

COMMERCIAL REAL ESTATE SERVICES



November 8, 2016

Part of the CBRE affiliate network

Al Dirschberger, Ph.D., Commissioner
Erie County Department of Social Services
95 Franklin St.
Buffalo, NY 14202

257 W. Genesee Street
Suite 160
Buffalo, NY 14202

716-855-3700 Tel
716-262-0307 Fax
www.cbre.com/buffalo

Re: Erie County Department of Social Services
-Child Welfare Department
-HEAP (Home Energy Assistance Program) Department
Office Space Costs Comparison 478 Main/10-12 Fountain Plaza

Dear Al:

Thank you for forwarding the Comptroller's limited scope financial review of the cost comparison between 10-12 Fountain Plaza and 478 Main Street. There are some items in his review that we can help clarify and in some cases revise based on the information we have to date that I don't believe he had when he performed his limited scope analysis. Also, there have been some modified and edited cost comparison spreadsheets from a couple of different perspectives which have been circulated and may have inadvertently been used, applied, or interpreted incorrectly. In an effort to get everyone on the same page, below are some comments, clarifications, and additions to the Comptroller's limited scope financial review of both opportunities. Additionally, please find attached a cost comparison spreadsheet which shows more of an "apples to apples" financial comparison of both the sites projected lease costs for the first 10 years of occupancy.

KEY FACTS

FOUNTAIN PLAZA

- Projected lease costs for Erie County initial 5 year lease term
\$9,546,396
- Projected lease costs for Erie County first 5 year lease term option (lease years 6-10) **\$8,794,461**
- Total projected lease costs for Erie County first 10 years of occupancy
\$18,340,857
- Years 1-5 Rentable Square Feet (RSF) 90,653/Load Factor 9% resulting in a Usable Square Footage (USF) of 82,494 (same for first 5 year option). The letter of understanding and related spreadsheet included expansion space of 8975 square feet in year 2 for additional operations which are not currently housed at 478 Main Street. That space has been eliminated from the cost comparison for that reason.
- Rent \$19.00 p/rsf year 1 escalating to \$19.75 p/rsf year 5 then reducing to \$16.50 p/rsf for the first renewal option in year 6 escalating to \$18.57 in year 10.

- Electric sub metered and estimated at \$1.30 p/rsf (current rate)
- Increases in operating expenses passed through to Tenant after base year capped at 5% per year.
- Two months free rent applied outside the base term and first option (months 121 and 122 of occupancy projected cost savings \$289,031)
- Tenant improvement allowance of \$50.00 p/rsf included in the base rent.
- Brokerage fee 5% paid by lessor

478 MAIN STREET

- Projected lease costs for Erie County initial 5 year lease term
\$9,164,952
- Projected lease costs for Erie County first 5 year lease term option (lease years 6-10) **\$10,486,123**
- Total projected lease costs for Erie County first 10 years of occupancy
\$19,651,075
- Years 1-5 Rentable/Useable Square Footage 115,547 (same for the first 5 year option)
- Rent \$14.55 psf years 1-5, then increasing to \$16.30 psf for the first renewal option for years 6-10 of occupancy.
- Electric sub metered and estimated at \$1.30 p/sf (assuming the buildings mechanicals being replaced with high efficiency operating systems. The current electric rate is approximately \$2.25 psf)
- Increases in operating expenses passed through to the Tenant after the base year capped at 3% per year.
- First month rent free however base lease term to be extended to 61 months to accommodate this outside the base term.
- Tenant Improvements. Landlord to provide a \$5 per usf/rsf tenant improvement allowance to purchase and install any upgraded finishes, furniture, data cabling, etc. but cannot be used to offset rent. Also included in the base rent is the cost of architectural, engineering and design by Landlord's vendor as well as a turnkey buildout utilizing Landlord's building standard finishes.
- Energy system improvements to reduce overall electric consumption
- Brokerage fee 5% paid by lessor

COMMENTS

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

For the initial first 5 years of occupancy, 478 Main's projected lease costs are approximately \$381,443 less than 10-12 Fountain Plaza however, when coupled with the next 5 years of occupancy (years 6-10), 10-12 Fountain Plaza projections show a costs savings of \$1,310,218 over the first 10 years of occupancy. Please refer to the attached spreadsheet for further details.

"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 department in one building."

In the RFP it was stated that the 2 requirements could be independent of each other and not necessarily in the same building. This was in an effort to surface as many options as possible for both departments. In Ellicott's response they requested the return of the first floor space (HEAP's current location) to the landlord's control prior to the Landlord commencing any tenant/landlord work relating to the new lease for Child Welfare. After that is achieved, assuming all other stipulations have been satisfied, "Landlord may begin the required phased renovations" projected to take 150 days. In theory this would be fine but in our experience "phased renovations" take considerably longer, costs considerably more, and can be very disruptive when the Tenant is still occupying the space and is moved internally to accommodate construction.

