

## CITY COUNCIL STUDY SESSION

Resolution authorizing execution of a three-year professional services agreement, with an option to renew for two additional years, with Azose Commercial Properties for the management and leasing of the City's Lincoln Center property, in an amount not to exceed \$1,500,000, plus all applicable taxes.

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## EXECUTIVE SUMMARY

In advance of the expiration of the City's existing agreement for property management services, the City conducted a Request for Proposal (RFP) process to secure a new agreement. The deadline for response to this RFP was May 17 and two firms responded to the City's request. Azose Commercial Properties was most qualified, as they demonstrated the best ability to market, manage tenants, maintain low overhead costs, grow lease revenue, and manage physical maintenance of Lincoln Center in the best interests of the City. The proposed agreement was presented to the Council, generating a number of questions. Councilmembers were interested in clarification about the financial performance of the Lincoln Center property, the performance of the vendor, and the purpose of owning the property. Councilmembers also expressed interest to hear a comparison of options to manage the property. Following discussion, staff committed to use the dialogue to inform consideration at a future meeting.

## RECOMMENDATION

Move to adopt Resolution No. 9480.

If approved, effective date: 10/22/2018

## BACKGROUND/ANALYSIS

Attached are documents that provide additional background, context, and terms of the agreement, which will not be repeated in the content of this current agenda memorandum.

The terms and provisions of this pending agreement are comparable to prior agreements since the time that the City acquired the property in 2008. While the City strategically purchased the Lincoln Center property for future public purposes, management of the building with tenants provides for interim productive uses, both private and public. Staff recommends approval of the agreement as a cost effective way to accomplish interim public objectives while the final public use of the property remains under consideration. Please note these highlights:

1. The Lincoln Center property pays for itself without subsidy.
2. The terms of the property management agreement are fair, industry standard, and have been tested by the market as affirmed in this most recent public advertisement.
3. The marketing of the property is active and a lease was recently executed and another renewal lease is expected to close soon. Pursuit of start-ups, small, and local business continues.
4. Ownership of Lincoln Center remains of significant public value. This property remains a key location in planning the Grand Connection. It provided space for East Link construction. Leasing

reserves, not the General Fund, paid for significant code and safety improvements in order to serve both the year-round men's day center and the emergency winter shelter.

5. Alternatives for managing the property are described in more detail in the memorandum.
6. The proposed professional services agreement includes a provision that it may be terminated by either party without cause upon thirty days' written notice. This provides maximum flexibility for the City so that if plans change and it no longer makes financial sense to operate the property as we have been, the City may cancel the agreement.

### Financial Performance of the Property

The property pays for itself.

For the ten years of City ownership, revenues have covered operating expenses and have required no subsidy from taxpayer resources such as the General Fund. While not a high-performing property, lease revenues are projected to continue covering expenses. Note the two projection scenarios in the table.

While these projections are for one year, estimating over five years ranges from "low growth" reserves of \$90,500 to "max occupancy" reserves of \$680,000.

The agreement provides for the expense latitude to lease all spaces with associated maintenance costs plus contingency for unforeseen emergencies.

See Attachment E for a detailed graph of revenues and expenses.

### Performance of the Vendor

The current vendor and prior vendors have served the City's interests well in the full range of services as required by the agreement. In addition to normal marketing, tenant management, and grounds/building maintenance, they have adapted for special City interests. Most notable examples are 1)

assisting City staff in economic development efforts to attract and accommodate Impact Hub as a business incubator, 2) managing the transition of tenants in order to demolish the north building for Sound Transit construction, and 3) providing specialized expertise to be responsive to the unique services of the men's day center and emergency winter shelter.

Since the Council meeting of September 10, Azose Commercial Properties has executed a new commercial lease and expects to close soon on one renewal, for a total of seven in addition to the lease with Congregations for the Homeless (CFH). Another new lease is pending completion.

Annual Projection	Low Growth	Max Occupancy
<b>Revenues</b>		
Lease Rents	\$ 260,000	\$ 470,000
<b>Expenses</b>		
<b>Paid Under Contract</b>		
Management Fees/Commissions	\$ 35,000	\$ 44,000
Tenant Improvements	5,000	20,000
Maintenance & Repairs	<u>85,000</u>	<u>130,000</u>
	\$ 125,000	\$ 194,000
<b>Paid Outside of Contract</b>		
City Oversight & Accounting	\$ 24,000	\$ 30,000
Utility Services	<u>92,900</u>	<u>110,000</u>
	\$ 116,900	\$ 140,000
<b>Total Expenses</b>	<b>\$ 241,900</b>	<b>\$ 334,000</b>
<b>Reserves</b>	<b>\$ 18,100</b>	<b>\$ 136,000</b>

## **Public Value**

In 2008, the City purchased this property when the market was low because of its strategic location for future public purposes. In the interim, lease rents have successfully maintained the property to cause no burden on taxpayer resources such as from the General Fund.

