

VII. STANDING COMMITTEES

B. Finance Audit and Facilities Committee

Metropolitan Tract Performance Report for the Quarter Ended June 30, 2009

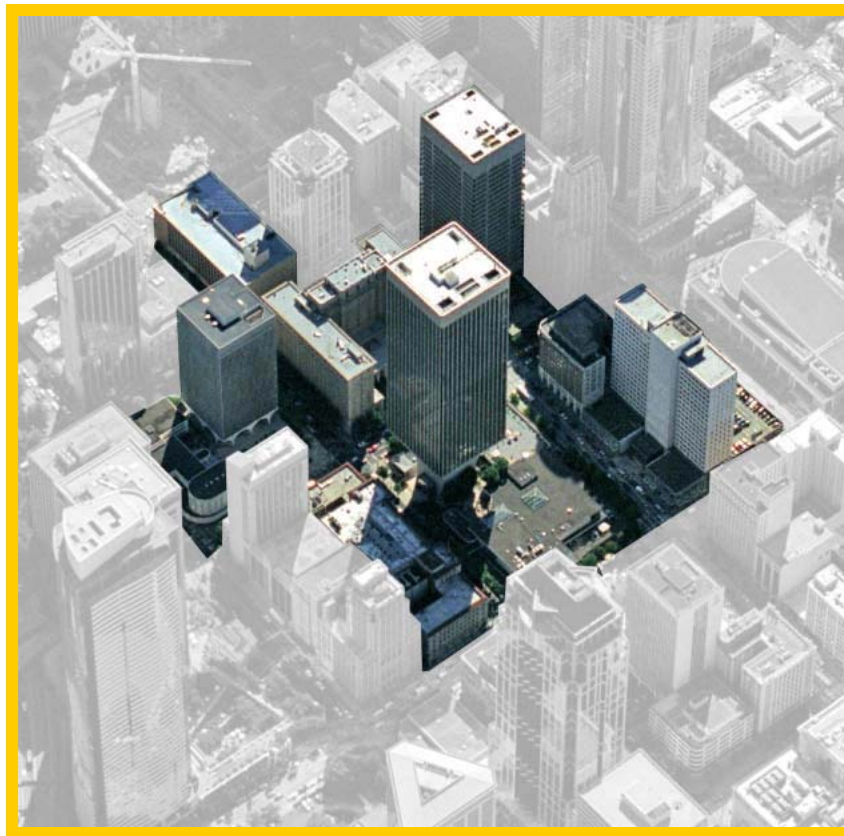
For information only.

*Attachment*

# **METROPOLITAN TRACT**

## **PERFORMANCE REPORT**

**For the Quarter Ended  
June 30, 2009**

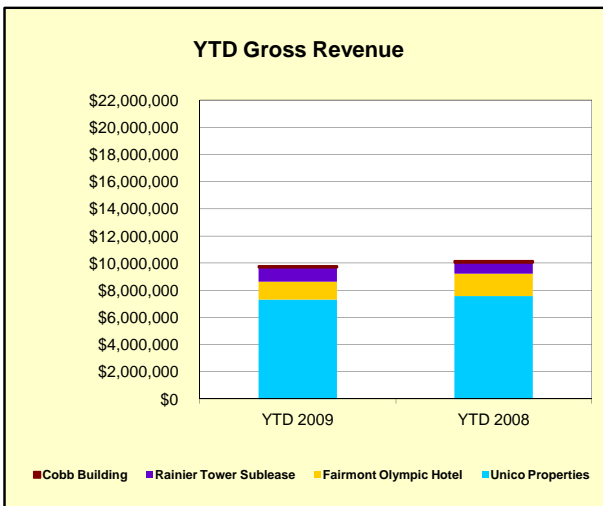
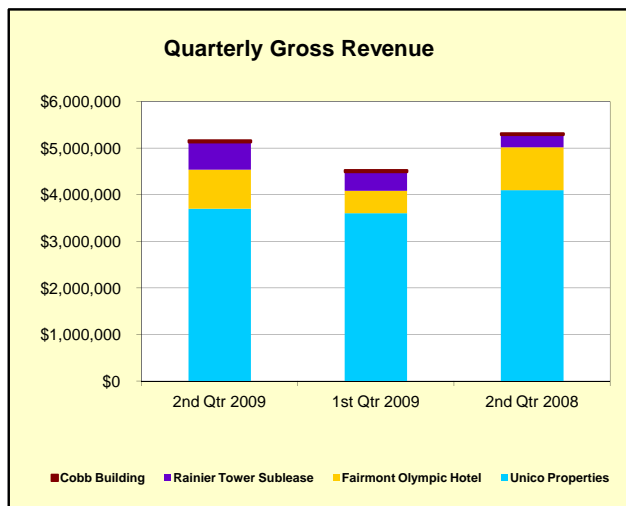


