

## VII. STANDING COMMITTEES

## C. Capital Assets Committee

UNICO Properties Inc., 2005 Capital Improvement PlanRECOMMENDED ACTION:

It is the recommendation of the Capital Assets Committee and the administration that the Board of Regents approve reimbursement of up to \$9.2 million in capital expenditures by Unico Properties, Inc., for rehabilitation and modernization projects requested in its 2004 Capital Improvement Plan for office buildings on the Metropolitan Tract. The \$9.2 million is comprised of \$6.8 million for capital improvements and up to \$2.4 million for tenant improvements.

BACKGROUND:

Under the terms of the University's lease with Unico Properties, Inc., capital improvement expenditures for purposes of rehabilitation and modernization of the Metropolitan Tract must be approved by the University. As lessor, the University is responsible for reimbursement of these expenditures.

The recommended 2005 capital expenditure request is \$9.2 million. Of this, \$6.8 million is allocated for building improvements to address systems needs in order to reduce potential liability, upgrade mechanical systems and renovate common areas. The major projects for 2005 include the restoration of the exterior of the Financial Center, the continued installation of sprinklers in the Financial Center, IBM Building and Puget Sound Plaza, the replacement of the roof the Skinner Building, an upgrade of the sidewalks at the Skinner Building and completion of the multi-tenant floor upgrades in all of the buildings. Additionally, dated vacant spaces will receive new ceilings and lights as they are leased. The remaining \$2.4 million is allocated to tenant improvements related to vacant space and expiring leases in the Tract buildings. These funds will be used to complete necessary tenant improvements to facilitate leasing and achieve targeted rental rates. Reimbursement for tenant improvements is subject to Unico achieving agreed upon rent thresholds.

Exhibit I, prepared by Urbis Partners and Heitman and attached hereto, summarizes the projected expenditures for the recommended capital improvements and tenant improvements. It also sets forth a projected 5-year capital plan for planning purposes only. Unico is required to submit its recommendations each year for approval on an annual basis.

Completion of capital improvements and tenant improvements will ensure continued competitiveness of the Metropolitan Tract, and generate a substantial net present value improvement to the University's economic position.

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#### UNICO Properties Inc., 2005 Capital Improvement Plan (continued p.2)

Urbis Partners and Heitman Real Estate Services, the University's asset managers for the Metropolitan Tract, recommend approval of a total of \$9.2 million to accomplish Unico's 2005 Capital Improvement Plan.

The 2005 Capital Improvement Plan and expenditure request has been recommended for approval by the Executive Vice President and the Director of Real Estate.

## UNICO PROPERTIES 2005 CAPITAL BUDGET SUMMARY

2005 REQUESTED APPROVAL	
Capital Improvements	\$ 6,775,076
Tenant Improvements	\$ 2,445,218
<b>TOTAL</b>	<b>\$ 9,220,294</b>

2005 Building	Capital Improvements			Tenant Improvements
	Recommended 2005 Budget	Total 5 Year Projected Capital <sup>1</sup>	Major Planned Projects	Expected Transaction Budget <sup>3</sup>
Rainier Tower	1,254,403	4,883,732	Louis Vuitton exp \$606K	371,199
Financial Center	2,259,021	17,719,445	Exterior restoration \$1.8m	73,060
IBM Building	973,304	7,547,791	Roof \$339K	1,257,282
Puget Sound Plaza	823,843	4,069,212		492,980
Skinner Building	1,439,505	10,876,134	Sidewalk upgrades \$500K, Roof \$514K	250,697
Met Tract Studies <sup>4</sup>	25,000	25,000		
<b>TOTAL</b>	<b>6,775,076</b>	<b>45,121,314</b>		<b>2,445,218</b>

<sup>1</sup> \$22.6M is attributable to major mechanical upgrades for which we are currently evaluating alternative financing mechanisms.

<sup>2</sup> Based on leasing every vacant space and renewing every tenant with a lease expiring in 2005

<sup>3</sup> Based on budgeted leasing for 2005: all vacant and expiring spaces are budgeted to be \$6.0m

<sup>4</sup> Required under Article VII of the Unico Lease

### Historical Capital Expenditures

Budget Year	Net Capital Approved <sup>1</sup>	2005 Carryover <sup>2</sup>
2004	4,200,353	898,991
2003	5,638,651	277,116
2002	5,462,369	-
2001	5,882,055	30,000
2000	10,565,288	-
<b>5 YEAR CAPITAL TOTAL</b>	<b>31,748,716</b>	<b>1,206,107</b>
<b>5 YEAR TI TOTAL</b>	<b>10,592,561</b>	<b>1,911,689</b>
<b>TOTAL</b>	<b>42,341,277</b>	<b>3,117,796</b>

### Historical Tenant Improvement Expenditures

Budget Year	TIs Approved	Completed Deals	Carryover 2005
2004	4,304,829	3,694,955	1,818,079
2003	3,792,083	3,565,817	46,307
2002	615,410	604,467	45,313
2001	2,582,022	1,943,772	-
2000	1,488,192	783,549	1,990
<b>TOTAL</b>	<b>12,782,537</b>	<b>10,592,561</b>	<b>1,911,689</b>

Other Projects	Net Capital Approved	2005 Carryover
Skinner Seismic Upgrade <sup>2</sup>	10,880,702	2,492,467
Cobb Pre-Development	403,802	
IBM Retail Pre-Development <sup>3</sup>	250,000	168,948
<b>TOTAL:</b>	<b>12,223,802</b>	<b>2,661,415</b>
<b>TOTAL All Projects</b>	<b>54,565,079</b>	<b>5,779,211</b>

<sup>1</sup> Net Capital Approved represents the actual costs to complete the projects

<sup>2</sup> Represents amount yet to be reimbursed to Unico

<sup>3</sup> Skinner Building seismic project achieved savings of \$750,000 from the initial budget

<sup>3</sup> IBM Retail Carryover amount will not be spent until project leasing has been achieved