REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS AND EVALUATION STUDY

PREPARED FOR THE STATE OF NORTH CAROLINA
BY CBRE, INC.

JUNE 10, 2015

CONTENTS

Gregory A. Driver, PE
Director
NC Department of Administration
State Construction Office
1307 MSC
Raleigh, NC 27699-1307

Dear Mr. Driver,

Please find enclosed the Real Estate Capital Improvement Needs Analysis and Evaluation Study in accordance with the requirements of State of North Carolina RFP No. 13-JB18236653. This Study addresses several questions regarding the State's portfolio: What are the physical conditions of the State's facilities? Does the State utilize its real estate efficiently? How is the portfolio currently managed? In the process, this Study considers a broad range of opportunities for the State to improve portfolio performance, reduce costs, and improve the quality of life in North Carolina.

This plan proposes recommendations that are both transactional and organizational. We believe that if some or all of these recommendations are embraced by the State, significant efficiencies and improvements will be realized – the State will generate revenue, return property to the tax base, reduce its overall costs and better serve customer needs. In the process, this Study considers a broad range of opportunities for the State to improve portfolio performance, reduce costs, and promote economic development.

Thank you for the opportunity to partner with the State of North Carolina.

Sincerely,

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EXECUTIVE SUMMARY

A. INTRODUCTION

This Real Estate and Capital Improvement Needs and Evaluation Study (“Study”) is pursuant to the requirements contained in the State of North Carolina’s Solicitation RFP No. 13-JB18236653. Its primary purpose is to assist the State with its real estate planning, to match space planning requests with the State’s existing portfolio and to make recommendations for re-purposing State owned assets for either private development or other State use.

RFP No. 13-JB18236653 requires the Study to address a list of 13 task orders, the responses to which are contained in this document. The RFP further directs the Study to employ the following documentation as the basis for its recommendations:

- State Agency Six Year Capital Needs requests
- Facility Condition Assessment Program (FCAP) reports
- North Carolina State Owned Real Estate Portfolio

The six year capital needs request is produced by each State agency every other year. It contains, 1) requests for repairs and renovations (R&R) necessary to maintain the existing use in existing facilities and 2) proposals for new facility acquisitions, construction, or full rehabilitation of existing facilities for new uses by the State. The FCAP reports are produced by the State Construction Office and are independent of the agency capital requests. The list of State owned assets was provided by the Department of Administration. It is a list of 11,957 facilities containing 122,713,269 gross square feet. For the purposes of this Study, educational use facilities are excluded, reducing the owned portfolio to 8,922 facilities containing 49,831,287 gross square feet.

B. PROJECT TEAM

The contract team selected by the State was led by CBRE, Inc., a global commercial real estate services firm. The team also included Cardno, Inc., a global facilities engineering firm, and O’Brien/Atkins, an architecture firm based in Research Triangle Park. The core competencies of each firm encompass the full range of services specified in the RFP: commercial real estate market analysis (CBRE), facility and mechanical systems evaluation (Cardno), and workplace strategies and urban planning and design (O’Brien/Atkins). Further, all members of the team have extensive experience working with public sector clients similar to the State of North Carolina.

STATE OF NORTH CAROLINA – PRIMARY PARTICIPANTS
STATE OF NORTH CAROLINA
Lee Roberts, Greg Driver, Agency Interviews - 15 agencies
CBRE
Michael McShea, Troudy Vaughan, Rolf Kemen, Lee Clyburn, John Daly
CARDNO
Darrell Setser, Kevin Sommers, Joel Gaillard
O’BRIEN / ATKINS ASSOCIATES
John Atkins, Jay Smith, Kevin Montgomery, Coury Stolarik, Jeff Nagy, John Jarvis

C. PROJECT APPROACH

The CBRE team’s approach to the Study included 1) a desktop review of the documents provided by the State (described above), 2) interviews with 15 State agencies, and 3) site visits to the primary State owned facilities in downtown Raleigh totaling more than 2 million square feet. Given the vast amount of square footage owned and leased by the State, it was not feasible to visit every location. Therefore, a sample of the total portfolio was selected for the site visits. The CBRE team also scheduled weekly update meetings/conference calls with the Contract Administrator to provide a progress update and to receive direction from the State.

In total, the CBRE team:

- Reviewed and analyzed more than $3 billion of capital needs requests.
- Toured more than 2 million square feet of office space in downtown Raleigh, representing 40% of the State owned office portfolio in Raleigh, and 23% of State wide.
- Interviewed 15 State agencies over a 4 day period.

D. KEY FIDINGS / OBSERVATIONS

1. AGENCY CAPITAL REQUEST

The CBRE team observed that the requests for full building renovations and/or construction contained in the agency six year Capital Requests appeared high relative to the insured value recorded by the State and compared to industry standards for renovation and construction. For example, some State building replacement requests ranged between $350 - $450 per square foot, which is much higher than private sector benchmarks. One such benchmark is the Unified Facility Criteria 3-701-01, the Department of Defense Facility Pricing Guide, which estimates renovation and construction costs for administrative buildings to be $168 - $221 per square foot.

The CBRE team also noted duplicate capital requests of approximately $573 million, a sum large enough to fully fund the combined requests from the State's Justice, Agriculture and Consumer Services, Public Safety, Information Technology, Cultural Resources, and Public Instruction Departments.

The CBRE team's primary recommendation regarding the State agency Capital Requests is that the State adopts a more systematic methodology to prioritize facility needs. A scoring matrix that incorporates the condition and utilization of the facility, as well as the agency's program significance and the value of the facility to the agency's program is one solution that has been adopted by public sector peer groups nationally. The oversight and management of such a system would require a single point of responsibility to manage the process comprehensively and efficiently.

2. FACILITY CONDITION ASSESSMENT PROGRAM (FCAP) REPORTS

The FCAP's evaluated by the CBRE team identified an average of $39 per square foot for facility deficiencies. This implies total deficiencies of approximately $4.7 billion if extrapolated across the entire State portfolio (note: FCAP's have not been performed for all State facilities). One observation regarding the FCAP's is that if full building renovations are excluded from the list, the average deficiency is $22 per square foot, which is similar to the building deficiency cost estimates from other public sector peer groups. That said, the CBRE team deemed many of the full building renovations necessary, suggesting the total portfolio needs of the State are closer to the $4.7 billion figure as indicated by the current State FCAP's.

Most significantly, the primary observation regarding the FCAP data is that general building sustainment is underfunded by the State. This was also reported independently by various State agencies during the interviews conducted by the CBRE team. Industry standards suggest that annual sustainment costs range 2.0% - 4.5% of total portfolio value (source: the Association of Physical Plant Administrators, or APPA). Based on the total insured value of the State's portfolio, the APPA standard would indicate at least $500 million per year to maintain its buildings. If building sustainment were adequately funded by the State, the CBRE team believes the estimated $4.7 billion in portfolio deficiencies would be much lower and hence more manageable.

A third observation regarding the FCAP data is derived from the site visits of State owned administrative office buildings in downtown Raleigh. Cardno performed a Facility Condition Assessment (FCA) similar to the State's FCAP report. The FCA findings indicate that the immediate and near term needs (5 years) are approximately $11 per square foot. This estimate is half the $22 per square foot reported in the State FCAP's, excluding full building renovations. The CBRE team believes the sample size of the FCA's performed by Cardno is not large enough nor representative of all facility types maintained by the State to apply to the entire State portfolio. For this reason, we believe the estimates provided in the FCAP's are likely more accurate.

The CBRE team recommends that the FCAP program be a continuous endeavor. Ideally, all State facilities greater than 5,000 square feet would be assessed by the State every 5 years. Further, the FCAP program should be administered by a dedicated staff using standards developed by the State to avoid inconsistencies in the reports. Adoption of industry tools and software would also promote better forecasting of facility needs and overall understanding of the portfolio inventory.

3. PROCESS AND OPERATIONS

The CBRE team believes several opportunities for cost savings and improved portfolio performance exist through adoption of best practices regarding real estate management, standards and technology.

Management

The State's real estate management is currently decentralized and performed by several entities using a variety of methods. Centralized management of the State portfolio by a properly staffed Office of Real Estate (ORE) could improve performance several ways:

- Space Efficiency: Requests for space by State agencies should be reviewed by ORE to confirm the following:
  - The amount of space requested is appropriate applying uniform, modern space standards that promote efficient use of real estate.
  - Opportunities for co-location with other State uses, leased or owned, exist to reduce the overall real estate footprint in a given geography.
  - Economic terms of leased facilities (rental rate, landlord concessions, tenant improvement dollars, etc.) are at, or below, market terms given the credit rating of the State. It should also be noted here that the standard State lease form be reviewed as well. Often, legal terms and conditions designed to protect the State's interest hinder economic terms. For example, termination rights are an important requirement in most public sector contracts, but language modifying the conditions for termination can be added to reduce the economic cost of the lease procurement.
- Compliance: The CBRE team is unaware of a State standard protocol or process for agencies to escalate concerns regarding their real estate, whether it is a life safety or maintenance issue. Regardless if the space is leased or owned, the real estate occupied by the State should have minimum standards of performance that are enforced by an experienced and knowledgeable ORE staff.

  With regards to the leased portfolio, a central ORE would be better positioned than a specific State agency tenant to audit pass through expenses from landlords. Often, capital expenses are erroneously invoiced to State agencies as operating expenses.
- Cost controls: With a centralized ORE, it is easier to manage operating costs. Portfolio data can be aggregated to identify underperforming locations. Inordinately high utility costs per square foot are a prime example of how a centralized management structure could improve portfolio performance through cost controls.

Space Standards

Generally, administrative office space within the State portfolio is designed to accommodate an organizational hierarchy based on seniority and title. This approach results in multiple configurations of hard walled offices of varying sizes. Through a questionnaire and interview process, each State department reported their FTE count, storage needs and general satisfaction of their currently assigned space. Analysis of the interviews and questionnaires resulted in an average of 319 net square feet per FTE across the State's departments. Current commercial and government standards average between 175 - 200 net square feet per FTE. The State's 319 square feet per FTE average is higher than industry standards not necessarily as a result of the State's existing space standards requiring more space per FTE. Rather, it is a result of older, less efficient buildings and poor utilization of existing space.

In order to promote greater space utilization, the CBRE team recommends the State adopt more workstations and limit hard wall offices. This implies that State workers who currently qualify for an office will be assigned a workstation in the future. Further, the CBRE team recommends the State consider reducing the number of space allocations so that there are perhaps 2 standard sizes of workstations and offices each.

If the State were to employ current industry workplace strategies such as open floor plans, digital file storage, and collaborative/flexible work spaces, the State could substantially reduce their square foot per FTE. Other benefits of applying current workplace trends would include 1) reduced real estate costs through efficient design, 2) improved productivity through collaborative work spaces, and 3) improved staff morale by creating a more interactive work environment. Refer to Task 9 for further information on this topic.

Technology

A primary observation by the CBRE team is that the State does not have real time access to FTE counts and total occupancy costs per location, owned or leased. This is critically important data for effective portfolio management. The State's online property database – maintained by the State Property Office – is a comprehensive catalogue of the State's extensive real estate inventory. In and of itself, the State's online database surpasses the efforts of many public sector peer groups. That said, newer technology solutions offer more collaborative, real time functionality that would permit the following benefits:

- Accurate Cost Data: Current operating and occupancy costs would permit North Carolina to identify which assets are performing optimally. Better cost data will create more accountability on the part of State agencies in terms of tracking their true cost of real estate, which could in turn incentivize agencies to adopt more efficient space programming recommended elsewhere in this Study.
- Compliance: Complaints from State agencies regarding real estate should be tracked by a central database maintained by a North Carolina ORE to better identify property issues.
- Proactive Property Management: Regular facilities maintenance could be scheduled proactively to avoid more costly downstream capital maintenance.

E. STRATEGIC RECOMMENDATIONS

As a result of this Study, the CBRE team developed an initial list of strategic recommendations that have the potential to save money, generate economic development, promote better service delivery from the State, and be transformative for downtown Raleigh and Charlotte.

Downtown Raleigh

1. Relocate Department of Revenue

- Observations:
  - Department of Revenue expressed that the Revenue Building's layout is not conducive to their workflow and operations:
  - Their operations would benefit if relocated to a suburban, single story facility with adequate parking.
  - The current size of the Revenue Building is not adequate to accommodate the surge in part time workers 6 months out of the year.
  - Parking is inadequate for their staff, especially for the 6 month staff surge period.
- Recommendation: Develop RFP requirements with Dept. of Revenue to determine the size, location, and programmatic needs. Issue an RFP for leased space.

- Benefits:
  - Improved service delivery from Dept. of Revenue based on a better real estate solution.
  - Opportunity to repurpose a State asset for an alternative State use. In this case, the occupants of the Dept. of Administration Building as well as other State agencies.

2. Relocate the Occupants of the Department of Administration Building to the Revenue Building

- Observations:
  - The Department of Administration Building was one of the largest State owned facilities built in the Post War era that are either in need of a major renovation or are deemed obsolete.
  - The workplace configuration of the Administration Building is typical of buildings from its era (the Post War era, built between 1950 – 1975)dated with too many private offices, lack of natural light, and insufficient amount of collaboration space.
  - The data center and emergency backup facility located on the lower level of the Administration Building will be expensive to relocate.
- Recommendation: Develop a space program using new workplace strategies recommended by O'Brien Atkins to configure the Revenue Building for the occupants of the Dept. of Administration Building.
- Benefit: Approximately $165 million (excluding a duplicate request for $75 million) was requested for renovation and eventual replacement of the Dept. of Administration Building. The Dept. of Revenue Building could be completely renovated for $20-$30 million to accommodate the space needs of the occupants of the Dept. of Administration and still have another 100,000 square feet for other State uses.

3. Redevelop Department of Administration Site and Adjacent Parking Lot

- Observations:
  - The Dept. of Administration site, along with the Visitor Parking Lot Site described below, offers the opportunity to replicate the mixed use activity that exists within the Fayetteville Street District. It also would serve to reinforce Jones Street as a primary visitor and pedestrian corridor.
  - The Dept. of Administration site is a prime development opportunity for mixed use development.
- Recommendation: Redevelop the Dept. of Administration site through a disposition, ground lease, or public private partnership (P3). Redevelopment could include the opportunity for a parking structure to recover the parking is due to redevelopment of this site.
- Benefit: Economic development for Raleigh and asset monetization for the State of North Carolina. The estimated value range for this parcel is $55 - $65 per ground foot.

4. Development of the Visitor Parking Lot (Parking Lot 18)

- Observation: The Visitor Parking Lot site, along with the Dept. of Administration site described above, offers the opportunity to replicate the mixed use activity that exists within the Fayetteville Street District. It also would serve to reinforce the Jones Street corridor.
- Recommendation: Redevelop Visitor Parking Lot #18 through a disposition, ground lease, or public private partnership (P3). Evaluate the possibility of funding in part or in whole the long planned Visitor Center as part of the transaction. Redevelopment could also include the opportunity for a parking structure to recover the parking due to redevelopment of this site.
- Benefit: Economic development for Raleigh and asset monetization for the State of North Carolina. The estimated value range for this parcel is $45 - $55 per ground foot.

5. Demolition of the Bath Building

   - Observation: The Bath Building (1974, Post War Group) was recommended for replacement due to age and obsolescence.
   - Recommendation: Redevelop the Bath Building site through a disposition, ground lease, or public private partnership (P3). Redevelopment could include the opportunity for a parking structure to recover the parking is due to redevelopment of this site.
   - Benefit: Economic development for Raleigh and asset monetization for the State of North Carolina. The estimated value range for this parcel is $45 - $55 per ground foot.

6. Development of the Block Surrounded by North, Polk, Blount and Wilmington Streets

   - Observation: This site is underutilized and adjacent to a new multifamily housing development and is recommended for repurposing.
   - Recommendation: Redevelop the site through a disposition, ground lease, or public private partnership (P3).
   - Benefit: Economic development for Raleigh and asset monetization for State of North Carolina. The estimated value range for this parcel is $45 - $55 /SF.

7. Relocation of Employment Security Commission and Disposition / Development of Wade Avenue Site

   - Observations:
     – The Employment Security Commission site on Wade Avenue is highly desirable for redevelopment. Located at a major gateway into Downtown Raleigh, and buffered by both Cameron Village and Hayes Barton, the site would hold tremendous value for mixed use development.
     – The site has noted environmental issues with an estimated remediation price of $12-14 million; however the site's superior location and access make this a tremendously valuable tract of land.
   - Recommendations:
     – Redevelop the Employment Security Commission site through a disposition, ground lease, or public private partnership (P3).
     – The State reportedly procured this site using Federal funding. As a result, potential restrictions regarding the development or disposition of this site may exist.
   - Benefit: Economic development for Raleigh and asset monetization for the State of North Carolina. The estimated value range for this parcel is $30 - $40 per ground foot.

8. Relocation of Storage Requirements at Old State Records Building and Development of Site

   - Observation: This facility is deemed obsolete and should be relocated to allow for a higher and better use. This site sits north of the Dept. of Administration site and adjacent to the Albemarle building and would be an opportunity for mixed use development.
   - Recommendation: Redevelop the Old State Records site through a disposition, ground lease, or public private partnership (P3).
   - Benefit: Economic development for Raleigh and asset monetization for the State of North Carolina. The estimated value range for this parcel is $55 - $65 per ground foot.

Suburban Raleigh

1. Relocate Textbook Warehouse and Motor Fleet Management Facility and Development, Sale or Repurpose for State Use
   - Observation: Blue Ridge Road is perhaps the most valuable, unencumbered land owned by the State. Given the high value of the underlying land and the demand for higher purposed real estate in the immediate vicinity, these two facilities could easily be moved to alternative leased or owned locations elsewhere in Wake County.
   - Recommendation: Redevelop the site through a disposition, ground lease, or public private partnership (P3); or, repurpose for other State use. Consider relocating both the Textbook Warehouse and the Motor Fleet Management Facility to either Garner Road tract (State owned) or to a leased location.
   - Benefit: Economic development for Raleigh and asset monetization for the State North Carolina.

2. Relocation of Garner Road State Highway Test Track and Repurpose for Long Term State Use
   - Observation: Garner Road is a significant property (98.7 acres) that has proximity to downtown Raleigh and is currently underutilized. Previous State Government Master Plans have identified this site as a future hub for State government expansion.
   - Recommendation: Garner Road, along with Blue Ridge described above, offer long term solutions for State consolidation – in particular, Dept. of Health and Human Services, as previously recommended in the 2007 State Government Master Plan.
   - Benefit: Garner Road provides flexibility for the State's long term real estate strategy as it is an opportunity for future State owned assets.

Charlotte

1. Develop North Carolina Railroad Site
   - Observation: The North Carolina Railroad (NCRR) owns 2.89 acres ground leased to Norfolk Southern. Norfolk Southern owns an additional 1.22 acres adjacent for a 4.11 acre assemblage in downtown Charlotte. The property is currently undeveloped with a portion serving as a surface parking lot. With 52 years remaining on the ground lease, development is unlikely. It is perhaps some of the most strategic, available and desirable land for development in Uptown Charlotte. Served by two light rail stops, the site is in the center of development in the CBD and is also conveniently located on the southern end of Uptown closest to the affluent suburbs. The site enjoys the coveted Uptown Mixed Use Development (UMUD) zoning designation which allows unlimited density and height.
   - Recommendations:
     – Evaluate further the potential redevelopment of this site through a disposition, ground lease, or public private partnership (P3).
     – NCRR is a North Carolina corporation owned by the State. It should be noted that any proceeds derived from this site would be to direct benefit of NCRR and not the State.
   - Benefit: Economic development for Raleigh and asset monetization for North Carolina. The estimated value range for this parcel is $175 - $200 per ground foot.

TASK 1: PRIORITIZE CAPITAL NEEDS FOR STATE-WIDE STRATEGY

I. TASK 1: PRIORITIZE CAPITAL NEEDS FOR STATE-WIDE STRATEGY

A. SCOPE TASK 1

Evaluate and prioritize State agency and institution six-year capital needs request from a statewide perspective formulating a comprehensive and singular strategic approach for implementation.

