Objects up to 35 feet in height are permitted. However, the Federal Aviation Administration may require marking and lighting of certain objects. See Policy 5.3.5 for details.

C. City of Grass Valley Sphere of Influence – The property lies within the Sphere of Influence of the City of Grass Valley. Consequently, a change of use that requires a discretionary decision by the County will trigger the need to determine whether the City wants to annex the property. If not, the City still reviews and comments on the change of use to ensure consistency with the City's codes and policies. The County retains land use authority, but is to consider the City's comments and recommendations under a Memorandum of Understanding agreed to in 2004.

Based on a conversation with Tom Last, Community Development Director for the City, it appears that the City's only expectation is the normal opportunity to review any reuse plans. In all likelihood, the City would support the County's decision to use the property for similar industrial uses that surround it or for the airport operations.

PROPERTY ATTRIBUTES

Although the property is subject to somewhat extraordinary regulations due to it's proximity to the airport, it does pose real advantages for a business seeking space in the area, including:

- Most significantly, is that the site is relatively level. Although the property enjoys other important attributes described below, the consensus among users and brokers in the Loma Rica area is that the top three advantages of the property is: level, level, and level.
- The 600 feet of frontage along one of the main access roads in the area is significant and could be of particular value
- The 4+ acre size of the property is larger than most other sites in the area, making it potentially unique to the right user
- Proximity to the airport may be of value to certain businesses, but is likely more of a challenge to others
- It is interesting to note that the Area Plan identifies nine constraints (e.g. access, oak trees, steep slopes, irrigation canals, drainage facilities, minerals, existing residential) within the area, none of which effecting the Corporation Yard except one, which is the Compatibility Plan that effects all the properties in the Area Plan.

LAND RE-USE SCENARIOS

The conceptual diagrams on the following pages include a Non-Airport plan, an Airport plan that shows how it would use the entire property, and a Hybrid plan that envisions a combination of industrial and airport uses.

1. <u>Light Industrial</u>. Based on the regulatory documents described above, the property could support a maximum of approximately 67,200 square feet of light industrial use, similar to most of the uses in the area. That total is consistent with all the relevant setback, height, parking, and density limitations of the regulatory documents. In particular, the conceptual layout is consistent with the following key parameters for the M-1 District – Light Industrial (Section 4.2 Design Standards and Section 4.3 Resource Standards):

- Height limit – 45 feet
- Maximum Impervious Surface – 85%

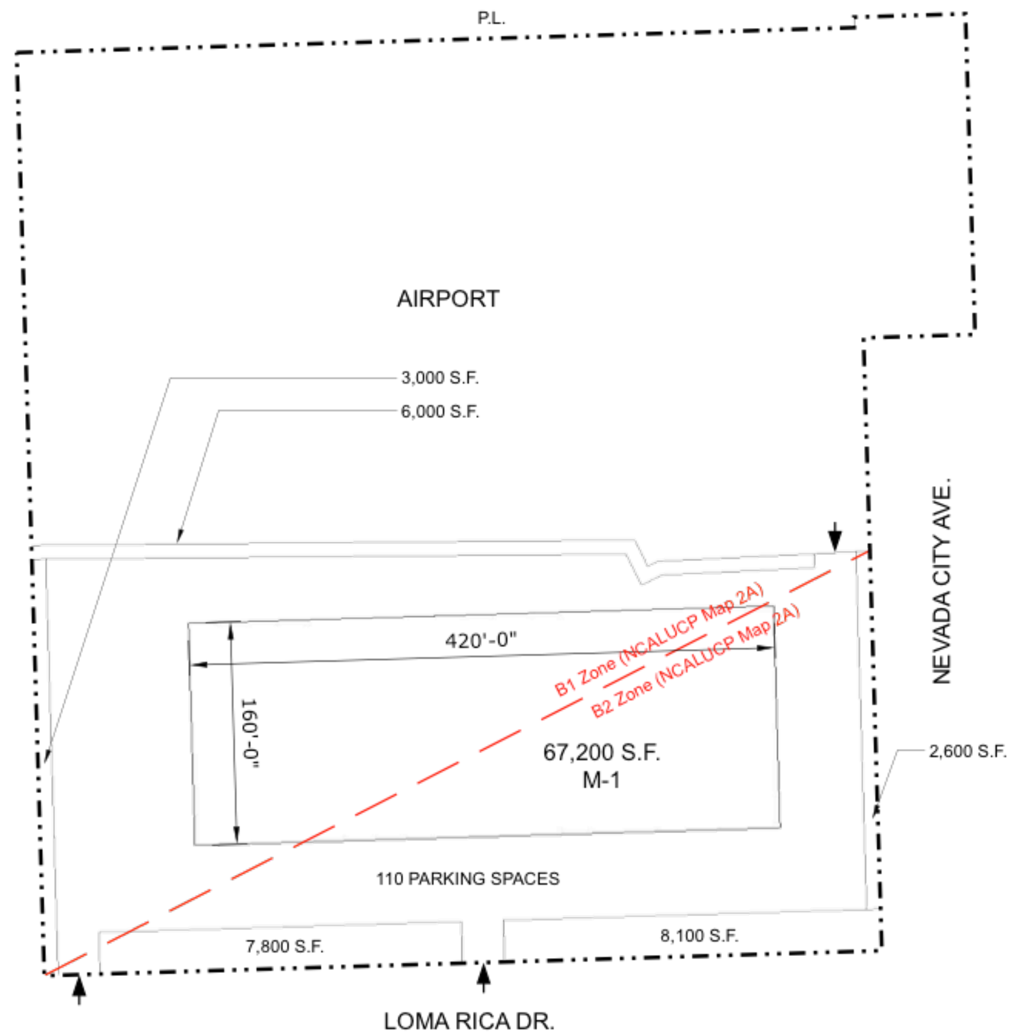
- On Site parking as per “general” standard in Table 4.2.9.F.12.b –1 space/600 sf
- Required site building setbacks, as per County Planning staff, are 20 feet along Loma Rica, 15 feet along Nevada City Ave., and 30 feet along the west side and north property lines.

