

DEPARTMENT OF MANAGEMENT SERVICES
Division of Real Estate Development & Management

Linda South, Secretary

Dean Izzo, Director

Strategic Leasing Plan

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STATE REGIONAL SERVICE CENTER
2205 Victoria Avenue

Partnerships for Improving Real Property Management

The 2009 Strategic Leasing Plan highlights demand and supply information including state agency private sector leases expiring and commercial real estate market data. This information is provided to more effectively and efficiently manage the state's real estate portfolio.



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Executive Summary

This document provides a strategic leasing plan highlighting savings from agency partnerships, identifying future opportunities, and making recommendations for the more effective and efficient management of the state's real estate portfolio.

Over the past year, we focused on strategic planning and real estate portfolio management techniques that allow us to better understand what space agencies occupy, how they use space, and how their use of space may change over the next several years. Building from the 2008 Master Leasing Report, we pursued several strategies to decrease the total amount of space and improve how we use it. Those actions include applying space standards, renegotiating rental rates and disposing of vacant/surplus buildings.

2009 Strategic Highlights:

- The Tenant Broker program: we worked cooperatively with the agencies and tenant brokers to achieve a reduction in costs of \$6.73 million through renegotiating existing leases. We saved an additional \$2.62 million through agency relocations using broker services.
- Agency lease renegotiations: agencies identified savings from independently renegotiating several leases. Based on our annual real estate survey, agencies will save approximately \$7.1 million by negotiating lower rental rates in existing leases over the next several years.
- Energy Performance Contracting (EPC): we expect savings of \$3.4 million from the first three EPC projects.
Disposition Candidates: disposing of five vacant buildings in downtown Tallahassee to reduce nearly \$396,000 from annual operating costs.

2009 Strategic Recommendations:

- Apply space standards.
- Renegotiate private leases.
- Complete centralized warehouse/storage initiative.
- Improve the state leasing process.
- Improve the DMS real estate information system.
- Publish the DMS Energy Management Plan.

Purpose

Pursuant to section 255.249(3)(b), Florida Statutes (F.S.), this document provides an overview of the State of Florida's real estate portfolio and how to best position these holdings in the changing commercial market. The report identifies strategic opportunities to more effectively and efficiently manage the state's real estate assets.

Division Overview

The Division of Real Estate manages infrastructure and business services for state agencies so they can focus on their core missions. According to our customer surveys, we continue to provide excellent customer service to our business partners and employees. We are uniquely positioned as the state's leader for accomplishing multiple, critical roles as experts in real estate leasing, facility management and building construction industries. Our accomplishments include:

- Operation and maintenance of over \$12 million gross square feet of space.
- Administration and oversight of 894 private leases across the state.
- Maximization of use of state-owned office space (97 percent occupancy).
- Management of 25,000 parking contracts across the state.



The customers we serve span government entities, profit and not-for-profit firms, state-employees and citizens of the state.

We continue to save tax payer dollars by implementing strategies that lower our costs to own, occupy and maintain our facilities. The largest hurdle we face is that we have only partial authority regarding where, when, and how agencies occupy space. We proposed legislation in 2008 that outlined nearly \$15 million in recurring savings from a centralized real estate management model. Though the legislation only partially passed, many lawmakers acknowledge the strategic value of having one efficient organization manage the state's real estate portfolio. With a centralized management model, the state will realize significant savings with one point of accountability, one authority and one real estate expert making decisions.

Statutory Information

The legislature passed a bill in 2007 modifying sections 255.248, 255.249, and 255.25, F.S. These changes granted us additional authority with regard to leasing strategies, the use of state-owned space, and the oversight of build-to-suit facilities and potential acquisitions.