Subcontracting partner, Cardno, directed Tasks 1 through 4 and Task 6 of the project scope. These tasks fell into three major categories:

- Reviewing the State six-year capital needs requests
- Reviewing the Facility Condition Assessment Program (FCAP) reports
- Performing a Facility Condition Assessment on a sample set of buildings

CAPITAL IMPROVEMENT REQUEST TOTALS BY DEPARTMENT

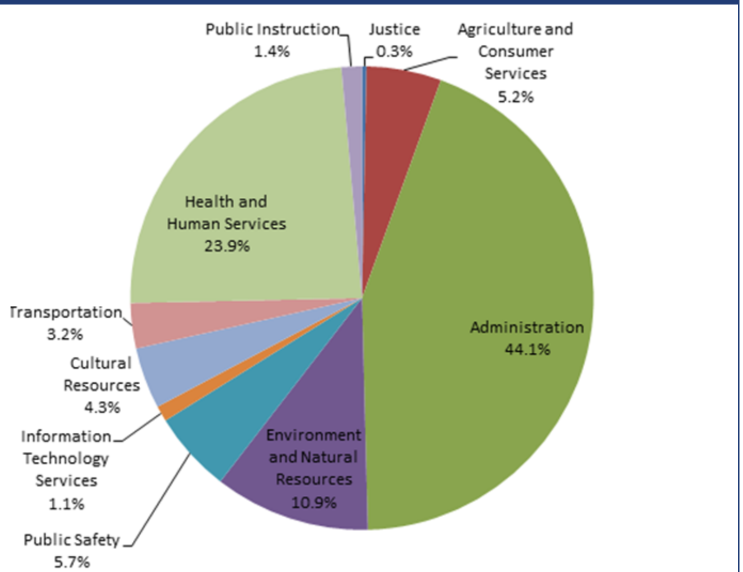
DEPARTMENT	TOTAL REQUEST
Justice	$ 9,896,000
Agriculture and Consumer Services	$ 165,958,071
Administration	$ 1,400,231,963
Environment and Natural Resources	$ 345,642,595
Public Safety	$ 179,952,347
Information Technology Services	$ 34,819,000
Cultural Resources	$ 135,527,000
Transportation	$ 100,587,600
Health and Human Services	$ 759,622,317
Public Instruction	$ 45,377,030
Total	$ 3,177,613,923

Detailed data analyzed during these tasks can be found in the appendices (provided electronically). Appendix data is broken down by the tasks found in the State Request for Proposal and the project team response. With the exception of the capital needs request review, the study set consisted of buildings greater than 20,000 square feet in area. There are 461 buildings over 20,000 square feet in the North Carolina Facility Information System (FIS). Higher Education buildings were excluded from this part of the Strategic Plan as directed by the State.

Information contained in this section of the report is taken from three areas.

- Capital Needs Request, FCAP, and building asset data from the FIS system provided by Greg Driver.
- Formal meetings with State selected agencies.
- Sample Facility Condition Assessment (FCA) conducted by the project team.

PERCENT OF TOTAL CAPITAL REQUESTS BY DEPARTMENT



B. TASK 1 SCOPE DEFINED

The State six year capital needs requests were reviewed by the project team. All line items on the six year capital needs request were reviewed regardless of the building, size, type or location.

The review was based on information dated November 2014. Newer versions of the capital requests may have different line items and costs associated. The adjacent table combines the capital request costs per department for Capital Improvements and Repairs and Renovations.

The aforementioned table combines the capital request costs for Capital Improvements and Repairs and Renovations and illustrates cost as a percentage of total cost by department.

The following table summarizes the capital needs request by department, by funding type, and by whether the request is for Capital Improvements (CI) or Repairs and Renovation (R&R).

DEPARTMENT CAPITAL IMPROVEMENT REQUESTS BY TYPE			
DEPARTMENT	FUNDING TYPE	CI/R&R	TOTAL
Justice	General Fund	CI	$ 4,775,000
Agriculture and Consumer Services	General Fund	CI	$ 163,667,071
Administration	General Fund	CI	$1,163,445,001
Environment and Natural Resources	General Fund	CI	$ 279,649,000
Public Safety	General Fund	CI	$ 78,064,900
Information Technology Services	General Fund	CI	$ 32,500,000
Cultural Resources	General Fund	CI	$ 122,922,000
Transportation	Non-General Fund	CI	$ 87,989,500
Environment and Natural Resources	Non-General Fund	CI	$ 250,000
Wildlife Resources Commission (DENR)	Non-General Fund	CI	$ 29,295,000
Health and Human Services	General Fund	CI	$ 543,006,600
Public Instruction	General Fund	R&R	$ 45,377,030
Justice	General Fund	R&R	$ 5,121,000
Agriculture and Consumer Services	General Fund	R&R	$ 2,291,000
Administration	General Fund	R&R	$ 236,786,962
Environment and Natural Resources	General Fund	R&R	$ 22,798,595
Public Safety	General Fund	R&R	$ 101,887,447
Information Technology Services	General Fund	R&R	$ 2,319,000
Cultural Resources	General Fund	R&R	$ 12,605,000
Health and Human Services	General Fund	R&R	$ 216,615,717
Transportation	Non-General Fund	R&R	$ 12,598,100
Wildlife Resources Commission (DENR)	Non-General Fund	R&R	$ 13,650,000

1. There is generally a significant difference between the insured value in the FIS system and the new building construction or building renovation costs requested. The capital request is often significantly more than the insured value.

2. In general, construction and renovation costs in the capital requests are significantly higher than industry average even when soft costs and FFE (Furniture, Fixtures, and Equipment) are included. Unified Facility Criteria 3-701-01, the Department of Defense Facility Pricing Guide, has costs for administrative buildings ranging from $168 to

$221 per square foot, exclusive of FFE. The costs provided by the Department of Transportation and Department of Public Safety tend to be closest to the industry standard range of costs per square foot.

3. The replacement campus for Dorothea Dix appears in both the Administration and Health and Human Services capital request line items. The duplication inflates the total request cost by approximately $470 million.
4. The Administration building appears seven times in the capital needs requests. Two line items (CI Priority 9 and R&R Priority 130) are identical requests for renovations of $75 million each. The other line items are for the replacement or repair of specific building systems. The duplication inflates the total department request cost by at least $75 million.
5. A major renovation to the Archdale building is requested at a cost of $107 million. There are six additional line items for the replacement or repair of specific building systems. The duplication inflates the total department request cost by approximately $14 million.
6. The Shore building has a capital request under Capital Improvements of approximately $14 million. There is an identical request under Repairs and Renovations. The duplication inflates the total department request cost by approximately $14 million.
7. The Bath Building has a request to replace the building for $42 million. The building is currently marked as vacant in the State Facility Information System, although Health and Human Services is occupying a portion of the building according to our agency meetings. There are also two line items in the capital request totaling approximately $2.5 million for repairs and renovations.

C. TASK 1 RECOMMENDATIONS

The CBRE team recommends the State employ a matrix approach similar to the following to facilitate decision making regarding agency capital needs requests. Each item is ranked on a 1 to 5 scale. Each item rank is added to “score” a facility. Higher scores indicate a higher priority.

- Facility Condition Index (FCI): This widely used index is a facility’s deficiency cost divided by its value. A low number indicates that a facility is in good shape. Parameters for assigning the FCI to the proper rank can be developed. An FCI below 0.05 indicates a score of 1, while an FCI above 0.25 indicates a score of 5.
- Space Utilization: The use of a facility can be classed from 1 to 5 based on space use studies. A modern, well designed facility with an open office plan indicates a score of 1, while an obsolete, poorly designed facility with a significant amount of unused space indicates a score of 5.
- Program Importance: Programs can be classified based on the impact on the State if the program is delayed or cannot be implemented. A score of 5 indicates that the program is absolutely essential to the safety and property of citizens, such as National Guard, hospitals, and correctional facilities. A score of 3 to 4 could be assigned to programs that provide a vital function but are not immediately essential to safety and property such as higher education. A lower score of 1 to 2 could be assigned to programs that do not provide a vital function but are nevertheless important to citizens such as museums and cultural centers.
- Facility Importance to Program: Facilities can be classified based on the impact on the program if the facility is unable to be used. A score of 5 indicates that the facility is absolutely essential to the program and the program will be significantly affected by any facility downtime. Examples of program essential facilities include emergency operations centers, hospitals, and correctional buildings. A score of 3 to 4 can be assigned to facilities that would not significantly affect a program in the short term but whose continued loss of use would over time damage a program. A lower score of 1 to 2 could be assigned to a facility whose loss would not seriously damage a program over a short period of time.

D. FCI INDEX COMPARISONS

By illustration, Facility #1 with an FCI of 0.30 (Score=5) may have space use that is neither old nor modern, with a mix of well used and poorly used space (Score=3). The facility is part of DHHS (Score=5) and is a main hospital building (Score=5). The matrix would assign a priority score of 18.

Consider another similar facility, Facility #2 with an FCI of 0.04 (Score=1). The space use is old and inefficient (Score=5). The facility is part of DHHS (Score=5) and is an auxiliary staff support building (Score=1). The matrix would assign a priority score of 12.

For the last comparison, consider Facility #3 with an FCI of 0.30 (Score=5). The space use is old and inefficient (Score=5). The facility is part of Consumer Services (Score=3) and is a main office (Score=2). The matrix would assign a priority score of 15.

In the case above, funding would first be allocated to Facility #1, then to Facility #3, and finally to Facility #2.

E. TASK 1 SUMMARY

- The current State capital needs requests total $3.2 billion.
- At least $573 million of the requests are duplicates. The most notable duplicate is the DHHS complex to replace Dorothea Dix appearing in the Administration capital request and the DHHS capital request.
- Duplicated requests are large enough to fully fund the requests from the Justice, Agriculture and Consumer Services, Public Safety, Information Technology, Cultural Resources, and Public Instruction combined.
- A matrix should be developed to prioritize capital requests similar to the one presented in the report.
- Elements of the matrix and score weighting should be further developed as an iterative process involving a State Office of Real Estate (ORE).

TASK 2: REVIEW 6-YEAR CAPITAL REQUESTS WITH FCAP DATA FOR CONSISTENCY

II. TASK 2: REVIEW 6-YEAR CAPITAL REQUESTS WITH FCAP DATA FOR CONSISTENCY

A. SCOPE TASK 2

Review the agency and institution six-year capital improvement requests in the context of the Facility Condition Assessment Program (FCAP) reports and data for consistency and compatibility of the needs request.

The project team reviewed the capital improvement requests in the context of the Facility Condition Assessment Program (FCAP) for consistency and compatibility. Facilities in the capital improvement requests that are greater than 20,000 square feet were included in the study set. There are 223 buildings in the capital improvement requests which could be confirmed as having an FCAP performed. Of these buildings, there were 32 buildings in which the capital request was aligned with the FCAP. A common discrepancy was that the capital request line item requested a complete renovation when the FCAP had a smaller number of specific deficiencies to be replaced or repaired. Appendix B contains a list of buildings in the capital request which had FCAPs performed and whether the FCAP was aligned with the capital request (provided electronically).

During agency meetings, several agency representatives expressed that they were not incorporating the FCAP into the capital requests because the FCAP process had been halted for several years.

B. TASK 2 OBSERVATIONS

The most important finding of the review is that, based on interviews with agencies, the FCAP deficiency list, and other information below, there are significant funds required to maintain facilities both immediately and over the long term. A significant amount of immediate capital investment is required simply to pay for immediate building deficiencies. Our Facility Condition Assessment data, summarizing immediate and long-term costs to maintain facilities, is provided in Appendix B (electronic format). The sample FCA was performed on ten buildings, but the methodology can be extended to the State's entire portfolio or a subset of that portfolio deemed significant.

We will first present the State FCAP results, follow with developing an upper and lower expected bound using other methods, present some general information concerning the age of the facilities, and finally describe an age classification method which may help with a general perspective of the likely qualitative state of State facilities. There is considerable variation in the upper and lower bound due to sample size and the errors implicit in extrapolation of data. There are several ways to obtain broad, order of magnitude comparisons for deferred maintenance costs.

- The state FCAPs have been performed on 1,498 buildings totaling approximately 25 million square feet. The total State portfolio is approximately 122 million square feet. The total cost of identified deficiencies, including whole building renovation, is $965 million. The deficiencies average $39 per square foot, which would extrapolate to $4.7 billion. The total cost of whole building renovation for buildings over 20,000 square feet is $408 million. When the total cost of whole building renovations for buildings over 20,000 square feet is excluded, the deficiencies average $22 per square foot, which would extrapolate to $2.0 billion. Many of these renovations are necessary, so the higher $4.7 billion figure is likely to be closer to the realistic sustainment cost.
- A recent Facility Condition Assessment completed by Cardno for a southeastern state resulted in the identification of $98 million in deficiencies and deferred maintenance on facilities totaling 5.6 million square feet. The deficiencies average $18 per square foot, which would extrapolate to $2.1 billion for a portfolio the size of the State of North Carolina's. The average age of these buildings was noted to be somewhat older than the State of North Carolina portfolio. The average age, weighted by building area, of the State of North Carolina facilities in the study set is 1973. The average age, weighted by building area, of the other southeastern state is 1960.
- A general rule of thumb, based on APPA guidelines, is that the facility operating budget should be between 2% and 4.5% of a facility's value per year. The size of the State's portfolio would indicate that the facility operating budget would approach $8 billion over ten years (based on insured value) if no funding is allocated. The facility operating budget includes costs such as sustainment which are not included in FCAP/FCA deficiency costs.

- The CBRE Team also performed a Facility Condition Assessment (FCA) on a small sample of 10 buildings in the downtown government complex. Our FCA is similar to the state FCAP in that it identifies immediate needs. However, our FCA also forecasts future needs based on the type of building element and its current observed condition. The assessment did not include identification of or costs associated with hazardous materials. The results of our brief assessment are below. The needs are not nested. The 5 year needs do not include the immediate needs. The 30 year needs do not include the immediate needs or the 5 year needs. These do not include annual sustainment costs. Sustainment provides for maintenance and repair activities necessary to keep a typical inventory of facilities in good working order over their expected service lives. Sustainment includes regularly scheduled adjustments and inspections such as maintenance inspections for fire sprinkler heads and HVAC systems, preventive maintenance tasks, and emergency response and service calls for minor repairs.
- These facility renovation and repair needs should be considered understanding that the sample size is small and may not be representative of the entire State portfolio. The sum of the immediate and 5 year needs average $11 per square foot. If all the buildings in the State were in similar condition the expected backlog of renovation and repair costs for the State would be approximately $1.2 billion. Extrapolating the sample set could be inaccurate for several reasons. If the downtown Raleigh complex has been better maintained than the entire portfolio, the extrapolated number could be low. All buildings surveyed were administrative office buildings. As the State portfolio includes many different types of buildings, the costs are likely to differ from the sample of office buildings. Costs are inflated over time using a 2% inflation factor. Please see Appendix B for more information concerning the Facility Condition Assessment process (electronic format).

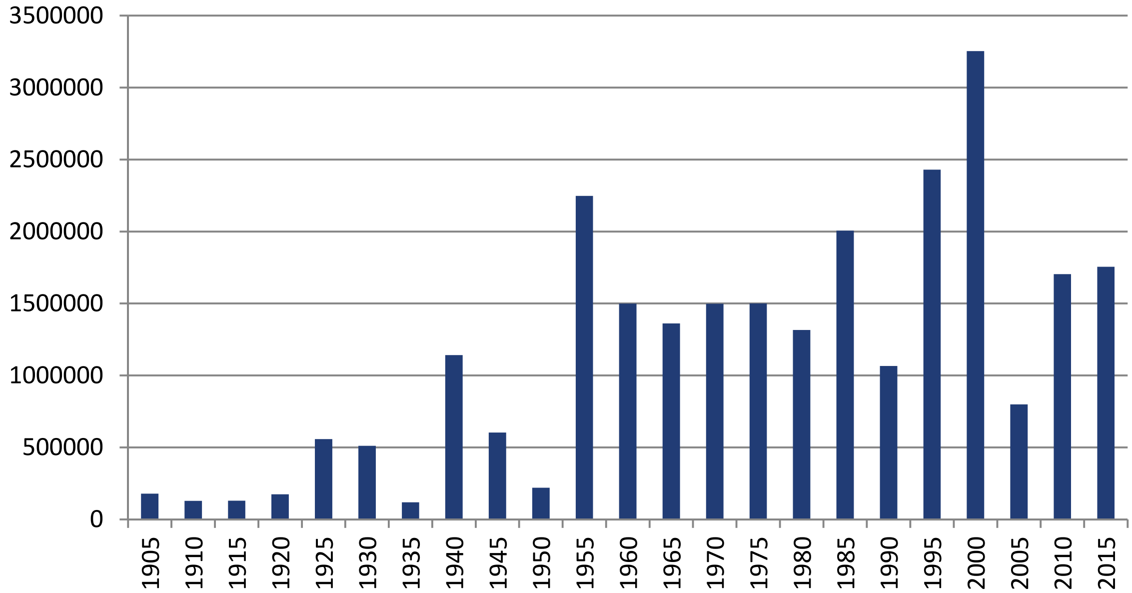
FACILITY NEEDS BASED ON SAMPLE FACILITY CONDITION ASSESSMENT

BUILDING	AREA (SF)	IMMEDIATE NEEDS	5 YEAR NEEDS	30 YEAR NEEDS
Admin	201,476	$ 2,690,380	$ 976,429	$20,105,306
Dobbs	208,547	$ 963,369	$ 936,562	$24,175,834
Old Ed	173,970	$ 860,354	$ 872,272	$19,473,141
Highway	196,552	$ 4,560,231	$ 0	$18,787,478
Justice	68,500	$ 0	$ 343,580	$10,567,273
Archdale	242,647	$ 570,184	$ 1,056,418	$37,260,116
Archives	147,789	$ 1,692,707	$ 1,030,438	$14,647,370
Legislative	166,144	$ 54,828	$ 672,088	$22,238,959
Public Ed	321,443	$ 2,551,635	$ 0	$34,142,722
Revenue	298,803	$ 1,100,822	$ 1,344,177	$40,839,815
Total	2,025,871	$ 15,044,510	$ 7,231,964	$242,238,014

The following graph illustrates the total square footage of 461 State building assets organized by the age of construction using five year periods ending in the year shown on the graph. The 1905 column includes all buildings constructed before 1905. The graph shows a clear building "boom" in the 1950s and the 1990s.

This pattern is a familiar one in many school districts, college campuses, states, counties, and military installations throughout the country. If significant investment has not already been made in buildings in the first "boom", the buildings may be obsolete or unserviceable for their intended use. Significant investment must also be made immediately to ensure the serviceability of buildings constructed during the 1990s. Fortunately, the second wave of buildings can be targeted for investment now with rational building system life analysis. If the buildings do not receive significant investment in the near future, the buildings will become unserviceable.

BUILDING CONSTRUCTION IN SQUARE FEET (5 YEAR INCREMENTS)



C. FACILITIES CLASSIFICATIONS

The State of Facilities in Higher Education Report, published by Sightlines in 2014, classifies facilities into three groups based on age.

Post War Group

The first is the Post War group, constructed from 1950 to 1975. Facilities in this group tend to have either had major recent renovations or be obsolete and decrepit. The five largest buildings in the study set are the:

- Phosphate Storage Building-Morehead: 223,844 square feet constructed in 1968.
- Administration Building: 201,476 square feet constructed in 1967.
- DPS Western Correctional Center High Rise Building and Chapel: 197,264 square feet constructed in 1971.
- Highway Building: 196,552 square feet constructed in 1951.
- Albemarle Building: 192,370 square feet constructed in 1970.

Modern Group

The second group is the Modern group, constructed from 1976 to 1990. Facilities in this group tend to have building elements which either have been replaced or are past the end of their useful lives. The five largest buildings in the study set are:

- Transit Shed #7 at the State Ports Authority-Wilmington: 272,775 square feet constructed in 1981.
- High Rise Dorm at DPS Piedmont Correctional Facility: 246,120 square feet constructed in 1980.
- Archdale Building: 242,647 square feet constructed in 1977.
- Main Complex at DPS Southern Correctional Institution: 226,130 square feet constructed in 1983.
- Eastern Correctional Center at DPS Eastern Correctional Institution: 226,130 square feet constructed in 1984.

Complex Group

The third group is the Complex group, constructed from 1991 to 2015. Facilities in this group tend to be more complex than earlier buildings due to the increasing use of electronic systems to attain higher efficiencies in energy conservation. The five largest buildings in the study set are:

- Building GTP-6 at Global Transpark Authority: 600,000 square feet constructed in 2010.
- Central Regional Hospital: 436,727 square feet constructed in 2008.
- Public Education Building: 321,443 square feet constructed in 1992.
- Revenue Building: 298,803 square feet constructed in 1992.
- Nature Research Center: 266,732 square feet constructed in 2012.

D. TASK 2 RECOMMENDATIONS

We offer the following recommendations for the FCAP program. Some of these recommendations may already be under consideration by the State Construction Office. The success of the FCAP program is predicated on the availability of an annual source of funding for building sustainment. If building sustainment funds continue to be provided at a low level of funding, the FCAP efforts will be less useful to the state.

- Maintain a constant source of funding for the FCAP program. An FCAP program should be a continuous endeavor.
- Develop a rolling schedule of buildings to be assessed. Typically buildings should be assessed every five years.
- The FCAP has a minimum threshold building size of 3,000 square feet. This is a common minimum as the costs of the FCAP outweigh the benefits below a facility size of 3,000 to 5,000 square feet. Sustainment funding should still be assigned to these smaller buildings with disbursement on a programmatic basis.
- A centralized Office of Real Estate (ORE) as proposed above should oversee a dedicated FCAP program to avoid inconsistencies. Using teams of two has been found to improve consistency through assessor collaboration. Each team member is responsible for a different area of the facility. A two person team can be made up of one structural/roofing/interior assessor and a mechanical/electrical/plumbing assessor.
- Develop an assessor manual and quality control process emphasizing consistency. Different teams of assessors should be able to independently reach similar conclusions concerning building deficiencies.
- Develop or purchase software which identifies each facility, the facility inventory, and the deficiencies associated with that facility. Forecasting software could also be helpful in developing realistic sustainment budgets.

E. TASK 2 SUMMARY

- The State FCAP program should be continuously funded and focused on consistency throughout the program.
- The State FCAP deferred maintenance cost estimates of approximately $5 billion cannot be invalidated by this study. The cost should be considered accurate for planning purposes.
- A large number of State buildings are reaching an age where repairs and renovations can be accomplished to economically extend the life of the buildings.

