

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** June 16, 2010

Agenda Item: Wells Fargo Place Lease

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda: Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires Board of Trustees approval of all contracts, including leases, valued greater than \$3 million.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – Chief Financial Officer
Allan Johnson, Associate Vice Chancellor

Outline of Key Points/Policy Issues: The Office of the Chancellor started exploring the idea of restructuring the Wells Fargo Place lease over one year ago in response to operating budget reductions and a more favorable commercial real estate market that made the building ownership receptive to a restructured lease. Under the lease proposal contained in **Attachment B**, the Office of the Chancellor would extend the lease term another seven (7) years, from July 1, 2015 to July 31, 2022. In exchange, the 7th floor would be given back to the building at no penalty.

Background Information: The Office of the Chancellor currently leases 103,126 sq. ft. at Wells Fargo Place. The Office of the Chancellor has had a presence in Wells Fargo Place since 1996. The last major lease event involved the relocation of the Midway/Energy Park staff to Wells Fargo Place in 2005. At the time of the 2005 relocation to Wells Fargo Place, a new lease was executed, and a new ten (10) year term was established from August 1, 2005 to July 31, 2015.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

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| ACTION ITEM |
| Wells Fargo Place Lease |

BACKGROUND

The Vice Chancellor – Chief Financial Officer started exploring the idea of restructuring the Wells Fargo Place lease over one year ago in response to operating budget reductions and a more favorable commercial real estate market that made the building ownership receptive to a restructured lease. The Chair and Vice Chair of the Finance, Facilities and Technology committee have been consulted throughout the negotiations. The Chair of the Board has also been periodically apprised of the negotiations.

The Office of the Chancellor has had a presence at Wells Fargo Place since 1996, and currently occupies 103,126 sq. ft. of office and meeting space, including portions of the atrium on the 2nd and 3rd floors, and tower space on floors 3 through 7. The current lease provides space for the Board of Trustees, approximately 304 employees and related support space. Current capacity at Wells Fargo Place is a total of 339 cubicles and offices.

The last major lease event involved the relocation of the Midway/Energy Park staff to Wells Fargo Place in 2005, which included revising the lease at Wells Fargo Place by approximately 51,000 sq. ft. At the time of the 2005 relocation to Wells Fargo Place, a new lease was executed, and a new ten (10) year term was established from August 1, 2005 to July 31, 2015. A summary of the current lease terms are contained in **Attachment A**.

There are also approximately 100 Office of the Chancellor personnel, mostly ITS and a few internal auditor staff that are located in space outside of Wells Fargo Place. The locations include a mix of campus owned and commercially leased space, including:

ITS

- 17,350 sq. ft. in the lower level of the Management Education Center building on the Minneapolis Community and Technical College campus, 1,152 sq. ft. in Eveleth at the Mesabi Range Community and Technical College, and 2400 sq. ft. at Minnesota West Community and Technical College campus in Granite Falls.
- Leased space in Waite Park/St. Cloud (8,476 sq. ft.), in Moorhead (3,009 sq. ft.), and at the main data center at the University of Minnesota’s West Bank Office Building (2,274 sq. ft.)

Internal Auditors

- Internal auditors are located at Riverland College in Owatonna, Hibbing Community College and at Minneapolis Community and Technical College.

RESTRUCTURED LEASE PROPOSAL

The Office of the Chancellor hired a real estate consulting firm to initiate discussions with the building owners in early 2009 regarding their willingness to restructure the current lease and achieve cost savings. Motivation for restructuring the lease now is that it would settle the lease issue in advance of a new chancellor's arrival and would eliminate the time and cost of a new space search, negotiations, and the disruption of employee relocation.

Early negotiations with building ownership focused on rent abatement that could give short-term, up-front rent relief, similar to what was achieved in 2005, plus an option to give up square footage at some time in the future. Building ownership balked at both up-front rent abatement and reduction in square footage. Continued negotiations resulted in the proposal before the committee today.

Under the lease proposal contained in **Attachment B**, the Office of the Chancellor would extend the lease term another seven (7) years, from August 1, 2015 to July 31, 2022 and, in exchange, the 7th floor would be given back to the building at no penalty. This translates to a reduction of 14,113 square feet effective January 1, 2012. Ordinarily, the lease would have required the payment of a pro-rata termination penalty. Elimination of the penalty, saves the Office of the Chancellor approximately \$200,000-\$300,000. Analysis of space needs and remaining capacity support the ability to eliminate this square footage.