**Finance, Audit & Facilities Committee**

September 17, 2009

University of Washington Metropolitan Tract

**CONSOLIDATED METROPOLITAN TRACT PROPERTIES**  
**Quarterly Summary**  
**Quarter Ending June 30, 2009**



CURRENT QUARTER							
Gross Revenue to University	2nd Qtr 2009	Prior Qtr 1st Qtr 2009	Prior Year 2nd Qtr 2008	Change from Prior Qtr		Change from Prior Year	
				\$	%	\$	%
Unico Properties	3,697,502	3,603,914	4,097,190	93,588	2.6%	(399,688)	(9.8%)
Rainier Tower Sublease	589,329	410,209	266,874	179,120	43.7%	322,455	120.8%
Fairmont Olympic Hotel	841,680	478,344	921,853	363,336	76.0%	(80,173)	(8.7%)
Cobb Building	38,500	38,500	38,500	0	0.0%	0	0.0%
<b>TOTAL GROSS REVENUE</b>	<b>\$5,167,011</b>	<b>\$4,530,967</b>	<b>\$5,324,417</b>	<b>\$636,044</b>	<b>14.0%</b>	<b>(\$157,405)</b>	<b>(3.0%)</b>

	CALENDAR YEAR TO DATE				ANNUAL	
Gross Revenue to University	YTD 2009	YTD 2008	Change from Prior YTD		Projected 2009	Actual 2008
			\$	%		
Unico Properties	7,301,416	7,575,440	(274,025)	(3.6%)	16,261,201	14,554,378
Rainier Tower Sublease	1,075,873	821,756	254,116	30.9%	1,543,482	1,706,280
Fairmont Olympic Hotel	1,320,024	1,652,443	(332,419)	(20.1%)	3,197,140	3,587,295
Cobb Building	77,000	115,500	(38,500)	(33.3%)	154,000	154,000
<b>TOTAL GROSS REVENUE</b>	<b>\$9,774,312</b>	<b>\$10,165,139</b>	<b>(\$390,827)</b>	<b>(3.8%)</b>	<b>\$21,155,822</b>	<b>\$20,001,953</b>

12/31/08 INTERNAL VALUATION		
	YE 2008 Gross Market Value	YE 2007 Gross Market Value
Unico Managed Properties <sup>1</sup>	\$366,228,000	\$501,700,000
Fairmont Olympic Hotel	\$110,842,000	\$168,300,000
Cobb Building <sup>2</sup>	\$28,700,000	\$36,100,000
<b>TOTAL</b>	<b>\$505,770,000</b>	<b>\$706,100,000</b>

<sup>1</sup> Includes the Rainier Tower Sublease

<sup>2</sup> Represents UW's land value; not improvements

## **CONSOLIDATED METROPOLITAN TRACT PROPERTIES**

### **Quarterly Summary**

**Quarter Ending June 30, 2009**

#### **CONSOLIDATED METROPOLITAN TRACT SUMMARY**

The Metropolitan Tract generated \$5.1M of rent revenue for the University during the second quarter of 2009. When compared to the previous quarter, this is a 14% increase caused by better than expected sales at The Fairmont Olympic Hotel during April and May.

#### **UNICO PROPERTIES**

The second quarter's gross revenue from the Unico Properties was up 2.6% from the first quarter of 2009, generating just under \$3.7M. Office and Retail both saw an increase in revenue. Parking showed no change from first quarter due to it being a fixed revenue amount. This quarter to quarter increase is due primarily to a tenant's lease cancellation fee. Compared to the year-ago quarter, there was a decline of 9.8% with all contributors showing a loss in revenue. The slow economy has factored significantly into the sales seen by the retail sector. Year-to-date rent results also show a 3.6% decline over 2008.