The illustrative diagram proposes a development pattern similar to that predominately existing in the surrounding area for properties in the M-1 zone. Onsite surface parking is located in building setbacks except for required landscaped setbacks on the front, streetside and rear. Individual industrial spaces would vary in size from 1,500 sf and up, depending on the number of building “bays” that are necessary.

In addition, the property is located in both the B1 and B2 compatibility policy areas of the Compatibility Plan. The diagram is consistent with the allowable uses within those designations. The diagram shows a 1-story footprint, though the height limit allows 2 stories, subject to review by the NCALUC. Such a review would be necessary anyway since new development in excess of 10 feet in height – including the 1-story building in the diagram - would trigger a discretionary review by the NCALUC.

None of the concept diagrams take into account a new septic system, which could be accommodated under the parking with a variance or elsewhere on the airport property.

This complete utilization of the property is for illustrative purposes to show the maximum potential value at full build out. Given the substantial costs to develop the site, as described below, it is important for decision makers to understand the “best case” scenario.



SITE AREA: 4.09 AC (4.13 AC)
BUILDINGS: 67,200 S.F.
PARKING / FIRE LANE: 83,400 S.F.
LANDSCAPED SETBACK: 27,500 S.F.

NOTE: diagrams are illustrative, and not survey accurate.

A.1 Non-Airport Alternative

ISSUE
08.29.19

PROJECT
County (Airport) Lot 6
Concept Reuse Analysis

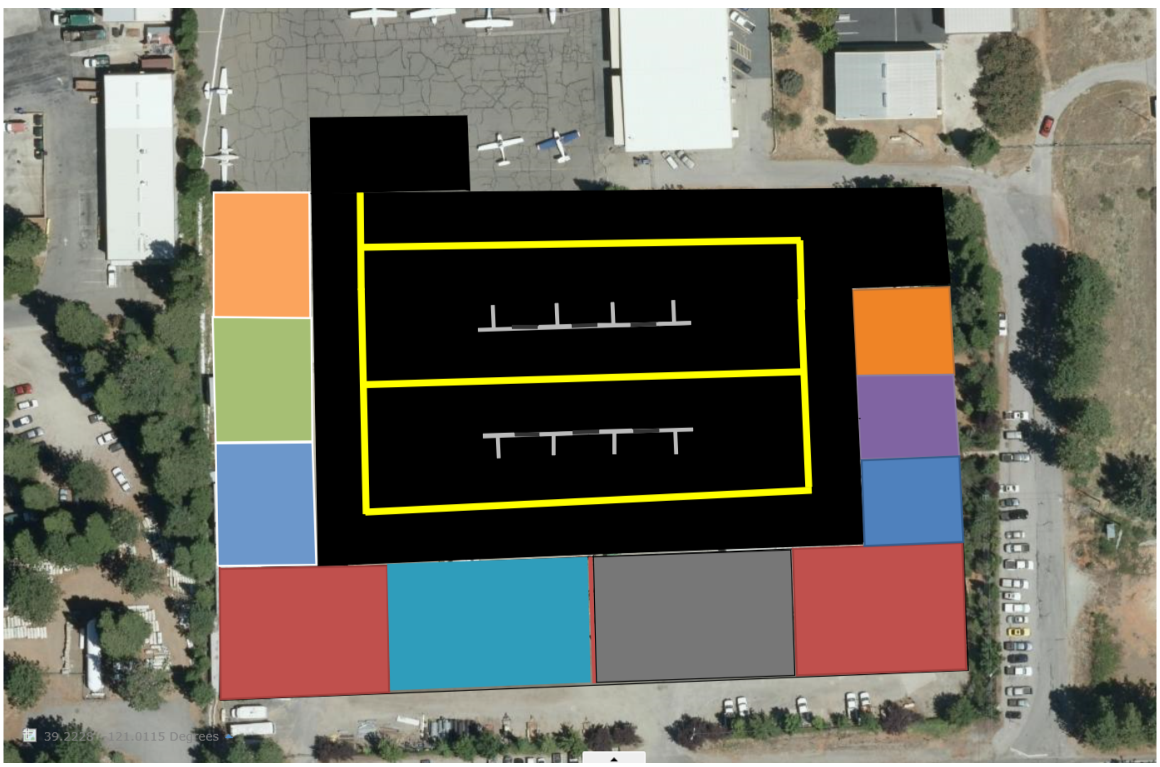
SCALE: 1" = 100'
0 100' 200'

N

2. Expanded Airport. The following is a description from the airport manager of the potential use of the property if it is transferred to the airport. A more contextual perspective of the potential use by the airport can be seen on pages 3, 5, and 8 of the Airport Layout Plan adopted earlier this year (Attachment 3).

Lot 6 Options
The base building along Loma Rica would be approximately 55,000 sq. ft. This large building would house four aviation businesses.

Both Fixed Based Operator's Sierra Mountain Aviation and Alpine Aviation would like about 15,000 sq. ft. each for the business. Both owners would like approximately 10,000 sq. feet of hangar space and 5,000 sq. feet for office and storage. Each FBO currently operate out of a 4,800 sq. feet hangar and are consistently pushing business out because of lack of space. If more space where available, they could hire more employees to meet the demand for service. Alpine Aviation stated that 55% of their customer base comes from out of the area, as far as Portland to Los Angeles. Their gross last year was $726,000 of which $400,000 was from out of the area.



Two separate businesses would be able to occupy each end at 12,500 sq. ft. each. The two biggest businesses that would offer the most to the airport and the users would be an engine re-build shop and avionics repair shop. There are four engine overhaul shops in California with the closest is located in Palo Alto. Avionic shops are another business that are backed up and local tenants have to fly their aircraft out of the area or out of state to get service.

On the east side of the lot next to Nevada City avenue, there is room for (2) 7,000 sq. ft. hangars that can hold larger aircraft like the King Air or (3) 4,500 sq. ft. There are a few tenants that have requested larger hangars. These larger hangars would be for executive aircraft that could have offices to conduct business.

