

COMMISSIONERS OF THE LAND OFFICE
REAL PROPERTY ACQUISITION GUIDELINES

I. Introduction and Authority

These Real Property Acquisition Guidelines (Guidelines) shall be utilized by the Commissioners of the Land Office (CLO) in making real property acquisitions for investment purposes.

Pursuant to title 64, section 1001 of the Oklahoma Statutes, the Commissioners have full charge of the management and disposal of all CLO Trust assets. Further, title 64, section 1013 permits the CLO to acquire, purchase or exchange real property for investment purposes. The CLO may invest up to 3% of the value of the total assets of the permanent school funds in real property.

Additionally, title 64, section 1002 authorizes the purchase or exchange of real property to maximize Trust income for the benefit of present and future beneficiaries. The CLO Investment Policy, section V(G) provides, “No single investment may constitute more than 40% of the total real property investments hereunder,” and “All individual acquisitions shall be approved by the Commission.”

II. Objectives

The objectives of real property investments are to provide asset diversification to increase current and long term distributable income, to maximize long term financial return at a prudent level of risk, to protect future purchasing power, and to provide a stable payout.

III. Preferred Investments

While no particular real property acquisition is precluded, preferred investments are assets that increase the immediate “cash on cash” return of CLO funds, including:

- Existing office buildings or other income producing properties that can be leased and occupied for use by Oklahoma state agencies.

Conduct reviews for possible sites that permit consolidation of ownership in locations to reduce management costs and increase efficiencies.

- Commercial land on which to build office facilities to be leased for use by Oklahoma state agencies.
- Income producing property such as office buildings and industrial facilities to be occupied by non-governmental tenants.

Target property with near term (0-5 years) high potential income stream through development, transition, leasing, etc.

IV. Acquisition Criteria

The real property portion of the CLO investment assets shall be invested subject to the following guidelines and acquisition criteria:

1. CLO shall not purchase any real property at a price greater than its appraised value. Appraised value shall be established by a qualified, external certified General Appraiser and reviewed by CLO staff or another Certified General Appraiser.
2. The Commissioners shall vote to authorize the purchase or exchange of all real property investments at a public Commission meeting.
3. The location and growth potential of any area where properties are located shall be carefully reviewed to consider:
 - a. A reasonable holding period and exit strategy
 - b. Whether utilities are available to serve the facility
 - c. The current or potential income stream and the security of the income stream
 - d. The supply and demand for the property being considered
 - e. CLO's cost to outsource and manage the facility
 - f. The stability of the market sector served by the facility
 - g. The state of maintenance of facilities, including code and legal compliance
 - h. The costs to repair and upgrade a facility
4. For buildings which will be occupied by state agencies, the CLO will attempt to reach agreement with the Division of Capital Assets Management of the Office of Management and Enterprise Services concerning all proposed state agency leasing needs so that tenants are assured prior to acquisition. CLO will be assured of a minimum occupancy of 70% (within 2 years) of net-leasable square footage prior to purchasing a building to be occupied by agencies of the State of Oklahoma.
5. When purchasing a building that will be occupied by non-governmental entities, CLO must be assured of an occupancy rate of at least 50% prior to purchase, or in the alternative, acquire the property at a price discounted proportional to all costs necessary to attain at least 50% occupancy.
6. Real Property acquired by the CLO should project a minimum rate of return after expenses equal to or greater than the average rate of return for the CLO monetary fund for the most recent 5 year period.
7. CLO Investment Committee and management shall not recommend the acquisition of real property that does not meet the stated value and performance criteria, and shall report to the Commissioners any suspected self-dealing, or attempts to resurrect failed projects or state or local community projects with an insufficient funding base which are not in the best interest of the Trust.

V. Periodic Review of Real Property Investments

The effectiveness of investments in real property shall be reviewed by the CLO to evaluate long term appreciation and income. All CLO real properties shall be appraised for market value at least every three (3) calendar years to determine changes in value.

VI. Divestiture of Real Property Assets

The Investment Committee will review the performance of real property asset investments. In the event any real property asset is underperforming according to the performance standard set forth in section IV, paragraph six (6) herein, or if it may otherwise be in the best interests of the Trust to sell or exchange any real property asset, the Investment Committee will review the real property asset values, rental schedules and expenses and make a recommendation for either continuing to hold the asset as a part of the investment assets or to sell or exchange the real property asset.

Prior to divesting any real property asset from the portfolio, a market value appraisal must be obtained, and the property must be sold at not less than the appraised market value or exchanged for other real property for property of equal or greater market value, in accordance with title 64, section 1002 of the Oklahoma Statutes.

The Commissioners must approve the sale or exchange of any real property asset in advance of the proposed transaction.