#### **COBB BUILDING**

The variance in the Cobb Building rent is simply a timing issue where rent was received after the close of the month's books. There is no actual variance.

#### **RAINIER TOWER SUBLEASE**

The Rainier Tower Sublease generated \$589,329 in operating cash flow during the second quarter. The year to date increase from 2008 to 2009 can be attributed to additional expenses in 2008 related to the land valuation increase in the lease as well as scheduled rent increases in the subleases.

#### **FAIRMONT OLYMPIC HOTEL**

The second quarter of 2009 saw an increase of 76% over first quarter with a yield of \$841,680 to the University. Despite the much needed boost in sales, the hotel saw a revenue decrease of 8.7% when compared to 2008. The significant change in revenue during the second quarter is due in large part to the Spring/Summer seasonal increase expected in the hotel industry as well as the especially dismal first quarter. The revenue increase is also helped through the slight economic upturn being seen in the region.

Westmont has approached the University to consider a lease extension. The loan on the hotel matures in December of 2009 and absent an extension, Westmont is concerned that they may not be able to replace the financing. When coupled with the extremely tight lending markets, the remaining 30 year term is seen as a significant impediment to re-financing.

#### **INTERNAL VALUATION**

The numbers presented represent the overall value of the real estate as estimated by Heitman and Urbis Partners as of 12/31/08, but do not account for the leasehold encumbrances.

#### **MARKET UPDATE**

##### **OFFICE MARKET**

The Seattle office market continues to show the signs of a weakened economy. The amount of unoccupied space continues to climb, with the major submarkets seeing vacancy rates above 14%. Several buildings opened during the second quarter of 2009, releasing over 1.8M square feet of space into the market. Microsoft filled a significant portion of that with their move into 1.1M square feet at The Bravern in Bellevue. The West 8th and 7th & Madison buildings also opened, with very little of their space pre-leased. Thanks to Microsoft, the region saw over 200,000 square feet of positive absorption for the second quarter, but this is predicted to be the last quarter seeing this kind of increase for a very long time. Rental rates continue to drop, with Class A space going for about \$32.00 per square foot. Despite the amount of available space and the continual drop in rental rates, local businesses are still very cautious about expansion.

