



STATE OF OREGON - LEASED PROPERTY EVALUATION SUMMARY FINDINGS

PREPARED FOR



**State of Oregon Ways and Means
Subcommittee on General Government
Public Hearing House Bill 5002**

**On Behalf of the Department of
Administrative Services**

12 February 2013

PREPARED BY



Research Process

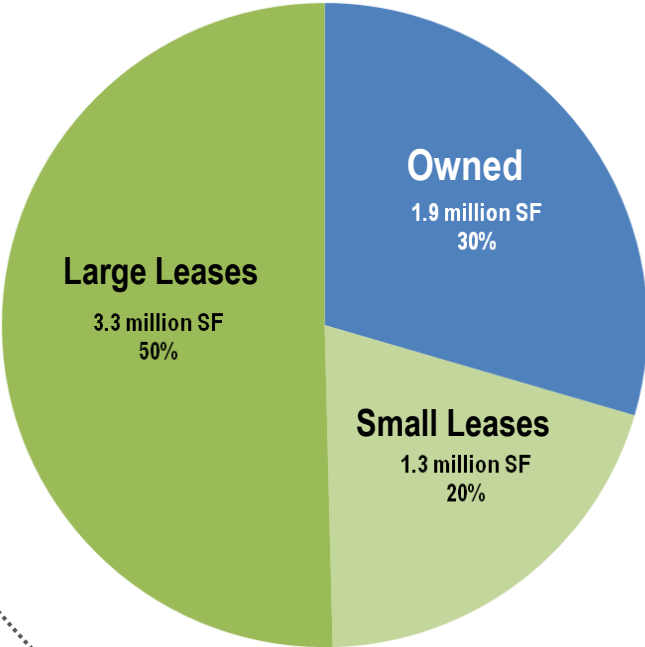
- Reviewed extensive DAS property and lease data
- Separated out large leases
- Identified and visited representative buildings and leases
- Analyzed leases for savings
- Contacted GSA, other states, and the private sector regarding leases
- Extrapolated findings back to portfolio



The Universe of State of Oregon's Properties

DAS-Managed Properties

6.6 M SF Total



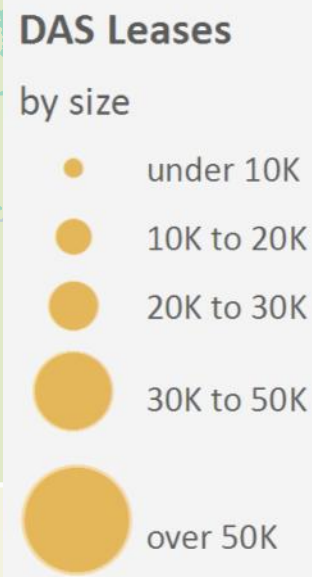
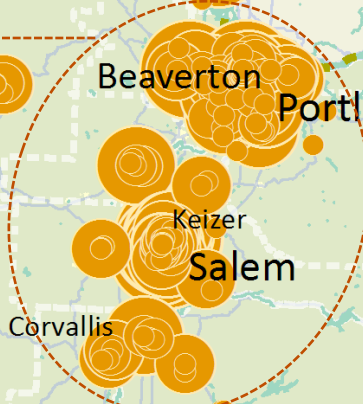
Owned and Managed by Other Agencies

- Dept. of Aviation
- Dept. of Agriculture
- Dept. of Education
- Dept. of Environmental Quality
- Dept. of Fish & Wildlife
- Dept. of Human Services
- Dept. of Corrections
- Dept. of Energy
- Dept. of Forestry
- Dept. of Transportation
- Dept. of State Lands
- Dept. of Veteran's Affairs
- Dept. of Water Resources
- Employment Dept.
- Liquor Control Com.
- Military Dept.
- Parks & Recreation Dept.
- University System
- Oregon Youth Authority
- PERS
- Legislative Administration

Tracked by Department of State Lands; 1.7 Million acres and unknown number of buildings.

