

November 2016

**Erie County Department of Social Services
Cost Impact Analysis of Lease Options
10-12 Fountain Plaza and 478 Main Street**



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November 1, 2016

Erie County Legislature
92 Franklin Street 4th Floor
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Dear Honorable Members:

The Erie County Comptroller's Office has performed a limited scope analysis of the Erie County Department of Social Services request for proposal through the broker CBRE-Buffalo (Commercial Real Estate Services) of leasing 10-12 Fountain Plaza (Ciminelli Real Estate Corporation) vs. 478 Main Street (Ellicott Development Company). Our analysis is limited to the information provided.

Our objective was to compile the financial impact comparison between the two proposed locations.

To accomplish the objective, we analyzed CBREs Request for Proposal, compared submitted property proposals from Ciminelli Real Estate Corporation and Ellicott Development Company, and recalculated the financial implications of entering a lease with the competing proposals.

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SUSPENSION

BACKGROUND

April 8, 2016. In anticipation of an expiring lease on March 31, 2017, Erie County authorized the Department of Social Services to enter a contract with CBRE to provide brokerage services to lease real estate for the Child Welfare Department and the HEAP Department.

May 17, 2016. CBRE presented a request for proposal to potential landlords. This proposal request considered the needs and desires of the Department of Social Service.

- Ciminelli Real Estate Corporation returned a proposal for the lease of 10-12 Fountain Plaza.
- Ellicott Development Company returned a proposal for the lease of 478 Main Street.

July 25, 2016. Erie County was in the process of negotiating a lease for the 10-12 Fountain Plaza location. Desires to work on the new space before the terms of a lease are agreed upon.

August 31, 2016. The Department of Social Services requests authorization from the Erie County Legislature to enter into a lease at 10-12 Fountain Plaza.

October 13, 2016. Erie County Legislation requested that the Erie County Comptroller Office perform a cost impact analysis of the lease options between the proposal for the 10-12 Fountain Plaza from Ciminelli Real Estate Corporation and the proposal from Ellicott Development Company to remain at 478 Main Street.

EXECUTIVE SUMMARY

The difference in cost over the term of the lease from 478 Main Street to 10-12 Fountain Plaza is over 3 million dollars.

KEY FACTS

I. Fountain Plaza

SUSPENSION

We reviewed the proposal submitted by Ciminelli Real Estate Corporation.

The key points to the proposal;

- Cost to Erie County over the lease term. **\$10,276,953**
- Year 1, Rentable Square Feet (RSF) 90,653. Usable square feet is 9% less than rentable square feet (ie. 82,494 RSF).
- Year 2-5, (RSF) 99,628. Usable square feet is 9% less than rentable square feet (ie. 90,365 RSF).
- Rent \$19.00/RSF, 5 year escalator to \$19.75/RSF.
- Electric sub metered, estimated at \$1.30/RSF.
- Operating Expenses capped at 5% of base year expenses.
- Two months free rent applied at the end of the lease.
- Tenant Improvement including upgrades and remodel paid by lessor, limited to \$50/RSF.
- Brokerage fee 5%, paid by lessor.

Financial Analysis "Exhibit A"

II. 478 Main Street

We reviewed the proposal submitted by Ellicott Development Company.

The key points to the proposal;

- Cost to Erie County over the lease term. **\$6,470,675**
- Year 1-5, Rentable Square 81,500 (Includes HEAP) Usable square feet is at par with rentable square feet (ie. 81,500).
- Fixed Rent \$14.55/RSF.
- Electric sub metered, estimated at \$1.30 RSF.
- Operating Expenses capped at 3% of base year expenses.
- First month rent free.
- Tenant improvements include building upgrade & remodel paid by lessor including an additional 5\$/RSF for furniture upgrades.
- Energy system improvements to reduce overall electric consumption.
- Brokerage fee 5%, paid by lessor.

Financial Analysis "Exhibit B"

COMMENTS

SUSPENSION

The comparison of the two proposals demonstrates that the financial feasibility of moving the Child Welfare Department and the HEAP Department from 478 Main St. to 10-12 Fountain Plaza is not in the best economic interest of Erie County.

It is unclear why the Department requested the Child Welfare Department and HEAP to reside in two separate locations when discussing with Ellicott Group, while the 10-12 Fountain Proposal with Ciminelli would keep both departments in one building.