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

In the comparison that is attached, we have adjusted the square footage for 478 Main to include not only HEAP but also all the other operations that are currently housed at 478 Main including the operations on the rest of the 5th floor and the entire 6th floor. In Ellicott's response to the RFP, they proposed to reduce the required amount of square footage that was being requested. We are not sure why this was done or how it's possible to accommodate 115,000+ square feet of operations into 81,500 square feet in the exact same building. It's reasonable to assume that when completely renovated and updated, 478 Main could likely be made more efficient. But just to put that into perspective, it would be a 41% increase in efficiency for a 94 year old building.

"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 it's footage as 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."

It's not uncommon for landlords of older buildings (478 Main was built in 1922), to base their rent on their USF and/or lower their asking rents in an effort to be more competitive with the newer more efficient properties. Even when that is done there are still some inherent inefficiencies because of the thickness of the walls, the size and amount of boxed in interior columns, utility runs, and other construction standards from 1922 that create "dead" space that is still included in the USF number. The inefficiencies are further evidenced by the need to occupy 115,909 square feet of USF for the current operations at 478 Main while the same operations can be housed in 82,494 square feet of USF at 10-12 Fountain Plaza. To put it simply, you need about 40% more useable square feet of space at 478 Main to house the same amount of operations that can fit into the proposed space at Fountain Plaza, hence the lower asking rent in an effort to level the playing field and be competitive with more modern

and efficient buildings. In theory, you could argue that 478 Main has a 40% load factor.

"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."

It's our understanding that the County has received an informal quote of approximately \$25,450 to move approximately 400+ employees. The proposed space at Fountain Plaza is currently vacant. Once it's completely built out and ready for occupancy, individual departments can begin to move in their entirety over a period of what would likely be 2 weekends. This would help avoid any interruption of services. The County would also have at least 6-8 months to make all affected parties aware of the move and timing of such. Conversely, without question, renovating and moving departments internally while over 400 employees and "consumers" are in the building would be far more disruptive and inconvenient to all involved parties. This scenario typically takes much longer and cost more money.

"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 \$296,446."

Based on current rent projections the potential fee for 10-12 Fountain Plaza is \$441,933. For 478 Main Street, this amounts to \$420,302.

We have only addressed and compared the "tangible factors" as they relate to this requirement and potential move. There are several "in-tangible factors" that can also have a significant impact on the employees and public's psyche that have not been factored in. These are also very important and should be considered when making the decision on whether or not to re-locate. We have not discussed the comparative differences in office classifications, appearance, aesthetics, perception, and general quality of these 2 buildings and locations. To see some of those differences, we highly recommend a walkthrough of both spaces and the surrounding areas for anyone who is involved in the decision making process.

Please review the above comments and the attached spreadsheet and feel free to contact me with any questions and/or comments.

Respectfully yours,
CBRE-Buffalo



Michael C. Clark
Director

Quantitative Lease Analysis & Comparison of Fountain Plaza with Proposed Renewal at Existing Location of 478 Main

Location:	10-12 Fountain Plaza	
Prepared:	ECOSS	CWS & HEAP
Date:	6-Nov-16	

Years 1-10	
Rentable Square Feet	90,653
Load Factor	9%

Year	RSF	Base Rent	Annual Rent					Tenant Electric	Inc in CAM over base	Total Charges	Gross Rent	Monthly Rent	Annual Rent
1	90,653	\$ 19.00	\$ 1,722,407.00					\$ 1.30	\$0.00	\$ 1.30	\$ 20.30	\$ 159,354.66	\$ 1,840,255.90
2	90,653	\$ 19.50	\$ 1,767,733.50					\$ 1.34	\$0.21	\$ 1.55	\$ 21.05	\$ 159,012.92	\$ 1,908,155.00
3	90,653	\$ 19.50	\$ 1,767,733.50					\$ 1.38	\$0.22	\$ 1.60	\$ 21.10	\$ 159,395.70	\$ 1,912,748.38
4	90,653	\$ 19.75	\$ 1,790,396.75	5 Year total				\$ 1.42	\$0.23	\$ 1.65	\$ 21.40	\$ 161,680.16	\$ 1,940,161.86
5	90,653	\$ 19.75	\$ 1,790,396.75	\$ 8,838,667.50				\$ 1.46	\$0.24	\$ 1.71	\$ 21.46	\$ 162,089.55	\$ 1,945,074.58
6	90,653	\$ 16.50	\$ 1,495,774.50					\$ 1.51	\$0.26	\$ 1.76	\$ 18.26	\$ 137,961.12	\$ 1,655,533.42
7	90,653	\$ 17.00	\$ 1,540,647.74					\$ 1.55	\$0.27	\$ 1.82	\$ 18.62	\$ 142,136.52	\$ 1,705,662.22
8	90,653	\$ 17.50	\$ 1,586,867.17					\$ 1.60	\$0.28	\$ 1.88	\$ 19.39	\$ 146,443.17	\$ 1,757,318.02
9	90,653	\$ 18.03	\$ 1,634,473.18					\$ 1.65	\$0.30	\$ 1.94	\$ 19.97	\$ 150,878.98	\$ 1,810,547.80
10	90,653	\$ 18.57	\$ 1,683,507.38	10 Year Total				\$ 1.70	\$0.31	\$ 2.01	\$ 20.58	\$ 155,450.00	\$ 1,865,399.97
Total for 10 Years of Lease Costs				\$ 16,779,937.46									\$ 18,340,857.17

