

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

<input checked="" type="radio"/> Action <input type="radio"/> Information	MEAD Number: 202006	Resolution: <input checked="" type="radio"/> Yes <input type="radio"/> No
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TITLE:

Office Consolidation

PRESENTATION SUMMARY:

Staff will review an office consolidation strategy for Metro that reduces the number of office buildings Metro occupies from 10 to 7, reduces total office space by 100,000 square feet, ensures safety and saves more than \$130 million over the next 20 years. As part of the strategy, staff seeks board authorizations to move forward with selling the Jackson Graham Building, and acquiring new office space in Washington, DC, Virginia, and Maryland.

PURPOSE:

The purpose of this action is to:

(1) Provide an update of strategy to ensure employee safety, reduce 10 office space locations to 7 and save more than \$130 million over 20 years;

(2) Seek Board authorization, subject to final approval, to:

- Negotiate and execute a purchase agreement and/or negotiate lease agreements for office space and related facilities where each property to be purchased is valued over \$1 million, and where each property to be leased will have an annual rent in excess of \$1 million; and,
- Sell the Jackson Graham Building;

(3) Seek Board authorization to indemnify third-parties, if required, to effectuate the office space acquisitions and the sale of the Jackson Graham Building.

DESCRIPTION:

Starting as early as 2002, Metro evaluated the sale of its headquarters building, the Jackson Graham Building (JGB) and, consistently, the recommendations have been to sell JGB. The financial and business reasons for selling JGB are consistent: (i) the cost of renovating JGB to current building code is significant; (ii) the cost of moving employees out of JGB and leasing temporary space during renovation is also significant, as well as operationally disruptive; and (iii) the submarket in which JGB is located (Gallery Place/Chinatown) has strong real estate values and the sales proceeds from the sale of JGB will contribute to the cost of a headquarters move.

Most recently, in 2017, Metro undertook an office consolidation analysis, that included JGB as well as eight other office locations, to evaluate the cost savings opportunities, assess employee workplace health and safety issues, and recommend office space strategies that would improve operational efficiency. Metro hired Jones Lang LaSalle (JLL) to conduct the assessment and recommend an office strategy. JLL's scope of work included developing occupancy scenarios and workplace strategies, as well as creating financial (capital and operating) cost models.

The nine office locations evaluated were: (1) Jackson Graham Building (owned), (2) Carmen Turner Facility (owned), (3) Greenbelt Yard (owned), (4) Telegraph Road (owned), (5) Alexandria Yard (owned), (6) H Street (leased), (7) L'Enfant Plaza (leased), (8) Professional Place (leased), and (9) Belcrest Road (leased). Since the analysis was completed, WMATA entered in to two additional leases to accommodate staff supporting capital projects.

The conclusions of the office consolidation strategy are that Metro should sell JGB and acquire new office space in each Washington, DC, and surrounding Maryland and Virginia. Washington, DC would continue to serve as Metro's headquarters location, which is centrally located for Metro's stakeholders across the region. Acquiring new office buildings in each Maryland and Virginia serves multiple purposes. First, Metro currently leases office space in Maryland and a building acquisition in Maryland would save Metro lease expense in the future. A new office location in Virginia would help Metro better serve its stakeholders in Virginia, better serve Metro's Virginia-based employees, and contribute to Metro's lease expense savings.

As part of the acquisitions process, staff will be required to negotiate and execute purchase and sale agreements, draft lease agreements, and related transaction documents, which may contain requirements for WMATA to indemnify one or more parties in connection with the proposed transactions. Metro's indemnification of third parties requires Board approval, as this represents a potentially unfunded expense. Staff recommends Board approval of third-party indemnification for the purpose of negotiating and executing a purchase and sale agreement, because staff is required to access to private property during due diligence (i.e. investigation) and the risk of Metro's causing damage during these types of investigations is highly limited.

Key Highlights:

- Staff evaluated nine office buildings Metro owns and leases for this office consolidation project to evaluate cost savings opportunities, assess employee workplace health and safety issues, and improve operational efficiency.
- The office consolidation strategy should result in Metro's reducing its office footprint by approximately 100,000 square feet, saving an estimated \$130 million over 20 years by selling JGB and acquiring office space in Washington, DC, Maryland and Virginia.

Background and History:

Since 2002, Metro has considered selling the Jackson Graham Building (JGB) and purchasing a new headquarters building. The reasons for wanting to sell JGB are two-fold: (1) the high cost of renovating JGB to bring it up to current life-safety and accessibility standards compared to, (2) the potential sales proceeds of the JGB site given its prime location in Washington's commercial district.