TASK 3: ASSESS FCAP REPORT ANALYSIS WITH COST OF UPGRADE

III. TASK 3: ASSESS FCAP REPORT ANALYSIS WITH COST OF UPGRADE

A. TASK 3 SCOPE

Analyze the FCAP reports and data in the context of cost associated with quality upgrades or modernization of facilities for improvements to contemporary standards creating an efficient, appealing, and productive work environment for State employees.

B. TASK 3 OBSERVATIONS

The project team reviewed the FCAP reports in the context of modernization and quality upgrades. FCAP reports for buildings over 20,000 square feet were in the study set. The FCAP reports focus on replacing or repairing existing building systems, not upgrading or modernizing systems. There are a few exceptions which we focused on. Modernization for safety reasons is one area. This includes recommended installation or upgrades to fire alarm systems and fire sprinkler suppression systems. Modernization to comply with current building codes is another area. This area is primarily focused on the Americans with Disabilities Act (ADA). Another area is modernizations for energy conservation. A building recommended for total renovation was also considered modernization. Please see the table below for the costs and number of buildings for each modernization type. Appendix C contains a list of these buildings (electronic format).

MODERNIZATION COSTS BY TYPE		
TYPE	NUMBER OF BUILDINGS	TOTAL COST
Safety/Code	77	$ 15,488,642
Full Renovation	41	$ 407,909,707
ADA	11	$ 1,188,600
Energy	43	$ 3,901,100
Total	172	$ 428,488,049

The vast majority (95%) of the modernization costs are for renovation. Renovations costs would typically include upgrades to safety systems, code compliance, ADA compliance, and energy conservation through the use of modern building systems. Expenditures on energy saving projects typically will save money over the long term due to the reduction in energy costs.

C. SUMMARY

- Modernizations were recommended by the FCAP for 172 buildings in the study set.
- Modernization costs totaled $428 million.
- Full renovations were the vast majority of modernization costs, totaling $408 million.
- Energy projects typically pay for themselves over time.

TASK 4: FCAP REPORT ANALYSIS FOR OBSOLETE SPACE

IV. TASK 4: FCAP REPORT ANALYSIS FOR OBSOLETE SPACE

A. TASK 4 SCOPE

Evaluate facilities based on the FCAP reports and data that could be classified or defined as obsolete and need of replacement.

The project team evaluated facilities based on the FCAP reports and other data that could be classified as obsolete or in need of replacement. We used two major methodologies to determine if a building could be classified as obsolete or in need of replacement.

- First, all buildings built between 1945 and 1975 require special attention due to the probable age of the building systems. Buildings constructed before 1945 are generally considered to be historic and not highlighted for special attention. There are 155 of these buildings.
- Secondly, buildings in the FCAP which are recommended for complete renovation can be considered obsolete. There are 41 of these buildings, of which 29 are already on the list due to age. This adds 12 buildings to the total. Also, there are 25 buildings which have a high ratio (0.15 or greater) of deficiency costs to the building value which could be considered obsolete. Appendix D contains a list of these buildings (electronic format).

B. POTENTIAL PROPERTIES THAT ARE CONSIDERED TO BE OBSOLETE

The following list contains the ten buildings most likely to be considered for replacement predominantly based on size, with age, use, and location also considered. Properties below are limited to the age range from 1945 to 1975.

1. Administration Building: 201,476 square feet constructed 1967
2. DPS Western Correctional Center High Rise Building and Chapel: 197,264 square feet constructed in 1971
3. Albemarle Building: 192,370 square feet constructed in 1970 (note: the Albemarle Building is currently being renovated)
4. Bath Building: 118,802 square feet constructed in 1974
5. Blue Ridge Road National Guard Armory: 117,175 square feet constructed 1964
6. Textbook Warehouse: 106,595 square feet constructed 1974
7. Jones Building at Broughton Hospital: 103,491 square feet constructed 1950
8. Royster Building at Cherry Hospital: 102,856 square feet constructed 1962
9. Information Technology Building: 91,500 square feet constructed 1972
10. Federal Surplus Warehouse: 60,853 square feet constructed 1959

C. TASK 4 SUMMARY

- Buildings constructed between 1945 and 1975 require special attention due to the age of the building systems.
- Many of the buildings in this age range are likely to need complete replacement.
- There are 155 buildings in the state portfolio in this age range.
- Ten buildings (listed above) are specifically highlighted for attention predominantly based on size, with age, use, and location also considered.

TASK 5: IDENTIFY FACILITIES SUITABLE FOR REPURPOSING, SALE, OR LEASE

V. TASK 5: IDENTIFY FACILITIES SUITABLE FOR REPURPOSING, SALE, OR LEASE

A. TASK 5 SCOPE

Identify facilities that would be suitable for repurposing, sale or lease.

B. STRATEGIC RECOMMENDATIONS

In response to the State's desire to leverage existing locations, monetize assets and reinforce the redevelopment of state parcels across North Carolina, the CBRE team has identified the following strategic recommendations:

Downtown Raleigh

1. Relocate Revenue Agency to lower cost building in suburban Raleigh
2. Relocate staff in Department of Administration Building to Revenue Building
3. Department of Administration site: Repurpose through disposition, ground lease, or public private partnership
4. Visitor Parking Lot #18: Repurpose through disposition, ground lease, or public private partnership
5. Bath Building demolition – Repurpose through disposition, ground lease, or public private partnership
6. Bath Building Parking Lot surrounded by North, Polk, Blount and Wilmington Streets: Repurpose through disposition, ground lease, or public private partnership
7. Relocation of Employment Security Commission and repurpose of Wade Avenue site through disposition, ground lease, or public private partnership
8. Old State Records Building: Possible parking expansion or repurpose through disposition, ground lease, or public private partnership

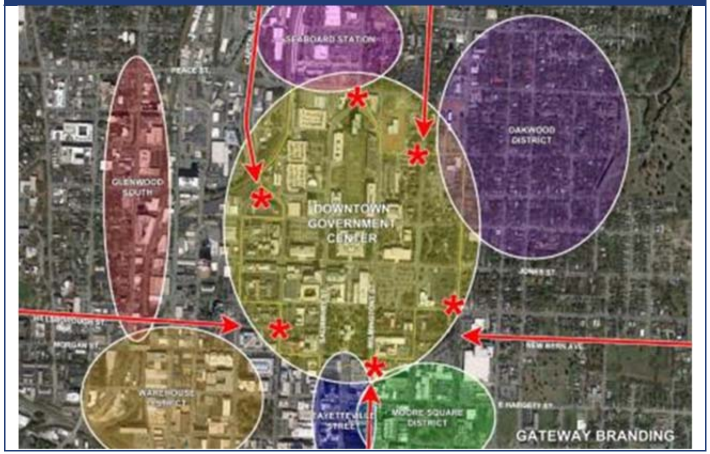
Suburban Raleigh

1. Relocate Textbook Warehouse and Motor Fleet Management facility and repurpose through disposition, ground lease, or public private partnership t (office, medical, mixed use)
2. Relocation of Garner Road State Highway Department Test Track and keep available for future State office uses

Charlotte

1. Downtown Charlotte NCRR site: Repurpose through disposition, ground lease, or public private partnership

STRATEGY REINFORCES THE GOVERNMENT CENTER GATEWAYS



C. DOWNTOWN RALEIGH OVERVIEW

Downtown Government Campus

The heart of the state complex in downtown Raleigh covers approximately 5M SF of owned state space in sixty (60) different buildings that employ nearly 9000 state employees. The state complex is bordered by historic neighborhoods, private sector office space, retail space, conference facilities and several private college campuses. In addition, the Capital District attracts 1.3M visitors per year. The State owns an extraordinary range of downtown assets, many of which are special purpose and irreplaceable (the Capitol, the Governor's Mansion, the Legislative Building).

The 2007 State Government Master Plan set forth a number of goals for the downtown Raleigh campus:

- Renovate or replace existing facilities to increase building density within the Downtown Campus
- Consolidate departments that are dispersed
- Created development plans compatible with the existing (and changing) urban landscape and coordinate these plans with the City of Raleigh
- Look to alternative methods to provide adequate parking.

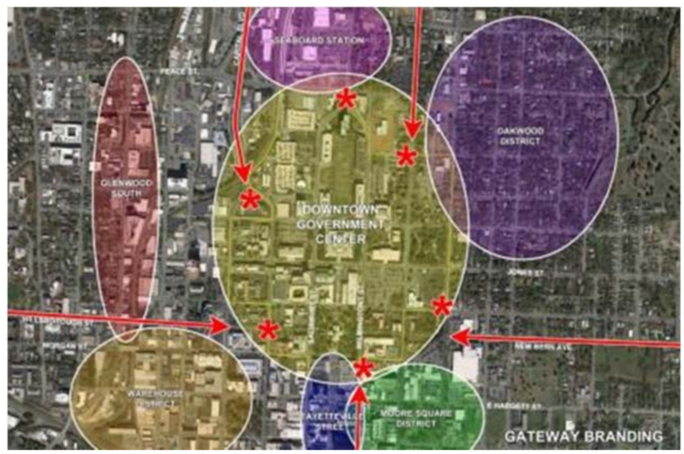
A diverse set of user groups requires unique response to the functional and aesthetic character of the Downtown Campus. These users include:

- State employees
- Members of State Boards and commissions
- Citizens with government business
- Visitors to the State Capital
- Citizens of Raleigh
- Elected officials

Strategy Supports State and Local Goals for Growth

The proposed State real estate strategy supports the goals of 1) reducing state real estate expenditures while returning properties to the tax rolls and 2) reinforcing local patterns of growth and development.

STRATEGY REINFORCES THE GOVERNMENT CENTER GATEWAYS



The adjacent diagram illustrates the reinforcement of pedestrian flows east and west along Jones Street and north and south through the capital complex.

The overall strategy in Downtown Raleigh proposes the return of underutilized parcels for multi-housing and mixed-use development. This proposed redevelopment is focused on reinforcing patterns already under development. Downtown Raleigh is enjoying unprecedented growth and demand for all types of space (land, retail, residential, office, educational) which is driving large increases in select property values.

According to the Downtown Raleigh Alliance 2015 Annual Report:

- Downtown Raleigh's population has increased 53% since 2000 and is poised for an increase of nearly 40% with the new supply of apartments and condos being completed.
- 48% of downtown's hotel rooms have been built since 2008 with strong demand for even more rooms, as the convention center, major events, and festivals continue to draw thousands of visitors to downtown. Hotel occupancy is up over 11% since 2013.
- In addition to the convention center and the Duke Energy Performing Arts Center, new events and festivals, such as the IBMA World of Bluegrass, museums, and attractions, bring over 3.5 million visitors to downtown each year.
- Downtown's retail base has grown by over 35% in the past four years, helping create one of the largest concentrations of local, independent retailers in the region.
- Downtown has become a foodie destination with some of the best restaurants in the Triangle and is home to the 2014 James Beard Award winner for the southeast region, Ashley Christensen, who owns four restaurants in downtown with more to open in 2015.

- In 2014, downtown added 37 new storefront businesses, ranging from running shoes, leather goods, clothing, and craft beer bottle shops to services for medical care, exercise gyms, and haircuts.
- 700,000 square feet in new or renovated office space over the next two years with nearly 350,000 square feet in office space opening in 2015 on Fayetteville Street alone and two more Class A office towers beginning construction in 2015. Rental rates in Downtown Raleigh are among the highest in the Triangle marketplace.
- Over $100 million in major public investments begin construction in 2015 and 2016 with the new Union Station breaking ground, followed by renovations of both the Moore Square Transit Center and Moore Square itself, which will improve park space and transit in downtown.

The future of Downtown Raleigh is governed by the Downtown Raleigh's 2025 Experience Plan which sets forth a ten (10) year plan for future development. The Plan organizes downtown Raleigh into five (5) districts (Gateway Center, Glenwood Green, North End, Moore Square and Nash Square-Union Station), each with a distinct character and focus.

Demand for Land in Downtown Raleigh

Land sites in Downtown Raleigh are at unprecedented values due to the surge in residential, commercial and retail development. Specifically, this study evaluated five (5) downtown parcels that are strong candidates for redevelopment, sale, or potential long-term ground lease.

- Visitors Parking Lot (Lot 17) Site has long been planned as a State Visitors Center
  - Acreage: 4.09
  - Tax Value: $7,768,985
  - Retail value: $45 - $55 per SF
  - Ground lease value: $681,000 - $832,000 per year, up to 99 years, with fixed increases
- NC DOA Site
  - Acreage: 4.04 acres
  - Tax Value: $6,159,370
  - Retail value: $45 - $55 per SF
  - Ground lease value: $673,000 - $822,000 per year, up to 99 years, with fixed increases
  - Age: 1967
  - SF: 149,017
  - Insurance Value: $27,735,334 / $186.12 per SF
- Bath Building Site
  - Acreage: 1.32 acres
  - Tax Value: $
  - Retail value: $45 - $55 per SF
  - Ground lease value: $219,000 – $268,000 per year, up to 99 years with fixed increases
  - Age: 1973
  - SF: 118,801
  - Insurance Value: $21,847,873 / $183.90 per SF
- Bath Building Parking Lot
  - Acreage: 2.98 acres
  - Tax Value: $
  - Retail value: $45 - $55 per SF

- Ground lease value: $496,000 – $606,000 per year, up to 99 years with fixed increases
- Age: 1973
- SF: 118,801
- Insurance Value: $21,847,873 / $183.90 per SF

- Old Records Building
  - Acreage: 1.2 acres
  - Building Size: 45,905 SF
  - Retail value: $40 - $50 per SF
  - Ground lease value: $175,000 – $225,000 per year, up to 99 years with fixed increases
  - Acquired: 1953
  - Insurance Value: $4,866,629

DOWNTOWN RALEIGH LAND COMPARABLES				
SITE	AREA	UNITS	SALE PRICE	PRICE/ACRE
Skyhouse Raleigh	0.68 acres	320	$ 4,124,000	$ 6,064,706
201 N. Harrington	1.27	160	$ 5,450,000	$ 4,291,339
925 Morgan	3.48	249	$ 9,600,000	$ 2,758,621
425 Boylan	1.77	250	$ 4,580,000	$ 2,587,571
600 St. Mary's	1.21	134	$ 2,950,000	$ 2,438,017
Blount Street	2.31	213	$ 4,700,000	$ 2,034,632
Blount Street Commons	0.4	46	$ 1,765,000	$ 4,400,000
Raleigh Site 2 & 3	2.02	N/A	N/A	$ 7,479,000 *
Elon City Center	1.94	213	$ 4,705,310	$ 2,425,000
301 Hillsborough Street	1.18	N/A	$ 3,080,000	$ 2,610,169 *
* Appraised Value				

Employment security commission (ESC) site AT Wade Avenue & St. Mary's street

The ESC site on Wade Avenue is highly desirable for redevelopment. Located at a major gateway into Downtown Raleigh, and buffered by both Cameron Village and Hayes Barton, the site would hold tremendous value for future development. The site is currently home to the Employment Security Commission which would have to be relocated.

The site has noted environmental issues with an estimated remediation price of $12m-$14m; however the superior location and access make this a tremendously valuable tract of land. Recent land sale transactions in the Cameron Village area include:

CAMERON VILLAGE LAND COMPARABLES				
SITE	AREA (ACRES)	SALE PRICE	PRICE/ACRE	PRICE/SF
600 St. Mary's Street	1.21	$ 2,950,000	$ 2,438,017	$ 53.90
616 Oberlin Road	2.87	$ 5,900,000	$ 2,055,749	$ 47.19
402 Oberlin Road	2.61	$ 4,450,000	$ 1,704,981	$ 39.14

Value

- Acreage: 15.70
- Tax Value: $12,419,820
- Retail value: $30 - $40 per SF
- Ground lease value: $1,750,000 - $2,900,000 per year, for up to 99 years, with fixed escalations

D. SUBURBAN RALEIGH

Garner Road / Public Safety and Training Center District

The Garner Road Campus is just south of Downtown Raleigh and provides facilities in support of law enforcement and public safety units. Garner Road is also home to the State Bureau of Investigation and the State Highway Patrol, with close proximity to Downtown Raleigh via Hammond Road and Highway 70 and sits adjacent to NC SBI headquarters facility, the Alcoholic Beverage Control facility and several large.

The 2007 State Government Master Plan shows approximately 575,000 SF of existing state owned space in 37 different facilities serving SBI, Highway Patrol, ABC Commission, US Army Reserve, and several support buildings. Among the recommendations from the 2007 Master Plan are:

- Relocate the Motor Fleet Management and Textbook Warehouse off Blue Ridge Road to Garner Road.
- Locate office development and infill to the State Highway Patrol and SBI.
- Reserve land to reduce leased space by providing facilities for state agencies that require proximity to Downtown Raleigh
- Relocate the Highway Patrol Race Track.

At maturity, the site could support a total of 2,583,257 SF, or approximately 2M SF of additional development over time. Given the pace of suburban office and residential development across the Triangle, the Garner Road site is one of the State's best options for large development on an affordable and sustainable basis.

Garner Land Site

- Acreage: 98.77
- Assessed Value: $8,604,842
- Retail Value: Were this large parcel to be offered for sale in the near future, we believe the value would be in the range of $2-$4 per SF, depending on the use, rezoning, and timing of a sale. However, this site represents one of the State's best locations for future office development and we believe it should be preserved as such.

Blue Ridge Road / Research and Development District

The State of NC is a major land owner in West Raleigh with a variety of land positions including the NC Art Museum, the State Fairgrounds, Carter Finely Stadium, Schenck Forest, the NCUS Vet School and numerous state buildings along Blue Ridge and Reedy Creek Road. Current state facilities in this submarket total over 850,000 SF spread among numerous agencies including DENR, the National Guard, DMV, Highway Patrol and various special purpose laboratory and support facilities.

The area has direct access to I-40 and I-440. The 2007 State Government Master Plan calls for this submarket to be further developed as the center for agriculture and environmental science and future lab space, and calls for up to 765,000 SF of additional state office space to be developed for a variety of state needs.

The Blue Ridge Road corridor has been exhaustively studied, as recently as 2012, by a large group of public agencies, private developers, end users and elected officials. Participants in 2012 included:

- North Carolina Capital Area MPO
- North Carolina Department of Administration (NCDOA)
- North Carolina Department of Environment and Natural Resources (NCDENR)
- North Carolina Department of Transportation (NCDOT)
- North Carolina Department of Water Quality (NCDWQ)
- Raleigh Arts Commission
- Raleigh Business Owners
- Raleigh Citizen Advisory Councils
- Raleigh Historic Development Commission (RHDC)
- Raleigh Property Owners
- Raleigh Public Affairs and RTN
- UNC-CH, School of Public Health, Department of Environmental Sciences and Engineering
- U.S. National Guard

The Blue Ridge Road District Study looked at a two-mile stretch of Blue Ridge Road that is flanked by many of Raleigh's greatest attractions: the North Carolina Museum of Art, the PNC Arena, Carter-Finley Stadium, and the North Carolina State Fairgrounds. With the additional support of major employers and institutions like the various State departments that are headquartered here, the NC State University Centennial Biomedical Campus, and Rex UNC Health Care (Rex Hospital), this area hosts well over 6 million visitors a year.

Even with all of these assets, the Blue Ridge Road District struggles to support these visitors with limited local road network, poor pedestrian access, a lack of entertainment and service uses, and a very car-centric, suburban character.

The Raleigh Urban Design Center administered this effort, supported and directed by a representative advisory group of major stakeholders, land owners, and tenants. This study seeks to provide a coordinated blueprint to guide future development within this District that will be implemented over time, reverse the trend of anemic economic development, and establish a true sense of place. To this end, the project team utilized a series of stakeholder, focus group, and public meetings to seek input, foster consensus, and identify future opportunities for the Blue Ridge Road District. (Source: Blue Ridge Study Corridor, August 2012, page viii).

North Carolina Museum of Art

Included in the Blue Ridge Road area is the North Carolina Museum of Art which will construct a 164-acre campus, with $13 million for the first phase from an anonymous donor. Bicycle trails, walkways, new art and a connection to the Capital Area Greenway are some of the new features being added to the re-imagined space, which NCMA Director Larry Wheeler says allows the museum "to be a catalyst of change."

Other State Facilities

The State of NC owns dozens of buildings along Blue Ridge and Reedy Creek Roads including Department of Agriculture laboratories, warehouse facilities, office space, classroom training facilities and garage facilities. State agencies with facilities along Blue Ridge and Reedy Creek Road include NC DOA, Agriculture, NCSU, NC National Guard, DHENR, and the Wildlife Resources Commission.

While many of the state's facilities are older, many are special purpose and not easily replaced. However, the site at the intersection of Blue Ridge Road and Reedy Creek Road is currently home to both the Motor Fleet Garage (built in 1973 and valued at $3,055,690 for 28,820 SF) and the Textbook Warehouse (built in 1974 and valued at $6,102,903 for 106,5959 SF). Given the high value of the underlying land and the demand for higher purposed real estate in the immediate vicinity, these two facilities that easily be moved to alternative leased or owned locations elsewhere in Wake County.

