

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee****Metropolitan Tract – 2008 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 \$11.74 million in capital expenditures by Unico Properties, LLC, for rehabilitation and modernization projects requested in its 2008 Capital Improvement Plan for the office buildings on the Metropolitan Tract. The \$11.74 million is comprised of approximately \$3.91 million for capital improvements and up to \$7.83 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 2008 capital expenditure request is \$3.91 million. Of this, approximately \$1.4 million is for improvements necessary to reduce the risk of potential liability (such as sprinkler distribution) and to maintain competitiveness in the marketplace (such as lobbies and restrooms). Major projects include the continued upgrade of common areas on multi-tenant floors, sprinkler distribution, restoration of the mosaic tile exterior of Puget Sound Plaza, and restoration and painting of windows in the Skinner Building. Approximately \$1.7 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 replacing old ceiling and lighting systems in vacant spaces of the Financial Center, IBM Building and Puget Sound Plaza.

The remaining \$7.83 million recommended for approval is allocated to tenant improvements for existing vacant space and leases due to expire in 2008. 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 for approval on an annual basis.

The 2008 Unico Capital and Tenant Improvement Budget has been recommended for approval by the Senior Vice President of Finance and Facilities and the Director of Real Estate.

Attachment: Unico Properties 2008 Capital Budget Summary

F-3/201-08

1/17/08

ATTACHMENT A

UNICO PROPERTIES 2008 CAPITAL BUDGET SUMMARY

2008 REQUESTED APPROVAL		
Capital Improvements	\$	3,911,135
Tenant Improvements	\$	7,829,155
TOTAL	\$	11,740,290

2008	Capital Improvements		Tenant Improvements
Building	Recommended 2008 Capital ¹	Total 5 Year Projected Capital	Expected Transaction Budget ^{2,3}
Rainier Tower & Square	90,532	2,021,713	444,580
Financial Center	1,234,788	5,937,654	3,856,415
IBM Building	647,176	2,663,076	858,665
Puget Sound Plaza	786,367	2,127,278	1,818,960
Skinner Building	1,127,271	4,519,109	850,535
Met Tract Studies ⁴	25,000	125,000	
TOTAL	3,911,135	17,393,830	7,829,155

¹ The Budget includes approximately \$1.2 m of projects from the 2007 budget that were included in the 2007 budget, but not started during the year.

² Based on Unico's budgeted leasing for 2008; all vacant and expiring spaces are budgeted to be \$12.6m.

³ The amount of the expected TI expenditures for 2008 is impacted by significant 2008 lease expirations and a high volume of expected leasing.

⁴ Required under Article VII of the Unico Lease

Historical Capital Expenditures

Budget Year	Net Capital Expended ¹
2007 ²	\$ 6,649,805
2006 ²	6,572,225
2005	3,507,663
2004	4,379,878
2003	5,512,083
2002	5,450,485
2001	5,900,633
2000	10,564,627
8 YEAR CAPITAL TOTAL	48,537,399
8 YEAR TI TOTAL	23,818,243
TOTAL	72,355,641

Historical Tenant Improvement Expenditures

Budget Year	Completed Deals (Actual)
2007	\$ 2,322,061
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	23,818,243

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	90,892,338

¹ Net Capital Expended represents the actual (and, for projects in process, projected) costs to complete the projects.

² Includes major mechanical project costs less rebates received. Does not include anticipated external financing proceeds nor approximately \$800,000 of additional City Light Rebates.

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

⁴ Approximately \$135,000 remains in this budget, to be spent once leasing is achieved.