JGB was built as Metro's headquarters in 1974. It sits on a 43,000 square foot site across from the Capital One Arena and the National Building Museum, approximately halfway between the Judiciary Square and Gallery Place/Chinatown Metro stations on the Red Line. Most of the building systems within JGB are between 10 to 42 years in age, are at the end of their useful life, and need to be replaced. JGB has not had any structural renovations since 1974 and, as a result, the building is not up to current life-safety and accessibility standards, both of which are high priorities for Metro.

In 2007, the Board authorized staff to negotiate the sale of JGB, but a disposition was not effectuated for various reasons. In 2016, the Board and staff agreed to revisit this strategy and come to an actionable recommendation for the sale of JGB.

In 2017, staff expanded its evaluation of Metro's office spaces to nine owned and leased office spaces, included JGB. The goal was to identify cost savings opportunities, across the board improvements to life-safety and working conditions of Metro's office employees, and improvements to operational efficiencies.

The nine office locations that were selected are locations with the greatest number of Metro's employees and consultants, as well as space that Metro currently leases. The office consolidation strategy excluded Metro operating facilities (such as rail yards, bus garages, etc.). The nine locations are: (1) Jackson Graham Building (owned), (2) Carmen Turner Facility (owned), (3) Greenbelt Yard (owned), (4) Telegraph Road (owned), (5) Alexandria Yard (owned), (6) H Street (leased), (7) L'Enfant Plaza (leased), (8) Professional Place (leased), and (9) Belcrest Road (leased). Together, these office facilities house a total of 3,400 Metro staff and consultants.

In the meantime, the building conditions in JGB as well as at Metro's facility on Telegraph Road continue to decline and necessitate major capital investments. Staff's recommendation is to sell JGB rather than renovate it, and to move forward with the acquisition of new office space quickly in order to avoid investing more in JGB.

Discussion:

Staff began the office consolidation strategy with the following goals:

- Addressing on-going life-safety and accessibility concerns in JGB and other Metro office facilities
- Reducing capital expenses related to office space improvements
- Reducing long-term operating costs related to office space

The nine office locations staff evaluated were chosen because they, (i) have the greatest number of administrative staff, (ii) have known building deficiencies that needed to be addressed, or (iii) are leased space. The findings of the office consolidation strategy are that Metro can reduce its office space footprint by approximately 100,000 square feet by consolidating the staff housed in the leased facilities, and save an estimated \$38.9 million in operating costs over 20 years due to lower space occupancy and more energy efficient building systems.

Metro also evaluated the cost of renovating its owned facilities and compared it to the option of acquiring and renovating. In several cases, it makes more sense to renovate Metro's owned facilities (ex. Alexandria Yard, Telegraph Road), but not in the case of JGB. In all cases, it is a better investment for Metro to acquire space for the staff with permanent functions currently located in leased facilities than to continue to lease office space. By proactively addressing the capital investments needed in Metro's owned facilities and comparing the cost of renovating JGB to acquiring a smaller headquarters building and renovating it, Metro can save an estimated \$95.6 million in capital expense over 20 years.

Metro has retained Jones Lang LaSalle (JLL), a commercial brokerage firm with a significant and active commercial real estate practice in the region and nationally, to support staff in its evaluation of office strategies and financial and cost analyses. This evaluation included the valuation and disposition strategy for JGB and confirms Metro's conclusion that JGB should be sold.

The sale price for JGB will be competitively determined, which competition JLL will manage to reach regional, national and international buyers. Metro will not put JGB on the market until after the District of Columbia Zoning Commission makes a determination on Metro's application for a map and text amendment for the rezoning of the JGB site, anticipated to be decided in Fall 2018.

JLL has initiated the search for office space in Washington, DC, Maryland and Virginia, where Metro anticipates acquiring a building in each state to best serve the region. It is anticipated that some of the transactions may require Metro to indemnify the seller as part of a purchase and sale contract. Staff is seeking Board approval to indemnify third-parties only in the case indemnification is required to effectuate a purchase of new property or sale of JGB.

Upon the completion of due diligence for the purchase of new office buildings in Washington, DC, and surrounding Maryland and Virginia, staff will seek Board approval for each acquisition. The acquisitions price for new office

space will be determined by comparable sales information, based on building size, age, quality/condition, and location.