- Textbook Warehouse:
  - SF: 106,595
  - Insurance Value: $6,102,903 / $57.25 per SF
  - Age: 1974
- Motor Pool:
  - SF: 28,820 SF
  - Insurance Value: $3,055,690 / $106.03 per SF
  - Age: 1973

Land Values

The State of NC controls 40 contiguous acres at Blue Ridge and Reedy Creek Roads, and could easily sell or ground lease a portion to the private market to stimulate higher end development. Based on recent land sales, and depending on the desired use, land at this location could be worth $5 -$7 per square foot or $217,800 to $304,920 per acre. Alternatively, the state could enter into a long-term ground lease and realize a long-term income stream (ground leases in our market are typically 65-99 years). Were all 40 acres potentially assembled for redevelopment, the total sale potential could range from $8,712,000 to $12,196,800. Alternatively, the state could enter into a long-term ground lease and secure bids from the private development market.

E. NORTH CAROLINA RAILROAD LAND - CHARLOTTE

North Carolina Railroad (NCRR) owns fee simple title to 2.89 acres of land and air rights along Third and Brevard Streets in the center of Uptown Charlotte. The property is under a 99 year ground lease to Norfolk Southern that expires in 2067. Norfolk Southern has fee simple title to an adjacent 1.22 acre parcel (total acreage – 4.11 acres). The subject acreage is currently used as parking lots and a vacant parcel that was once used as a park amenity for the Charlotte Plaza tower (under a lease to the building owner at the time – Hines).

With only 52 years left on the ground lease there is almost no chance this property will be developed during the remaining term. It is perhaps some of the most strategic, available and desirable land for development in Uptown Charlotte. Served by two light rail stops, the site is in the center of development in the CBD and is conveniently located on the southern end of Uptown closest to the affluent suburbs. The site enjoys the coveted Uptown Mixed Use Development (UMUD) zoning designation which allows unlimited density and height.

Due to its unique location and access to the light rail line, the development possibilities are outstanding and include – a high-rise office tower, a luxury hotel, high-rise residential (apartments or condominiums) and retail. The property is currently not on the city’s tax rolls (except for the parcel that Norfolk Southern owns fee simple) and the amount of property tax revenue that could be generated would be significant from a fully developed site. Also, the number of jobs that could be created (most likely in the thousands) would be very beneficial to the city and the state in addition to the sales and hotel tax potential of the property. There are also several other tracts of land that are under the NCRR/Norfolk Southern Ground Lease under the AT&T and One Wells Fargo Center buildings that could be sold, as well.

In summary, the subject railroad property is among the most valuable tracts of land (and air rights) in the state of North Carolina and should be made available for development through a land sale. It could be a win-win for the state, the city and its residents/taxpayers. We believe the property value would be in the range of $100 - $200 per SF of $12,500,000 - $25,000,000 depending upon the time of the sale and the intended use.

F. STRATEGIC RECOMMENDATIONS

RECOMMENDATION 1:
DOWNTOWN RALEIGH / REVENUE DEPARTMENT RELOCATION

Relocate the Revenue Department staff to a leased location outside of downtown. Move other State Agencies into the Revenue Building allowing for development opportunities.

SITE	298,803 Gross SF (Built 1992)
ACQUISITION COST	$35,890,335
CONTENT VALUE	$17,712,135
INSURED VALUE	$55,986,738
PROJECTED RETAIL VALUE	This property currently has an insurance value of $187 per SF. As a leased property, it would likely trade in the 6% - 8% cap range depending on the credit and length of lease term available to an investor. The value would ultimately be tied to the underlying lease value. Rents for buildings similar in age and condition to the Revenue building rent in the $16-$24 range.
POTENTIAL USE	Office

RECOMMENDATION 2:

DOWNTOWN RALEIGH / RELOCATION OF DEPARTMENT OF ADMINISTRATION

Offer the land bounded by Dawson, Jones, Salisbury and Lane Streets and buildings to the private development community through disposition, ground lease, or public private partnership. Relocate the Department of Administration staff to the Revenue Building. In addition, the majority of existing buildings at Caswell Square could be demolished to return the Square back into park/open space as in the original William Christmas plan of 1792.

SITE	4.04 AC
ASSESSED VALUE	$8,444,185 / $2,090,144 AC ($47.98 SF)
RETAIL VALUE	We believe were this parcel for sale on the open market it could command a price in the $55-$65 per SF range or potentially even higher given the extraordinary demand for land sites in Downtown Raleigh. However, we believe it is in the State’s best interest to entertain a long-term ground lease on this site with a private developer. Typical ground leases in this market are 75-99 years, with negotiated returns in the range of 8% -10%.
POTENTIAL USE	Mixed-use office, residential, retail and parking decks

RECOMMENDATION 3:

DOWNTOWN RALEIGH / PARKING LOT #18

Offer the site to the private development community through disposition, ground lease, or public private partnership. Position the site for a development of a mixed use complex including a visitor center, hospitality (hotel), retail and parking. In addition Lot 20, located east of Lot 18, could be offered as well for development of office or residential with retail and parking.

SITE	3.8 AC
ASSESSED VALUE	$8,444,185 / $2,090,144 AC ($47.98 SF) $45 - $55 per ground foot
RETAIL VALUE	We believe were this parcel for sale on the open market it could command a price in the $45-$55 per SF range or potentially even higher given the extraordinary demand for land sites in Downtown Raleigh. However, we believe it is in the State's best interest to entertain a long-term ground lease on this site with a private developer. Typical ground leases in this market are 75-99 years, with negotiated returns in the range of 8% -10%.
POTENTIAL USE	Visitors Center, mixed-use office, residential, and retail.

RECOMMENDATION 4:

DOWNTOWN RALEIGH / BATH BUILDING DEMO

Demolish the Bath building and sell the land for private development. Relocate staff into the Revenue building. Offer the land to the private development community for a ground lease.

SITE	1.32 AC
ASSESSED VALUE	$1,724,970 /$1,306,795 AC ($30.00 per SF)
RETAIL VALUE	We believe were this parcel for sale on the open market it could command a price in the $45-$55 per SF range or potentially even higher given the extraordinary demand for land sites in Downtown Raleigh. However, we believe it is in the State's best interest to entertain a long-term ground lease on this site with a private developer. Typical ground leases in this market are 75-99 years, with negotiated returns in the range of 8% -10%.
POTENTIAL USE	Mixed-use office, residential, retail and parking decks.

RECOMMENDATION 5:

DOWNTOWN RALEIGH/ BATH BUILDING PARKING LOT

Offer the land north of the Bath building to the private development community through disposition, ground lease, or public private partnership for a mixed use development.

SITE	+/- 3.00 AC
ASSESSED VALUE	$5,022,960 / $1,674,320 AC ($38.44 SF)
RETAIL VALUE	We believe were this parcel for sale on the open market it could command a price in the $45-$55 per SF range or potentially even higher given the extraordinary demand for land sites in Downtown Raleigh. However, we believe it is in the State's best interest to entertain a long-term ground lease on this site with a private developer. Typical ground leases in this market are 75-99 years, with negotiated returns in the range of 8% - 10%.
POTENTIAL USE	Parking Deck, Mixed-use office, residential, and retail.

RECOMMENDATION 6:

DOWNTOWN RALEIGH / WADE AVENUE EMPLOYMENT SECURITY COMMISSION

Monetize the 15.84 acre site on Wade Avenue in Raleigh at St. Mary's Street to a private sector developer. Relocate the Employment Securities Commission staff to leased space.

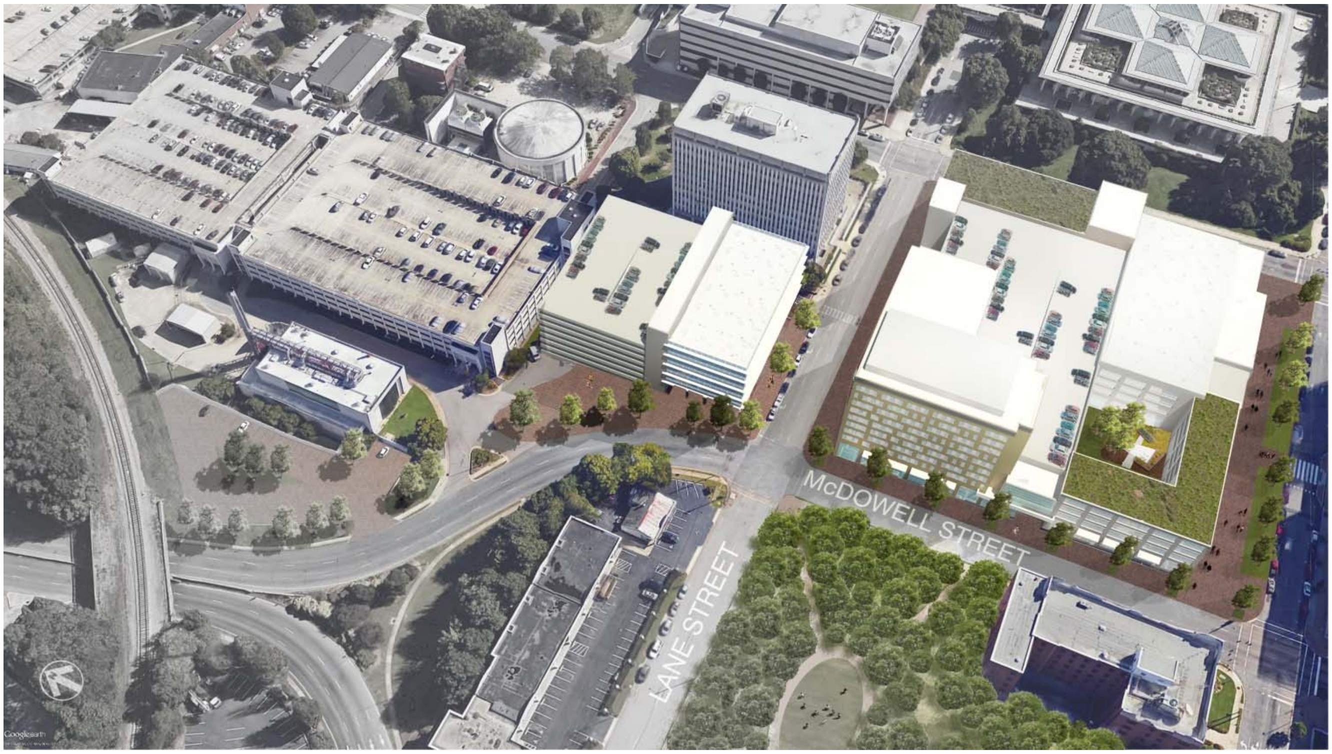
SITE	15.84 AC
ASSESSED VALUE	$27,011,249 / $1,705,225 AC ($39.15 SF)
RETAIL VALUE	The Wade Avenue site is an historic opportunity with one of the largest parcels of land that could be assembled in the Heart of Raleigh. The site is buffered by high-end residential and high-end retail and is zoned O&I 1. The final retail value of this parcel would be governed by the allowable uses on the site but should easily exceed the current tax value of $39.15 per SF.
POTENTIAL USE	Mixed use residential, office and retail.

RECOMMENDATION 7:

DOWNTOWN RALEIGH / OLD STATE RECORDS BUILDING

Offer the land of the Old State Records Building to the private development community through a disposition, ground lease, or public private partnership. Position the land primarily for a parking garage and potentially a mixed use development.

SITE	+/- 1.20 AC
INSURANCE VALUE	$4,861,280 / $1,742,394 AC ($40 per SF) Note: This also includes the Albemarle Building.
RETAIL VALUE	We believe were this parcel for sale on the open market it could command a price in the $55-$65 per SF range or potentially even higher given the extraordinary demand for land sites in Downtown Raleigh. However, we believe it is in the State's best interest to entertain a long-term ground lease on this site with a private developer. Typical ground leases in this market are 75-99 years, with negotiated returns in the range of 8% -10%.
POTENTIAL USE	Mixed use office, parking decks and retail.



RECOMMENDATION 8:

SUBURBAN RALEIGH / RELOCATE TEXT BOOK AND MOTOR POOL FLEET

Relocate the Blue Ridge Road textbook warehouse and motor pool fleet facilities. Monetize or ground lease the land to a private sector developer.

SITE	+/- 42.80 AC
TEXT BOOK WAREHOUSE	106,595 SF and was built in 1973; Insurance Value: $6,102,903 ($57.25 SF)
MOTOR FLEET LAB	28,820 SF and was built in 1973; Insurance Value: $3,055,690 ($106.03 SF)
PROJECTED RETAIL VALUE	As is pointed out in the 2007 Master Plan, the Blue Ridge / West Raleigh corridor continues to mature as an office, retail and residential submarket. While the State operates numerous special purpose facilities in this location, the two properties referenced here could easily be relocated into lower cost locations on either state-owned land or into leased locations. As suburban office land, this site could command prices in the $5-$7 per SF range, or the state could enter into a long-term ground lease with a private developer.
POTENTIAL USE	Mixed use residential, office and retail.

RECOMMENDATION 9:

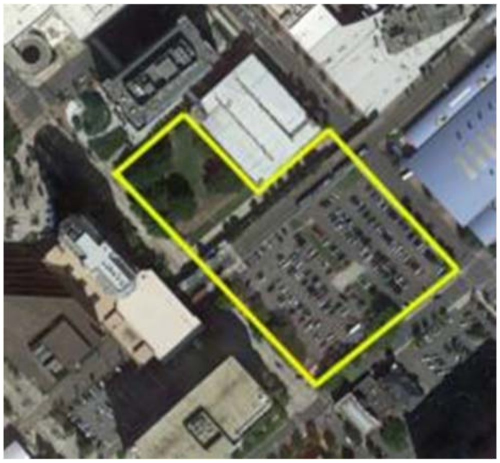
SUBURBAN RALEIGH / GARNER ROAD TEST TRACK RELOCATION

The Garner Road test track in Raleigh has long been identified as a site for future office development for the State of NC. Relocate the Highway Patrol test driving track off the Garner Road site making it available for other State of North Carolina facilities.

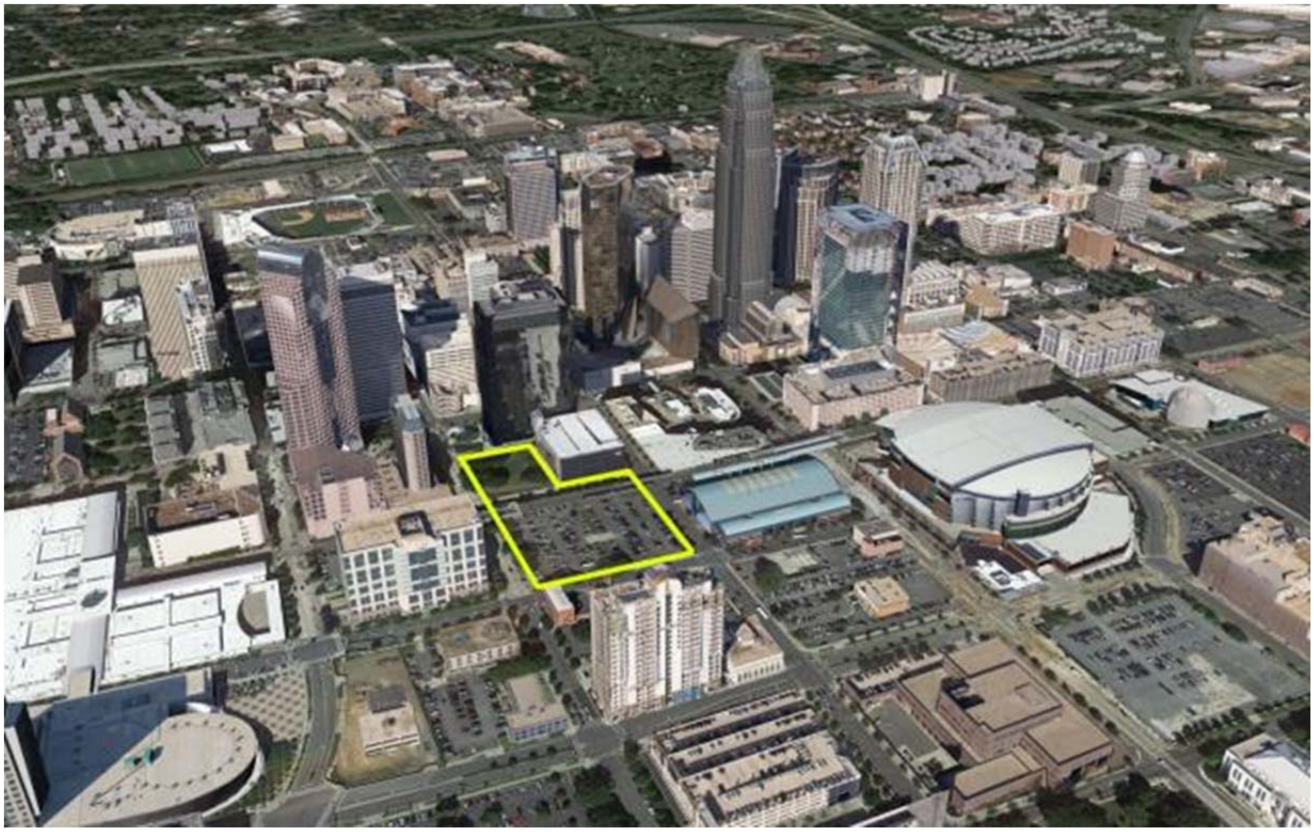
SITE	98.77AC
ASSESSED VALUE	$8,604,842 / $87,120 AC ($2 SF)
RETAIL VALUE	The Garner Test Track has long been identified as a typical suburban office buildings potential site. The Triangle market has FAR (Floor Area Ratio) land values in the $15-$30 per SF range. For example, to build a 100,000 SF suburban office building we would expect a land value of $1,500,000 - $3,000,000.
POTENTIAL USE	As is set forth in the 2007 Master Plan, this site is ideal for office space with surface or table top deck parking.

RECOMMENDATION 10:
DOWNTOWN CHARLOTTE / NORTH CAROLINA RAILROAD SITE

Monetize the property to the private sector for development between E 3rd Street and E 4th Street at S Brevard Street.



SITE	3.37 AC
AIR RIGHTS	.74 AC
ASSESSED VALUE	$20,669,200 / $6,133,294 AC ($140 SF)
RETAIL VALUE	We believe were this parcel for sale on the open market it could command a price in the $90-$120 per SF range or potentially even higher given the extraordinary demand for land sites in Downtown Charlotte. However, we believe it is in the State's best interest to entertain a long-term ground lease on this site with a private developer. Typical ground leases in this market are 75-99 years, with negotiated returns in the range of 8% - 10%.
POTENTIAL USE	Mixed-use office, residential, and retail.



TASK 6: EVALUATE CAPITAL NEEDS BY AGENCY BASED ON FACILITY USAGE AND COLLOCATION POTENTION

VI. TASK 6: EVALUATE CAPITAL NEEDS BY AGENCY BASED ON FACILITY USAGE AND COLLOCATION POTENTION

A. TASK 6 SCOPE

Evaluate each agency's six-year capital needs request from an overall statewide standpoint of duplication of facility usage and potential collocation of services and functions.

B. OVERVIEW

The project team combined information from the capital needs request, the FCAP review, meetings with agencies, and personnel interviews to develop the following observations. Recommendations are presented following the observations.

C. OBSERVATIONS

- Requests for space do not appear to be coordinated between agencies, nor does there appear to be an overall review process of the space needs outside the requesting agency.
- The Department of Administration pays the utilities for space occupied by other agencies.
- With some exceptions, agencies do not pay "rent" for their space to the Department of Administration.
- There is no clear line between maintenance and Repairs and Renovation (R&R).
- There is no consistent funding for capital needs. Agencies do not know how much money they will receive each year and cannot rationally plan capital expenditures. Therefore funding requests tend to be inflated.
- Agencies and the State Construction Office perceive the process of capital needs requests development to be opaque. Although agencies report needs and submit information to the Office of State Budget and Management, there appears to be no further coordination.
- Preventive maintenance is underfunded regarding the true cost of building upkeep. When preventive maintenance is not performed, capital costs for facilities will rise due to more frequent "emergencies" and premature replacement of building elements.

D. RECOMMENDATIONS

The project team recommends the following steps to improve the capital needs request process.

- Create a position to coordinate all agency space requests. This would identify possible agency collocation possibilities and lower leasing costs.
- Implement a system in which space use "rent" and utilities are in each agency's budget. This will help control space needs requests. There is now no incentive for agencies to efficiently use their space.
- Provide a consistent source of funding for capital needs. In conjunction with the FCAP improvement process recommended in the other section, immediate R&R needs are a known quantity. Forecasting tools can model future needs and provide a rational basis for capital R&R expenditures. Forecasting can also model the effects of not providing adequate R&R funding, which can aid decision makers in allocating limited funds to the correct places.
- Improve coordination between the budget office and state agencies, as well as the State Construction Office. A policy should be set in place to provide for coordination meetings between agency stakeholders and the budget office between agency submission of information and the final capital needs requests.

Due to the lack of information concerning the amount of expected funding, the capital needs requests sometimes have multiple conflicting line items for a single facility. For instance, a facility may have an immediate need for an

HVAC system replacement that costs $1 million. The same facility may also have an immediate need, although perhaps not quite as pressing, for electrical upgrades for $2 million. The facility may also be dated and in need of a full renovation for $5 million, which would include the HVAC and electrical upgrades. The capital needs request would have three line items totaling $8 million. If each agency knew its level of funding, the agencies could decide which capital requests to prioritize.

