

September 8, 2005

To: LCOG Executive Committee
From: Bob Swank
Subject: LCOG Owned Real Estate

ACTION REQUESTED:

Define the process for decisions about LCOG owned real estate, from deciding to sell to negotiations to accepting an offer to buy.

BACKGROUND

LCOG owns two office buildings, the Schaefers Building in downtown Eugene and the former Washington Mutual Building next to the Springfield City Hall. Both buildings have worked well for LCOG, but they both now have vacancies that will result in negative annual cash flows. The potential negative cash flows require that LCOG consider what should be done with these properties to best serve the agency, and the process that should be followed to make decisions about the buildings.

SPRINGFIELD BUILDING (former WASHINGTON MUTUAL BUILDING)

LCOG purchased the building about six years ago to provide needed office space for the Senior & Disabled Services Division. Following the purchase, LCOG made substantial improvements to the building. After four years of occupancy by S&DS the economic downturn caused a significant reduction in staff that resulted in S&DS vacating the Springfield Building. The Oregon Department of Transportation leases the east half of the building. But the 12,000+ square feet that S&DS occupied (the west half of the building) has been vacant for the past two years. The space has been advertised as available and there have been several expressions of interest in leasing the vacant space and some in buying the building. Current projections indicate that S&DS will not need the office space for at least four years, and maybe longer. With the vacancy, the building runs about a \$40,000 a year deficit. Based on a simple estimate, the building is worth about \$2,500,000. The outstanding mortgage balance is about \$1,200,000 with a 7% interest rate, so refinancing is not likely to save very much money. Should LCOG:

1. Continue to own the building, continue to try to lease it, and plan for an annual \$40,000 deficit?
2. Actively try to sell the building. ODOT, the City of Springfield and Willamalane have all expressed interest in purchasing the building, but no serious offers have been developed.

SCHAEFERS BUILDING

LCOG S&DS has occupied portions of the Schaefers Building since 1987. S&DS currently occupies the first two floors and the third floor is vacant. The third floor is about 12,000 square

feet. The agency purchased the building in 1991 and refinanced it with Lane County bonds in 1993. The current debt is about \$1,300,000 while the building has a value in excess of \$3,500,000. The building works well for S&DS, so there are no plans to look for other space. The third floor is very attractive office space that has only been on the market for a few months so it is too soon to have an idea of how long it will take to lease the space. If it is not leased LCOG will have a \$150,000 annual deficit.

Another complicating issue is that S&DS can only pay occupancy costs for the space that it occupies because federal accounting rules prohibit an agency from leasing space to itself with federal dollars. This means that LCOG will need to refinance or sell the building prior to the payoff of the debt on the building, which will happen in 2014. Refinancing seems like a simple choice, but the third floor may be most attractive to a business that wants to own its own building. If a sale were considered, S&DS could continue its occupancy by signing a long term lease for the space prior to the sale. Another direction for LCOG's use of the building could be for S&DS to plan to expand to the third floor when it needs more space rather than using the Springfield building. Options:

1. Continue to try to lease the space.
2. Expand S&DS space to include the third floor.
3. Advertise the building for sale.

ISSUES

1. LCOG cannot afford a \$200,000 a year negative cash flow from real estate.
2. The process to follow to sell one of the buildings. What role should the LCOG Board, the Executive Committee and LCOG staff each have in the process of selling LCOG real estate? It is straightforward to request approval from the Board to sell a building. The process to negotiate and approve a sale needs to be defined.