

Kate Berens

From: McCommon, Nathan
Sent: Tuesday, July 31, 2018 4:43 PM
To: Council <Council@bellevuewa.gov>
Cc: Leland, Laurie <LLeland@bellevuewa.gov>
Subject: RE: Pulled from Consent - Azose Property Management Agreement (7-17-2018)

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Mayor Chelminiak and Members of City Council:

Following the initial e-mail, staff received a request for the amount of rentable space and commercial rent collection at Lincoln Center outside of the portion that CFH occupies.

Space Usage			
CFH Occupancy	8,532	sf	20%
6 Other Tenants	5,000	sf	12%
Actively Marketed	<u>28,207</u>	sf	68%
Total Building	41,739	sf	100%

In addition to CFH, six commercial tenants occupy the building. There is also a lease to one contractor of Sound Transit for parking only.

The vendor is working on one new lease and one renewal that will increase the occupancy by another 2,000 square feet. Following completion of those leases, the building's gross revenue will be approximately \$20,000 per month. After paying the management fee is \$2,500 per month, the City will have \$17,500 in lease revenue per month to devote to operating expenses.

Feel free to contact me at (425) 240-4077 if you have any other question.

Sincerely,

Nathan D. McCommon

Deputy City Manager
City of Bellevue
(425) 452-4194

From: McCommon, Nathan
Sent: Monday, July 30, 2018 4:23 PM
To: Council <Council@bellevuewa.gov>
Cc: Leland, Laurie <LLeland@bellevuewa.gov>
Subject: Pulled from Consent - Azose Property Management Agreement (7-17-2018)

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Mayor Chelminiak and Members of City Council:

Staff received questions from Councilmembers about an agreement that was pulled from the Consent Calendar at the most recent regular session. Additional context and responses to those questions are provided below.

Process and Purpose of the Agreement

- Due to an expiring agreement for the management of the Lincoln Center property, staff publicly advertised for a vendor that would have the specialized expertise to lease and manage the property on behalf of the City.
- The advertisement was consistent the provisions and restrictions of the Procurement Policy.
- Azose Property Management succeeded in demonstrating the best ability for the service.
- Primary responsibilities of the vendor are to
 - Manage existing leases,
 - Lease out vacant spaces,
 - Market the property, and
 - Manage the building's operations, maintenance, repairs and tenant improvements.

Questions and Answers about Agreement Terms

Q: What does the City get for \$1.5 million?

A: The not-to-exceed amount covers five years of time, including 3 years as base term and 2 years of an extended term. This agreement estimates total potential expenses to the City through payments for the management fee, operations, maintenance, leasing, tenant improvements, and emergency repairs. The chart below separates the eligible expense categories over time.

	Annual	3 Years	+2 Years	5 Years
Property Management Services	Amount	Base Term	Renewed Term	Full Term
Management Fee	\$30,000	\$90,000	\$60,000	\$150,000
Operations, Maintenance, and Leasing	170,000	510,000	340,000	850,000
Emergency Repairs Contingency	<u>100,000</u>	<u>300,000</u>	<u>200,000</u>	<u>500,000</u>
	\$300,000	\$900,000	\$600,000	\$1,500,000

The only guaranteed income to the vendor from the City is the management fee of \$2,500 per month or \$30,000 per year. Eligible operations, maintenance, tenant improvement and leasing expenses are paid up front by the vendor and submitted for reimbursement by the City. Provided that the property experiences no significant calamity, actual expenses will be less than the total allowable under the agreement.

Q: How does the vendor make money from this agreement?

A: The vendor receives the management fee, a share of revenues from tenant leases, and a fee to oversee a contractor for major construction. These terms are identical to the prior property management agreement and are shown below:

Management Fee: \$2,500 per month or 4.0% of gross lease collections, whichever is greater.

Commissions:

New Lease 5.0%

Renewed Lease 2.5%
Major Construction: 5.0% of job for oversight of contractor

Q: How much money did the prior agreement pay the vendor?

A: The prior agreement paid an average of \$35,441 per year. Over four years, the vendor earned a total of \$141,763, which included management fees of \$129,103 and commissions of \$12,660.

Q: How much were operational expenses for the property that were not income to the vendor?

A: Of the not-to-exceed \$3 million over four years for two buildings, expenses for operations, leasing, maintenance, repairs, and improvements added to \$1,028,325 or 34.3% of the contract limit.

Q: How is the vendor held accountable to do the work we expect from this agreement?

A: The agreement provides the parameters for transacting money, managing tenants, making repairs, and reporting. All leases are reviewed by City staff and require signature by the City. The vendor may perform building repairs with approval from staff which verifies eligible work that conforms to the terms of this agreement. In addition, collections of money come to the City first and then are remitted to the vendor in the form of commission or reimbursement. The city receives a monthly reconciliation of revenues and expenditures, which is reviewed by our property agent and fiscal staff. Thus, the financial disbursements to the vendor are fully controlled by the City.

I trust that these responses are helpful to you.

Sincerely,

Nathan D. McCommon

Deputy City Manager

City of Bellevue

Desk: (425) 452-4194

bellevuewa.gov

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