E. SUMMARY:

- There does not appear to be an overall review process of the space needs outside the requesting agency.
- There is no consistent funding for capital needs.
- Agencies and the State Construction Office perceive the process of capital needs requests development to be opaque.
- Coordinate all agency space requests through a centralized State Office of Real Estate (ORE).
- Provide a consistent source of funding for capital needs.
- Improve coordination between the budget office and state agencies, as well as the State Construction Office.

TASK 7: STRATEGIES TO REDUCE OCCUPANCY COSTS THROUGH CONSOLIDATION, RELOCATION, RECONFIGURATION, CAPITAL INVESTMENT, ACQUISITION, AND DISPOSITION

VII. TASK 7: STRATEGIES TO REDUCE OCCUPANCY COSTS THROUGH CONSOLIDATION, RELOCATION, RECONFIGURATION, CAPITAL INVESTMENT, ACQUISITION, AND DISPOSITION

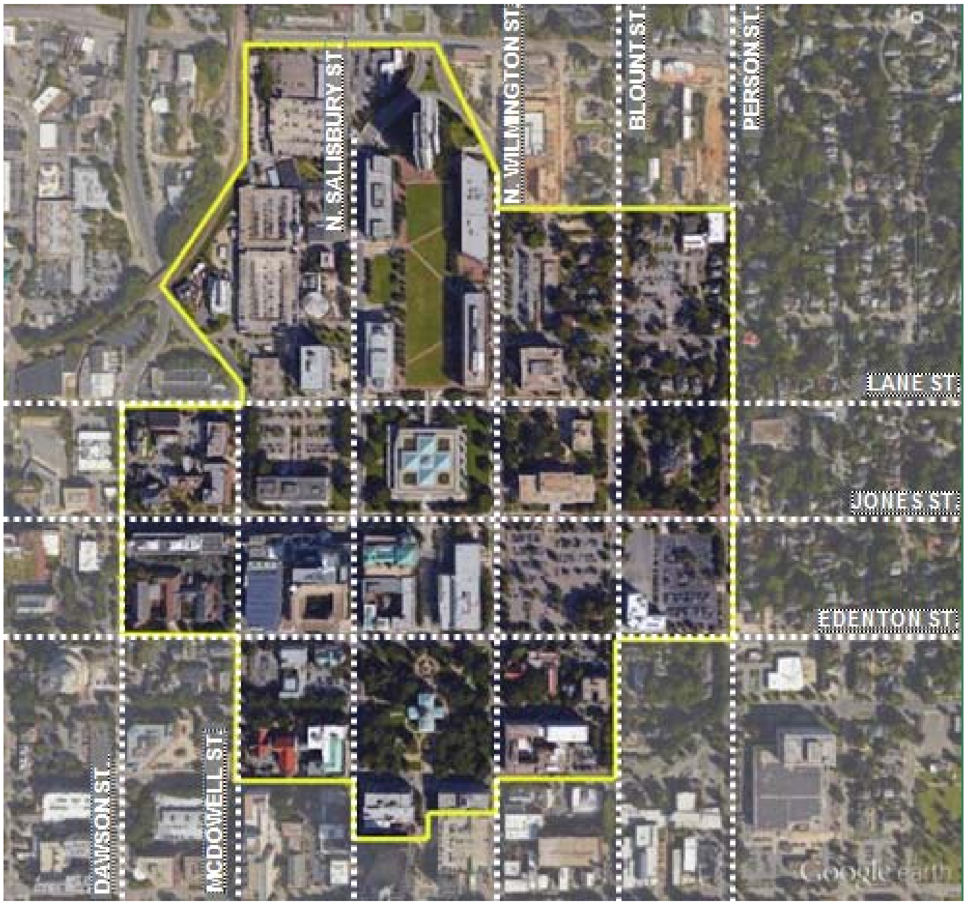
A. TASK 7 SCOPE

Identify and evaluate opportunities to reduce agency and/or State occupancy cost through consolidation, relocation, reconfiguration, capital investment and the acquisition or disposition of state-owned space.

B. APPROACH

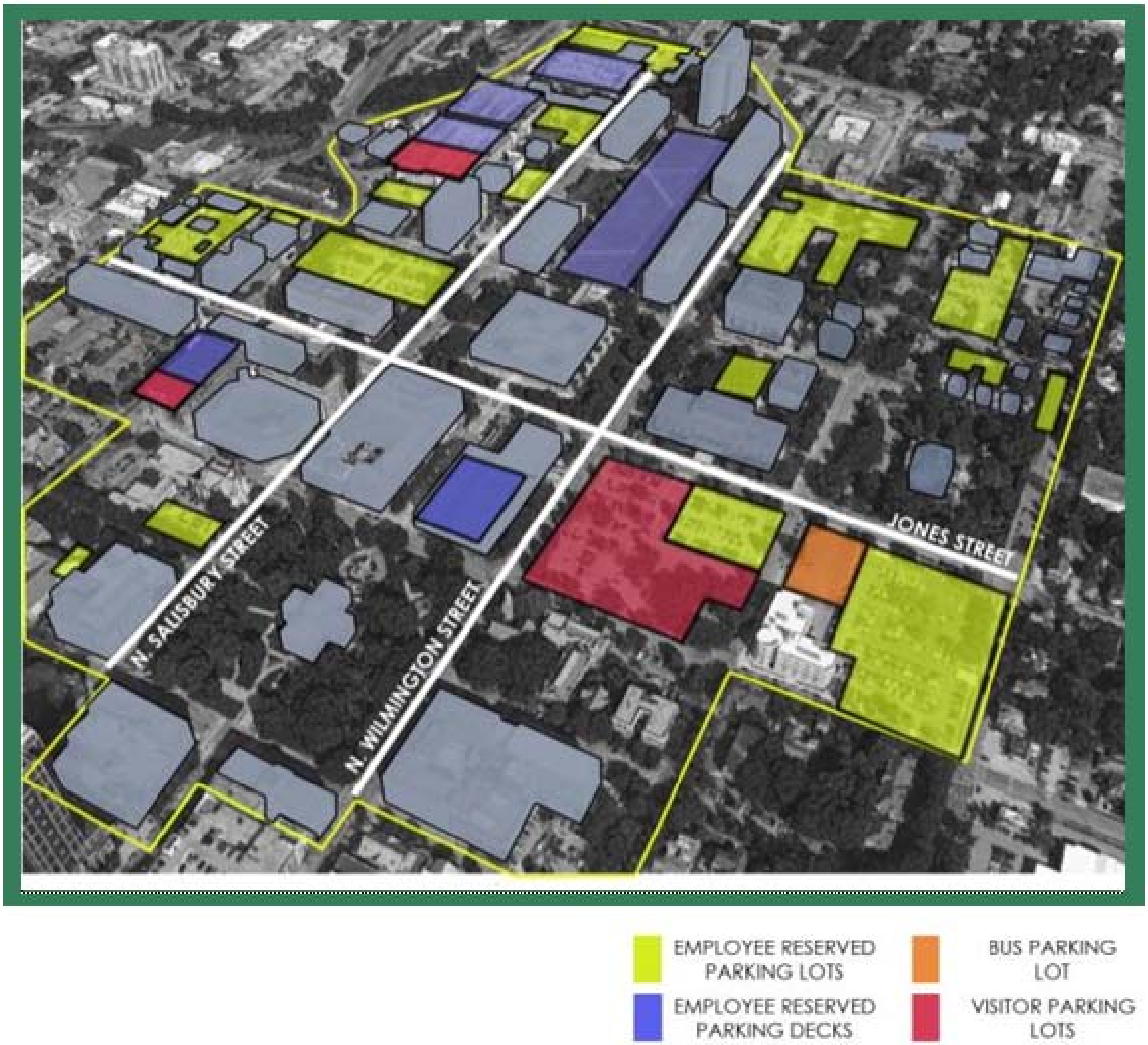
To address this task the team evaluated 10 State Government administrative/office buildings in the Downtown Government Complex consisting of 2,025,679 gross square feet of space. Data was collected from site visits and developed into a building assessment for each building as a result. The assessment observations were compiled for each building to identify and evaluate opportunities for improvement.

DOWNTOWN GOVERNMENT COMPLEX: OVERALL COMPLEX



TOTAL ACRES	93.65 AC
TOTAL SF	Approximately 5,110,000 SF

DOWNTOWN GOVERNMENT COMPLEX: STATE-OWNED GOVERNMENT PARKING DATA



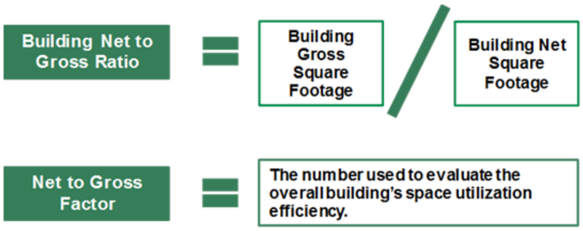
TOTAL PARKING SPACES	7,265 (Parking Decks: 6,145, Surface Lots: 1,120)
TOTAL PARKING FOOTPRINT	729,000 sf (16.7 Acres) approximately Parking Decks' Total Footprint: 443,000 sf approximately Parking Surface Lots' Total Footprint: 286,000 sf approximately Parking Ratio to Building Space: 3.58 (GSF/1000 / Total Spaces= Ratio)

DOWNTOWN GOVERNMENT COMPLEX ASSESSMENT: 10 ADMINISTRATIVE OFFICE BUILDINGS SELECTED FOR EVALUATION

BUILDING ASSESSMENT LIST		GROSS SQUARE FEET
1.	Archives & History State Library	147,597
2.	Administration Building	201,476
3.	Archdale Building	242,647
4.	Dobbs Building	208,547
5.	Highway Building	196,552
6.	Justice Building	68,500
7.	Legislative Building	166,144
8.	Old Education Building	173,970
9.	Public Education Building	321,443
10.	Revenue Building	298,803
Total		2,025,679

C. BUILDING ASSESSMENT

Building Utilization Efficiency Defined



Gross Square Footage Definition: Calculated square footage computed by measuring to the outside finished surface of permanent outer building walls without any deductions. All enclosed floors of the building including basements, mechanical equipment floors, penthouses and the like are included in the measurement. Net Square Footage Definition: Generally is the calculated square footage of the areas to be occupied that include usable space that an agency needs to perform their duties. See Task 9 for the definition as provided by the State Property Office. For instance, if you had a building with a GSF of 100,000 and your usable NSF is 80,000, you would have a Net to Gross Factor of 1.25.

BUILDING ASSESSMENT: ARCHIVES AND HISTORY STATE LIBRARY

ADDRESS	109 E. Jones Street, Raleigh
BUILT	1969
AGENCIES	Cultural Resources
FLOOR LEVELS	5
GSF	147,597
NSF	118,223
NET TO GROSS FACTOR	1.25
RENOVATIONS	1993

OBSERVATIONS

- Building size will become a limiting factor for future storage needs
- Building values in Downtown Government Complex will demand off-siting of facilities used primarily for storage

OPPORTUNITIES FOR IMPROVEMENT

- Archival operation improvements to include off-site storage and reference systems
- Off-siting could potentially make available highly valuable building space in Downtown Government Complex for new development or revenue

BUILDING ASSESSMENT: ADMINISTRATION BUILDING

ADDRESS	116 W. Jones Street, Raleigh
BUILT	1967
AGENCIES	Administration, Hearings, AG, DHHS, Governor, HR, Public Safety
FLOOR LEVELS	7
GSF	201,476
NSF	149,016
NET TO GROSS FACTOR	1.35
RENOVATIONS	1989

OBSERVATIONS

- Consists largely of private offices
- Lack of daylight in 50% of offices
- Insufficient storage rooms
- Lack of copy and break rooms
- Critical data storage equipment in basement level will need to be relocated

OPPORTUNITIES FOR IMPROVEMENT

- The site of the building and surface parking can be considered for future development to strengthen Jones Street visitor corridor

BUILDING ASSESSMENT:ARCHDALE BUILDING

ADDRESS	512 N. Salisbury, Raleigh
BUILT	1977
AGENCIES	Agriculture, DENR, Public Safety
FLOOR LEVELS	16
GSF	242,647
NSF	169,255
NET TO GROSS FACTOR	1.43
RENOVATIONS	N/A

OBSERVATIONS

- Consists of perimeter private offices
- Insufficient storage rooms
- Daylighting limited to perimeter offices only
- Use of original furniture and finishes

OPPORTUNITIES FOR IMPROVEMENT

- Iconic building structure/landmark in Downtown Government Complex.
- Opportunity for renovation to modernize floor plans to today’s standards and increase employee population

BUILDING ASSESSMENT:DOBB ASSESSMENT

ADDRESS	439 N. Salisbury, Raleigh
BUILT	1977
AGENCIES	Commerce, Cultural Resources, DHHS, Insurance, Public Safety
FLOOR LEVELS	6
GSF	208,547
NSF	147,198
NET TO GROSS FACTOR	1.42
RENOVATIONS	2000

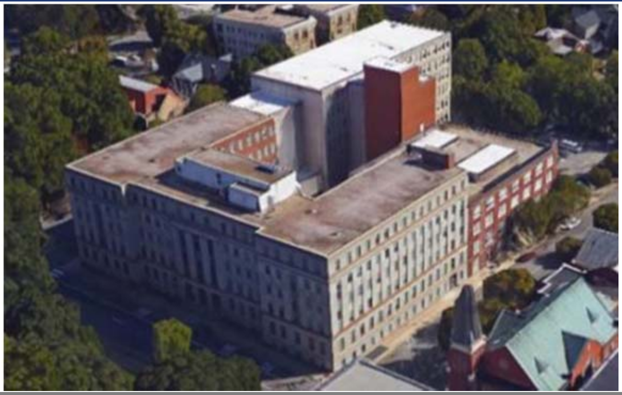
OBSERVATIONS

- Consists of perimeter private offices
- Poor daylighting due to fenestration design of building
- Lack of copy rooms
- Use of original furniture
- Deep floor plate, dense center core

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population

BUILDING ASSESSMENT:HIGHWAY BUILDING



ADDRESS	1 S. Wilmington, Raleigh
BUILT	1951
AGENCIES	Transportation
FLOOR LEVELS	7
GSF	196,552
NSF	137,023
NET TO GROSS FACTOR	1.43
RENOVATIONS	1989

OBSERVATIONS

- Inefficient space layout at office areas, limited floor plan design
- Lack of conference rooms
- Limited adjacent parking areas

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population
- Strong civic architectural symbolism/relationship to State Capitol

BUILDING ASSESSMENT:JUSTICE BUILDING

ADDRESS	2 E. Morgan Street, Raleigh
BUILT	1940
AGENCIES	Judicial
FLOOR LEVELS	6
GSF	68,500
NSF	48,539
NET TO GROSS FACTOR	1.41
RENOVATIONS	N/A

OBSERVATIONS

- Large office suites with private bathrooms

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population
- Strong civic architectural symbolism/relationship to State Capitol

BUILDING ASSESSMENT:LEGISLATIVE BUILDING

ADDRESS	300 N. Salisbury, Raleigh
BUILT	1981
AGENCIES	General Assembly, Secretary of State, State Auditor
FLOOR LEVELS	6
GSF	166,144
NSF	125,494
NET TO GROSS FACTOR	1.32
RENOVATIONS	1989

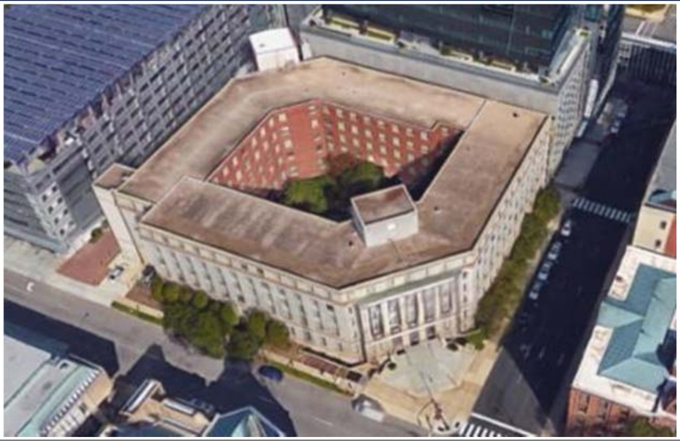
OBSERVATIONS

- Consists largely of private offices
- Lack of daylight in 50% of private offices
- Out of date furniture and finishes

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population

BUILDING ASSESSMENT:OLD EDUCATION BUILDING



ADDRESS	114 W. Edenton, Raleigh
BUILT	1938
AGENCIES	Attorney General
FLOOR LEVELS	6
GSF	173,970
NSF	121,447
NET TO GROSS FACTOR	1.43
RENOVATIONS	1988, 1997

OBSERVATIONS

- Lack of adjacent parking
- Narrow floor plate will limit efficiency even with renovations

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population
- Strong civic architectural symbolism/relationship to State Capitol

BUILDING ASSESSMENT:PUBLIC EDUCATION BUILDING

ADDRESS	301 N. Wilmington, Raleigh
BUILT	1992
AGENCIES	Commerce, DPI, SCO
FLOOR LEVELS	8
GSF	321,443
NSF	255,479
NET TO GROSS FACTOR	1.26
RENOVATIONS	2000

OBSERVATIONS

- High height cubicles and low ceilings contribute to lack of daylighting
- Consists of private perimeter offices
- Unused library facility

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population

BUILDING ASSESSMENT:REVENNUE BUILDING

ADDRESS	501 N. Wilmington, Raleigh
BUILT	1992
AGENCIES	DHHS, Revenue
FLOOR LEVELS	7
GSF	298,803
NSF	201,141
NET TO GROSS FACTOR	1.49
RENOVATIONS	N/A

OBSERVATIONS

- Lack of break rooms
- High height cubicles diminish daylighting access
- Department workflow inhibited by multi-level layout

OPPORTUNITIES FOR IMPROVEMENT

- Opportunity for renovation to modernize floor plans to today's standards and increase employee population
- Relocating the Revenue Department staff to space out of Downtown would open 300,000 sf of office space to enable other redevelopment opportunities in the Downtown Government Complex

D. SPACE ANALYSIS

- Standards Revision: Based on the space planning conclusions developed in Task 9 below, the square foot requirements for State employees could be reduced to a range of 175-200 square feet per employee.
- Space Reduction: This could be as much as a 41% reduction in space requirements per employee compared to existing utilization.
- Space Available: Of the 2,025,679 square feet of office space evaluated in 10 Downtown Government Complex buildings, 830,528 square feet could potentially be available for renovation and consolidation of departments.
- Employees: Using the median square footage of 187.5/per employee (calculated from the 175-200 average), as many as 4,429 more employees could be added to the Downtown Government Complex as a result of renovation and consolidation of the current buildings.

E. DOWNTOWN GOVERNMENT COMPLEX STRATEGIES

1. Consolidate State employees into the existing building inventory on the Downtown Government Complex, thus reducing the leased office space located outside of Downtown.
2. Consolidate State employees into the existing building inventory on the Downtown Government Complex to open opportunities for land sale or lease options Downtown.

F. RECOMMENDATIONS

- Reduce the Overall Footprint of Occupied Space. Reduction in underutilized space will create the largest dollar savings year-over-year.
- Identify optimal working space models and mission critical facilities that will accommodate the agency vision
- Prioritize capital needs to improve operational efficiency

- Clarify agency location imperatives when determining agency occupancy decisions
- Underutilized core campus space in downtown Raleigh provides an opportunity for building or site redevelopment – either for state agency consolidation or private sector redevelopment

TASK 8: IDENTIFY OPPORTUNITIES FOR PUBLIC PRIVATE PARTNERSHIPS

VIII. TASK 8: IDENTIFY OPPORTUNITIES FOR PUBLIC PRIVATE PARTNERSHIPS

A. TASK 8 SCOPE

Identify and evaluate projects or bundle of projects, either new construction or renovation, that are possible candidates and could be considered for Public-Private Partnerships.

B. PUBLIC-PRIVATE PARTNERSHIPS

Government and education institutions are operating in challenging times. Officials are facing budget pressures, revenue shortfalls, increased service demands, staff shortages and heightened public scrutiny. Because real estate costs necessarily comprise of a large percentage of available operating capital, officials have every incentive to approach real estate decisions strategically and with an eye towards maximizing all allocated dollars.

As such, Governments are increasingly turning to public-private partnerships—sometimes referred to as a "PPP" or "P3"—as a means of cost-effectively and efficiently accomplishing capital projects.

Public-private partnerships have existed for many years and are a resource-sharing agreement between a public agency and a private sector entity (developer, investor, end user, or combination thereof). Each party in an agreement shares the risks and rewards of the project. In the real estate sector, these agreements usually involve a public agency partnering with a private sector firm that will assist in the development or re-development of government-owned real property. In this case, PPP's could be used to improve the capital complex and launch the governor's Project Phoenix initiatives in downtown Raleigh with private funding.

C. KEY ELEMENTS AND STRATEGIES

Objectives

Economic development, asset monetization, or a combination of public and private uses.

Typical Results

Ongoing or one-time revenue, tax revenue increases, and area revitalization. A single project can prove to be the catalyst for additional private development.