Therefore, in order to make a reasonable comparison between the two options we utilized the 10-12 Fountain proposal and a modified 478 Main Street Proposal to include the HEAP Department with the Child Welfare Department (Totaling 81,500 RSF). This is an increase of 15,921 RSF from the original proposal.

As well it is important to note that between the two locations there is a distinction between rentable square feet and useable square feet. While 478 Main Street proposes its footage at useable square feet, 10-12 Fountain Plaza levies a 9% load factor on its rentable square feet. This ultimately means that 9% of the 10-12 Fountain Plaza footage cannot be used as office space.

Our analysis did not take into consideration the cost of the move or the logistical nightmare of moving approximately 200-300 employees to a new location. To further complicate, the service that these two departments provide must go uninterrupted. And the inconvenience to the public should be considered.

A broker fee of 5% will be paid by the ultimate lessor to CBRE-Buffalo. For 10-12 Fountain Plaza, this amounts to \$477,160. For 478 Main Street, this amounts to \$296,456.

Exhibit A

10-12 Fountain Plaza to accommodate Child Welfare Department and HEAP Department

SUSPENSION

10-12 Fountain Plaza										
Year	Rentable SqFt	Usable SqFt	Base Rent SqFt	Annual Rent	Electric Low	Electric High	Annual Electric Low	Annual Electric High	Total Lease Cost Low	Total Lease Cost High
1	90,653	82,494	\$ 19.00	\$ 1,722,407	\$1.25	\$1.50	\$ 113,316	\$ 135,980	\$ 1,835,723	\$ 1,858,387
2	99,628	90,661	\$ 19.50	\$ 1,942,746	\$1.25	\$1.50	\$ 124,535	\$ 149,442	\$ 2,067,281	\$ 2,092,188
3	99,628	90,661	\$ 19.50	\$ 1,942,746	\$1.25	\$1.50	\$ 124,535	\$ 149,442	\$ 2,067,281	\$ 2,092,188
4	99,628	90,661	\$ 19.75	\$ 1,967,653	\$1.25	\$1.50	\$ 124,535	\$ 149,442	\$ 2,092,188	\$ 2,117,095
5	99,628	90,661	\$ 19.75	\$ 1,967,653	\$1.25	\$1.50	\$ 124,535	\$ 149,442	\$ 2,092,188	\$ 2,117,095
Total				\$ 9,543,205			\$ 611,456	\$ 733,748	\$ 10,154,661	\$ 10,276,953

Exhibit B

478 Main Street to accommodate Child Welfare Department and HEAP Department

478 Main St										
Year	Rentable SqFt	Usable SqFt	Base Rent SqFt	Annual Rent	Electric Low	Electric High	Annual Electric Low	Annual Electric High	Total Lease Cost Low	Total Lease Cost High
1	81,500	81,500	\$ 14.55	\$ 1,185,825	\$ 1.28	\$ 1.33	\$ 104,251	\$ 108,310	\$ 1,290,076	\$ 1,294,135
2	81,500	81,500	\$ 14.55	\$ 1,185,825	\$ 1.28	\$ 1.33	\$ 104,251	\$ 108,310	\$ 1,290,076	\$ 1,294,135
3	81,500	81,500	\$ 14.55	\$ 1,185,825	\$ 1.28	\$ 1.33	\$ 104,251	\$ 108,310	\$ 1,290,076	\$ 1,294,135
4	81,500	81,500	\$ 14.55	\$ 1,185,825	\$ 1.28	\$ 1.33	\$ 104,251	\$ 108,310	\$ 1,290,076	\$ 1,294,135
5	81,500	81,500	\$ 14.55	\$ 1,185,825	\$ 1.28	\$ 1.33	\$ 104,251	\$ 108,310	\$ 1,290,076	\$ 1,294,135
Total				\$ 5,929,125			\$ 521,257	\$ 541,550	\$ 6,450,382	\$ 6,470,675

Exhibit C

Cost Difference, 10-12 Fountain Plaza vs. 478 Main Street

	10-12 Fountain Plaza	478 Main St.	Difference
Year 1	\$ 1,858,387	\$ 1,294,135	\$ 564,251
Year 2	\$ 2,092,188	\$ 1,294,135	\$ 798,053
Year 3	\$ 2,092,188	\$ 1,294,135	\$ 798,053
Year 4	\$ 2,117,095	\$ 1,294,135	\$ 822,960
Year 5	\$ 2,117,095	\$ 1,294,135	\$ 822,960
Total	\$ 10,276,953	\$ 6,470,675	\$ 3,806,277