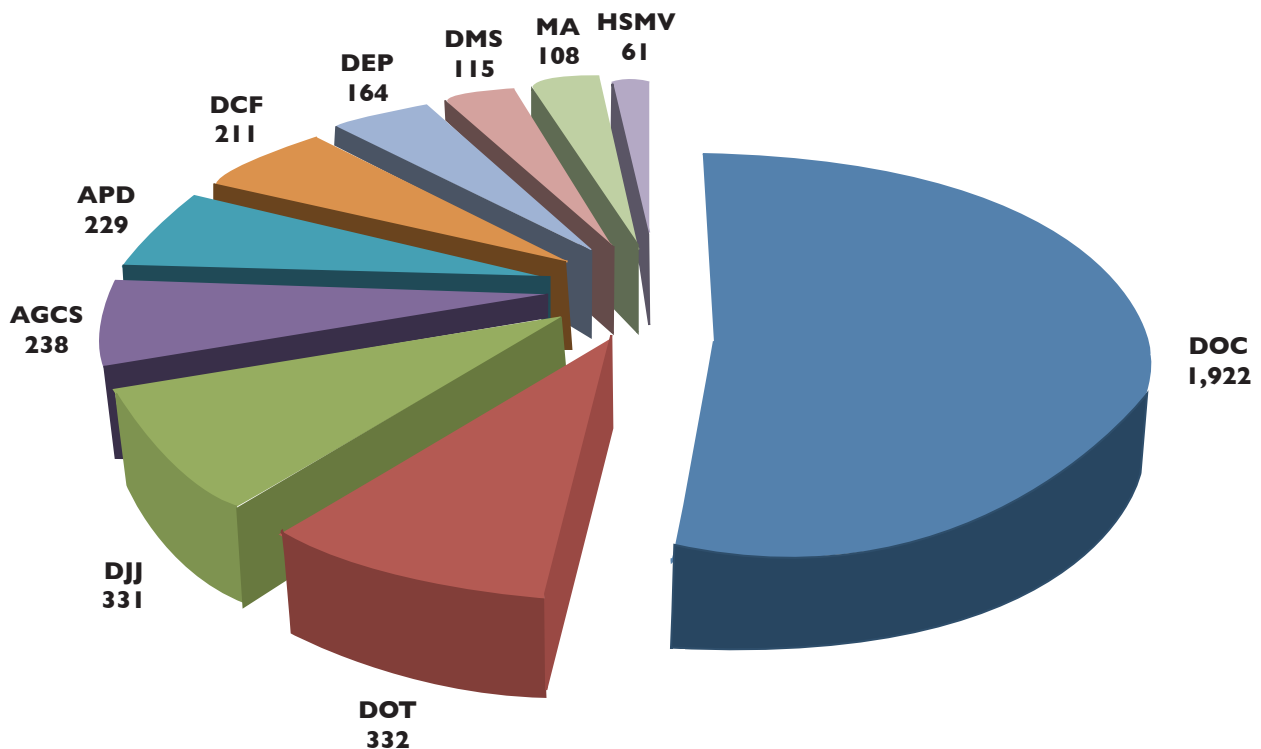
These changes gave us additional visibility into agency leasing data and supply and demand information, and directed us to develop and implement a strategic leasing plan identifying cost-reduction strategies.

State of Florida Real Property Portfolio

The state's real estate portfolio consists of many types of owned and leased space, a small portion of which is managed by us. The portfolio is unique due to various agency missions, specific real estate needs, and specialized asset uses. State-owned and privately leased facilities are used for many different purposes including office space, warehouse storage, parking garages, laboratories, food service and prisons.

As of July 1, 2009, the state's real estate portfolio includes the assets of 20 individual agencies in 3,951 state-owned facilities and 894 private leases. The state-owned facilities and private leases serve agencies with diverse missions and vary in cost, age, location, usage and condition. The chart below depicts the top ten agencies and the number of facilities owned by each agency.

Number of State-owned Facilities by Agency



We have operational responsibility for over 115 individual facilities that account for approximately 21 percent of the total state-owned square footage, a small subset of the state's real estate holdings. Unlike other agencies, we do not occupy these buildings, but as a real estate service provider, we lease the facilities to other state agencies¹. The agency leases produce revenue to help offset the development, operations and maintenance costs of the overall DMS-managed portfolio.

Tenant Broker Program

The Tenant Broker program was first implemented in October of 2003 to assist state agencies in obtaining access to real estate expertise and commercial market data. This program provides a master agreement for state agencies to access professional, commercial real estate market experts. The brokers also assist agencies with regional transaction support, market intelligence, and professional negotiation services throughout the state. The program ensures agencies are in the position to obtain the best value from leasing space in a diverse and dynamic market.