Strategies

Officials can deploy numerous real estate strategies to reduce costs or generate revenue. Since government entities are generally asset rich and cash light, they often maintain building and land assets that only contribute marginally to their core operations. This is the case for many of the buildings in downtown Raleigh. As part of our analysis, we have identified several such properties and have developed potential strategies where redeployment or re-purposing these assets produces increased amenities and synergistic development in the downtown core.

D. PPP PROCESS

Most PPPs are comprised of seven tasks split into two phases: 1) Pre-RFP and 2) Market Engagement / Project Execution.

Phase 1: Pre-RFP

- **Formulation:** Vision for the project, early capital commitments are made by the public sector.
- **Feasibility:** Financial analysis and objectives evaluated, tested and confirmed.
- **Planning:** Site evaluation, political assessments, master planning, phasing and budgets, business plan.

Phase 2: Market Engagement/Project Execution

- **Procurement (RFI / RFP):** A carefully crafted RFP sent to potential private-sector partners that highlights project vision and goals, agency risk / reward profile, public financing options, and potential transaction structures.
- **Partner Selection:** Proposals from private-sector evaluated and partner is selected.
- **Implementation:** Design completed and partner fulfills agreement. Agency and partner(s) manage communications and political process.
- **Operation:** Monitoring and contract maintenance.

E. PPP KEY ADVANTAGES

- Transfers much of the development risk from the government to a private sector partner
- Reduces capital burden; generates revenue
- Allows government access to the best practices (construction management, private sector procurement) and market knowledge (feasibility, competitive pool) of the private sector
- Allows for redevelopment / re-purposing of under- or non-performing assets
- Produces incremental cash flow, increased amenities and synergistic development
- Increases the chance for success and speed of project delivery

F. WHY HIRE A PPP ADVISOR?

- An advisor's focused management of the process will:
- Broaden the pool of potential developers.
- Ensure the execution of a competitive yet feasible transaction.
- Minimize the project risk.
- Help keep the project on time, within budget, and in line with the project's mission.

G. CASE STUDY HIGHLIGHTS

City of Indianapolis

The City of Indianapolis sought redevelopment of a high profile City-owned property in the downtown arts and cultural district known as "Mass Ave." The site currently houses the Indianapolis Fire Department's headquarters, one of two fire stations serving the high-rise district, and the firefighters' credit union.

Advisor confirmed the financial viability of the relocation and led site selection for the facilities. Advisor then engaged the development community for proposals on high density, mixed use redevelopments, along with an off-site parking structure to serve the redevelopment and the retail district.

At Advisor's recommendation, the City selected a development team to invest $50M for high-end apartments, ground-level retail, and underground parking spaces. The design of the project is considered groundbreaking and transformational for Mass Ave. Construction is expected to begin in 3Q 2015, after the existing public facilities are relocated.

The George Washington University

The University hired a PPP Advisor to evaluate potential PPP transaction structures related to the redevelopment of a prominent university-owned parcel in Washington, DC. The team analyzed the existing uses and cash flow for the asset, and forecast redevelopment values from the perspectives of vertical developers and from ground lessors. The team also examined bond finance defeasance / penalty issues and created a strategy to enter the District's up-zoning and entitlement process. This study will be used as a road map in the next phase of redevelopment.

TASK 9: SPACE PLANNING AND PROGRAMMING

IX. TASK 9: SPACE PLANNING AND PROGRAMMING

A. TASK 9 SCOPE

Provide as directed by agency, space planning services including programming, planning, stacking and schematic design.

B. APPROACH

A sampling of government buildings and departments was selected from the Raleigh Downtown Government Complex to be evaluated. The focus was on the main administrative buildings as a benchmark for the data collected in this task. Personnel from 13 Departments[1] housed in 10 buildings, were interviewed including a review of their current work needs. These 10 main Government Administrative Buildings were toured to evaluate their condition and space utilization. Based on the interviews, information provided by the departments, and data collected from the tours, the following findings are identified.

C. INTRODUCTION

Definition of Space

The North Carolina State Property Office defines Net Square Footage as follows. Net square footage is a term meaning the area to be leased for occupancy by State Personnel and/or equipment. To determine net square footage:

1. Compute the inside area of the space by measuring from the normal inside finish of exterior walls or the room side finish of fixed corridor and shaft walls, or the center of tenant separating partitions.

2. Deduct from the Inside area the following:

   - Toilets and lounges*
   - Entrance and elevator lobbies*
   - Corridors*
   - Stairwells
   - Elevators and escalator shafts
   - Building equipment and service areas
   - Stacks, shafts, and interior columns
   - Other space not usable for State purposes

Definition of Employees

In regard to a building's efficiency, space utilization measures the FTE count. FTE refers to full time employees. All full time employee counts and square footage numbers mentioned in this report were provided by the individual departments.

D. EXISTING CONDITIONS

Summary

After touring the ten downtown buildings listed in Task 7 and meeting with personnel from the State Departments to review their existing space utilization, the following general themes were discovered among most departments:

[1]The General Assembly was also interviewed but not factored into the overall space planning data.
*Deduct if space is not for exclusive use by the State. Multiple State leases require a, b, and c to be deducted. The State Property Office may make adjustments for areas deemed excessive for State use.

- Multiple office sizes hinder flexibility and growth.
- Most departments lack the scanning technology and personnel to support electronic filing.
- Most Departments felt their conferencing needs were sufficient; however, some felt they could use more spaces for collaboration.
- The age of the buildings is a contributing factor to the utilization inefficiencies and employee workflow.

OFFICES		
POCKETS OF UNDERUTILIZED SPACE	INEFFICIENT WORKFLOW OF SPACE	TALL AND INHIBITING WORKSTATIONS
		

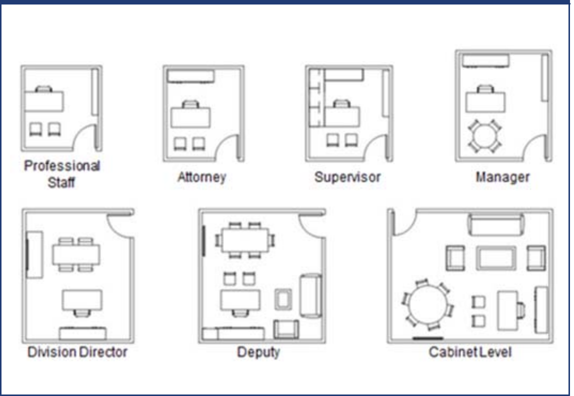
Offices

Generally, the State's office spaces are assigned by organizational hierarchy resulting in multiple office configurations of hard wall offices. In addition, the departments also use workstations to accommodate their staff under the same inefficient space guidelines. This creates the following challenges:

- Underutilized space, due to layout inefficiencies.
- Size variances of offices can form a disorganized floor plan
- Inefficient workflow for the overall department and building

STATE OF NORTH CAROLINA'S OFFICE SPACE STANDARDS

POSITION	SF	WORK SPACE TYPE
Deputy or Assistant Secretary	270	Private Office
Division Director (Managers report to)	240	Private Office
Manager (Supervisors report to)	160	Private Office
Supervisor (Professional Staff report to)	130	Private Office
Attorney (Specialty Office)	120	Private Office
Professional Staff (No one reports to)	108	Private Office
Administrative Asst. (Specialty Office)	96	Workstation
Clerical/Temp/Contract/Intern	80	Workstation



File Storage

Except for a few specific needs such as Archives or the State Construction Office, most departments are permitted to electronically store their files after following the State's Retention Policy[2].

- Currently, files stored electronically can range from 20%-90% between departments.
- Electronic Filing can be a challenge due to insufficient scanning technology and staff needed
- The State's Retention Policy requires certain paperwork to remain as an original hard copy due to the importance of the document.
- Specialized Departments require more storage than others

FILE STORAGE	
LACK OF DIGITAL FILING	OFFICE SPACE IN NEED OF FILE STORAGE
	

Meeting Rooms and Conferencing

Several departments lack enough conference areas. If given the option, they would welcome more opportunities for meeting and collaboration space that is not shared among departments.

MEETING ROOMS AND CONFERENCING		
SMALL CONFERENCE AREAS ARE LIMITED	FORMAL CONFERENCE SPACES NOT FREQUENTLY UTILIZED	CURRENT OPEN OFFICE LAYOUTS DO NOT FOSTER COLLABORATION
		

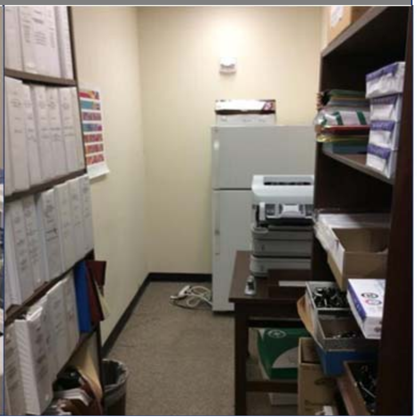
Age of Buildings

Most of the State's buildings are older resulting in numerous problems involving their building systems and interior finishes. The following are general observations:

- Small windows limit daylight and views
- Hard wall offices create disorganized building functions
- Limited floor plan flexibility
- Managing and implementing change is difficult and expensive

[2] State of North Carolina Retention Policy noted in questionnaires and provided by the departments as reference on the State Archives of North Carolina website: http://www.ncdcr.gov/archives/ForGovernment/RetentionSchedules/StateAgencySchedules.aspx

- Deferred maintenance has led to the dilapidation of some buildings, making it difficult to improve the worker's environment and production efficiency.
- Most HVAC systems are aging and in poor condition

AGE OF BUILDINGS		
LONG CORRIDORS	DISORGANIZED FLOOR LAYOUT	
		

Current Department Utilization Ratios

Most of the State's buildings are older resulting in numerous problems involving their building systems and interior finishes. The following are general observations:

CURRENT DEPARTMENT UTILIZATION RATIOS	
GOVERNMENT DEPARTMENT	SF / FTE[3]
Department of Administration	365
Department of Labor	577
Department of Environment and Natural Resources[4]	235
Department of Revenue	285
Department of Transportation	319
Department of Justice	409
Department of Agriculture and Consumer Services	353
Department of Public Safety	287
Department of Commerce	230
Department of Health and Human Services[5]	223
Department of Public Instruction	291
Department of Cultural Resources[6]	---
Office of Information Technology Services	258
Average Net Square Footage	319

[3] Numbers were provided by each individual department, with the exception of DHHS and DENR.
[4] Number shown indicates the average among the 13 departments listed based on a sampling which included only the main Administrative Buildings. For this study, numbers vary from 577 FTE's to 258 FTE's. Actual number across the State may vary.
[5] Numbers provided by previous Master Plan documents by O'Brien/Atkins Associates
[6] No information provided

E. CURRENT OFFICE TRENDS

Introduction

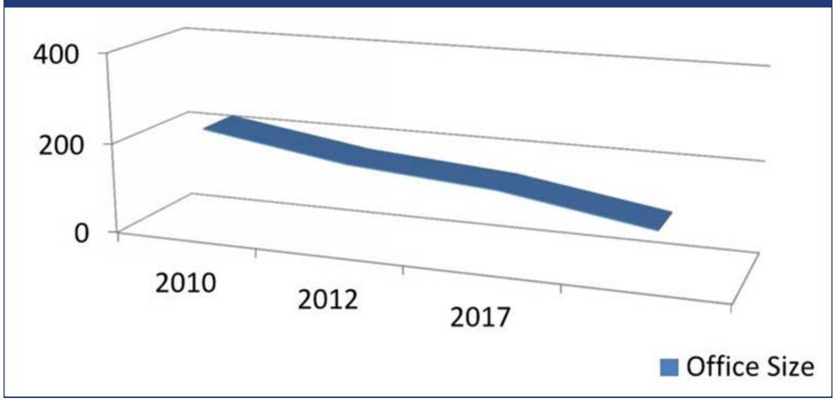
In today's work force, employers are finding it harder to attract and retain employees. Studies found 45% of the younger generation of employees would accept a lower-paying job that had more flexibility1. Employers are also looking for ways to cut cost and build efficiency. Together, this new way of working is forming some common workplace strategies based on the current office trends in both the private and public sectors.

- Office footprints are getting smaller as more companies embrace the use of workstations.
- Technology keeps improving, making the workplace more efficient by freeing up space once needed for filing or large equipment.
- Younger generations of staff encourage more collaboration in the workplace and are demanding flexibility and mobility.
- New office spaces are embracing more natural light and ties to the outdoors to create an environment that promotes efficiency and satisfaction in the office.

Space Utilization

Calculating a department or organization's needs is not an exact science; however, more employers are trying to develop new ways to reduce their space needs, increase operational efficiency and reduce overall workplace costs. Furthermore, more employees in both the private and public sector today welcome the idea of more open workplace environment as long as it means more flexibility[8].

AVERAGE OFFICE SPACE PER EMPLOYEE IN NORTH AMERICA[7]



Comparing previous years of average office sizes in commercial buildings suggests an overall downward trend in office space for the future. In a typical office, survey findings show that 58% of companies allocate 200 square feet or less per employee and 25% allocate 150 square feet or less[9].

Space

Based on General Services Administration (GSA) research, today's governmental workplace standard average is between 175 and 200 net square feet per person1.

The GSA conducted a study which provided research in both the private and government sector. The following table shows an averaging across several organizations including Business Services, Telecommunications, Manufacturing, Domestic Government, International Government, Academic, Diversified Manufacturing, and Media[10].

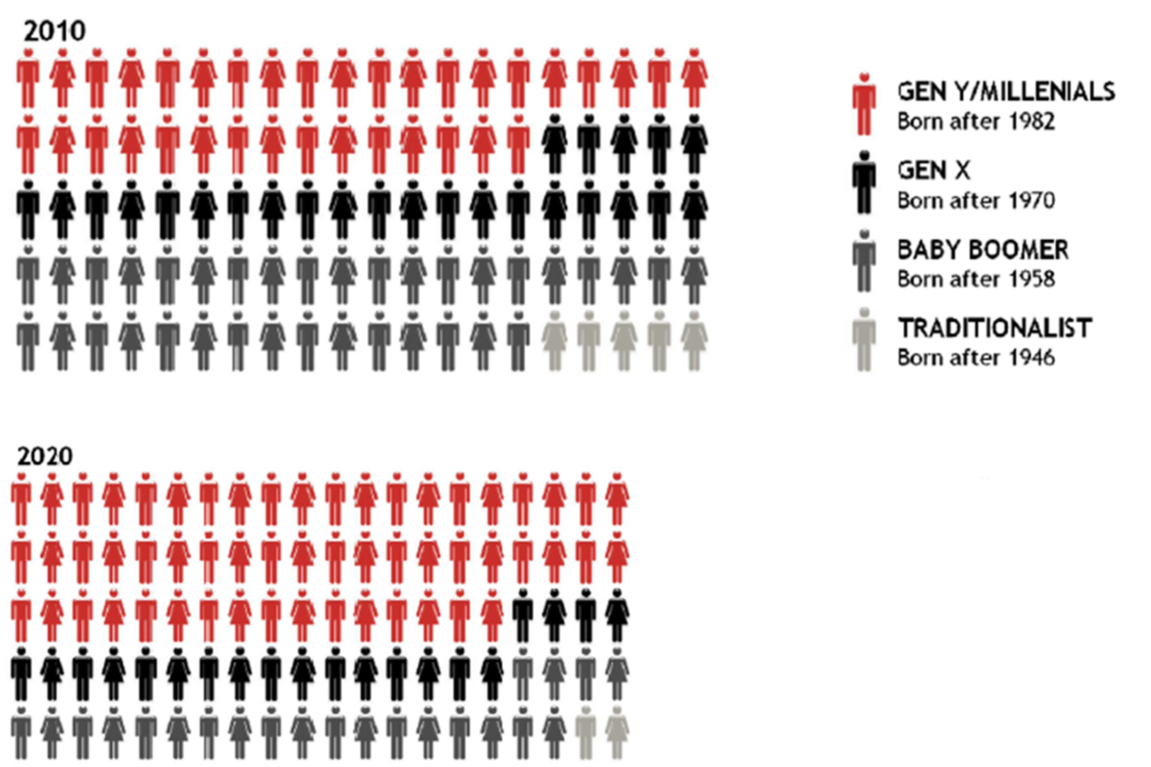
[7] USA Today | CoreNet 2012 | Haworth – should be treated as a magnitude that their net square footage may be calculated differently than this report. Numbers reflect general office space, not specific to government.
[8] GSA Office of Government Policy article, "Workplace Utilization and Allocation Benchmark (July 2011)
[9] GSA Office of Government Policy article, "Workplace Utilization and Allocation Benchmark (July 2011), CoreNet Study, CoreNet Global article "Reducing the Portfolio and Maximizing the Use of Existing Space (April 2009)
[10] GSA Office of Government Policy article, "Workplace Utilization and Allocation Benchmark (July 2011)

WORKPLACE ALLOCATION RANGE: GOVERNMENT WORKPLACE		
POSITION	USF	CONFIGURATION
Executive	250 - 300	Private Office
Director	200 - 250	Private Office
Supervisor / Manager	80 - 120	Private Office / Cubicle
Technical / Support Staff	64 - 80	Cubicle
Clerical	48 - 64	Cubicle

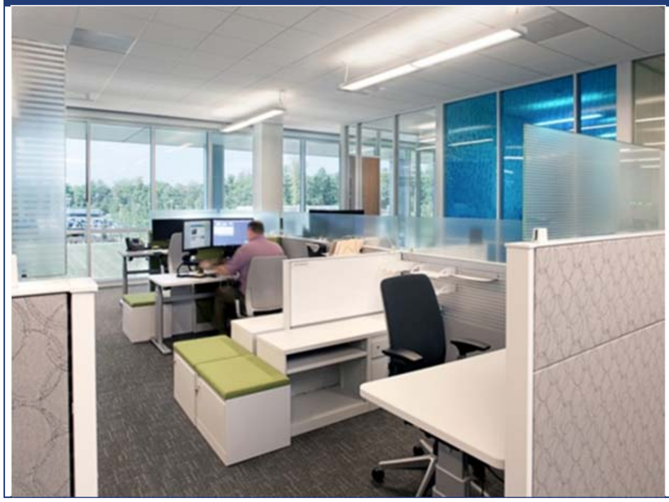
Employees

In addition to space utilization changes, employment generational demographics is evolving and changing the way people work.

BY 2025, GEN Y WILL COMPRISE NEARLY 75% OF THE WORLD'S WORKFORCE[11]



[11]Image and data provided by Haworth, Pew Research Center's Internet & American Life Project

WORKSTATIONS TAKE UP A SMALLER FOOTPRINT AND PROVIDE AN EFFICIENT WORK ENVIRONMENT	UNIFORM PRIVATE OFFICES
	

Office Sizes

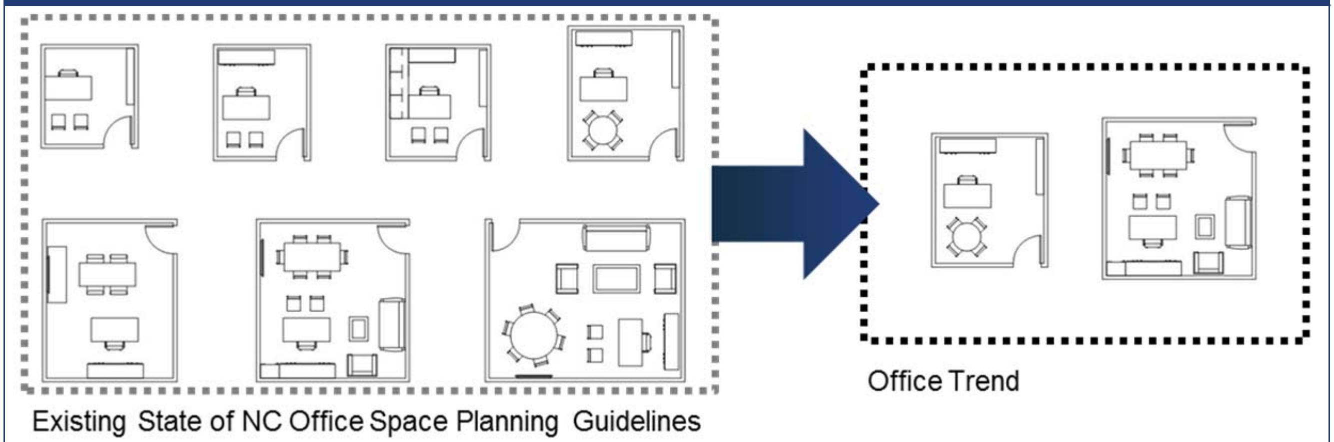
There is no “one size fits all” solution. More offices are looking to the current trends to easily adapt to future needs:

- More flexible, open plan workstations; less closed offices
- Smaller office footprints (200 SF or less) located toward the building core to allow more shared natural light
- Typical workstation size averages between 6’x6’ and 8’x8’.

