Efficient Management of a Real Estate Portfolio

Commonwealth of Virginia
Department of General Services
Division of Real Estate Services

June 13, 2017

Holly Law Eve, CCIM
Director, DGS Division Real Estate Services

- More than 30 years of experience in the corporate and commercial real estate finance industry
- Experience includes corporate property management; commercial/construction loan origination, administration and servicing; lease and site acquisition negotiation; recovery management and liquidation of non-performing loans and real estate owned assets
- Virginia Tech and Virginia Commonwealth University Graduate
- Lifelong Virginia resident who enjoys water sports and is a Red Cross Water Safety Instructor and an Advanced Open Water Scuba Instructor
Karl Saimre
Manager, Leased Real Property
- Joined Virginia's Division of Real Estate Services (DRES) team in 2010
- Serves as the Manager for Leased Real Property overseeing +/- 490 commercial leases with an annual value of $64 million
- Prior to joining DRES, Karl spent 5 years in a California commercial real estate firm focusing on leasing, property management, new development and affordable housing
- Karl holds an Operations Management degree from the University of Delaware, a MBA from the University of Hawaii and a Masters of International Management from Thunderbird Global School of Management

Michael Nolan
Transaction Manager, Owned Team
- Joined Virginia's Division of Real Estate Services (DRES) after a rewarding and diverse stint in the fast-paced world of New Jersey land development and real estate
- Brings over 30 years' experience in land development, construction; acquisition, conveyance and leasing; site planning design; and land use/zoning review and approvals.
- Has expertise in land title and use rights including various forms of ownership, easements, grants, licenses, encumbrances, use restrictions and zoning rights
- Previously, Mike was a partner in an engineering and architecture firm, served as chairman of his local Zoning Board of Adjustment and worked for a commercial real estate broker.

Seletra Sutherland
Transaction Manager, Owned Team
- Joined the Virginia's Division of Real Estate Services (DRES) in September 2015 following an exciting career in the private sector real estate industry
- As a licensed real estate Broker, she brings over 10 years’ experience in commercial and residential acquisitions, sales, property management and leasing
- Owned and operated a real estate firm that specialized in the development and management of commercial mixed-use historic renovation properties
- Holds a B.A. degree from the University of Maryland, College Park and she is currently pursuing a Master of Public Administration degree from Virginia Commonwealth University's Graduate School of Government and Public Affairs
- Brings a customer centered approach to her role as Transaction Manager with DRES
Vendor Contracts

- Broker – Divaris Real Estate, Inc.
- Appraisers
- Title Companies
- DGS Division of Engineering and Buildings Professional and Non-Professional Contracts

Real Estate of the Commonwealth

Executive Order 75 – issued on June 22, 2004

Establish a unified and fully integrated real estate portfolio management system for the agencies and institutions of the Executive Department, based on the following enterprise-wide goals:
- Increase collocation and bargaining power
- Decrease total and per-person space allocations
- Reduce total costs
- Maintain agency security and operational needs
- Augment or maintain agency functional space and real property services

Authority

Efficient Management of a Real Estate Portfolio

Tuesday, June 13, 2017 – 8:30am-9:30am
Services Provided to Agency Customers

- Strategic portfolio management
- Property acquisition services/management
- Request for Proposal drafting, distribution and review
- Space programming/planning
- Financial modeling
- Lease negotiation
- Lease drafting
- Agency advocate in approval process
- Lease Administration
- Real estate information systems
- Surplus real property disposal

Real Estate Portfolio

- 425,000 square feet
- 11,000 square feet
- 15 million
- 500 locations
- $137 million

Customer:

- Lease negotiation
- Lease drafting
- Agency advocate in approval process
- Lease Administration
- Real estate information systems
- Surplus real property disposal
Efficient Lease Management

Karl Saimre

Lease – Goals

• Right size at the right time to deliver the right service
• Optimization for 34 customer Agencies
• Understand service delivery models
• Understand agency objectives & changes to service models
• Provide real estate solutions to assist with Agency service delivery
• Cost and Space Optimization of the COVA portfolio
• 497 leases in 156 communities

Lease – Challenges

• Agency Budget variations
• Decentralized Funding
• Decentralized Agency Decision making
• Non – Appropriation language
• Landlord Variations from REITs to mom and pops
• Current Workplace vs. Workforce Trends
Lease – Efficiency Practices

- Use of Commercial Brokers – added value
- Dedicated Lease Administration – added value
- Critical Lease Date tracking – proactive vs. reactive
- Co-locations / Consolidations – cost sharing
- Bundling Requirements – market purchasing power
- Space planning – program delivery models – space optimization
- Full service turnkey leases – reduce variable cost risk
- Flat Rents throughout the term – reduce CPI & budget risk
- Term Renewal & Options to extend term – flexibility
- Rights of First Refusal and Options to Reduce – space flexibility

Co-location Lease Success Story

Perimeter Center – Richmond

- 164,153 SF leased in 177,185 SF building
- Five agencies - 667 state employees:
  - Board of Accountancy
  - Department of Health Professions
  - Department of Professional and Occupational Regulation
  - DRS Disability Determination Services Division
  - VDH Office of Licensure and Certification
- Initial Term expired in 2016
  - $.206 million total build-out costs included in initial term
- GRACRE Award 2016 - Best Office Renewal
  - Rent Reduction of $1.6 million and $500,000 in Tenant Improvements