In 2008, we selected three firms to provide traditional brokerage services, credit services including real property financial analysis, and consulting services relating to transactions, processes and individual strategies. The tenant brokers also assist us by providing market data used for analysis in the annual strategic leasing plan.



¹The majority of DMS facilities are revenue producing office buildings, but there are non-revenue producing structures as well. Non-revenue producing structures include the Governor's Mansion, the Historic Capitol, monuments, and special use facilities.

Real Estate Strategic Planning Review

In FY 2008-2009, we focused on saving money for the state by:

- Enforcing space standards.
- Renegotiating private lease rental rates.
- Maximizing use of state-owned space.
- Identifying underutilized private lease space.
- Recommending disposition of vacant/surplus buildings.
- Improving energy usage/management.

2008 Master Leasing Report

The 2008 Master Leasing Report summarized the statewide real estate market trends and identified three strategic opportunities to improve the operational efficiencies of the state's portfolio. These opportunities were to standardize space usage, coordinate the renegotiation of private leases, and maximize the use of state-owned space. In most cases, the data we received was out of date or did not support our needs. This was the result of the decentralized management model where agencies determine their real estate needs without a complete understanding of what other agencies are doing. For us to successfully manage the state's real estate assets, we need:

- Access to real-time, consistent, valid real estate needs and plans.
- Open sharing and application of real estate best practices, state wide.
- Support resources for data gathering and storage.
- Integration of the various agency real estate business models.

While the best solution to these requirements is a central decision making authority with sufficient knowledge to make portfolio decisions, we continue to make progress implementing the outlined strategies under current authority. In FY 2008-2009, we developed partnerships with agencies and tenant brokers to demonstrate the value of information sharing and coordination of space needs.

Senate Bill 44A Report

During the January 2009 special budgetary session, Senate Bill 44A passed into law requiring us to:

- Analyze the state's owned and private leased property portfolio.
- Identify surplus real estate for disposition.
- Present a strategy to reduce occupancy costs in private leased space.

In response to this legislation, we issued an interim report to the legislature, entitled ***State of Florida Surplus Real Estate and Private Lease Renegotiation Plan***, showing opportunities to dispose of surplus property in the state-owned real estate portfolio and to reduce costs for private market leased space.

Below is a summary of the Senate Bill 44A surplus real estate and private lease findings.

Surplus Real Estate Findings

The report identified a number of immediate disposition opportunities. Preliminary findings show the scale of the state's real property holdings.

- Over 13,800 records from an independent data source indicate property where the state holds some level of ownership interest.
- There are 87 different uses, including farms, forests, parks, reservations, vacant land, schools, universities, office buildings, and warehouses, which indicates the diversity of the state's holdings.

We recommended the following properties be considered for disposition:

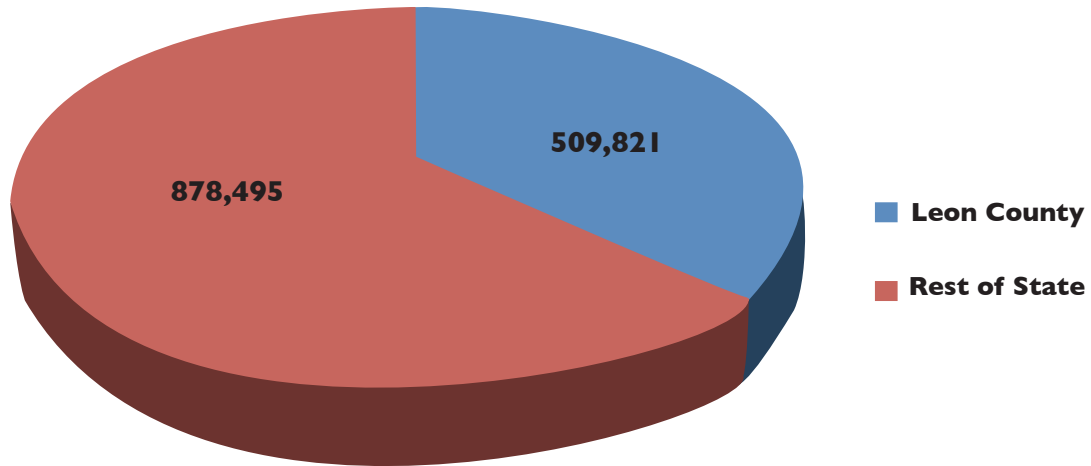
- Five buildings in the DMS Florida Facilities Pool (FFP) for a total estimated value of \$5.5 million.
- Sixty-four surplus buildings and lands identified by state agencies worth more than \$4.2 million.