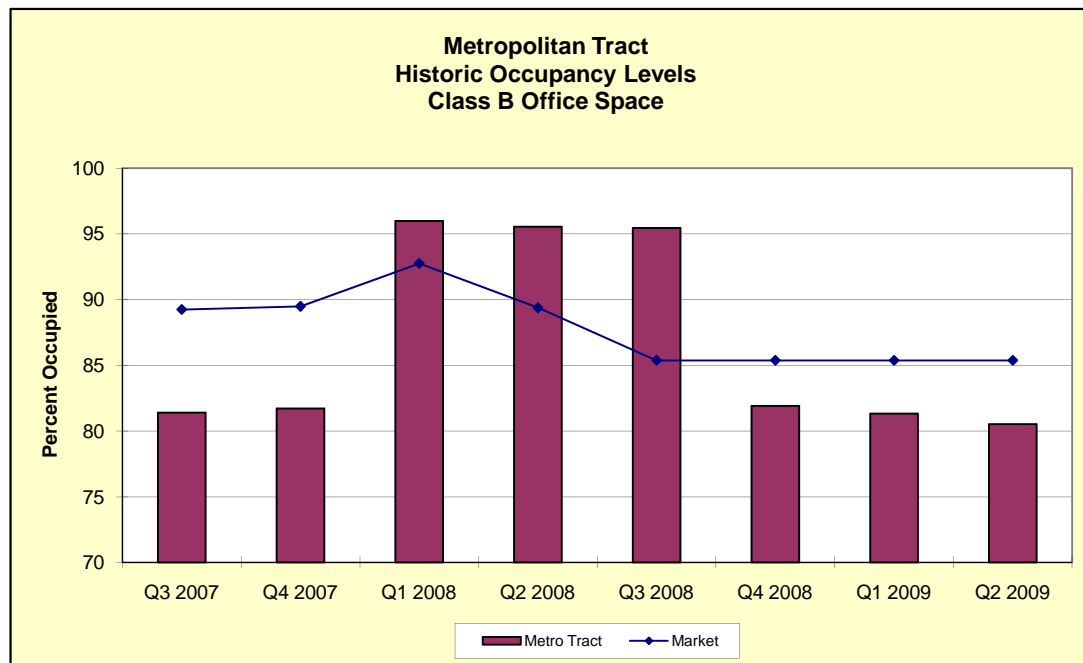
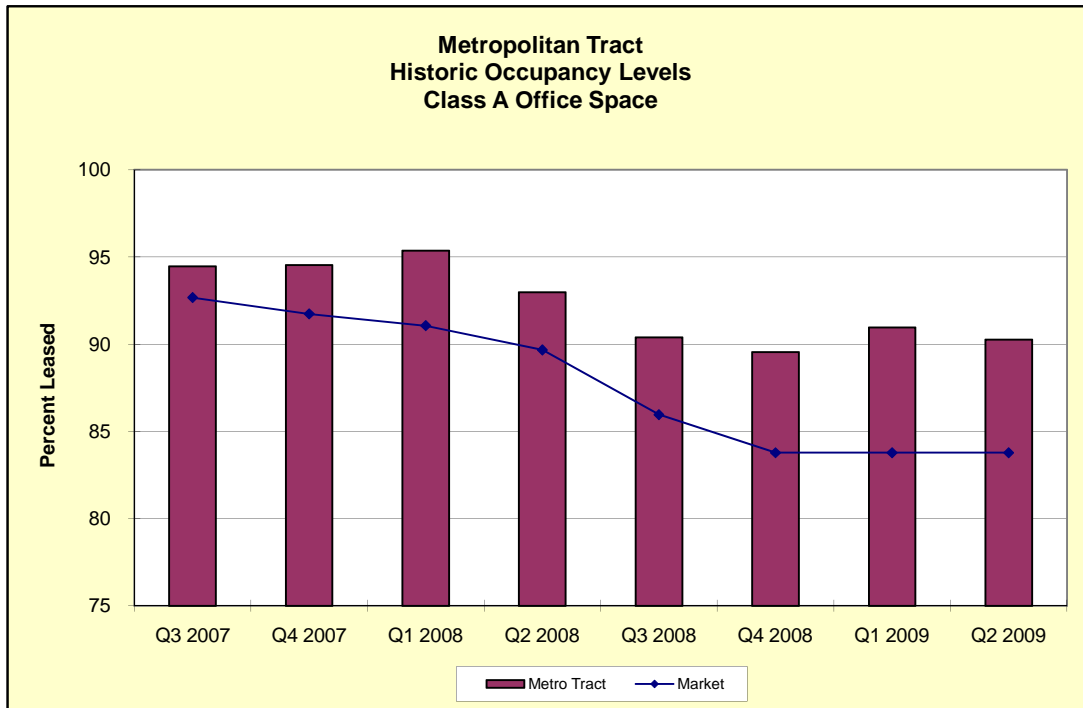
##### **HOTEL MARKET**

The summer months typically signal the start of travel season, allowing the industry to see an increase in activity across all sectors. With the economy still stabilizing, would-be travelers are saving every penny they earn and few are spending any extras on vacations. The new trend has been to encourage a stay-cation, with travel happening within miles of home to save on cost. Despite this twist on the expected getaway, places close to the Seattle area are still seeing lower than hoped for bookings. No part of the industry has remained safe from the declining financial effects. The tourist industry continues to be creative though, looking for new ways to attract business. The development side of the hotel industry has also suffered greatly. The Four Seasons Hotel and Olive 8 Hotel both opened to less than projected bookings at the end of 2008/early 2009. There are currently two mixed use projects that include hotels under construction; Alaska Building - Marriot at 2nd & Cherry and Hyatt Place Seattle at 6th & Denny. The only new hotel currently being planned for construction is a 42-story structure at 3rd Avenue & Virginia Street. Being developed by Tarragon Development it will hold 421 apartment units and 40 hotel units as well as ground level retail and underground parking.

