

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee****Metropolitan Tract - 2007 Unico Capital and Tenant Improvement Budget****RECOMMENDED ACTION:**

It is the recommendation of the Finance, Audit and Facilities Committee that the Board of Regents approve reimbursement of up to \$4.74 million in capital expenditures by Unico Properties, LLC, for rehabilitation and modernization projects requested in its 2007 Capital Improvement Plan for the office buildings on the Metropolitan Tract. The \$4.74 million is comprised of approximately \$1.7 million for capital improvements and up to \$3.03 million for tenant improvements.

BACKGROUND:

Under the terms of the University's lease with Unico Properties, LLC, 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 2007 capital expenditure request is \$1.7 million. Of this, approximately \$700,000 is for improvements necessary to reduce the risk of potential liability and to maintain the buildings' competitiveness in the marketplace. Major projects include the continued upgrade of common areas on a multi-tenant floor of the IBM Building, restoration of the mosaic tile exterior of Puget Sound Plaza, and securing stairwells and upgrade of the hot water riser in the Skinner Building. Approximately \$1 million is related to base building improvements to be performed in conjunction with the leasing of vacant space. These include installation of an HVAC system on the 8th floor of the Skinner Building, removal of an internal staircase in the IBM Building, and continuation of installation of sprinklers in vacant spaces in the Financial Center, IBM Building and Puget Sound Plaza.

The remaining \$3.03 million recommended for approval is allocated to tenant improvements related to existing vacant space and leases due to expire in 2007. Funds will be used 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.

Attachment A summarizes the projected expenditures and contains a projected 5-year capital plan for information purposes only. Unico is required to submit its recommendations each year for approval on an annual basis.

The 2007 Unico Capital and Tenant Improvement Budget has been recommended for approval by the Executive Vice President and the Director of Real Estate.

Attachment A: Unico Properties 2007 Capital Budget Summary

ATTACHMENT A

UNICO PROPERTIES 2007 CAPITAL BUDGET SUMMARY

2007 REQUESTED APPROVAL	
Capital Improvements	\$ 1,702,326
Tenant Improvements	\$ 3,033,723
TOTAL	\$ 4,736,048

2007 Building	Capital Improvements		Tenant Improvements
	Recommended 2007 Capital	Total 5 Year Projected Capital ¹	Expected Transaction Budget ²
Rainier Tower	18,963	1,497,544	158,550
Financial Center	161,537	3,318,319	983,000
IBM Building	370,268	1,845,655	1,073,203
Puget Sound Plaza	231,694	1,780,609	480,644
Skinner Building	894,864	1,478,614	338,326
Met Tract Studies ³	25,000	125,000	
TOTAL	1,702,326	10,045,742	3,033,723

¹ Additionally, we are holding approximately \$1.7m of projects that will only be completed in the event of Code changes and foresee some major electrical upgrades to the buildings within the next 10 years.

² Based on Unico's budgeted leasing for 2007; all vacant and expiring spaces are budgeted to be \$7.4m

³ Required under Article VII of the Unico Lease

Historical Capital Expenditures

Budget Year	Net Capital Expended ¹
2006 ²	\$ 8,101,981
2005	3,764,230
2004	4,377,295
2003	4,748,669
2002	6,195,442
2001	5,943,896
2000	11,097,876
7 YEAR CAPITAL TOTAL	44,229,389
7 YEAR TI TOTAL	21,496,182
TOTAL	65,725,570

Historical Tenant Improvement Expenditures

Budget Year	Completed Deals (Actual)
2006	\$ 5,197,611
2005	3,794,321
2004	5,513,034
2003	3,612,124
2002	649,780
2001	1,943,772
2000	785,539
TOTAL	21,496,182

Separately Approved Projects	Net Capital Approved
Skinner Seismic Upgrade ³	9,966,400
Cobb Preservation Investment	7,916,494
Cobb Pre-Development	403,802
IBM Retail Pre-Development ⁴	250,000
TOTAL:	18,536,696
TOTAL All Projects	84,262,267

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

² Includes projected major mechanical project costs less rebates and Unico-financed amounts. Does not include anticipated external financing proceeds

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

⁴ Approximately \$165,000 remains in this budget, to be spent once leasing is achieved