Private Lease Findings

We evaluated all agency private leases to identify underutilized space and develop a plan for renegotiation or subletting unoccupied space. Findings include:

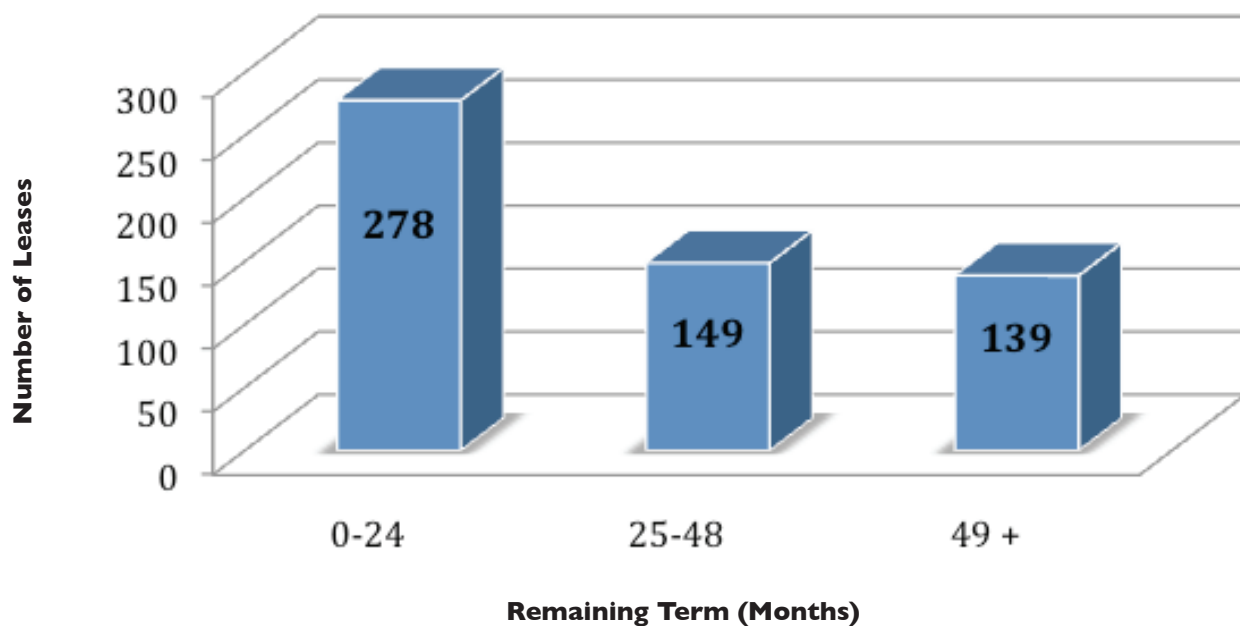
- There are 566 private leases with \$1.3 million square feet in potential excess space.
- More than 500,000 square feet of potential excess space is in Leon County.

