

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee**Metropolitan Tract – 2006 Unico Capital and Tenant Improvement Budget ApprovalRECOMMENDED ACTION:

It is the recommendation of the Finance, Audit and Facilities Committee that the Board of Regents approve reimbursement of up to \$12.74 million in capital expenditures by Unico Properties, Inc., for rehabilitation and modernization projects requested in its 2006 Capital Improvement Plan for the office buildings on the Metropolitan Tract. The \$12.74 million is comprised of \$7.8 million for capital improvements and up to \$4.9 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 total 2006 capital expenditure request is \$12.74 million. Of this, \$7.8 million is for capital improvements with \$3.5 million allocated for building improvements necessary to reduce the risk of potential liability and to maintain the buildings' competitiveness in the marketplace, to be accomplished in 2006. The major projects for 2006 include the installation of sprinklers in the Financial Center, IBM Building and Puget Sound Plaza, an upgrade of the sidewalks at the IBM Building, new HVAC on the 8th floor of the Skinner Building, and completion of the common area upgrades on the multi-tenant floors in all of the buildings. Additionally, vacant spaces that are outdated will be improved with new ceilings and lights.

The remaining \$4.3 million is recommended for a major upgrade of the mechanical systems of the four high-rise buildings (Rainier Tower, Financial Center, IBM Building and Puget Sound Plaza) which will be accomplished over the next three years. The buildings' mechanical systems currently average more than 35 years old and are nearing the end of their useful lives. Over the past year, Unico engaged McKinstry to perform an in-depth evaluation of the mechanical and energy systems and to recommend upgrades for these four buildings. The goals of the project are to: design and implement energy efficient solutions prior to equipment failure, reduce capital infusion by securing utility rebates and financing a portion of the projects with operational savings gained through increased energy efficiency, address safety, code compliance and tenant comfort issues, and promote environmental stewardship and sustainable practices. McKinstry identified projects totaling \$7.1 million that met these goals. Through a combination of utility rebates and Unico-secured financing based on the operational savings, the University

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investment to complete these projects would be approximately \$4.3 million over the next three years.

The remaining \$4.9 million recommended for approval is allocated to tenant improvements related to existing vacant space and leases due to expire in 2006 in Tract buildings. Funds will be used to for tenant improvements necessary to facilitate leasing and to 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 contains a projected 5-year capital plan for information and 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.

Urbis Partners and Heitman Real Estate Services, the University's asset managers for the Metropolitan Tract, recommend approval of a total of \$12.74 million to accomplish Unico's 2006 Capital Improvement Plan.

The 2006 Unico Capital and Tenant Improvement Budget request has been recommended for approval by the Executive Vice President and the Director of Real Estate.

UNICO PROPERTIES 2006 CAPITAL BUDGET SUMMARY

2006 REQUESTED APPROVAL	
General Capital Improvements	\$ 3,453,120
Major Mechanical (3 years) ¹	\$ 4,344,876
Tenant Improvements	\$ 4,944,177
TOTAL	\$ 12,742,173

2006	Capital Improvements			Tenant Improvements	
	Recommended 2006 General Capital	Recommended 3 Year Mechanical	Total Request	Total 5 Year Projected Capital ²	Expected Transaction Budget ³
Rainier Tower	340,014	1,736,027	2,076,041	2,298,660	1,919,380
Financial Center	272,399	1,163,384	1,435,783	2,747,131	323,932
IBM Building	1,635,048	891,964	2,527,012	2,824,012	1,110,240
Puget Sound Plaza	574,562	553,502	1,128,064	1,090,211	798,022
Skinner Building	606,097		606,097	606,097	792,603
Met Tract Studies ⁴	25,000		25,000	125,000	
TOTAL	3,453,120	4,344,876	7,797,996	9,691,111	4,944,177

¹ Work to be completed from 2006 - 2008

² Additionally, we are holding approximately \$9m of projects that will only be completed in the event of Code changes or if no Rainier Square development is implemented or if revenue achieved supports optional improvements or upgrades in the future.

³ Based on 80% of budgeted leasing for 2006; all vacant and expiring spaces are budgeted to be \$8.4m

⁴ Required under Article VII of the Unico Lease

Historical Capital Expenditures

Budget Year	Net Capital Approved ¹	2006 Carryover ²
2005	3,222,639	1,253,836
2004	4,554,408	206,975
2003	4,748,669	-
2002	6,166,546	-
2001	5,911,979	-
2000	11,097,876	-
6 YEAR CAPITAL TOTAL	35,702,117	1,460,811
6 YEAR TI TOTAL	10,592,561	1,911,689
TOTAL	46,294,678	3,372,500

Historical Tenant Improvement Expenditures

Budget Year	TIs Approved (Budget)	Completed Deals (Actual)	Carryover 2006 ¹
2005	\$ 3,320,838	\$ 2,456,486	\$ 1,337,835
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
TOTAL	12,782,537	10,592,561	1,911,689

Separately Approved Projects	Net Capital Approved	2006 Carryover
Skinner Seismic Upgrade ³	9,981,400	15,000
Cobb Pre-Development	403,802	-
IBM Retail Pre-Development ⁴	250,000	165,607
TOTAL:	10,635,202	180,607
TOTAL All Projects	56,929,880	3,553,107

¹ Net Capital Approved represents the actual costs to complete the projects

² Represents amount not yet reimbursed to Unico

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

⁴ IBM Retail Carryover amount will not be spent until project leasing has been achieved