FUNDING IMPACT:

Implementing the recommended office consolidation strategy will save Metro an estimated \$40 million in operating expense and \$95 million in capital expense over 20 years, which savings include the proceeds of the sale of JGB.	
Project Manager:	Nina Albert
Project Department/Office:	CFO/LAND

TIMELINE:

Previous Actions	<p>2012 to 2015 - Metro building condition assessments</p> <p>July 2016 - Valuation of Jackson Graham Building</p> <p>December 2016 - Board presentation on Office Consolidation project and goals</p>
Anticipated actions after presentation	<p>Fall 2018 - Offering Jackson Graham Building for sale</p> <p>Fall 2018 - Acquisition of new office building in Washington, DC</p> <p>Fall 2018/Winter 2019 - Acquisition of new office buildings in Maryland and Virginia</p>

RECOMMENDATION:

- Seek Board authorization, subject to final approval, to: (i) negotiate and execute a purchase agreement and/or negotiate lease agreements for office space and related facilities where each property to be purchased is valued over \$1 million, and where each property to be leased will have an annual rent in excess of \$1 million; and (ii) sell the Jackson Graham Building.
- Seek Board authorization to indemnify third-parties, if required, to effectuate the office space acquisitions and the sale of the Jackson Graham Building.

Metro's Office Consolidation

Nina M. Albert, Managing Director
Office of Real Estate and Parking
July 12, 2018



Purpose

Seek Board approval to:

- Sell the Jackson Graham Building
- Negotiate the purchase and/or lease of office space and related facilities where each property is valued over \$1 million
- Indemnify third-parties if required to effectuate the office space acquisitions

Background

16 years of effort to address conditions in Jackson Graham Building

- **2002:** JGB Valuation Study (Jones Lang LaSalle)
- **2006:** Presentation by DC to Board to relocate JGB to Anacostia
- **2008:** JGB Economic Analysis (Bolan Smart Associates)
- **2012:** JGB Building Condition Report and Workplace Needs Analysis
- **2015:** Board agenda for approval to purchase building in Tysons
- **2016:** Recommendation to evaluate JGB sale (McKinsey)

What If We “Do Nothing”?

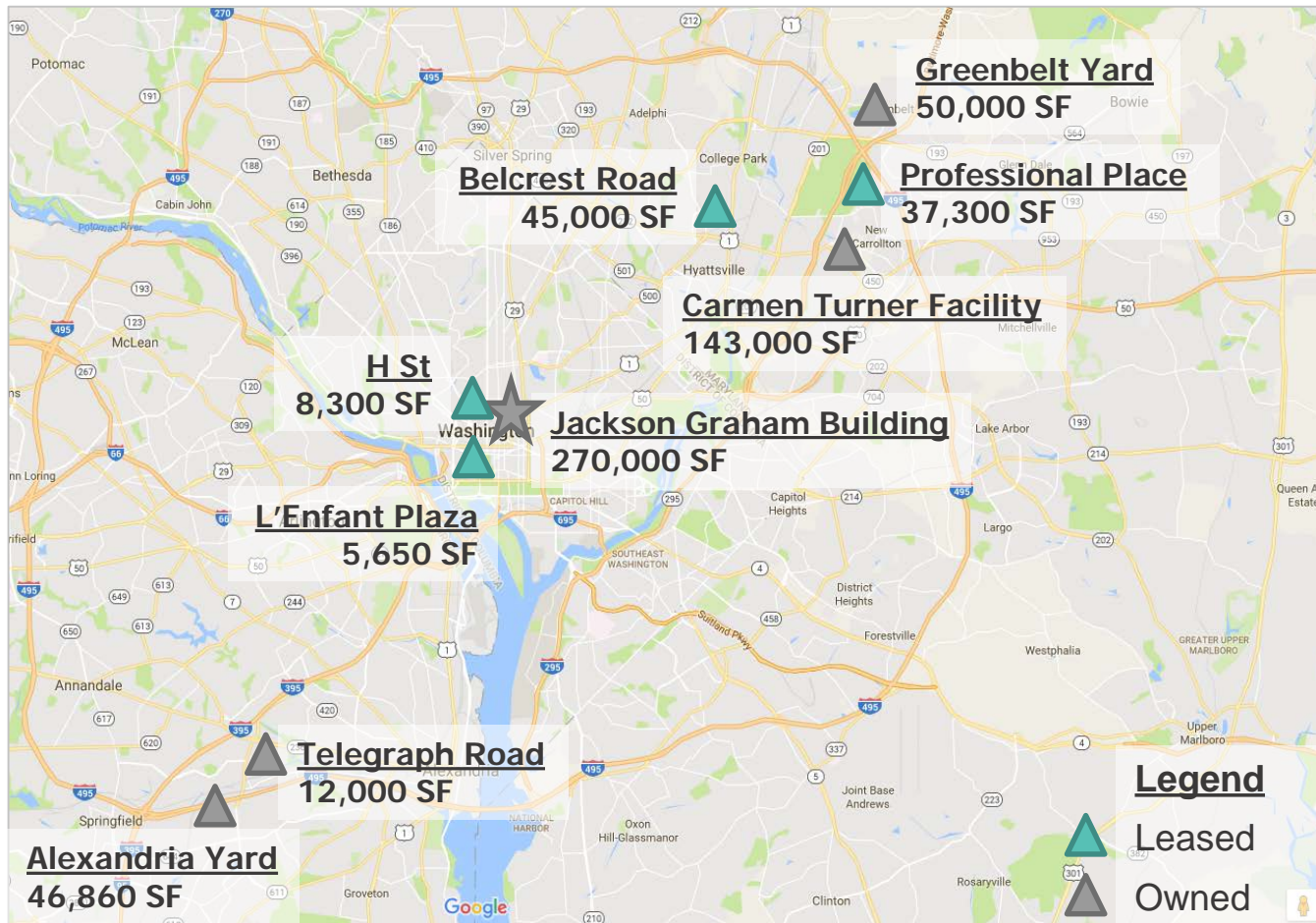
- **Safety:** JGB is not to current fire code or ADA
- **Infrastructure:** Most major building systems are at end of useful life and require replacement
- **Business Continuity:** Emergency repairs of any major building system may require employees to vacate JGB, resulting in lost work hours and significant cost premiums
- **Lease costs will grow:** Without a proactive strategy, Metro will continue to band-aid the need for space and add leases to accommodate staff
- **Cost:** Has the highest capital and operating costs of all scenarios studied