Excess Square Feet Leon County vs. Rest of State



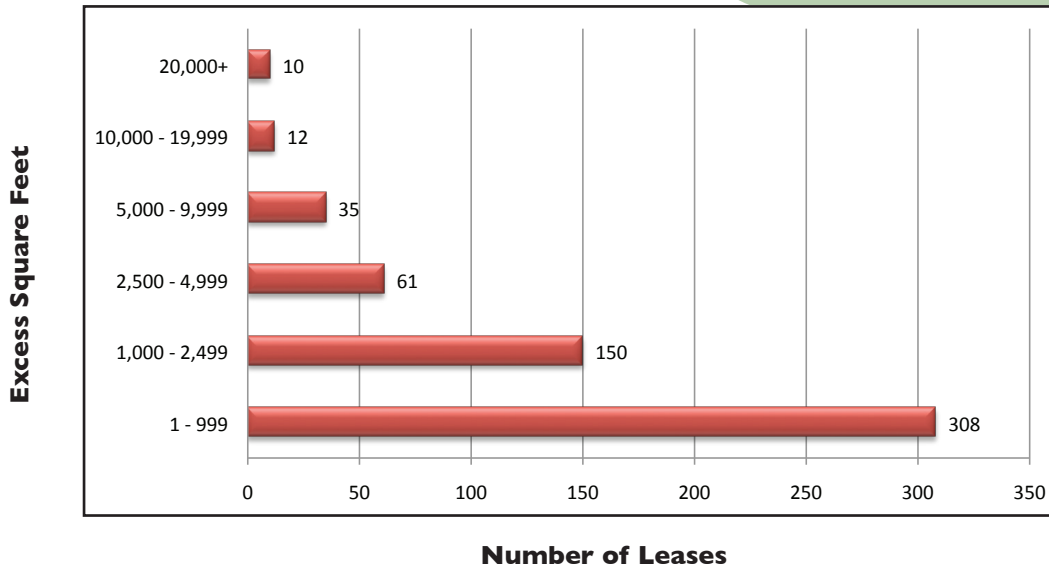
There are 278 leases with potential excess space with terms of 24 months or less.

Remaining Term in Months



Eighty percent of the leases have less than 2,500 square feet of potential excess space.

Amount of Excess Square Feet



Senate Bill 44A Recommendations

- Work with state agencies to renegotiate leases with over 1,500 square feet of excess space and at least 18 months of remaining term to recognize potential cost savings as quickly as possible.
- Evaluate the condition of additional assets in the FFP for potential disposition.
- Work with owner agencies to confirm the current use of the property and define its strategic value to the state.
- Pursue the most applicable approach to developing a baseline valuation for disposition analysis.

We are working in partnership with agencies and tenant brokers to pursue cost savings through lease renegotiations and further analysis of disposition candidates from the FFP.

Legislative Session 2009 Directives

The legislature passed a bill in 2009 modifying sections 255.248 and 255.249, F.S. (See Senate Bill 1804) that directed the following actions:

- Establish a plan to create a database of state-owned property to be submitted to the legislature by January 4, 2010.
- In coordination with the Board of Trustees, begin the disposition of five parcels within the Capitol Center.
- State agencies must notify us 30 days before a lease execution. We will review the lease and determine whether suitable space is available in a state-owned building. If space is not available, we will determine if the lease is in the best interest of the state and shall notify the legislature and the Executive Office of the Governor in writing.

Savings from Rental Rate Renegotiations/Space Standards

The need for immediate savings has been a critical focus during Fiscal Year (FY) 2008-2009. Our proactive and early approach to lease renegotiations allowed agencies the necessary leverage to reduce existing bottom line lease costs across the portfolio.

By renegotiating expiring leases and applying space standards, many agencies captured immediate savings in the new FY. The following scenarios highlight where the agencies and tenant brokers are working together to save \$6.73 million from existing lease commitments.

Department of Corrections (DOC): A tenant broker made recommendations and is implementing projects that will result in savings for DOC's Central Office lease. Significant savings related to a lease restructure or purchase of the building is currently under review.

Total Savings (not including lease restructure/purchase): \$3.8 million

Department of Revenue (DOR): With the assistance of DOR, a tenant broker negotiated a stay-in-place lease rate. Through the consolidation of the Hollywood and Tallahassee office, DOR will have a net decrease of their total leased portfolio of 12,852 square feet.

Total Savings: \$2.6 million

Office of the Attorney General/Department of Legal Affairs (OAG/DLA): The negotiation efforts of a tenant broker resulted in savings over the term of the lease, which included a reduction from the previous lease's rental rate. This included fulfillment of all the required tenant improvements.