University of Washington Metropolitan Tract

**OFFICE BUILDING OCCUPANCY COMPARISON CHARTS**

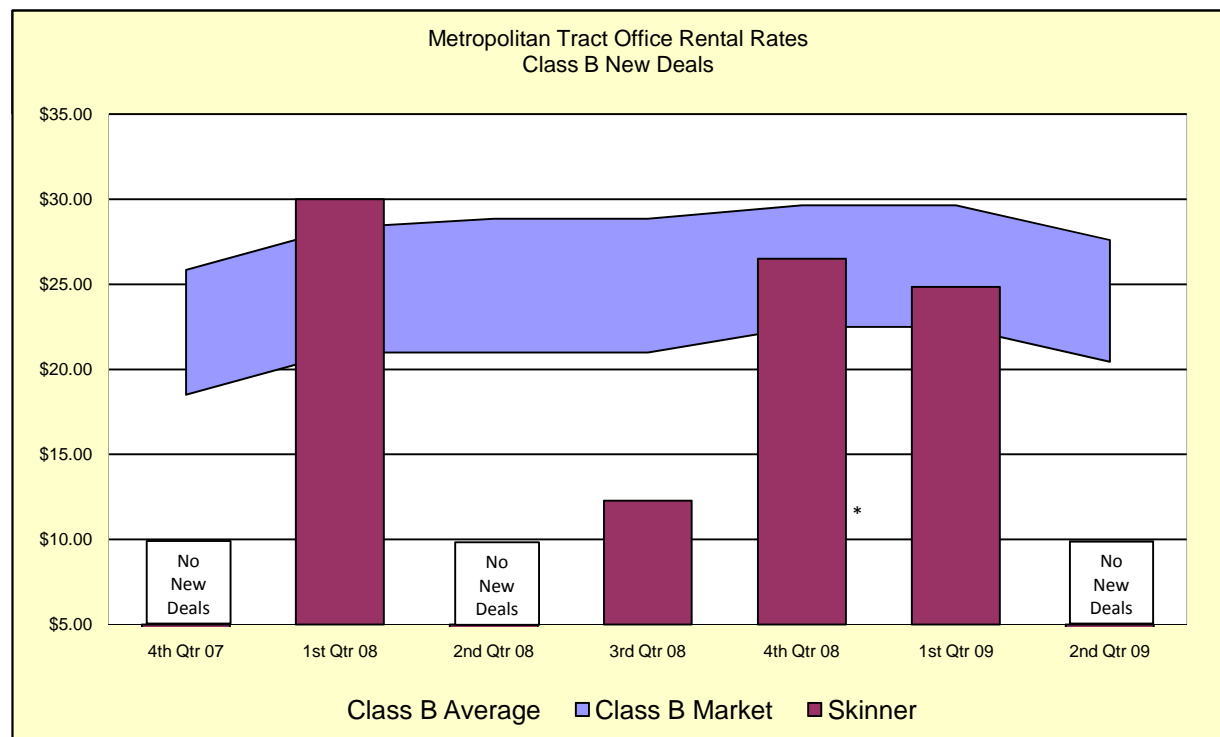