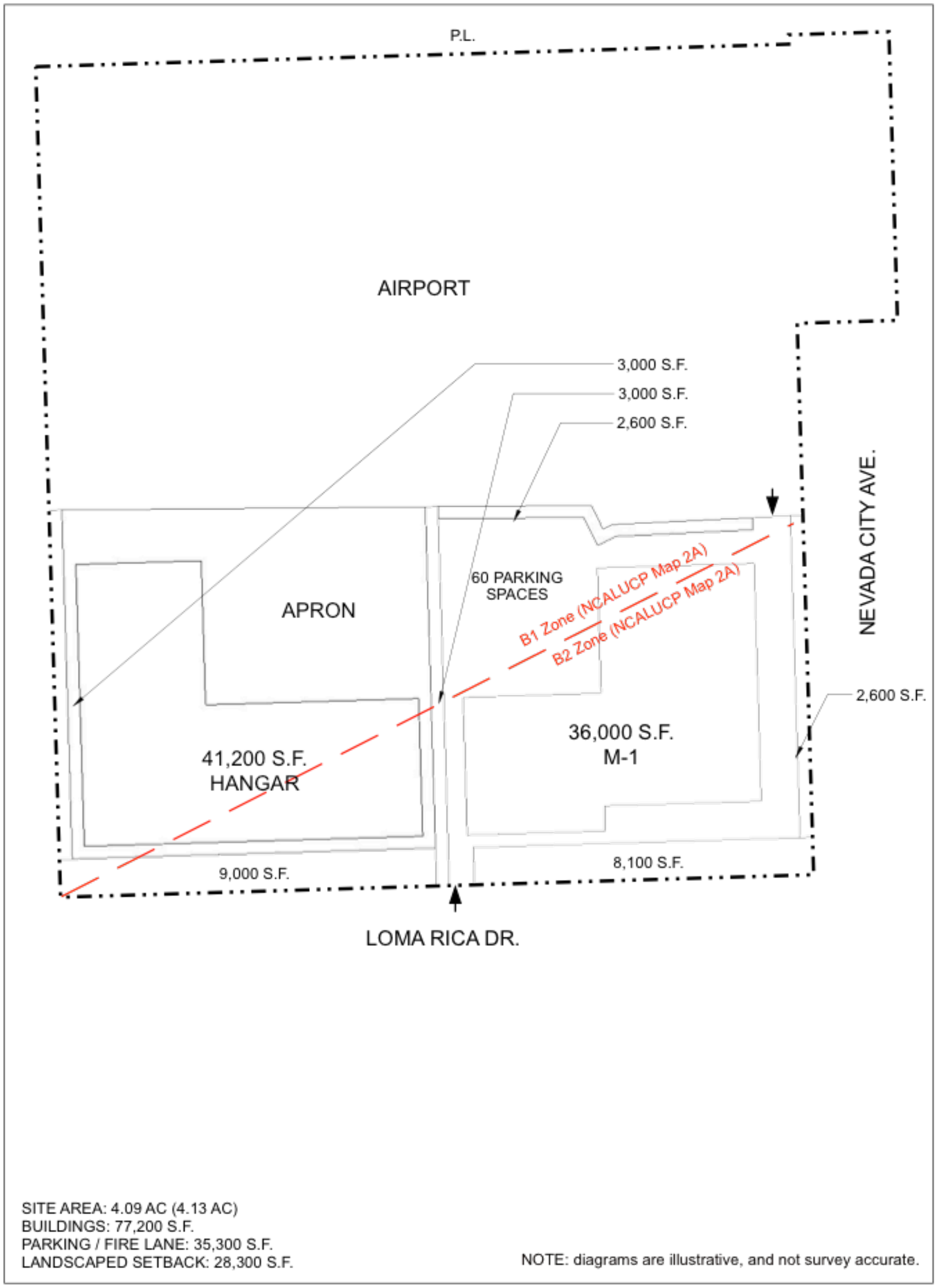
On the west side there is enough room to build out 19,600 sq. ft. of hangars. These hangars could be built to sizes required for different businesses, or smaller for personal hangars.

Additionally, I have contacted Reach/Cal STAR and they are interested to move their helicopter here from Auburn. They also have King Air aircraft that would require a larger hangar and would also bring support staff. Bridger Aviation is interested in expanding their business to the West Coast. Bridger has a contract with the USFS to provide Air Attack aircraft and pilots to our local Grass Valley Air Attack Base. They are currently in year three of a five year contract, and might be interested in being based out of here if they get the contract renewed.

3. <u>Light Industrial/Airport Hybrid</u>. Market uncertainty and questionable absorption rates suggest that it is prudent to make any reuse of the property as flexible as possible, not only in terms of land use but phasing as well. We have provided an example of how the property could be planned for both airport and non-airport uses. Because of the common ownership in the property, this alternative may be approached in phases in response to the market, making it particularly responsive.

The illustrative diagram proposes a mixed development pattern similar to that predominately existing in the surrounding area for the airport and adjacent M-1 zoned properties. Like the All Industrial alternative, the diagram shows a 1-story footprint for both airport hangar building and non-airport industrial building, but the height limit allows 2 stories, subject to review. For the airport and non-airport portions, onsite surface parking is shown with landscaped setbacks front, streetside and rear. The diagram proposes adjacent airport/non-airport uses on the subject property as a means of analyzing a potential "phasing" strategy to manage the transition from non-airport to airport uses on the County owned property.

Like the Non-Airport alternative, parking would be located in building setbacks except for required landscaped setbacks of 20 feet along Loma Rica, 15 feet along Nevada City Ave., and 30 feet along the west side and north property lines.



