

OneBayArea

Strategic Facilities Planning Study Findings and Recommendation

Association of Bay Area Governments

November 18, 2010



Project Background

- **July 2009:** Air District's Executive Committee directed staff to explore facilities consolidation opportunities with MTC, ABAG and other public agencies
- **September 2009:** MTC Administration Committee approved staff's recommendation to participate in the project.
- **January 2010:** The Air District, MTC and ABAG executed a MOU agreeing to work jointly on a regional government facility study.
- **June 2010:** CB Richard Ellis (CBRE) awarded contract for real estate advisory services
- **July 2010:** The ABAG Executive Director discussed the project with the Executive Board and F&P Committee.
- **October 2010:** CBRE presented study findings to a joint agency Ad Hoc Committee (Chair, Vice-Chair and Executive Directors). The committee referred the presentation to each agency's governing board for action.

Study Objectives

- **Develop a real estate strategy that:**
 - Provides for Greater Building Efficiencies
 - Lessens Environmental Impact; and
 - Improves Inter-Agency Cooperation and Initiatives through consolidation



CBRE
BY RICHARD ELLIS

TENANT ADVISORY PRACTICE
Consolidation Strategy for:

The Air District, MTC & ABAG

**Strategic Facilities Planning
Project**

Phase II Study

Presented by:

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First Vice President

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Associate

November 17, 2010

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SCOPE OF WORK

Activities Completed

The Core Team has completed three segments of work, Needs Analysis, Scenario Planning & Strategy Development, which included the following activities:

- Conducted 26 interviews of executives, senior management and staff to uncover key business drivers, planning objectives and facility needs
- Toured facilities and collected baseline data on operating expenses, future capital expenditures, building efficiency, and current utilization
- Performed in-depth an Market Analysis
- Developed preliminary facility and real estate criteria
- Engaged in Scenario Planning to test proposed alternative strategies
- Developed financial analysis and recommended strategy



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KEY ISSUES



The Air District Headquarters

196 Employees housed in 82K Sq. Ft.

(344 Employees total when current vacancies and field staff are accounted for)

The Building is Obsolete

•The building is 44 years old and has not been extensively renovated in the past 20 years.

•The current layout of space is highly inefficient – averaging 420 sq. ft. per person (compared to an industry average of 225 sq. ft. per person).

•CBRE estimates over **\$300 per sq. ft. to renovate** (HVAC, Fire Sprinklers, ADA compliance, Seismic retrofit & hazardous material abatement)

•**The cost to renovate the existing building (more than \$30M) is equivalent to buying a newer facility in move-in condition.**

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KEY ISSUES



MTC/ABAG Headquarters

238 Employees housed in 77K Sq. Ft.

(256 Employees total with 18 housed offsite)

Lack of Growth Space

- The building is in good condition with minimal renovations needed (estimated at \$7.5M)
- The current layout of space is relatively inefficient – averaging 324 sq. ft. per person (compared to a industry average of 225 sq. ft. per person)
- Both MTC and ABAG fully occupy their existing space and ABAG has already expanded off-site
- Providing for additional expansion will require MTC/ABAG to fragment their occupancy into multiple sites
- *The MTC/ABAG building cannot accommodate further growth*

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KEY ISSUES

	"As is" Sale Value	"As is" Lease Rate	Annual Gross Rental Income
Air District	\$4 million	\$18.00 psf annual	\$0.9 million
MTC/ABAG	\$4 million	\$22.20 psf annual	\$1.5 million

Disposition Values

- The Air Districts building is located in a non-core office location and given current market conditions and the building's age, an investor would acquire the site for redevelopment as housing.
- The MTC/ABAG building is located just outside of the core office market but well located near BART. The disposition value for the building is depressed by current market conditions (lack of debt financing for "opportunity fund" investors), the condominium structure, and the ground lease with BART.
- BART holds a Right of First Refusal for either owning or leasing space vacated by MTC or ABAG.

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KEY PLANNING DRIVERS

Strategy Drivers

- Reflect the core values of the combined organizations
 - Improve the efficiency of the facility and “Walk the talk” (improved energy efficiency and sustainability, located close to BART)
- Promote interagency cooperation and initiatives – “One Bay Area” (promote programs and values to stakeholder, customers and public)
- Locate near amenities (urban environment that is convenient to public transportation, retail services and housing)

Fit Drivers

- Provide for current headcount plus modest growth over the next ten years (~10% growth for all agencies combined).
- Minimize disruption to employee and board member commuting patterns and promote the use of BART and other public transportation
- Combine boardrooms for all agencies into a single space and provide additional support space for training, conferences and cafeteria
- Reduce travel for board members serving on multiple boards and committees

Cost Drivers

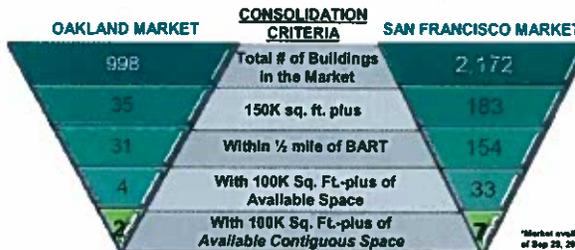
- All agencies are very cost sensitive
- Owning is preferred to leasing

