M E M O R A N D U M

Doug

METRO

January 21, 1994

To: Councilor Judy Wyers, Presiding Officer
Councilor Rod Monroe, Finance Committee Chair
Councilor Sandi Hansen, Regional Facilities Chair

From: Doug Butler
Interim Director, Regional Facilities

Subject: Metro Center Strategy/Options

It is obviously important that we move very quickly to try to resolve the situation at the old Metro Center. Specifically, our objectives as I understand them are to:

- limit/end Metro's liabilities and involvement in the building as soon as possible;
- minimize the net costs to Metro to the greatest extent possible;
- minimize Metro's risks as they relate to this building; and
- follow a process which will maximize public acceptance of the selected strategy.

The Council has stated clearly that it will <u>not</u> consider options for achieving these objectives which require Metro to:

- extend its current master lease with the building owner (AMCO); or
- invest significant new capital in a building which it does not own.

Based on a number of conversations including discussions with the Regional Facilities and Finance Committees and a review of the relevant legal documents, **I believe that Metro should simultaneously:**

- **pursue a negotiated settlement with AMCO;**
- **work with AMCO to locate a new long-term, single-tenant occupant for the building; and**
- **work to relocate the three existing tenants as quickly as possible (and not later than June 30, 1994) and then to "mothball" the building.**

This recommendation is based on a number of considerations which are outlined below:

<u>Negotiated Settlement</u>

- The objective of a negotiated settlement is to terminate the current lease, and therefore the liabilities and responsibilities associated with it, early. The major question is obviously whether or not AMCO and Metro can agree on a mutually acceptable settlement.
- It would seem advisable to begin the search for a new single-tenant (or property

manager/developer) simultaneously with any efforts to negotiate a settlement in order to reduce the risk to the owner and therefore the amount of settlement that might be required.

- The option of exercising the "non-appropriation" clause in the master lease brings with it the high probability of litigation and adds risk (in the form of potentially higher costs) to Metro. It, therefore, seems appropriate to pursue a negotiated settlement.

Leasing

- AMCO has consistently indicated that it's interest is to manage the building as an investment; specifically, it is only interested in a single-tenant lease which requires the tenant to assume responsibility for all aspects of maintenance and operation.
- AMCO must approve any subleases.
- The Metro Council has indicated that it will not approve an extension of the master lease with AMCO as a means of attracting potential sublessees.
- There are two primary leasing strategies which Metro can pursue at this point:

    - Seek a single-tenant for the entire building.

        - There are relatively few prospects of this type in the market and it is, therefore, difficult to predict the odds of success. Given our history and the nature of the office market, it should be considered a long-shot. Metro might be required to guarantee a new lessee as a condition of being released from its current lease.
        - A property manager/developer which would lease the entire building and then take responsibility for leasing and operations would be a variation on the single-tenant strategy. Metro would certainly be required to make a settlement payment or guarantee as a condition of being released from its current lease.

    - Seek multiple tenants to sublease space in the building.

        - Leases could not exceed the 30-month period which remains on Metro's current lease and Metro would assume no responsibility for anything more than minor tenant improvements to make the space usable.
        - Multiple tenant occupancy of the building will trigger a requirement for approximately $85,000 in fire and life safety/ADA improvements to the building which would have to be paid by Metro.
        - While there are always some prospects in the market for this type of space, it is virtually certain that they will not be willing to pay full market rate for the space and it is highly unlikely that we can achieve full occupancy in the building.
        - A variation on this strategy would be to make the space available to non-profit organizations in the community. If they are required to pay for

operating costs, there would be some cost-offset to Metro.

- ▲ AMCO must approve any sublease (non-profit or otherwise) and has no incentive to share the costs of making tenant improvements or providing leasing incentives for potential sublessees under a multiple tenant strategy given its current lease with Metro and its desire to avoid all operational responsibilities in the building.

<u>Fulfilling Existing Lease Terms</u>

- ❒ The existing lease with AMCO expires on June 30, 1996 - approximately 30 months from now. Under the terms of this lease, Metro makes monthly rent payments and is responsible for all costs and duties associated with the maintenance, operation and protection of the building.
- ❒ If Metro is unable to negotiate a settlement, terminate the lease, or find a replacement tenant, the objective will be to find the least cost alternative for managing the building for the balance of the lease term. Mothballing (which might modified to allow the existing tenants to remain) and subleasing to multiple tenants are the primary options available for achieving that purpose.

I would appreciate the opportunity to discuss this strategy in more detail and I am prepared to begin working on implementation upon your approval.

cc: Rena Cusma, Executive Officer
Dick Engstrom, Deputy Executive Officer
Don Carlson, Council Administrator
Dan Cooper, General Counsel