A.2 Hybrid Alternative

ISSUE 08.29.19

PROJECT County (Airport) Lot 6 Concept Reuse Analysis

SCALE: 1" = 100' 0 100' 200'

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ESTIMATED DEVELOPMENT COSTS

1. Site Clearance and Preparation. As described in sections 2. 31, and 33 of the attached cost estimate (Attachment 4), the cost to demolish, clear, and prepare the site for new development is approximately $1,175,565, including all prorates and a contingency of 30%. Per County staff direction, this cost does not take into account the potential of hazardous materials, either in the buildings or in the soil. This cost for site clearance and preparation will be required regardless of the new development scenario.

2. Septic. Like all other properties in the area, the corporation yard property relies on a septic system. This infrastructure constraint can limit the portion of each site available for development and the number of employees. Further, septic will not accommodate disposal of industrial waste, which must be transported offsite.

A preliminary investigation indicates that the existing system is probably untenable for future reuse of any significance. Based on County records (Attachment 5), the current system failed and was upgraded in 2007 to potentially sustain 330 gallons per day, which would be suitable for approximately 22 employees with no showers or public restrooms. It should be noted that this permit appears to have never been finalized. A 1500-gallon tank was installed south of the mechanics bays with a finalized permit in 2010.

A preliminary search for the exact location of the leech field was halted after approximately 60 feet out of the diverter valve when it was determined that the tightline appears broken inside of the steel culvert pipe. Further exploration was halted due to the location in the main entryway of the yard and the asphalt, which would cause disruption in the daily operations of the corporation yard.

Based on discussions with the County's contract civil engineer working on the replacement corporation yard, it is estimated that a replacement septic system for a new light industrial use of the property is approximately $15,000.

3. Construction Costs. Within the light industrial use designation alone there is a wide variation in specific usage, type of construction, amenities, etc. Light industrial construction and uses can range from stripped down warehouse space with roll up access to a light manufacturing factory. Consequently, construction hard costs range as well, beginning as low as $70/sf and exceeding three times that amount. Construction comparable to other development in the area would appear to be on the lower end of this range. Based on a review of local development projects, industry guidelines for the area, and our own cost estimate (Attachment 4) we have estimated the construction hard costs for a light industrial Butler building on the property at approximately $107/sf, including all site work. With all prorates, including a 30% contingency, this cost comes to approximately $174/sf, or $11,691,696 for the maximum build-out of 67,200 sf and associated site work. In addition, the aforementioned cost of $1,175,565 to prepare the entire site for new

development is required regardless of the type or number of square feet of improvements.

To summarize:
Site Clearance and Preparation: $1,175,565
Construction Cost: $11,691,606
Total Estimated Development Cost for site preparation and full build-out of 62,700 sf light industrial: $12,867,171, including prorates and a contingency of 30%

VALUATION

The 3-year moving average of actual sales prices of industrial space provided by Highland Commercial (Attachment 6) is approximately $115/sf. The trend is increasing and light industrial space in the Loma Rica area is currently advertised for as much as $150/sf for higher end industrial space. Therefore, it is estimated that the potential value for the developed site is in the range of $7,705,000-$10,050,000. In short, our assessment is that the property developed for allowable uses in the area has a negative value under the best of circumstances.

Conversations with local real estate brokers and users confirmed that industrial development in the area is hampered by high costs of construction viz-a-viz sales prices. As a result, there is little optimism of attracting a speculative developer. Indeed, in the foreseeable future it seems apparent that the absorption of the maximum amount of developable space would be a challenge. While this is particularly true if developed as one unit, the more marketable smaller units would also be a challenge for a speculative developer. As a result, a successful sale of the property to a private buyer may be dependent on a large single user that requires the particular size and location that the property has to offer.

PRE-DISPOSITION

1. <u>State Requirements</u>. The California Government Code 54222 et seq. (Attachment 7) requires that most local agencies, which would include the County, that are disposing of property surplus to it's needs must first make the property available for certain prescriptive purposes: affordable housing, parks, schools, and potential projects in opportunity and enterprise zones.

Due to the increasing problem statewide with the lack of affordable housing, it should be noted that the requirement to make surplus property available for affordable housing before advertising the property for other uses has become a right more often used by developers of affordable housing. However, given the regulatory structure of this property, it would seem unlikely that the property could be used for any of the property uses established by the State in the sale of local agencies' surplus property.