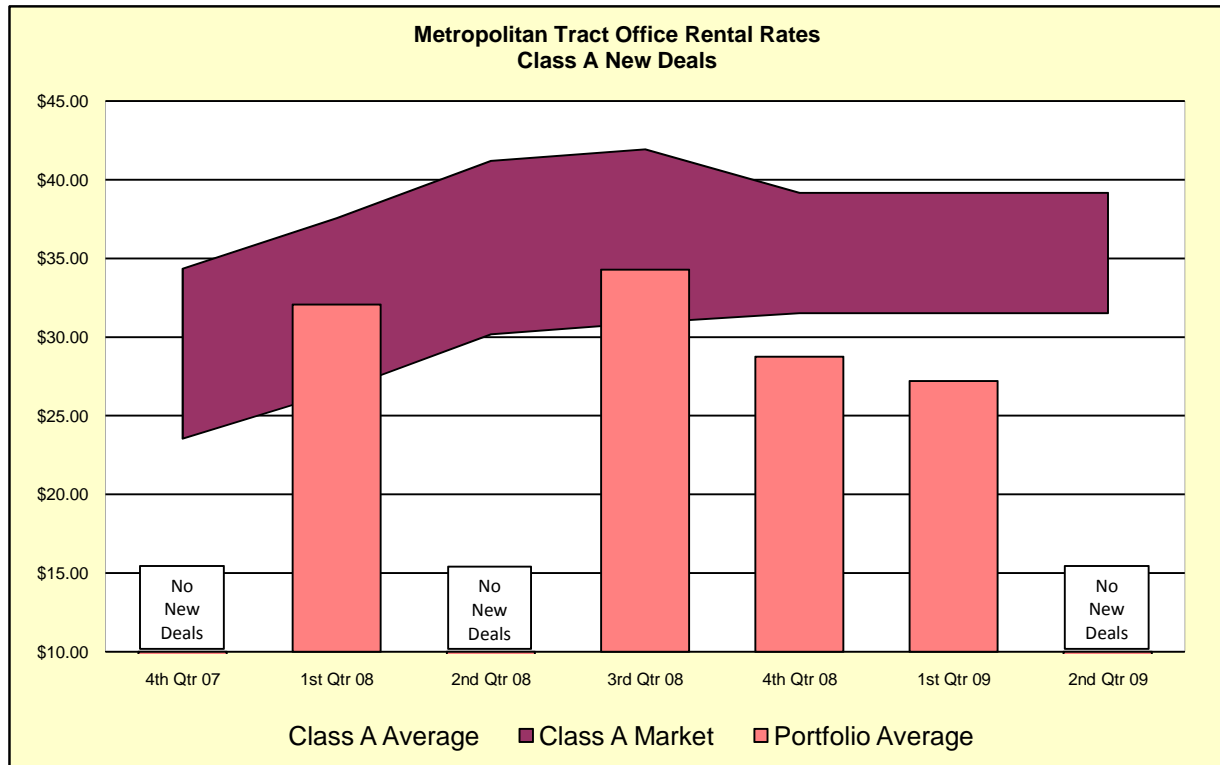
Last Eight Quarters  
Quarter Ending June 30, 2009