Simplify workplace sizes to align with current office standards. This would achieve the following:

- Reduce footprint based on functional needs, without sacrificing productivity
- Improve their flexibility for future departmental change.
- Less office size adjustments leading to cost savings for future change management

EXISTING STATE TO CURRENT TREND COMPARISON

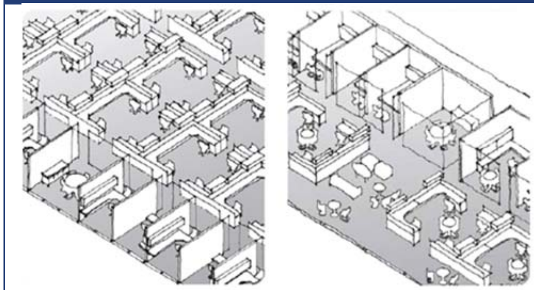


File Storage and Technology

More organizations and departments are opting to electronically store their files, thus freeing up more space for better utilization.

- Organizations are moving towards cloud based storage
- Digital Filing and advanced technology leads to less square footage needed for storage rooms
- Organizations are offering more mobile solutions to allow their employees to work from home, leading to square footage savings at the office

CONVENTIONAL VS. OPEN WORKSPACES

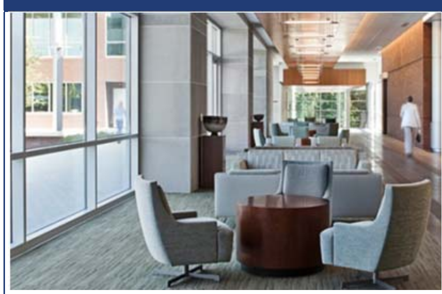
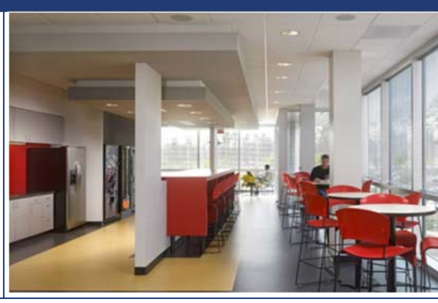


CONVENTIONAL	MORE OPEN
• Traditional office layout • Everyone has an assigned desk • Typical floor	• Offices on the interior • More open / collaborative space

Collaboration and Conferencing

The use of more collaboration spaces provides needed flexibility as the typical work footprint shrinks.

- 79% of Gen Y's prefer a flexible work option[12]
- In 1985, 30% of space was collaboration; 70% individual work
- In 2010, 80% of space is collaboration; 20% individual work[13]

OPEN COMMUNAL SPACE ALLOWS EMPLOYEES TO BREAK AWAY OR MEET INDIVIDUALLY	MULTIPURPOSE BREAK ROOMS	SMALL CONFERENCE ROOMS CREATE AREAS FOR COLLABORATION OR PRIVACY
		

F. BENEFITS

In summary, the trends being employed in today's workplace provide many benefits to organizations and their employees:

- Improved productivity and morale
- Better adaptability for future departmental changes
- More efficient workflow
- Higher building utilization
- Overall cost savings to organizations

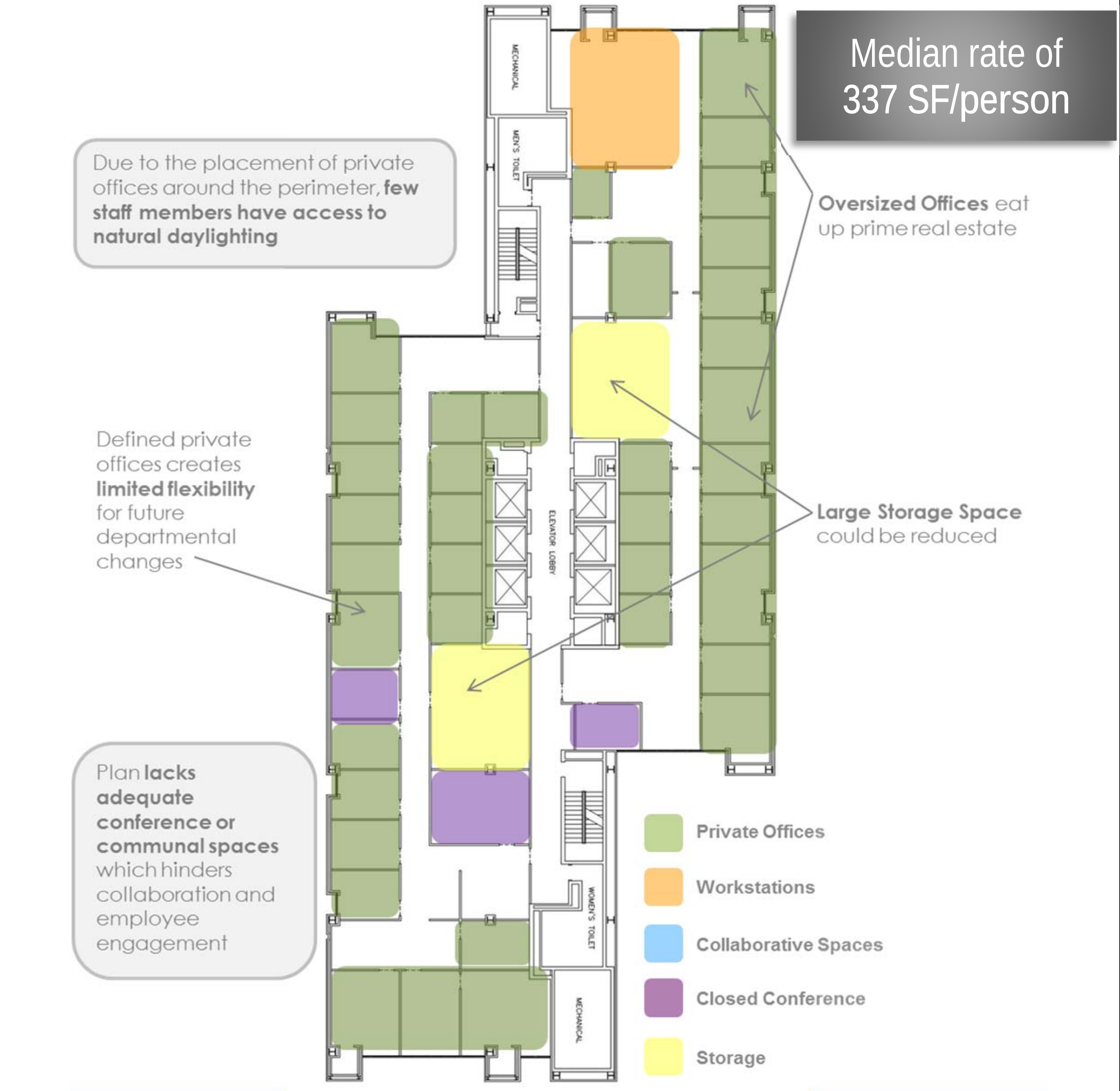
ARCHDALE BUILDING

[12]Image and data provided by Haworth, Pew Research Center's Internet & American Life Project
[13]Herman Miller case study, The Origins of Herman Miller's Modes of Work (2011)

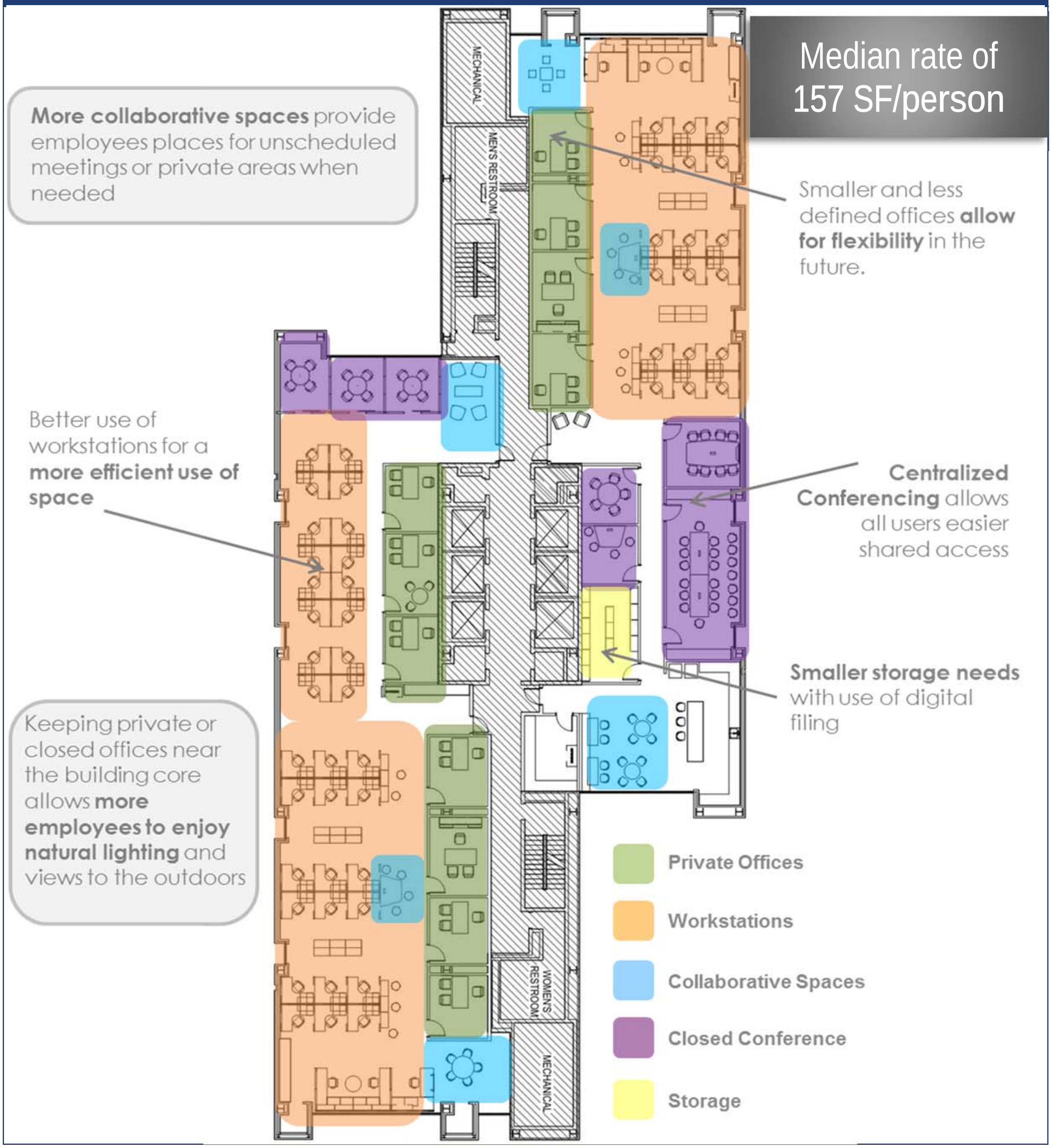
G. CASE STUDY #1: ARCHDALE BUILDING, DOWNTOWN GOVERNMENT COMPLEX

The Archdale Building was selected to test the ability for adaptation of today's modern office standards and utilization techniques. The Archdale Building currently houses several departments including the Department of Public Safety, the Department of Agriculture and the Department of Environment and Natural Resources. An examination of one floor shows the current use of space, and how it could be utilized when applying current office trends to the same floor.

ARCHDALE BUILDING TYPICAL FLOOR PLAN



ARCHDALE BUILDING FLOOR PLAN APPLYING CURRENT OFFICE TRENDS



ARCHDALE BUILDING SPACE COMPARISON

157 Proposed SF / **319** Existing SF = **49%**

GRAPHICAL REPRESENTATION OF THE NEARLY 50% OF FLOOR SPACE GAIN

Existing Utilization of Space

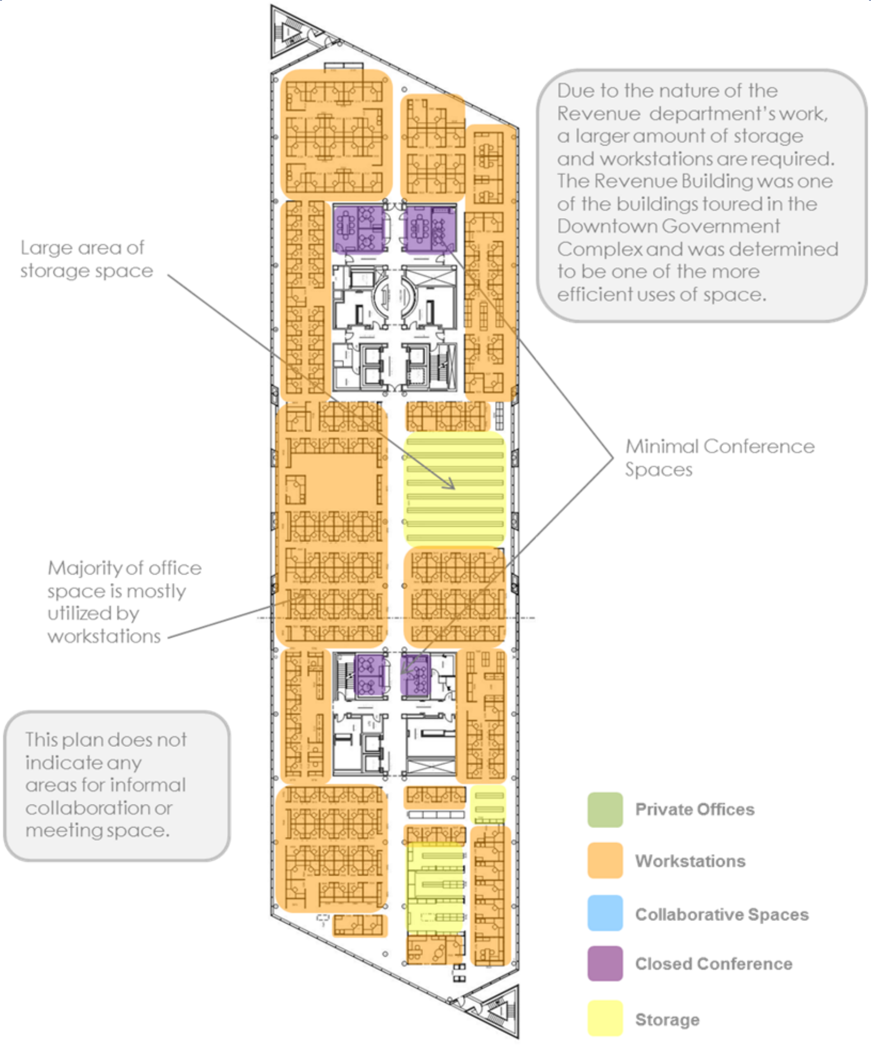
Potential Utilization of Space

H. CASE STUDY #2: REVENUE BUILDING, DOWNTOWN GOVERNMENT COMPLEX

The Revenue Building was also selected to test the ability for adaptation of today's modern office standards and utilization techniques. The Revenue Building is currently occupied solely by the Revenue Department, with the exception of the cafeteria. An examination of one floor shows the current use of space, and how it could be utilized when applying current office trends to the same floor.

REVENUE BUILDING

REVENUE BUILDING TYPICAL FLOOR PLAN



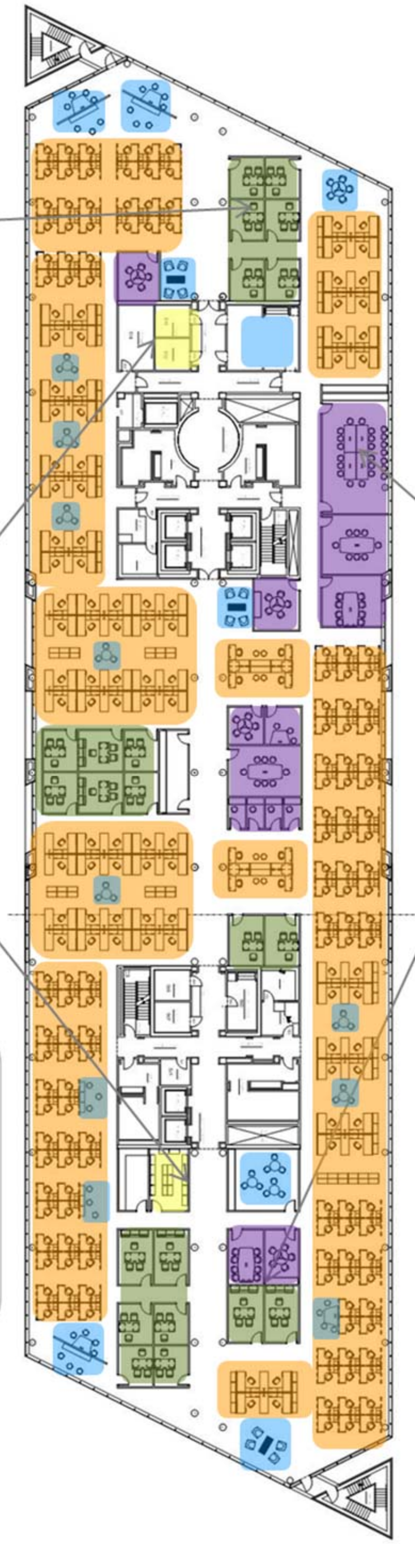
REVENUE BUILDING FLOOR PLAN APPLYING CURRENT OFFICE TRENDS

New plan exhibits a mix of workstations and private offices.

Overall the space incorporates more informal meeting areas to support collaboration.

Storage rooms have decreased in size with the use of digital filing

The renovated plan yields essentially the same FTE counts as the existing plan. However, by applying today's trends, the existing plan gains more meeting rooms and collaboration spaces.



The Revenue Building would be a logical candidate to explore the current office trends due to it's existing open floor plan and overall condition compared to older state buildings.

New Plan included more conference spaces that supports a variety of employees

Smaller conference areas allow areas for impromptu meetings or private areas for employees to focus.

Private Offices

Workstations

Collaborative Spaces

Closed Conference

Storage

I. TASK 9 SUMMARY

Based on the data collected, the following recommendations can be made:

- Revise space standards to accommodate modern ways of working – fewer types of offices, more collaborative space, paperless, internet based, etc.
- Develop uniform space standards based on function not hierarchy.
- Establish space standards implementation policy for all agencies.
- Select a floor or building for renovation to test new space standards.
- Revise and fund electronic file storage policy.

TASK 10: MARKET SUPPORT FOR SALE OR LEASE

X. TASK 10: MARKET SUPPORT FOR SALE OR LEASE

A. TASK 10 SCOPE

Perform as directed by agency marketing study on selected properties to advise how current market conditions might affect the sale or lease of the properties.

B. RALEIGH OVERVIEW

Overview

Downtown Raleigh has evolved from the province of state government to a hub of culture and entertainment for the Triangle region. Nearly 40,000 are employed downtown in the government, academic, and private fields and over $1.3 billion has been invested downtown over the past 10 years. Meanwhile a burgeoning restaurant and nightlife scene complement existing museums in creating a tourist and entertainment destination.

Major Employers and Expanding Business

- State of North Carolina (state government)
- Wake County Government (county government)
- City of Raleigh (city government)
- Ipreo (market intelligence and workflow solutions)
- Allscripts (medical software)
- Red Hat (the world's largest distributor of Linux open sourced software)
- Citrix Systems (Information Technology)

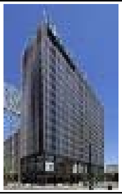
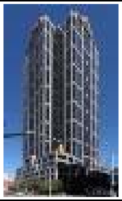
C. RALEIGH OFFICE

The increasing cost of new construction and Class A deliveries are placing upward pressure on rental rates and further illustrate the desirability of the Raleigh-Durham Market. Strong pre-leasing also speaks to solid market fundamentals, which is expected to continue prior to the delivery of nearly 1 million sq. ft. of Class A office space slated to be completed in 2015. Downtown Raleigh and Six Forks/North Hills will remain the most active and opportunistic new construction submarkets.

With 4.2 million square feet of office space, the Downtown Raleigh submarket represents approximately 8% of the total inventory in the greater Raleigh-Durham market. The overall vacancy rate is just below 10% (7.5% for Class A) and average gross rents are $22.42. The most significant new delivery is Charter Square, a 239,454 square foot office building designed for Platinum LEED certification. It is set to deliver in 2015.

A list of representative office buildings in Downtown Raleigh is located on the following page.

SELECTED DOWNTOWN RALEIGH OFFICE BUILDINGS

PROPERTY	NAME	SIZE	VACANCY RATE	ASKING RATE ($)
	Capital Bank Plaza	140,000	1.08%	$20.50 - $23.00
	BB&T/ Two Hannover Square	444,051	5.43%	$23.00
	One Bank of America Plaza	370,284	17.62%	$26.50
	Wells Fargo Capital Center	544,482	5.94%	$24.00 - $29.00
	Charter Square	440,000	0.00%	$22.00
	Red Hat Building	365,000	0.00%	N/A
	PNC Plaza	276,000	0.00%	$28.95

D. MULTI-FAMILY

Downtown Raleigh emerged as a residential destination in the mid-2000's as a surge in public and private investment intensified the attraction of urban living. The dearth of existing rental units downtown was overshadowed by an unprecedented wave of condominium development. Raleigh's first modern apartment units, 712 Tucker and The Hue, were intended to be condominiums but in the waning year of the condo-bubble were converted to apartments or sold to an apartment operator, respectively. As a result of resurgence in residential demand, and the financial success of these two rental projects, land prices for likely apartment development bypassed traditional garden-style development spawning a new era of urban mid-rise construction we see today.