10 YEAR COSTS		Comments: 1) \$50/SF TI allowance offered (\$4,532,850) 2) operating expenses est. 5% increase in expenses being passed through to Tenant over base year 3) TI allowance of \$50 per sf 4) Two (2) months of rent free outside of the base term.
Total Gross Costs:	\$ 18,340,857.17	
NPV of Costs	\$12,365,833.74	
NPV per RSF:	\$ 136.41	

5 year costs w/o utilities and expenses
\$ 8,838,667.50
5 year costs with utilities and expenses
\$ 9,546,395.73

10 year costs w/o utilities and expenses
\$ 16,779,937.46

10 year costs with utilities and expenses
\$ 18,340,857.17

Location: 478 Main

Comparison with Current Location

478 Main Projections based on 6/2/16 Proposal to extend lease but includes HEAP requirement assuming LL will reverse its desire not to lease to HEAP, includes using all the existing leased space (floors 1-6 totaling apx. 115,547 rsf), includes the entire space being upgraded with energy efficient mechanicals resulting in reducing the current electric expense, and assumes a 3% annual increase)

Year	RSF/USF	Base Rent	Annual Rent					Tenant Electric	Inc in CAM over base	Total Charges	Gross Rent	Monthly Rent	Annual Rent
1	115,547	\$ 14.55	\$ 1,681,208.85					\$ 1.30	\$ 0.00	\$ 1.30	\$ 15.85	\$ 140,943.44	\$ 1,691,321.25
2	115,547	\$ 14.35	\$ 1,681,208.85					\$ 1.34	\$ 0.21	\$ 1.55	\$ 16.10	\$ 155,015.98	\$ 1,860,191.15
3	115,547	\$ 14.55	\$ 1,681,208.85					\$ 1.38	\$ 0.22	\$ 1.60	\$ 16.15	\$ 155,463.39	\$ 1,865,560.62
4	115,547	\$ 14.55	\$ 1,681,208.85	5 Year Total				\$ 1.42	\$ 0.22	\$ 1.64	\$ 16.19	\$ 155,924.26	\$ 1,871,091.18
5	115,547	\$ 14.55	\$ 1,681,208.85	\$ 8,406,044.25				\$ 1.46	\$ 0.23	\$ 1.69	\$ 16.24	\$ 156,398.97	\$ 1,876,787.65
6	115,547	\$ 16.30	\$ 1,882,953.91					\$ 1.51	\$ 0.24	\$ 1.74	\$ 18.04	\$ 173,700.01	\$ 2,084,400.07
7	115,547	\$ 16.30	\$ 1,883,416.10					\$ 1.55	\$ 0.24	\$ 1.80	\$ 18.10	\$ 174,242.14	\$ 2,090,905.64
8	115,547	\$ 16.30	\$ 1,883,416.10					\$ 1.60	\$ 0.25	\$ 1.85	\$ 18.15	\$ 174,760.86	\$ 2,097,130.33
9	115,547	\$ 16.30	\$ 1,883,416.10					\$ 1.65	\$ 0.26	\$ 1.91	\$ 18.21	\$ 175,295.15	\$ 2,103,541.76
10	115,547	\$ 16.30	\$ 1,883,416.10	10 Year Total				\$ 1.70	\$ 0.27	\$ 1.96	\$ 18.26	\$ 175,845.46	\$ 2,110,145.53
Total for 10 Years of Lease Costs				\$ 17,822,662.56									\$ 19,651,075.17

10 YEAR COST		Comments: 1) Landlord proposing a "turn-key" build out. 2) operating expenses est. 3% increase in expenses being passed through to Tenant over base year. 3.) first months rent free however Tenant must commit to an additional month on the base term.
Total Gross Costs:	\$ 19,651,075.17	
NPV of Costs	\$12,990,675.96	
NPV per RSF:	\$ 112.43	

5 year costs w/o utilities and expenses
\$ 8,406,044.25
5 year costs with utilities and expenses
\$ 9,164,951.85

10 year costs w/o utilities and expenses
\$ 17,822,662.56

10 year costs with utilities and expenses
\$ 19,651,075.17

Side by Side Comparison

Projected 5 year lease costs w/ expenses
Projected 10 year lease costs w/ expenses

Fountain Plaza	478 Main	Est. costs difference	Avg Increase/decrease per year over term
\$ 9,546,395.73	\$ 9,164,951.85	\$ 381,443.88	\$ 76,288.78
\$ 18,340,857.17	\$ 19,651,075.17	\$ (1,310,218.01)	\$ (131,021.80)