**OFFICE BUILDING RENTAL RATE COMPARISON**

Last Seven Quarters

Quarter Ending June 30, 2009

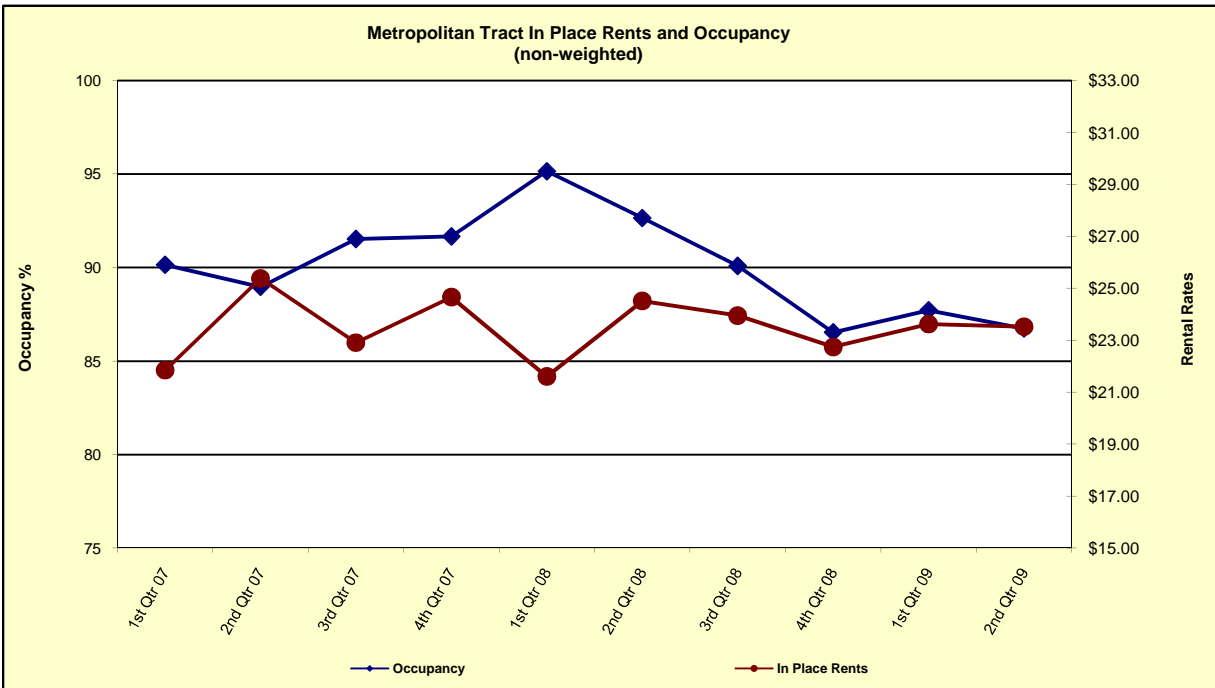


\* Completed deal for basement portion of 5th Avenue Theater

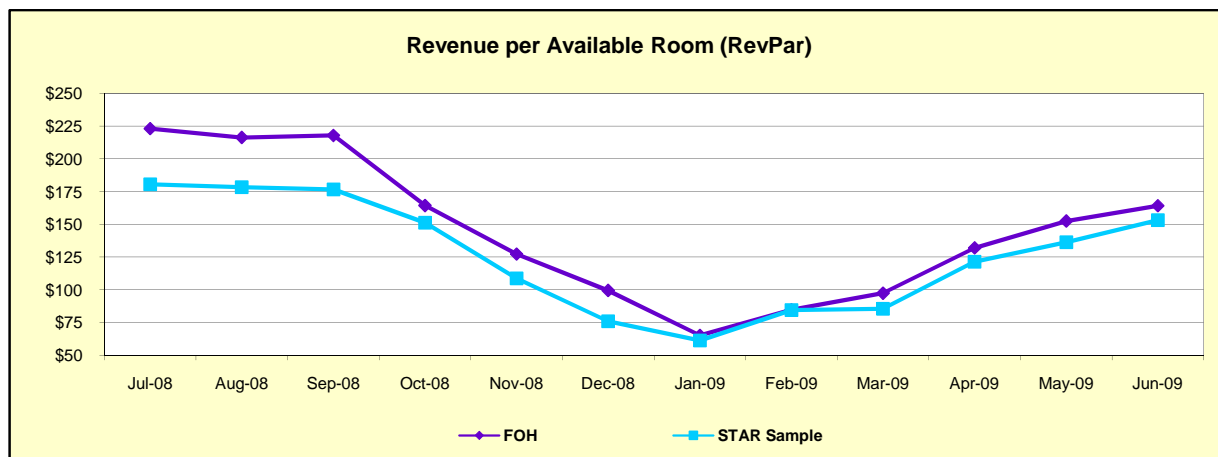
**OFFICE BUILDING RENTAL RATE COMPARISON**