There will be costs to reconfigure the remaining Office of the Chancellor space to absorb the occupants from the 7th floor. Those costs are not yet fully known. In anticipation of such costs, the building will reimburse the Office of the Chancellor costs incurred for planning, reconfiguring and moving out of the 7th floor space up to \$10 per square foot (approximately \$890,000). Any allowance not used for planning, moving or reconfiguration costs would be available for rent abatement later in the lease (after 2016).

The give back of the 7th floor achieves an initial cost savings during the remainder of the existing lease term of \$1.4 million from January 1, 2012 – July 31, 2015. The square footage reductions create an average rent savings over the term of approximately \$500,000 per year or roughly \$6 million from 2012-2022.

In gross rent terms, the effective average per square foot rent rate remains stable or slightly above what is projected if the lease continued without change. For the remainder of the existing lease term (2010-2015), the per square foot rent averages \$27.14. The proposed new lease costs an average of \$29.38 per square foot, assuming a 3% annual operating cost increase. The base rent rate increases \$1.50 per foot from 2011 to 2022.

PLANNING FRAMEWORK AND ON-GOING WORK

A lease amendment will be prepared to formalize the terms and conditions of the lease. Shortly thereafter, staff will begin planning the reconfiguration of Office of the Chancellor space. Planning work will commence from January to June 2011 and it is expected that phased moves would occur from July through December 2011. Move out and return of the 7th floor to the building would be complete as of December 31, 2011.

The planning work will take a fresh look at space configurations in the Office of the Chancellor, and will include the Minneapolis Community and Technical College space partially occupied by ITS. Plans will take into account currently existing infrastructure, and will attempt to locate units that would benefit from being co-located on the same floor or same areas.

RECOMMENDED COMMITTEE MOTION

The Finance, Facilities and Technology Committee recommends that the Board of Trustees approve the following motion:

The Board of Trustees authorizes the chancellor or his designee to execute a lease amendment with Unilev Management Corporation or its successor consistent with the terms summarized in **Attachment B** and outlined in the Letter of Intent between the two parties dated May 17, 2010.

RECOMMENDED MOTION

The Board of Trustees authorizes the chancellor or his designee to execute a lease amendment with Unilev Management Corporation or its successor consistent with the terms summarized in **Attachment B** and outlined in the Letter of Intent between the two parties dated May 17, 2010.

Date Presented to the Board: June 16, 2010

Current Lease Terms

Leased Premises: 103,126 rentable square feet
Term: 10 years (August 1, 2005 – July 31, 2015)
Years Left in Term: 5 years
Average Rent:
Overall: \$23.13 per square foot* (rent + operating expenses)**
\$2,385,691 per year*
\$23,856,915 total rent

Cost Breakout:

2005-2010: \$19.13 psf** (\$9.15 blended net)
\$1,972,505/yr.**
\$9,862,524 total

2011-2015: \$27.14 psf* (\$12.24 blended net)
\$2,798,878/yr.*
\$13,994,392 total

* assumes 3% increase in operating costs for remainder of term

** Includes free rent and reduced operating costs in atrium for first 2 years

PROPOSED LEASE TERMS

Extension Term (2010 – 2022)

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| Extension: | 7 years (August 1, 2015 – July 31, 2022) |
| Total Sq. Ft: | 89,013 sq. ft. |
| Rent Abatement: | Any funds left over from the reconfiguration applied toward rent abatement after 1/1/17 |
| Net Base Rent: | 2016-17: \$13.00 per rentable square foot. 2018-19: \$13.25 per rentable square foot. 2020-21: \$13.50 per rentable square foot. 2022: \$13.75 per rentable square foot. |
| Operating Expense: | From the lease commencement date, Tenant shall continue to pay its proportionate share of real estate taxes and operating expenses of the building. (2010 estimates: \$14.32 per square foot). |
| Ave Rent: | \$29.38 per square foot (rent + operating expenses) \$2,682,724 per year |
| Termination: | There shall be no termination fee payable for the “turn back” of the 7 th floor. Existing lease termination penalty shall remain in place through 7/31/15. TIs and Commissions paid shall be added to the penalty amount and remain in full until 8/1/15 at which time they will be amortized over the remaining lease term at 8%. |

Summary (2010 – 2022)

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| Costs/Status Quo: | \$40,224,800 |
| Costs without 7 th floor: | \$34,875,414 |
| No 7 th Floor + rent abatement: | \$33,985,284 |
| Net Cost Savings: | \$6,239,516 |

Summary includes necessary base rent rate and operating cost assumptions over the term