2. Entitlements. The sale of government owned surplus real estate invariably requires a change in permitted land use because the property is normally zoned for Public use. The Corporation Yard property is no exception. In any real estate transaction that requires a change in permitted land uses, the risk of not securing such entitlements after purchase will discount the value of the property. This discount can be as much as the difference in value between uses that are permitted with the existing entitlements and the uses for which the buyer is purchasing the property. In the case of government surplus real estate this is the difference between private development and no development since property zoned for Public Use cannot be developed for private uses in most cases. In most cases, we, strongly encourage that the government agency disposing of surplus property undertake the necessary change in zoning designation prior to disposition in order to avoid a discount and make the property more marketable. However in this case, because of the potential reuse of the property by the airport, this effort may be better left as a condition for closing escrow if a buyer steps forward.

DISPOSITION OPTIONS

1. Conventional Sale. Advertise the site for sale at fair market value. No broker, consultant or report will inform the County of the commercial value of the property as accurately as simply advertising the property for sale. Once the County complies with Government Code Section 54222 et seq, this option can be as simple as erecting a sign on the property, advertising the site on LoopNet, and/or selecting a local realtor who would most likely be in contact with potential users seeking such property. However, in addition to the regulatory and financial challenges already described, there are at least two significant caveats regarding any expectations of disposing of the property for a non-government use. First, other properties in the area, one as close as the one-acre for sale next door, have languished on the market for an extended period of time. Second, since the County is not in the development business itself, it would depend on either a user or a speculative developer to acquire the property. The financials make it a challenge for a speculative developer purchaser. And according to local realtors, no major users are currently seeking space. However, it is worth repeating that there really is only one way to confirm this prognosis and that is to advertise the property. The cost is relatively inexpensive, and the potential, although slight in the immediate future, of attracting a large high employee and or tax generating business should not be completely dismissed.

2. Long Term Incentivized Lease. Offer the property for lease at a discount in return for covenants related to government specific objectives. One of the unique advantages of a government entity selling real estate is that it may have more objectives than maximizing the financial return like a typical private seller. Indeed, that's one reason that Government Code Section 54222 exists. In addition to such interests as affordable housing and parks that State law addresses through the aforementioned Government Code, local interests also include such objectives as

sustainability, business incubation, maximizing tax revenue, employment opportunities, etc. For example, many government agencies would rather see property that it's disposing of used for a labor-intensive operation than a private storage facility, even if the latter tenant offers slightly more for the property. This option requires a more proactive and strategic disposition approach than simply advertising the property to the highest bidder. Furthermore, these types of agreements can be difficult to enforce even when businesses do as well as they plan. For that reason, this option is best used with leases that can be terminated or expire rather than covenants upon a sale. A lease, even one for long term that would be expected by a lessor making significant tenant improvements, offers the County the additional benefit of continuing to own this asset in the event that unforeseen government needs arise in the future.

3. Airport. Transfer management of the entire property to the airport to enable it to fully develop its revised airport plan. There is no question that the Airport Plan could be more easily implemented with the availability of the corporation yard property. Given the important role that the airport plays in the region, this option is particularly appealing given the demand projections for space needed at the airport. Reusing the site for the airport expansion has the added benefit that it presents the simplest process for reusing the property given the relationship between the County and the airport.

4. Hybrid. Phase the disposition of the property to allow the market to determine the highest and best use between airport revenue and commercial value for light industrial. Although the airport needs may be more foreseeable than more light industrial space in the area, both will likely require time for the market to absorb. Remaining as flexible as possible through a phased transfer to the airport while the remaining property is being advertised may offer the greatest chance to expedite the full reuse of the entire property.

NEXT STEPS

1. Economic Impact Assessment. As County staff correctly points, given the land value of the property, the final analysis provided to the Board of Supervisor should include an assessment of the employment, revenue and related economic benefits to the county of using the property for private light industrial uses. Analyzing these kinds of economic impacts is outside the scope of this report, which addresses the development costs and land value of the alternative uses. At this point, the economic impacts can be analyzed (Attachment 8), but only in relatively broad terms since there is such a wide array of conceivable light industrial uses. While this information could help equalize the apparent benefits of using the property for airport expansion versus preserving it for private development, our experience is that such a balance is far more realistic when an actual user is under consideration.

2. Market the Property. It seems that using the property to expand the airport would be the most cost effective and realistic future for the site. However, as pointed out earlier in this report, the best information that the County could have to decide the best reuse of the property is to have an actual interested buyer or alternative user to consider. The most likely way to get to that point is to market the property sooner rather than later.

3. Clear the Property. In the meantime, regardless of whether the site is used by the airport or for light industrial uses, it would behoove the County to clear and prepare the site so that any new user – be it the airport or another light industrial user – can proceed as expeditiously as necessary.