Demand is highest in downtown Raleigh, where historically the fewest apartments have been delivered. The rental market in downtown Raleigh is tight: occupancy rates are 94% and current average effective rents in the Central Raleigh submarket is $1,018 or $1.18 per square foot. Currently, 1,486 units within seven communities are under construction in the Downtown Raleigh micromarket. These include Raleigh's first high-rise rental, Skyhouse Raleigh by Atlanta-based Novare, commanding rents well above $2.00 PSF. Active developers downtown include Banner Apartments with Lincoln Square just east of Moore Square, Greystar with Elan City Center within the Capitol District near William Peace University, NRP Group with the Equinox – the first mid-rise apartment development in the Fayetteville Street Business District, Grubb Properties with The Link at Glenwood adjacent to Raleigh landmark 42nd Oyster Bar within Glenwood South, Raleigh-based Blue Ridge Realty with The Gramercy in the heart of Glenwood South, and Raleigh-based Empire Properties with The L Building – so named because it wraps two sides of a Wake County parking deck on the west side of Downtown.

TASK 11: ONGOING PROJECT SUPPORT

XI. TASK 11: ONGOING PROJECT SUPPORT

A. TASK 11 SCOPE

Provide on-going project presentation/reports and attendance at meetings to review status of work. On-going project support will follow the review and acceptance of conclusions in this report as requested by the State.

TASK 12: OPTIMAL MANAGEMENT STRUCTURE

XII. TASK 12: OPTIMAL MANAEMENT STRUCTURE

A. TASK 12 SCOPE

Advise and assist the State in determining the most efficient structure or process for engaging a management company to achieve the lowest long term operating cost for the State.

B. APPROACH

Task 12 evaluates the following functional areas regarding the State's management of its real estate portfolio (leased and owned). Observations and opportunities for improvement are proposed for each functional area:

- Organization and Process
- Portfolio Management
- Facilities Management
- Asset Management

C. ORGANIZATION AND PROCESS

1. OBSERVATIONS

Currently, the State's real estate management is decentralized with several State agencies employing a variety of methodologies. Within the Department of Administration, several entities manage the majority of the State's real estate requirements:

- State Property Office
- State Parking
- State Construction Office
- Facility Management

In addition to the functions performed by the Department of Administration, individual State agencies manage their respective planning needs, location decisions, occupancy standards, and budgeting.

The following chart summarizes the CBRE team's observations regarding Organization and Process:

ORGANIZATION AND PROCESS SUMMARY		
CURRENT STATUS	**OBSERVATIONS/ RECOMMENDATION**	**CHANGE MANAGEMENT BENEFITS**
• Decentralized facilities management	• Real estate functions are split between various offices under the Dept. of Administration & Agencies • All real estate & facilities management functions should be centralized	• More efficient staffing levels • Better maintenance tracking • Inventory management controls • Expense management by asset
• Decentralized financial management of real estate functions and costs	• Accounting for real estate activities does not enable appropriate cost allocation • Cost codes should be assessed and staff trained to properly allocate costs	• Ability to track costs by building to better assess cost of occupancy • Cost allocations lead accountability and a focus on potential savings
• Decentralized purchasing across real estate functions	• Real estate services contracts are decentralized between departments and agencies • Real estate contracts and purchasing should be	• Improved pricing, • Better vendor coordination • Improved service levels both internal and 3rd

ORGANIZATION AND PROCESS SUMMARY		
CURRENT STATUS	OBSERVATIONS/ RECOMMENDATION	CHANGE MANAGEMENT BENEFITS
	centralized.	party
• Overlapping functions and services are provided by multiple government levels	• North Carolina should share facilities and partner resources with other government entities where feasible	• Will lower overall real estate spend • Eliminate redundant facilities • More efficient delivery of services
• Minimal staff training, manuals and processes to develop new skills and improve services	• Staff training should be implemented across all levels of real estate personnel • Develop continual improvement processes	• Increased productivity • Creates career path for employees • Improved processes, safety & maintenance
• Lack of integrated technology platform	• A centralized system for storing and tracking all real estate information is lacking • IT solutions should be upgraded to track properties, maintenance and spending	• Enhanced tracking improves accountability for expenditures • Enables better strategic planning and sourcing • Reduces admin/accounting time
• Lack of methods and metrics for measuring improved performance	• Develop key performance indicators and methods to track progress and measure improvements	• Tracks progress toward meeting goals to reduce costs • Improves completed task quality
• Increasing need for stored files has placed many cabinets in office space	• An accelerated top down mandate with adequate funding to move files to electronic format needs to be initiated	• Makes space available to house programs/people in core buildings • Faster access to stored files • Cost savings on printing and paper

2. RECOMMENDATIONS

The CBRE team recommends the following initiatives regarding Organization and Process:

Management

- Restructure and centralize all real estate functions into a single Office of Real Estate (ORE) in order to control costs, improve operating efficiencies, and streamline job functions.to improve operating efficiencies, control costs and streamline job functions:
  - Identify and evaluate all personnel involved in the management, operations, acquisition, disposition, repairs and financial tracking of real estate
  - Integrate HR, IT and real estate planning and organization to better coordinate headcount projections with space planning need.
  - Cost: Low
- Financial management of real estate should be consolidated under one management structure:
  - Centralized management and control of all real estate income and expenses will lead to greater accountability and more effective budgeting of dollars spent
  - Will require staff training and systems integration
  - Cost: Low

- Develop and implement an effective "3rd partner" strategy to provide specialized services to the State for functions that are not provided internally:
  – Evaluate the level of partnered functions today
  – Cost: Low

Training

- Develop and maintain ongoing training program to expedite and reinforce change management recommendations and accelerate savings:
  – Ongoing staff is required to upgrade staff skills to enable the use of new tools and technologies
  – Cost: Low
- Develop/improve operations manuals for all real estate functions (in house and contract services)
  – Operations manuals are required to standardize processes
  – Cost: Low

Process

- Establish Key Performance Indicators (KPI's) to measure performance of the Real Estate team, building systems and effectiveness of capital spending:
  – KPI's will enable the State to measure results year-over-year
  – Cost: Low
- Identify/implement methods for monitoring continual improvement processes with real estate team:
  – Validate required processes and develop methods for periodic measurements
  – Cost: Low
- Implement annual strategic real estate planning review and recommendations report:
  – Timing: Near term
  – Cost: Low

Technology

- Establish and build an integrated Technology Platform to support efficient and effective real estate decisions, maintenance tracking and expense reporting:
  – Evaluate existing IT resources currently in use and identify gaps
  – Cost: Medium
- Support Electronic Document Management to remove file storage areas from active office floors and re-purpose space for department use
  – Implement guidelines for document management and work to reduce large dedicated file areas
  – Identify resources required to expedite document scanning process
  – Cost: High

D. PORTFOLIO MANAGEMENT

1. OBSERVATIONS

North Carolina's real estate portfolio has grown or contracted for various reasons over time (i.e. new programs, combined departments, federal funding, cost pressures, etc.). Much of the real estate portfolio was acquired based upon business operating strategies that may not be valid today or are changing due to economic conditions, technological advances, or a changing customer service delivery model. The State's Real Estate mission should be to match the current and future real estate portfolio to the customer service delivery model of each agency/department in the most cost effective manner possible.

PORTFOLIO ALIGNMENT SUMMARY		
CURRENT STATUS	OBSERVATIONS/ RECOMMENDATION	CHANGE MANAGEMENT BENEFITS
• Some State facilities are high cost (CapEx/OpEx) and/or underutilized • Deferred maintenance is growing at many locations	• Identify underperforming assets that are not needed for the delivery of state services • Sell poorly performing and surplus owned assets	• Reduction in maintenance costs • Reallocates capital for repair and replacement of core facilities • Allows reallocation of staff resources
• Many State functions are spread across widely dispersed facilities	• Identify core facilities in central locations • Backfill and improve primary state buildings at core campuses	• Improved staff productivity • Higher space utilization rates • Improved occupancy cost metrics
• No consistent strategic planning process to reduce space footprint	• Develop processes to match supply and demand for space – Track vacancy • Integrate space disposition planning into annual property review • Develop routine staff forecast surveys	• Matches space need with availability • Helps to forecast changes in need for space • Better tracking for space dispositions
• Excess inventory of furniture, equipment and supplies spread throughout many facilities	• Surplus supplies are not inventoried and occupy space that could be used for state functions • Evaluate, inventory and clear out stored furniture, equipment and supplies	• Elimination of safety hazards • Recovery of useable square footage • Better able to access and use stored furniture, equipment and supplies

2. RECOMMENDATIONS

The CBRE team recommends the following portfolio alignment initiatives. By aggressively managing the real estate portfolio to agency/departmental needs, the State will reduce the overall space requirements in its leased and owned portfolios. Agency consolidations and co-locations can reduce the amount of support space and services required across all locations. Further, we recommend planning tools, cost allocation models and on-line databases to address shortages and manage surplus real estate.

Portfolio Downsizing

- Repurpose State facilities that have either 1) reached their useful service life expectancy or 2) are inadequate for service delivery needs by State agencies in order to reduce portfolio operating costs:
  - Develop criteria to identify underperforming assets
  - Eliminate as many addresses as possible to reduce maintenance and capital costs
  - Cost: Medium – Decommissioning, move and disposition
  - Identify underutilized and/or vacant space through facility inspections to help agencies reduce costs and increase efficiencies:
  - Perform an “on site” inspection of each major state facility to identify all vacant and underutilized space including offices, workstations, storage, etc.
  - Cost: Low – Move and tenant improvement

- Rationalize inventories of excess furniture, equipment and supplies to eliminate obsolete items and to free up storage areas for repurposing:
  - Dispose of excess furniture to liberate space for higher and better use (primarily office operations) and clear areas for better safety and working conditions
  - Cost: Low – Staff resources to sort furniture and move costs for removal
- Create an on-line tool for disposition of real estate
  - Develop an on-line system that is linked to overall property tracking system
  - Cost: Low

Portfolio Planning

- Integrate space disposition planning into annual property portfolio review to reduce spend on underutilized and/or inefficient facilities:
  - Train department staff to identify potential opportunities for space disposition
  - Cost: Medium
- Develop routine surveys from business plans for staff forecasts to optimize space planning
  - Develop routine surveys from business plans for staff forecasts
  - Cost: Low
- Create on-line list of available vacant space for internal use to have a first look at underutilized available space that is currently owned or leased by the State
  - Creating and maintaining an availability inventory will assure that vacant space is considered prior to an assessment of other options
  - Cost: Low
- Collocate and consolidate departments based on strategic adjacency needs
  - Identifying adjacency needs reduces staff travel time and common space that is duplicated at multiple locations
  - Timing: Medium term
  - Cost: Medium for space planning assistance

E. FACILITIES MANAGEMENT RECOMMENDATIONS

1. OBSERVATIONS

The State's current facilities management s decentralized, creating ongoing problems in asset preservation, maintenance and management of State facilities. There is an absence of common processes which should be used to assign, perform, track and expense routine services and maintenance.

Processes provide a structured approach to planning and managing diverse organizational policies. They add uniformity and consistency around the methods employed today to deliver the same type of service across the different departments. Processes are also fundamental for the adequate management of technology tools and the creation of leveraged management practices. With better integrated platforms, organizations continue to improve the way they deliver services.

FACILITY MANAGEMENT SUMMARY		
CURRENT STATUS	OBSERVATIONS/ RECOMMENDATION	CHANGE MANAGEMENT BENEFITS
• Current facilities management is decentralized • Inconsistent asset management tools and standards applied across the portfolio	• All FM functions should be centralized to better coordinated budgets, policies, procedures and manpower	• More efficient staffing levels • Better maintenance tracking • Improved expense management
• Decentralized purchasing	• Centralized purchasing leads to better vendor management and benefits from larger work orders	• Improved pricing, • Better vendor coordination • Improved service levels
• There is no standard repository of all equipment tracking and information	• An Asset Numbering Standard should be established to identify all critical and non-critical assets	• Better tracking for maintenance • Assists with tracking for budgets, warranties and staffing
• Lack of a single inventory management tool for furniture, machine parts and supplies	• Inventory should be tracked and securely stored • Materials stored in mechanical room areas should be moved to secure storage	• More efficient control of purchasing • Reduced loss and damage • Reduced floor space dedicated to materials that will never be used

2. RECOMMENDATIONS

As a primary component of the State real estate organization, it is recommended that the facilities management functions be re-organized and consolidated through a process that eliminates redundancies and centralizes oversight. The CBRE team recommends the following facilities management initiatives:

Facilities Management Organization

- Reorganize Facility Management department to reflect industry best-practice:
  - Initiate a top to bottom review of the Facilities Management staffing, functions, information monitoring, budgets and systems to identify key areas for enhanced service delivery and cost controls
  - Implement best practices solutions for databases, staff development, processes, procurement and vendor contracts
  - Establish key performance metrics
  - Cost: Medium
- Create an action plan to address changes in staffing management required to transform the oversight and management of facilities management operations:
  - Initiate a top to bottom review of staffing to address the following:
    - Managing workflow with continuing cuts in resources
    - Aligning skills with assigned tasks
    - Preparing gap analysis to identify skills that may need to be provided through outsourcing
    - Break-out of labor costs allocated to specific facilities
    - Knowledge gap created by retirements
  - Cost: Low – Staff resources address staffing model

- Centralize real estate purchasing for all building related materials, supplies and services to increase leverage with suppliers, control costs and manage inventory
  - Current practices allow for the purchase of supplies and contracted services through multiple departments and with many vendors
  - A centralized purchasing and accounting function will reduce expenses through the coordination of bids, tracking of expense and management of vendors
  - Goods and services to be aggregated and procured could include but not be limited to utilities, janitorial and maintenance contracts, paper goods, cleaning materials and supplies, elevator contracts, snow removal, etc.
  - Cost: Low – Staff resources address purchasing

Facilities Management Process

- Implement an electronic Work Management (Job Request) Practice
  - Develop Work Process Controls that are standardized across all agencies
  - Develop Work Process Forms
  - Provide quick reference guides or online training for all employees that can request a "Job Request."
  - Cost: Medium – Staff resources to identify and track items, staff training and possibly software upgrades
- Create an inventory of machine parts and supplies to reduce overspending and monitor intake/outflow:
  - Inventories should be tracked and securely stored to control purchasing, prevent loss from theft or damage in non-secure storage
  - Cost: Low – Staff resources address inventory identification

Facilities Management On-Site Initiatives

- Create an action plan to address the use of mechanical rooms as shop and storage areas
  - Initiate a top to bottom review of building mechanical areas to identify stored materials that should be removed from storage areas
  - Cost: Low – Staff resources to sort and move furniture
- Review and improve knowledge based technology systems to track maintenance, confirm building conditions, handle work orders, evaluate key building metrics, handle purchasing and control costs:
  - Evaluate property tracking platforms to identify needs in data tracking
  - Cost: Low – Staff resources to review systems with consultants
- Upgrade the current preventive maintenance program to include a plan, budget and schedule for the repair and maintenance of buildings and equipment throughout the portfolio
  - Currently there is no centralized tracking of routine repairs and maintenance of façades, interiors and equipment
  - Establish Preventive Maintenance Standards (alignment should be across all State agencies, if maintenance responsibilities are not aligned under a single organization)
  - Cost: Medium – Staff resources to track items – Coordinate with existing contracts
- Establish a program to identify all equipment
  - Establish an Asset Numbering Standard
  - Identify Critical and Non-critical Assets
  - Cost: Medium – Staff resources to 1) identify and track items and 2) work with vendors to ID equipment

F. ASSET MANAGEMENT RECOMMENDATIONS

1. OBSERVATIONS

The CBRE team observed that several key asset management functions are either decentralized or lack a set of standards that are not uniformly applied.

ASSET MANAGEMENT SUMMARY		
CURRENT STATUS	OBSERVATIONS/ RECOMMENDATION	CHANGE MANAGEMENT BENEFITS
OPEX		
• Inability to track facilities data by building and service	• Staff is not trained and equipped to input information for tracking facilities • Facilities training and IT systems need to be set-up to properly record and track information.	• More accurate control of real estate spend • Improved vendor management • Ability to identify and control excessive utility costs
• Decentralized procurement	• All purchasing should be centralized	• Lower vendor pricing • More effective vendor management
• Multi-building portfolio -many with high energy costs	• Criteria and systems need to be developed to identify underperforming assets	• Eliminate or repair facilities with high energy costs
Project Management		
• Decentralized project management	• All project management functions should be centralized for more effective pricing and vendor management	• More efficient staffing levels • Better maintenance tracking • Inventory management • Expense management
• Decentralized purchasing	• Centralized purchasing leads to better vendor management • Leverage national contracts thru buyer pools	• Improved pricing, • Better vendor coordination • Improved service levels
• Lack of written processes for routine projects, repairs and maintenance	• Processes should be developed in the form of Playbooks • Processes should be tracked using technology tracking tools	• Improved levels of routine maintenance • Lower levels of equipment failure • Better cost tracking
Leasing and Sales		
• Currently self-perform leasing functions	• Small staff for size of portfolio • Engage third party leasing brokers to provide tenant representation for the portfolio • Establish key performance metrics to guide execution and measure results • Link leasing and lease administration system to real state enterprise platform	• Reduction in time spent by the state in leasing process, market research and negotiations that can be handled by brokers • Allows reallocation of staff resources to more strategic assessment of agency portfolios on an ongoing basis
• Lease language allows cancellation based on funding	• To compensate for risk, funding language will generally cost more or limit interest in the real estate community • Assess level of acceptable risk and determine if some points of negotiations can be modeled to accommodate landlords fear of the state cancellation of space	• More aggressive rent offers • Better tenant improvement allowance packages • Increased number of offers from landlords for space

ASSET MANAGEMENT SUMMARY		
CURRENT STATUS	OBSERVATIONS/ RECOMMENDATION	CHANGE MANAGEMENT BENEFITS
• Uncertainty and inability of agencies to sell surplus space	• Agencies are often unable to move from underutilized space due to lack of funding for moves, inability to assess real estate strategically and lack of resources to guide the process • Recommend the training and support of agency staff to identify surplus assets • Provide funding to move and build out replacement space while providing funding for demolition of obsolete space.	• Enables agencies to execute space/ cost saving strategies • Allows capital to be redeployed • Trains staff to identify signs of underutilized space

2. RECOMMENDATIONS

Expense Management

- Collect and track facilities data including operating expenses by property
  - Benchmark these costs across all departments/agencies to identify those facilities which are expensive to operate and maintain.
  - Compare data to private sector equivalents
  - Timing: Short term – Current accounting classifications may need to be set-up
  - Cost: Medium – Staff resources to track identify and track items
- Initiate a procurement strategy to consolidate purchasing of goods and services to reduce costs.
  - Goods and services to be aggregated and procured could include but not be limited to utilities, janitorial and maintenance contracts, paper goods, cleaning materials and supplies, elevator contracts, snow removal, etc.
- Eliminate poorly maintained and high energy cost facilities to reduce overall operating costs
  - Develop criteria to identify underperforming assets
  - Eliminate as many addresses as possible to reduce infrastructure, maintenance and capital costs
  - Timing: Medium term
  - Cost: Medium – Decommissioning, move and disposition

Project Management

- Collect and track facilities data including operating expenses, move costs and capital expenses by property
  - Review current processes and standards and compare/benchmark with best-practices strategies (See Appendix D for sample metrics).
  - Implement project delivery Playbooks for routine projects and processes
  - Match staff to current workload and use contract partners to manage peak loads or difficult projects
  - Place all projects in one technology tracking tool
  - Leverage national contracts and preferred providers to reduce capital project costs.
  - Cost: Medium – Training, tracking and changes in staffing may require some capital outlay, however, savings can be expected from increased productivity and capital savings

Transaction Management

- Engage third party representation for transaction management. Most large private sector companies and many large government entities such as the federal GSA have broker representation to provide market research and negotiate lease and sales transactions.
  - 3rd party engagement will provide the state with better market reconnaissance
  - Tenant representation will free up State Property Office staff to engage with agency clients
  - Cost: Low brokerage fees are paid by the Landlord/Owner and are already incorporated into market assumptions
- Develop a space procurement process that is managed by a central State Office of Real Estate to oversee the request for space, property identification, negotiation and build out and occupancy of space.
  - Lease procurements should begin 18 – 24 months prior to expiration
  - An Agency Relationship Manager (ARM) should be assigned to the user agency to ensure that the real estate supports the agency's mission and operations
  - A tenant broker to work with the ARM in the acquisition of space
  - A space request will initiate many questions concerning space use:
    - How much space does the agency currently use at this location?
    - How many employees are located here?
    - Do any of these employees perform services in the field?
    - How much time are these employees in the office?

TASK 13: PROVIDE ADDITIONAL SERVICES AS REQUESTED RELATED TO THE ABOVE SCOPE AS DIRECTED BY THE USING AGENCY

XIII. TASK 13: PROVIDE ADDITIONAL SERVICES AS REQUESTED RELATED TO THE ABOVE SCOPE AS DIRECTED BY THE USING AGENCY.

During the course of this assignment, the State requested that the facilities located at Blue Ridge Road and Garner Road be examined in detail. These have been added to the report and are part of the overall recommendations.

REAL ESTATE AND CAPITAL IMPROVEMENT NEEDS ANALYSIS AND EVALUATION STUDY

PREPARED THE STATE OF NORTH CAROLINA
BY CBRE, INC.

JUNE 10, 2015

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