



NORTH CAROLINA'S 2015 REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS AND EVALUATION STUDY

CBRE

March 22, 2016

PREPARED FOR

 **Urban Land
Institute**



Raleigh, NC

REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS

Introduction

- CBRE awarded RFP No. 13-JB18236653 to evaluate the State's real estate portfolio and recommend opportunities to re-purpose State assets for either private development or other State use.
- Project Team from CBRE:
 - Local Market Experts from Raleigh and Charlotte offices
 - National Best Practices from CBRE's State and Local Government Practice Group based in Washington, DC

REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS

CBRE Public Institutions and Educational Services (PIES)

- CBRE PIES is a national practice group that provides advisory and transaction management services to state and local governments.

- Recent Strategic Planning Assignments:
 - State of Maryland
 - State of New York
 - State of Florida
 - State of South Carolina
 - Fort Lauderdale
 - Arlington County, VA

REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS

Project Team & Approach to Project

- CBRE Project Team:
 - **CBRE:** Local Market Expertise & Best Practices from Local Government Peer Groups
 - **O'Brien/Atkins:** Workplace Strategies & Urban Planning
 - **Cardno:** Facilities Engineering & Mechanical Systems

- Approach to Project:
 - Desktop Review of State Documents
 - Six Year Agency Capital Needs Requests
 - Facility Condition Assessment Program (FCAP) Reports
 - Agency Interviews
 - Site Visits to Raleigh Government Office Complex

REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS

Portfolio Current Conditions

- Owned Real Estate
 - North Carolina owns 12,000 facilities totaling more than 122 million square feet
 - Excluding education and special use facilities, North Carolina owns approximately 8,000 administrative office facilities totaling 50 millions square feet
 - The State of NC owns 870,000 acres of land
- Leased Real Estate
 - North Carolina has approximately 760 leases totaling 4.8 million square feet.

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Key Findings: Facility Capital Needs

- Observations:
 - Estimated facility deficiencies within the State owned portfolio are \$4.7 billion, or approximately \$39 per square foot.
 - Near term deficiencies are estimated to be \$1.4 billion, or approximately \$11 per square foot.
 - Industry sustainment costs are typically 2.0% - 4.5% of total portfolio value annually, implying approximately \$500 million per year.

- Recommendation:
 - All state-owned facilities greater than 5,000 square feet should be assessed every 5 years.

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Key Findings: Space Utilization

- Observations:
 - Current utilization in downtown Raleigh is 319 square feet per person. Current utilization trends are typically less than 200 square feet per person
 - CBRE observed eight (8) different size allocations for office workstations, which contributes to inefficient space planning
 - Conference room and collaboration space is insufficient

- Recommendations:
 - Adopt standards for new space requirements that target utilization rates of less than 200 square feet per person
 - Consider “re-stacking” existing facilities to improve efficiencies and accommodate more staff
 - Reduce office workstation allocations to a maximum of five (5) sizes

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Key Findings: Strategic Recommendations

- Downtown Raleigh:
 - Relocate Department of Revenue
 - Relocate Department of Administration Occupants to the Revenue Building
 - Develop/disposition of Parking Lot 18 and Department of Administration Site
 - Relocate Employment Security Commission and Develop/Disposition of Wade Avenue Site

- Suburban Raleigh:
 - Relocate Textbook Warehouse and Motor Fleet Management Facility and develop/disposition of Blue Ridge Road
 - Relocation of Garner Road State Highway Test Trace and develop/repurpose for long-term State use

REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS

Key Findings: Leased Portfolio

- Recommendations:
 - Centralize lease procurement process and implement space standards to improve efficiency and consistency for all State leases.
 - Negotiate market standard tenant rights: expansion, relocation, right of first offer, termination, renewals, etc.
 - Employ methodology for determining operating versus capital expenses.
 - Leverage the State's credit rating and profile during lease negotiations: base rent, escalations, base building improvements, tenant improvements, and landlord concessions