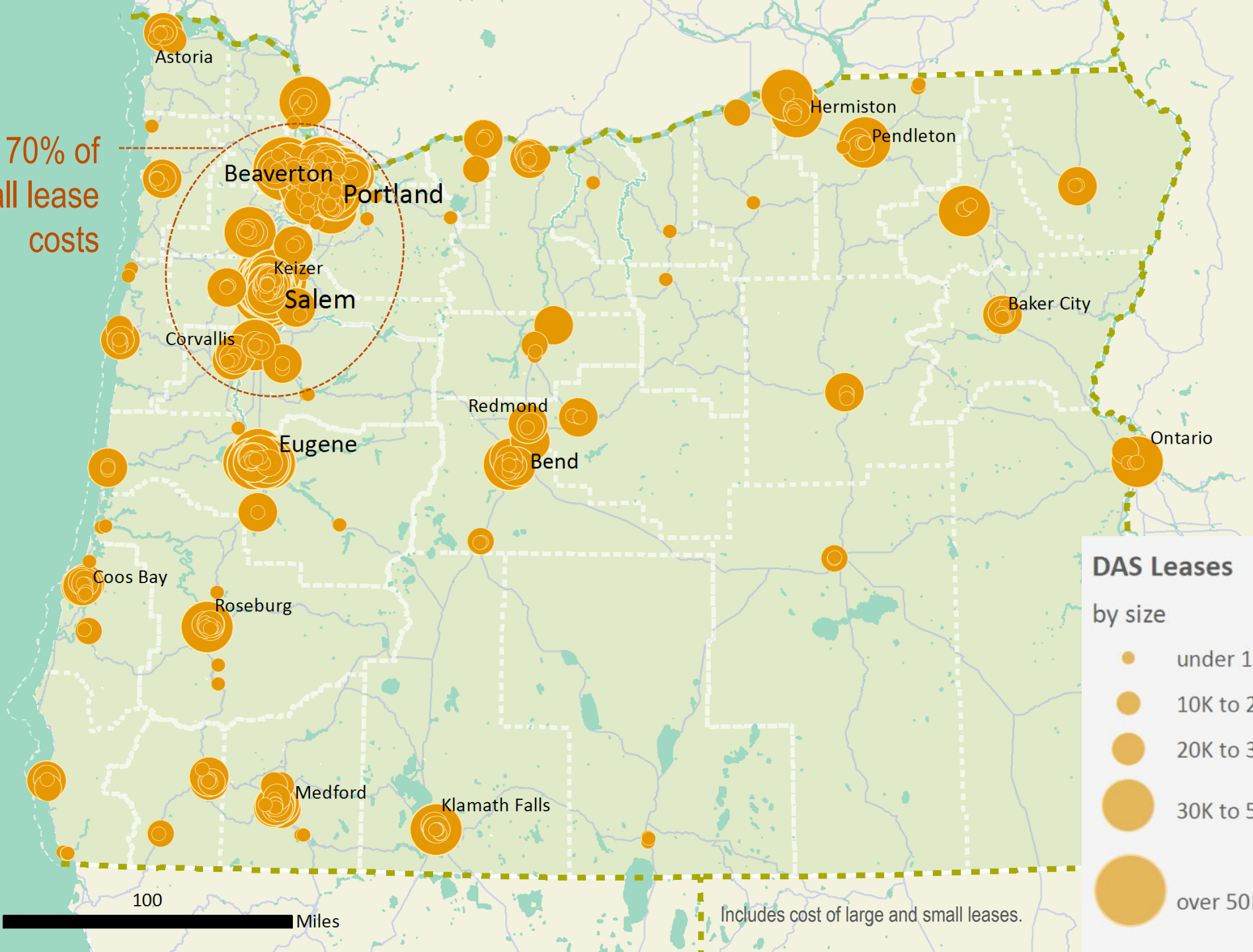


70% of
all lease
costs



Includes cost of large and small leases.

100 Miles



The State's Leased Portfolio

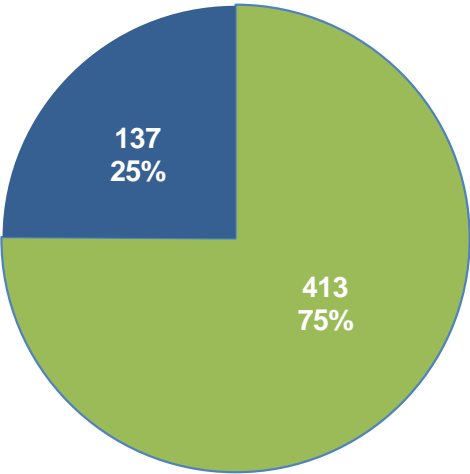
One quarter of the number of all State office leases are “large leases” (10,000 square feet or more).

However, large leases make up for 71 percent of the State’s leased office and storage space...

...and more importantly, 73 percent of its leased space costs.

Number of Leases

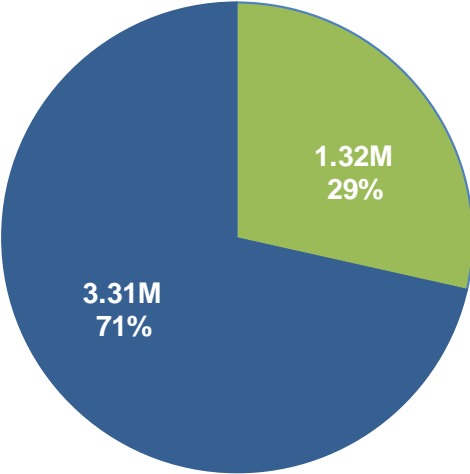
Large leases **Small leases**



Total: 550 leases

Leased Area (SF)