Systems at End of Useful Life



Equipment	Type	Area Served	Age
AC 24	Chilled Water Air Handler	ITSV Computer Room	25
AC 25	Chilled Water Air Handler	ITSV Computer Room	25
AC 26	Chilled Water Air Handler	ITSV Computer Room	25
AC 30	Chilled Water Air Handler	ITSV Computer Room	25
AC 21	DX Split System	ITSV Computer Room	10
AC 42	DX Split System	ITSV Computer Room	10
AC 23B	Chilled Water Air Handler	ITSV Computer Room	25
AC 35	DX Split System	ITSV Computer Room	15
AC 22A	Chilled Water Air Handler	NOCC Mech Room	25
AC 29A	DX Split System	Central Office / Communications / Phone System	16
AC 28A	Chilled Water Air Handler	Central Office / Communications / Phone System	25
AC 22	Chilled Water Air Handler	Central Office / Communications / Phone System	43
AC 23	Chilled Water Air Handler	Central Office / Communications / Phone System	43
AC 23A	Chilled Water Air Handler	Battery Room on B130	25
AC 37A	Chilled Water Air Handler	Computer Room 3	25
AC 38A	Chilled Water Air Handler	Computer Room 3	25
AC 35A	Chilled Water Air Handler	Computer Room 2	25
AC 36A	Chilled Water Air Handler	Computer Room 2	25
AC 31A	Chilled Water Air Handler	Computer Room 2	25
AC 32A	Chilled Water Air Handler	Computer Room 2	25
FCU 30	Chilled Water Air Handler	Communications Lab	19
FCU 31	Chilled Water Air Handler	Communications Lab	19

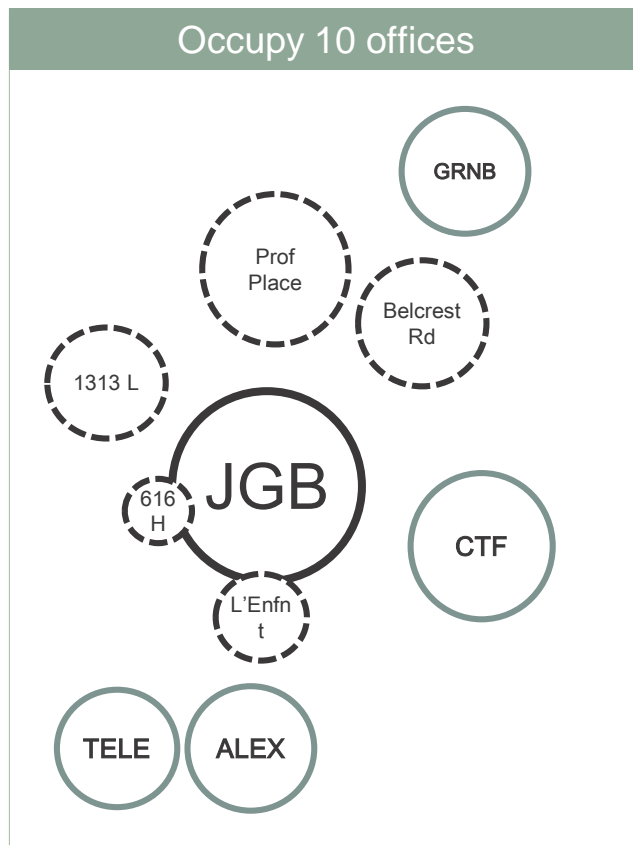
Completed a Comprehensive Evaluation of 9 Facilities