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KEY PLANNING DRIVERS

Market Drivers

- Both the San Francisco and Oakland office markets are expected to “bottom-out” by first quarter of 2012
- While rents have declined almost 20%, building values have fallen over 40% (except fully leased class “A” office buildings)
- Opportunities to purchase existing buildings that are 150,000 sq. ft. or greater with 100,000 sq. ft. of contiguous availability are limited:
 - 7 existing options were identified that may meet the location criteria in San Francisco
 - 2 existing options in Oakland have been identified that may meet the selection criteria

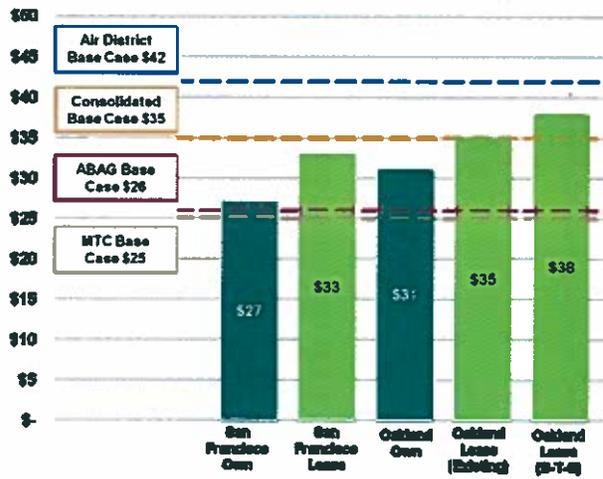


*Market availability as of Sep 23, 2010
Based on preliminary research

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FINANCIAL ANALYSIS

Cost Comparison of Scenarios (\$ per sq. ft.)



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EMPLOYEE LOCATIONS

Employee Residence by County

COUNTY										COMBINED AGENCIES
Alameda	90	52.3%	40	54.8%	59	23.4%	189	38.0%		
Contra Costa	34	19.8%	18	24.7%	41	16.3%	93	18.7%		
San Francisco	25	14.5%	10	13.7%	79	31.3%	114	22.9%		
San Mateo	5	2.9%	1	1.4%	30	11.9%	36	7.2%		
Marin	9	5.2%	2	2.7%	13	5.2%	24	4.8%		
Solano	7	4.1%	1	1.4%	7	2.8%	15	3.0%		
Sonoma	0	0%	1	1.4%	8	3.2%	9	1.8%		
Napa	0	0%	0	0%	3	1.2%	3	.6%		
Santa Clara	2	1.2%	0	0%	12	4.8%	14	2.8%		
Total	172	100%	73	100%	252	100%	512	100%		

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TRANSIT
COMMUTE
EFFECTS

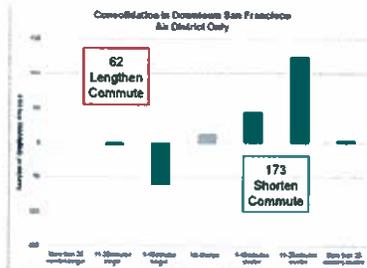
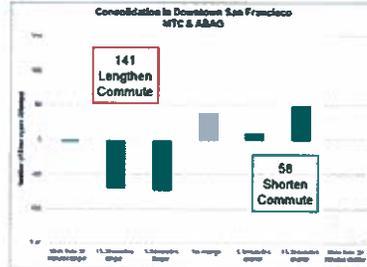
SAN FRANCISCO

Current Avg Commute Time:

51.9 Minutes

Avg Commute Time to SFD:

48.9 Minutes



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TRANSIT
COMMUTE
EFFECTS

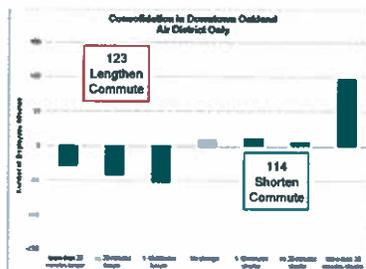
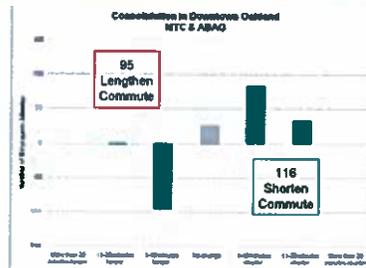
OAKLAND

Current Avg Commute Time:

51.9 Minutes

Avg Commute Time to Oak DT:

48.0 Minutes



STRATEGY

Key Findings

- 1. Consolidate occupancy**
 - Supports strategic drivers and promotes interagency synergy
 - Benefits from economies of scale
 - Carbon footprint reduction of 40% or more
- 2. San Francisco and Oakland are appropriate locations**
 - Consolidations in either San Francisco or Oakland with close proximity to BART and other transportation will have little adverse impact on any of the agencies
 - Currently, existing opportunities exist in both markets
- 3. Develop specific options in the Market**
 - Engage outside support to run a competitive process with existing options
 - Team to negotiate a non binding "letter of intent" with best option
 - Provide board with results for review and approval of next steps

Recommendation

- **Subject to Approval by Each Agency's Governing Board:**
 - Proceed with the next phase of the consolidation strategy and pursue specific options in the Oakland and San Francisco markets for a joint regional facility with the BAAQMD and MTC.