Total Savings: \$256,000

Department of Financial Services (DFS): With the assistance of a tenant broker, DFS completed a lease restructure/renewal of their Orlando lease. DFS savings for their Orlando lease included a 13 percent reduction in the current per square foot cost compared to the negotiated initial per square foot rental rate. Additionally, DFS and the tenant broker negotiated a 37 percent reduction from the fixed renewal rates defined in the current lease agreement.

Total Savings: \$83,669

Savings from Agency Relocation and Broker Services

The following is a partial list of lease assignments where we are working together with the agencies and tenant brokers to provide savings of \$2.62 million from agency relocations and tenant broker services.

Department of Children and Families (DCF): The DCF existing lease in the Pasco County Service Center in New Port Richey was expiring and the agency wanted to downsize. A tenant broker was engaged to create a competitive bid environment for relocation. The team put a space reduction plan in effect with the objective of significantly saving leasing expenses for the agency.

Total Savings: Over a five-year term, estimated savings is greater than \$1.5 million

Division of Administrative Hearings (DOAH): DOAH engaged a tenant broker to streamline a competitive build-to-suit lease procurement for a new and expanded Southwest Florida field office. The tenant broker worked with DOAH to create the procurement document and agency specifications, facilitate the Invitation to Negotiate (ITN) procurement, survey the market and negotiate with the landlords.

Total Savings: \$700,000

Department of Lottery (LOT): Existing leases in West Palm Beach and Fort Myers were not suited to the needs of LOT. The locations are expensive, functionally obsolete, and in need of complete overhauls that would disrupt operations. They negotiated several relocation options to arrive at the best and final option for each lease.

Total Savings: \$324,143

Department of Military Affairs (DMA): DMA facilitated a competitive build-to-suit lease procurement for the Army National Guard Readiness Center and Outside Equipment Storage site in Gainesville. DMA plans to use the facility to service a unit returning from Iraq in October 2009. The DMA previously worked the market on their own and with other real estate service providers, but the requirement proved to be difficult and time consuming. The DMA employed the services of a tenant broker for site selection, brokerage services and construction planning to secure needed space.

Total Savings: \$100,000 (Lease terms and construction costs negotiated down 15 percent)

Agency Success Stories

In addition to working with tenant brokers, agencies also identified additional savings from independently renegotiating leases. Based on the annual real estate survey, agencies will save approximately \$7.1 million due to lowering rental rates.

Notable examples include:

- DCF renegotiated 17 central and regional office leases for a **total savings of \$2.8 million.**
- In accordance with Senate Bill 44A, the Department of Juvenile Justice (DJJ) successfully renegotiated 17 private leases of which five are still pending completion of the lease modification. **Total estimated savings over a twelve-year period is \$2,122,684.**
- The Department of Highway Safety and Motor Vehicles (HSMV) renegotiated 20 leases with a **total savings of \$859,991**. Studying market prices and data, and utilizing their Geographic Information Systems (GIS) platform, the Bureau of Real Estate Services identified future consolidation opportunities around the state.
- The Department of Revenue (DOR) is re-negotiating leases in an attempt to get lower rental rates. **Current savings to date is \$643,509.**

Inventory Analysis

Senate Bill 44A required us to evaluate the state-owned real property portfolio and submit a report identifying surplus real property for disposition.

We made considerable progress in our analysis of the state real property portfolio. However, the age, size, lack of oversight and decentralized management structure of state-owned real estate create a challenge to accurately track the state's real property. We uncovered more than 13,800 unique property records consisting of 87 different land use types with ownership spread across a large network of state government entities. The data is inconsistent and incomplete, with only 200 of the 13,800 records containing critical elements required to adequately estimate the value of the property.

Only a few state government entities provided detailed information on their real property. Much of the data is irreconcilable among multiple data sources, and a centralized repository for all real property under the control of the state government does not exist.

In response to our findings, the legislature passed Senate Bill 1804 requiring the development of a plan for a comprehensive database of state-owned real property by January 2010. In accordance with the bill, we are developing requirements to:

- Collect accurate real property information.
- Identify and reconcile existing sources of real property data.
- Design, implement, operate, and maintain a comprehensive real property inventory management system.
- Periodically and automatically update the system with current real property data.
- Assess properties for strategic value and potential disposition.