Co-location Lease Success Story

Forest Office Park – Richmond

- 127,694 SF leased in four business park buildings
- Six agencies - 448 state employees:
  - Department of Social Services
  - Department for the Aging and Rehabilitative Services
  - Department for the Deaf and Hard of Hearing
  - Indigent Defense Council
  - Department of Transportation
  - Department of the Blind and Vision Impaired
- Initial Term expired in 2015
- Renewal negotiation results:
  - Rent savings = $474,000
  - $1.7 million in Tenant Improvements
  - $383,000 Refurbishment Allowance
  - $1.1 million Furniture amortized allowance
  - Early termination right for defined programs
Efficient Owned Real Property Management

Mike Nolan

- Use of Commonwealth Brokers – added value and services
- Centralized procurement of professional services – purchasing power and procurement consistency
- Multi-disciplined staff from diverse professional backgrounds – in-house expertise enhances proficiency
- Centralized knowledge of assets and agency requirements – reduces duplication of facilities

Efficient Document Efficiency

- Centralized property ownership records – promotes increased accessibility to records and secure archives
- Standardized property acquisition policies and procedures – promotes efficiency
- Consistent document formatting and content – ensures legal compliance
New DGIF Headquarters – 7870 Villa Park Drive

- 88,960 SF, single story office/industrial flex building constructed in 1998
- Owned by SCP-G Villa Park LLC
- 9.035 acres
- 30% occupied, including UHS, Inc., Honeywell and OfficeMax
- Under contract to purchase at $7.99 million or $89.90/SF. Overall “turn-key” costs for DGIF to relocate was $8.526 million.
- Initiated negotiations in June 2014 and closed July 2, 2015
- 2009 Capital appropriation of $10 million Non-General - Game Protection Fund

Acquisition Success Story

THIS PURCHASE OPPORTUNITY WAS ONLY ABLE TO BE REALIZED DUE TO FORTUITOUS TIMING!

- DGS was able to act quickly and secure the acquisition due to the existing project authorization and having the support of DPB
- DGIF recovered approximately $5.1 million from the surplus sale of their existing Broad Street Headquarters Facilities and the former PPEA build-to-suit Hanover Northlake site of 15 +/- acres is listed for sale
- DGIF will receive $285,000/year from the 3rd party Villa Park occupant leases
- DGIF will eliminate the annual Hamilton Street Warehouse lease expense of $48,000

Disposition and Savings

Commonwealth as Landlord

Seletra Sutherland
Income Opportunities

- Residential Housing Portfolio
  - Ensure state-owned or leased properties occupied by employees for residential use are in safe and habitable condition, and policies are consistent across all agencies in the Commonwealth

- Communication Towers, Antennas, and Radio Distribution Devices
  - Assist agencies in acquiring or conveying an interest in real property for providing communications or information services, and wireless broadband service in “unserved areas”

- Third Party Tenants
  - Lease space within owned facilities at market rents to private sector occupants

Landlord/Owner Challenges

- Funding/cost
- Due diligence issues
- Inconsistent agency reporting of underutilized space/property
- Property marketability
- Residential housing at less than fair market value and inconsistent guidelines across agencies
- Capital project approval process

Landlord/Owner Tasks

- Utilize property transfers among agencies and other government entities
- Negotiate contract terms
- Lease surplus property to third parties
- Negotiate rent sharing on communications towers
- Create inter-departmental employee housing policy
- Utilize Office of the Attorney General to ensure Commonwealth’s interests are protected
- Use of commercial brokers in the disposition of surplus property
• Land Use Plan
  • annual agency reporting, confirming inventory
  • DGS identifies underutilized property
• Interagency transfers
• Sales to localities at fair market value for local economic development

Since 2005-2017 total surplus closed sales & property under contract
  • 94 properties
  • 1,640 acres
  • Total sales $106,692,324

COVA Trax
Holly Law Eve
Records Management System:
- June 2012 – Bricsnet/IREMS unsupported
- Internal DGS ISS considered in-house build
- RFP issued July 2013
- 7 responses – 5 providers
  - References - Gartner report
  - Multiple demos
  - Panel evaluation & selection
  - Lengthy contract negotiations
Why Manhattan?

- Ability to customize the system to meet our needs now and in the future
- Most intuitive and user-friendly system
- Worked through challenges of stringent public procurement process
- Best bang for the buck!

Manhattan @ Commonwealth = COVA TRAX

- Centralized core data set shared across users
- Building bridges across agencies
- Increased efficiency and processes
- Enhanced accuracy and consistency in reporting
- Greater transparency and accountability
- Strategic management of Commonwealth assets

Pre-IWMS State
- Outdated real estate records management system
- Multiple systems containing similar or overlapping data
- Inconsistent data reported from existing systems
- Limited reporting capabilities
- Difficult to navigate
- Inability to see relationships between records

Post-IWMS State
- Centralized core data set shared across users
- Building bridges across agencies
- Increased efficiency and processes
- Enhanced accuracy and consistency in reporting
- Greater transparency and accountability
- Strategic management of Commonwealth assets
Fixed Assets
Partner: DGS Department of Engineering and Buildings Governor’s Mansion Inventory

COVA Trax tracks . . .

Future DGS Opportunities
Partner: DGS Procurement - eVA
Future DGS Opportunities

Partner: DGS Surplus Property

Keys to Efficient Management

- Expand data capture
- Simplify process
- Easier reporting
- Skilled staff
- Strategic/holistic management
- Utilizing technology and vendor resources