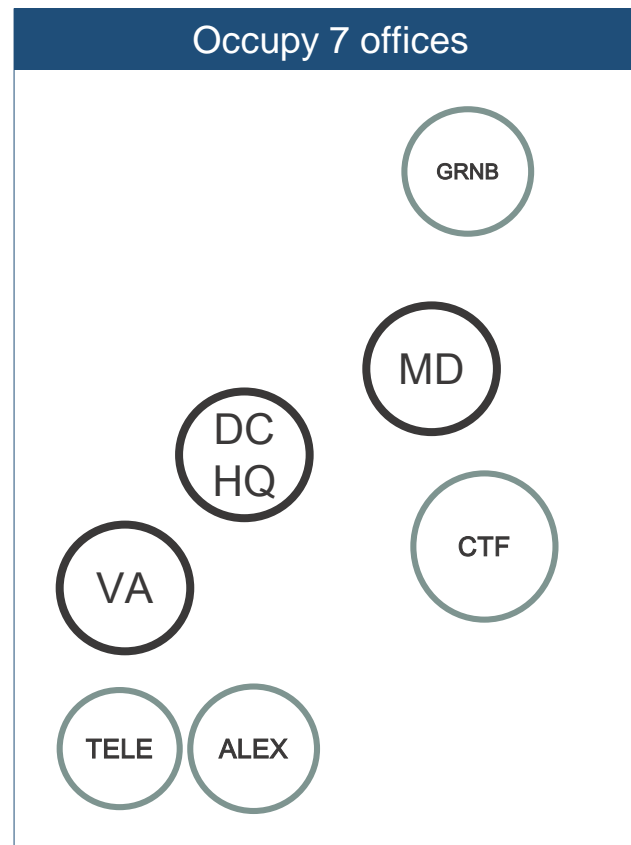
PROPERTIES	SQUARE FEET	HEADCOUNT
JGB	270,000	1,384
CTF	143,000	416
Telegraph Rd.	12,000	60
Greenbelt Yard	50,000	272
Alexandria Yard	46,856	160
Belcrest Road	44,889	354
L'Enfant Plaza	5,653	50
Professional Place	37,282	165
616 H St. NW	8,333	38
TOTAL	661,231 USF	3,104

Office Consolidation Principles

Current State



Future State



○ Leased office ○ Owned office ○ Owned facility

- Renovate and optimize owned facilities
- Organize around “centers of expertise”
- Reduce/eliminate leased offices
- Sell Jackson Graham Building
- Buy smaller HQ building in DC
- Purchase office buildings in MD and VA to achieve regional distribution

Evaluation of Alternatives

	(1) Do Nothing	(2) Renovate JGB and others	(3) Sell JGB and renovate others
Usable Square Feet	658,856	558,186	558,240
Capital Cost Savings	-	(\$78.4 million)	(\$95.6 million)
Operating Cost Savings	-	(\$39.4 million)	(\$38.9 million)

Scenario 3 meets financial and operational goals:

- Improves employee safety; improves intra-departmental communication and coordination
- Reduces total office footprint by 100,000 USF
- Saves an estimated \$38.9 million in operating costs over 20 years
- Saves an estimated \$95.6 million in capital costs over 20 years
- Best scenario for implementation
- Best scenario to achieve regional distribution

Implementation of Office Consolidation Strategy

2018	Sell Jackson Graham Building <ul style="list-style-type: none">▪ Market site through competitive bid process (Fall 2018)	Acquire a DC office building <ul style="list-style-type: none">• Building size between 100,000 SF to 250,000 SF
2018-19	Acquire a VA office building <ul style="list-style-type: none">• Building size TBD	Acquire a MD office building <ul style="list-style-type: none">• Building size TBD

- Staff to negotiate and execute purchase and sale agreements
- Owners may require indemnification as Metro conducts due diligence
- Staff to seek final Board approval after due diligence is completed

Recommendation

- Approval to sell the Jackson Graham Building
- Approval to negotiate the purchase and/or lease of office space and related facilities where each property is valued over \$1 million
- Approval to indemnify third-parties if required to effectuate the office space acquisitions