We will use the requirements to develop a solicitation for bids from software providers and real estate consultants to provide planning and software recommendations to address the state's need for an accurate and comprehensive real property inventory management system.

In accordance with the changes made to sections 255.248 and 255.249, F.S. (see Senate Bill 1804), we were directed to dispose of certain properties that were no longer being used by agencies. We partnered with the Department of Environmental Protection Division of State Lands (DSL) to launch the disposition process for five DMS-managed properties identified as surplus. As required by law, we notified state agencies, state universities, and local governments that the Bloxham, Bloxham Annex, Firestone, Winchester and Fuller-Warren properties were available for purchase or lease.

Energy Performance Contracting Projects

Energy Performance Contracting (EPC) is a mechanism used by state agencies, municipalities, school boards and other political subdivisions to retrofit their existing buildings with new energy efficient equipment to reduce consumption of energy. The savings generated from reduced energy consumption is redirected to fund the improvements through a cash flow model over a fixed period of time. The provider of the EPC guarantees an annual cumulative positive cash flow over the term of the contract or will make up any shortfall to the agency. EPC is an innovative approach to upgrading aging facilities' energy-consuming equipment when current budgets for fixed capital outlay projects are limited.

During FY 2008-2009, we entered into three separate EPCs. These three projects allow us to upgrade existing infrastructure, with new energy efficient equipment. Thirty buildings are included in these projects, including the Capitol Complex in Tallahassee. These projects focus on energy conservation measures including lighting, water, mechanicals, and energy management controls. We will use the savings produced from the new equipment, to pay for the new equipment. We anticipate utility cost reductions of approximately \$153,000 a year. Over the next 16 years we anticipate reducing utility costs by nearly \$3.4 million due to these three energy saving projects.

We will execute two additional projects in FY 2009-2010 to decrease energy consumption and lower the carbon footprint across the state portfolio. It will affect 33 additional facilities and take nearly two years to implement.

In addition to EPCs, our energy policy efforts helped us achieve significant reductions in energy usage. Combined efforts over the past year lead to the following energy usage reductions in DMS-managed buildings:

	Gross Square Feet	FY 2007-2008 kWh	FY 2008-2009 kWh	Percent Change
Tallahassee	5,207,788	99,436,430	94,568,315	-4.9%
Regional	2,791,526	38,812,049	36,141,837	-6.9%
Totals	7,999,314	138,248,479	130,710,152	-5.5%

Future Opportunities and Recommendations

During FY 2009-2010, we will continue to implement the long-term real estate strategies laid out by the previous Master Leasing Report, Senate Bill 44A and Senate Bill 1804. We are focusing on savings from space standards and rental rate renegotiations. New projects include agency partnerships with centralized warehouse/storage space, internal process improvements with leasing and IT systems, and the publication of an updated Energy Management Plan as a reference manual for all agency-owned and leased facilities.

Continue Space Standards

We continue to work with client agencies to achieve cost savings from implementing and enforcing space standards. These standards offer agencies guidelines for the number of employees who can most efficiently work in a given workspace. Although each agency has specific space requirements to maintain their core service, a focus on right sizing can allow each agency to get the most benefit from a given space. Implementing space standards will allow for maximization of rental dollars and methods for improving the performance of their employees.

Centralized Warehouse/Storage Initiative

A centralized warehouse/storage space initiative will bring together agencies who lease warehouse or storage space in Leon County. We will investigate ways to reduce storage space needs and realize cost savings.

As of July 1, 2009, there exist 41 private sector warehouse/storage leases in Leon County. These leases represent a total of 227,932 square feet with an annual rent of \$2,377,754 at an average per square foot rental rate of \$6.72. Of these 41 leases, 15 will expire over the next 24 months and 17 have month-to-month terms. There is the potential to consolidate these leases or to share excess space to achieve costs savings.