Last 3 Years

Quarter Ending June 30, 2009

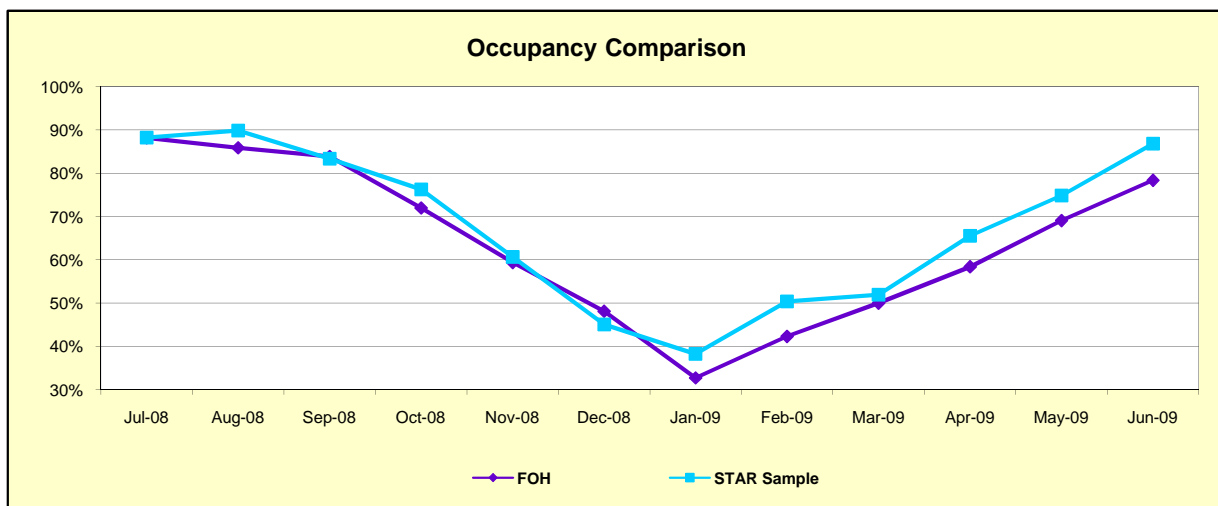


**FAIRMONT OLYMPIC HOTEL MARKET COMPARISONS**  
**Twelve Months Ended June 30, 2008**



RevPar 12-months Average	Jun-09	Jun-08	Change from Prior Year \$
FOH	\$145.43	\$160.51	(\$15.08)
STAR Sample Avg <1>	\$126.15	\$139.60	(\$13.45)

RevPar Current Month Ended	Jun-09	Jun-08	Change from Prior Year %
FOH	\$164.21	\$210.26	(\$46.05)
STAR Sample Avg <1>	\$153.09	\$173.00	(\$19.91)



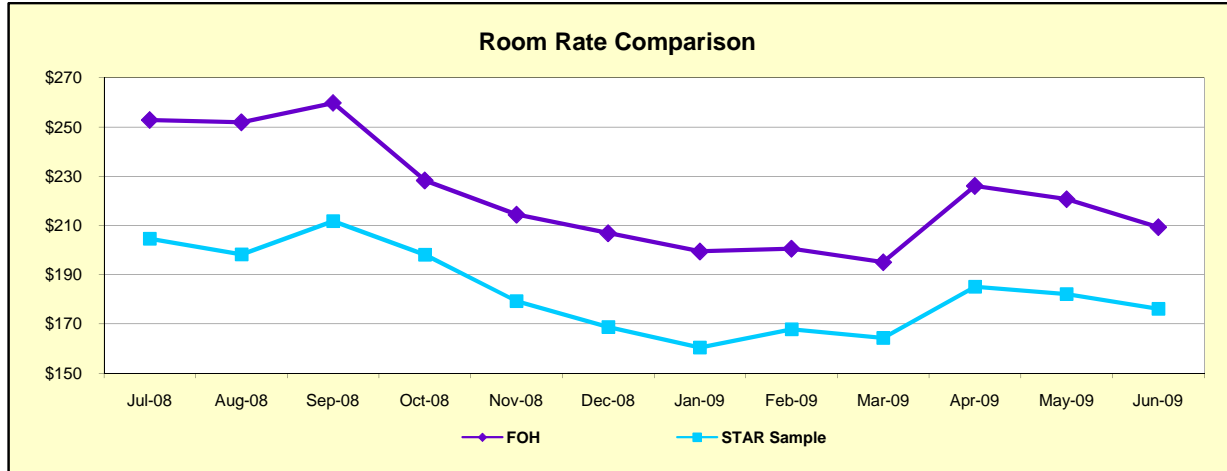
Occupancy 12-months Average	Jun-09	Jun-08	Change from Prior Year %
FOH	64.0%	68.7%	(4.7%)
STAR Sample Avg <1>	67.7%	71.5%	(3.9%)

Occupancy Current Month Ended	Jun-09	Jun-08	Change from Prior Year %
FOH	78.4%	84.8%	(6.4%)
STAR Sample Avg <1>	86.9%	85.0%	1.9%

<1> Information is based on Smith Travel Research (STAR) Report for the Sheraton Hotel, Hotel Vintage Park, Hotel Monaco, Seattle Alexis, Sorrento, Westin, W Hotel, Madison and Inn at the Market.



**FAIRMONT OLYMPIC HOTEL MARKET COMPARISONS**  
**Twelve Months Ended June 30, 2008**



Average Daily Rate 12-months Average	Jun-09	Jun-08	Change from Prior Year \$
FOH	\$222.11	\$232.65	(\$10.55)
STAR Sample Avg <1>	\$183.02	\$193.52	(\$10.50)

Average Daily Rate Month Ended	Jun-09	Jun-08	Change from Prior Year \$
FOH	\$209.34	\$247.82	(\$38.48)
STAR Sample Avg <1>	\$176.13	\$203.47	(\$27.34)

<1> Information is based on Smith Travel Research (STAR) Report for the Sheraton Hotel, Hotel Vintage Park, Hotel Monaco, Seattle Alexis, Sorrento, Westin, W Hotel, Madison and Inn at the Market.