The property has already contributed public value in two ways:

1. A flexible property management agreement and ownership allowed the City the opportunity to enter a memorandum of understanding with Sound Transit and to be responsive by demolishing the north building to advance construction for light rail transit.
2. The vendor has adapted services to be particularly attentive to CFH and its clients. The vendor charges a discount rent of less than half of market rate. Most of all, the lease reserves, combined with donated labor and materials arranged by Building Owners and Managers Association, paid for the significant life-safety and building-code renovations that CFH desperately needed. None of these costs were a burden on the General Fund.

Planning for the Grand Connection has continually considered this property important.

See Attachment F for further detail on City ownership.

## **Analysis of Management Options**

There are currently seven commercial tenants and one nonprofit (CFH) at Lincoln Center.

### Contracted Management

- Contracting property management buys expertise and a depth of resources, at a fair price to the City, that the City does not otherwise possess. On average, the City pays approximately \$35,000 per year to the vendor or less than one third the cost of one City staff to perform the work.
- Contracted management provides significant flexibility, especially while final public use remains under consideration, including the possibility to no longer need commercial property leasing expertise.
- Lease revenues have sustained the needs of the property without subsidy.
- Lease revenues provided for the special renovations that serve CFH.
- A vendor may access market tools and listing services that City staff cannot access.
- This has been a successful practice throughout City ownership.

### In-House Management

- To buy the same expertise by hiring staff, the cost would be more (approximately \$75,000) than three times that of the contracted expertise, including salary, benefits, and tools.
- All other costs would remain the same except for the elimination of City staff oversight, approximately \$15,000 less.
- Additional funding of approximately \$60,000 would be needed to launch this method.

- To hire commercial leasing expertise would take about nine to twelve months, assuming the recruitment would be successful the first time. Some steps would be necessary in advance of the initial advertisement of the position:
  - Licensing and registering the City as a commercial real property brokerage
  - Classification of such a position
  - Analyzing the salary market
  - Crafting a job description
  - Getting authorization to add the position
- An agreement extension with the current vendor would be essential during the interim.
- If the City's future purposes for the property would no longer need this expertise, it would prompt a layoff of the position and no further need for the tools.

**Reduce Property Management:** Termination of all commercial leases and keep CFH

- Due to the terms of our existing leases, it would take approximately six months to terminate these leases.
- The lease revenue would decline to approximately \$65,000 per year while the total cost to operate the building would be approximately \$165,000 per year. This \$100,000 difference would need subsidy from the General Fund.
- This option would discontinue the use of the vendor and have City staff attend to CFH.
- Additional contracts will be needed to perform various technical and maintenance work.
- The job order contract could respond to some maintenance and repairs.

**Eliminate Property Management:** Termination of all leases and demolition

- All of the existing leases contain a provision allowing cancellation within six months if the building is scheduled for demolition.
- Demolition would cost approximately \$500,000. The majority of those costs would be paid from the General Fund.
- All utilities would be capped.
- Some modest grounds maintenance would continue.
- The interim men's day center and emergency winter shelter would both move elsewhere.

## **POLICY & FISCAL IMPACTS**

**Bellevue City Code**

BCC 4.28 provides for the fair and equitable treatment of all persons involved in the purchasing process. Council approval is required for contracts in excess of \$90,000.

**Public Policy**

In 2008, the City Council authorized the purchase of the Lincoln Center property in anticipation of public uses on the property and neighboring properties.

**Fiscal Impacts**

Approval of this action obligates the City to a three-year professional services agreement with an option to renew for two additional years with Azose Commercial Properties for a total agreement amount not to exceed \$1,500,000, plus all applicable taxes.

All anticipated costs are fully funded in the 2017-2018 Budget by lease revenue generated by the property and reserves held within the Land Purchase Revolving Fund. Additional funding will be requested in the 2019-2020 Budget and will be subject to final budget appropriation.

## **OPTIONS**

1. Adopt the Resolution authorizing execution of a three-year professional services agreement, with an option to renew for two additional years, with Azose Commercial Properties for the management and leasing of the City's Lincoln Center property, in an amount not to exceed \$1,500,000, plus all applicable taxes.
2. Direct staff to execute a short-term contract extension with Azose Commercial Properties, hire new staffing for the management of Lincoln Center, pursue licensing the City as a commercial real estate brokerage, and seek additional funding from Council.
3. Direct staff to terminate all existing commercial leases, manage Lincoln Center with Congregations for the Homeless as the sole tenant, and seek additional funding from Council.
4. Direct staff to terminate all leases at Lincoln Center, terminate the agreement with the vendor, demolish the building, and seek additional funding from Council.

## **ATTACHMENTS & AVAILABLE DOCUMENTS**

- A. E-mail response to questions, July 31, 2018
  - B. E-mail response to questions, September 10, 2018
  - C. Agenda Memorandum, July 16, 2018
  - D. Agenda Memorandum, September 10, 2018
  - E. Detail of Financial Performance
  - F. Detail of City Ownership
  - G. Vicinity map
- Proposed Resolution No. 9480

## **AVAILABLE IN COUNCIL LIBRARY**

Proposed Professional Services Agreement