Next Steps

- Identify agencies currently leasing private sector warehouse/storage space.
- Work in partnership with these agencies to estimate the current space requirements and additional services provided at the existing locations.
- Perform a real property disposition analysis to reduce storage requirements, to include verifying record retention laws, investigating savings from electronic scanning of paper records, verify policies on real property sharing between agencies, and investigating ways to reduce storage requirements through destruction/disposition of property.
- Coordinate future consolidated space and ancillary service needs for each agency focusing on the type of material to be stored, where space can be shared among agencies, and timelines for exiting out of currently leased space.
- Work with each agency to coordinate the transition into the new shared or excess warehouse/storage space.

Leasing Process Improvements

We will continue reviewing the internal leasing processes that guide agency leasing personnel. This project will seek continuous improvement in facilitating agency acquisition of both private and public sector leased space.

Next Steps

- Evaluate the current leasing process to identify and document inefficiencies.
- Prioritize areas of focus and develop plans to streamline interactions with agencies seeking space while fulfilling oversight obligation.
- Define the new requirements and roles outlined in Senate Bill 1804 while ensuring efficiencies.
- Implement new leasing policies and procedures.

IT System Improvements

We will complete the requirements analysis for a software solution to enable us to maximize the performance of real property management. Our goal is to implement a modern, division-wide real estate management system to provide efficient and effective lease management, project tracking, operations and maintenance, capital planning and budgeting, and energy management. This project is an important short-term strategy and a course our division feels is most appropriate to supporting future operational efficiencies and realizing future cost savings.

If we are to make timely and informed real property decisions that lead to significant cost savings, we must be able to manage data effectively with proven, reliable, and real-time information on individual properties. Using strong, proven technologies to maintain data quality and consistency will enable accurate and comprehensive economic analysis for:

- Space planning.
- Property utilization.
- Lease consolidations, co-locations, and renegotiations.
- Facility acquisition, redeployment, and reconfiguration.

Next Steps

- Complete requirements analysis and develop requirements document.
- Develop solicitation for bids from software vendors for the development and implementation of a best-of-breed software application that will most effectively serve our needs.
- Evaluate vendor proposals and recommend software solution that provides the best overall value to the state.

Energy Management Plan

We will implement an Energy Management Plan, pursuant to section 255.257, F.S. The purpose of this plan is to develop a comprehensive system that effectively manages the consumption and costs of non-renewable energy in large state-owned and metered state-leased facilities.

We developed the plan upon recognition of the fact that it is nearly impossible to manage something that is not accurately measured. The procedures presented in this plan provide agencies with accurate energy consumption information and, more importantly, insight into the behaviors of employees. When reducing energy consumption it is essential to look deeper than monthly utility bill statements, you must identify energy-related behaviors at the building level, which is where such behaviors occur.

This plan addresses the urgency of considering the true relationship between energy efficiency and long-term costs when making energy-related decisions. Techniques and guidelines for reducing energy consumption in existing buildings complete the basic framework of an overall plan engineered to provide agencies with the guidance required to reduce energy consumption. Implementing this plan will represent a focused effort on behalf of Florida to achieve a sustainable future.

Next Steps

- Finalize and publish the Energy Management Plan.
- Coordinate with agencies to distribute and implement the Energy Management Plan.



Over the past several years, the renewed focus on statewide real estate strategic planning has laid out the path to maximize the potential of our existing real property. This planning has included methods to improve both the state-owned and privately leased portfolio.

In state-owned facilities, we have highlighted improvements in operational efficiency through the Energy Performance Contracting program and the updated Energy Management Plan. While these programs upgrade the quality and efficiency in agency-owned buildings, we have to address the growing backlog of capital deficiencies. At some point deferred maintenance will not allow the state to continue the operation of the majority of state-owned facilities.

In privately leased space, we continue to provide agencies access to real estate expertise and commercial market data through the tenant broker program as well as our in-house leasing experts. The current multi-year initiative to reduce leasing costs through implementing space standards and renegotiating lease rates will provide a solid foundation as the real estate market rebounds out of the recession.

The key to these and future successes is the cooperation and partnership between the agencies, tenant brokers, and our real estate team. Working together, we can ensure the level of client service provided by each agency remains high.

