

**VII. STANDING COMMITTEES****B. Finance, Audit & Facilities Committee**Metropolitan Tract – 2009 Unico Capital Expenditure BudgetRECOMMENDED ACTION:

It is the recommendation of the Finance, Audit and Facilities Committee that the Board of Regents approve reimbursement of up to \$7.0 million in capital expenditures by Unico Properties, LLC, for capital and tenant improvements requested in its 2009 Capital Expenditure Plan for the office buildings on the Metropolitan Tract. The \$7.0 million is comprised of up to \$2.2 million for capital improvements and up to \$4.8 million for tenant improvements.

BACKGROUND:

Under the terms of the University's lease with Unico Properties, LLC, the University is required to reimburse Unico for capital and tenant improvements.

The lease with Unico requires the University to deposit an amount equal to 5% of gross revenues generated by the buildings (approximately \$1.75M in 2008) into the Metropolitan Tract New Building Fund. All capital expenditures are paid first from this account with any balance coming from the University's rental proceeds from the lease. However, Unico must obtain the University's approval to any capital improvements, and there is no obligation to utilize the New Building Fund in any given year.

The lease with Unico requires the University to reimburse Unico for tenant improvements subject to achieving agreed upon rent and return thresholds in accordance with an annual Tenant Improvement Plan consistent with "Seattle Market Standards." The University undertakes a collaborative effort with Unico each year to establish the Tenant Improvement Plan. Then, each lease completed during the year is measured against the budget prior to approval of the reimbursement of the tenant improvement costs.

Capital Improvements

The recommended 2009 capital improvement reimbursement is \$2.2 million. These investments are intended to improve the quality of the buildings in order to be competitive in the leasing market, as well as enhance energy efficiency and promote sustainability. In light of the challenging leasing market, the 2009 capital improvements are focused on upgrading common areas to support leasing requirements, upgrading outdated ceiling and lighting systems, energy saving projects with a proposed payback to support sustainability, and continuing to extend sprinklers into tenant premises.

## VII. STANDING COMMITTEES

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##### Tenant Improvements

The remaining \$4.8 million recommended for reimbursement is allocated to tenant improvements. This amount is based on anticipated leasing of existing vacant space and leases due to expire in 2009, and the anticipated amount of investment necessary for occupancy of this space by new tenants. However, it is likely that actual expenditures will be less than this amount unless all budgeted leasing is achieved. Budgeted leasing during 2009 is based on projected leasing of approximately 140,000 square feet and an average tenant improvement investment of \$34.00/sf.

<b>2009</b>	<b>Capital Improvements</b>	<b>Tenant Improvements</b>	<b>Total Capital Expenditures</b>
Rainier Tower & Square	186,920	602,950	789,870
Financial Center	857,754	1,628,630	2,486,384
IBM Building	160,977	866,400	1,027,377
Puget Sound Plaza	403,496	1,321,790	1,725,286
Skinner Building	577,270	375,870	953,140
Met Tract Studies	25,000		25,000
<b>TOTAL</b>	<b>2,211,417</b>	<b>4,795,640</b>	<b>7,007,057</b>

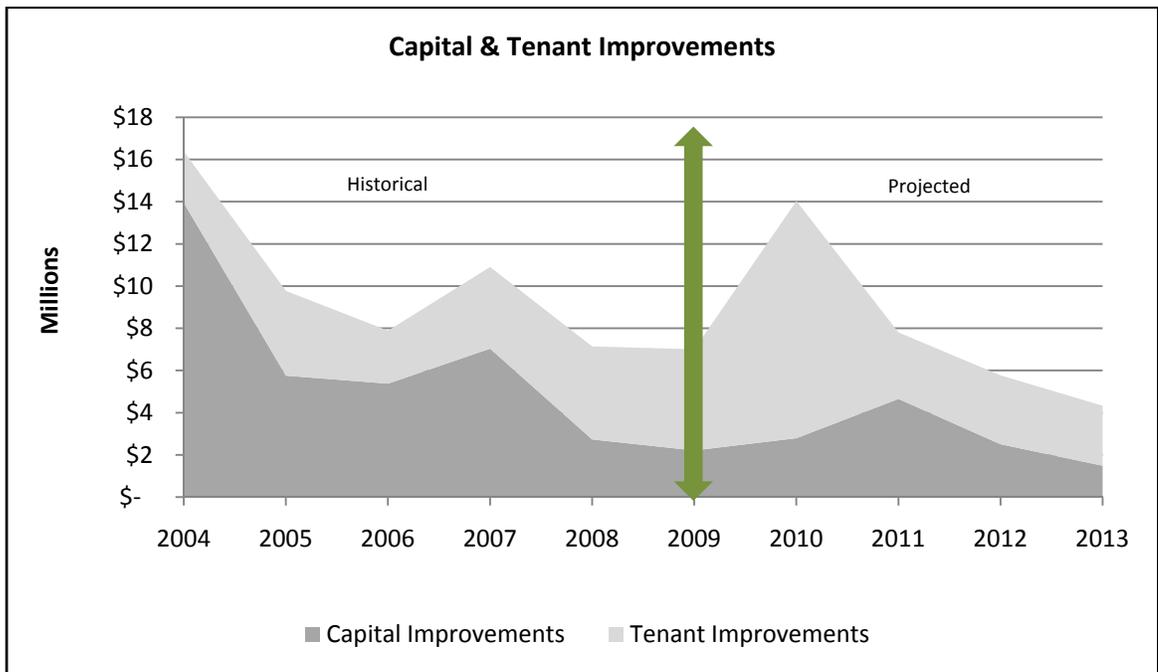
##### REVIEW AND APPROVALS

This recommendation has been reviewed by the Senior Vice President, the Associate Vice President for Treasury, and the Director of Real Estate.

##### *Attachment*

Projected Tenant Improvements Based on Leasing Assumptions

*For Reference Only.* The projected tenant improvements are based on leasing assumptions and known lease expirations.



Attachment