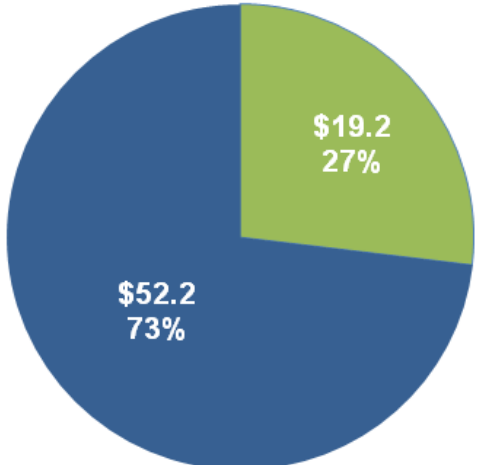
Large leases **Small leases**



Total: 4.6 million SF

Annual Rent (\$)

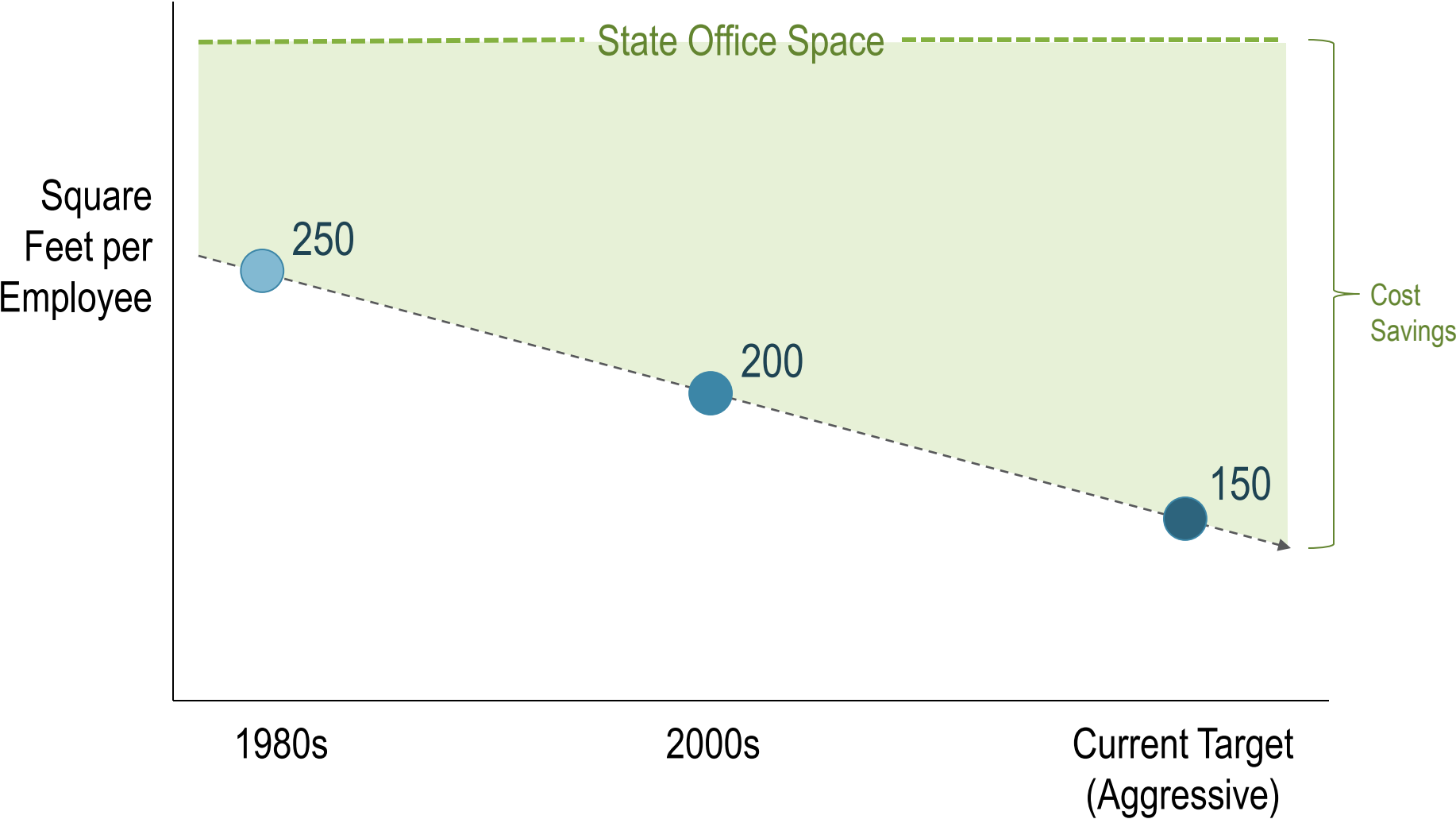
Large leases **Small leases**



Total: \$71.4 million



Private Sector Office Space Trends



Current Leasing Process

- State leasing policies date from 1998 to 2003
- DAS Real Estate staff on the job for two years or less
- Leasing governance is unclear/confusing
- DAS leasing staff carry two to three times private sector workload
- Inadequate lead time for negotiating: lacks strategic planning



DHS offices
3406 Cherry Avenue NE, Salem



Current Leasing Process

- Most leases are renewals
- Renewal terms are defined in the master lease
- Renewals not marked to market
- Missed opportunity for free rent/other benefits
- Need to create more landlord competition



DOJ Offices
340 Vista Avenue SE, Salem



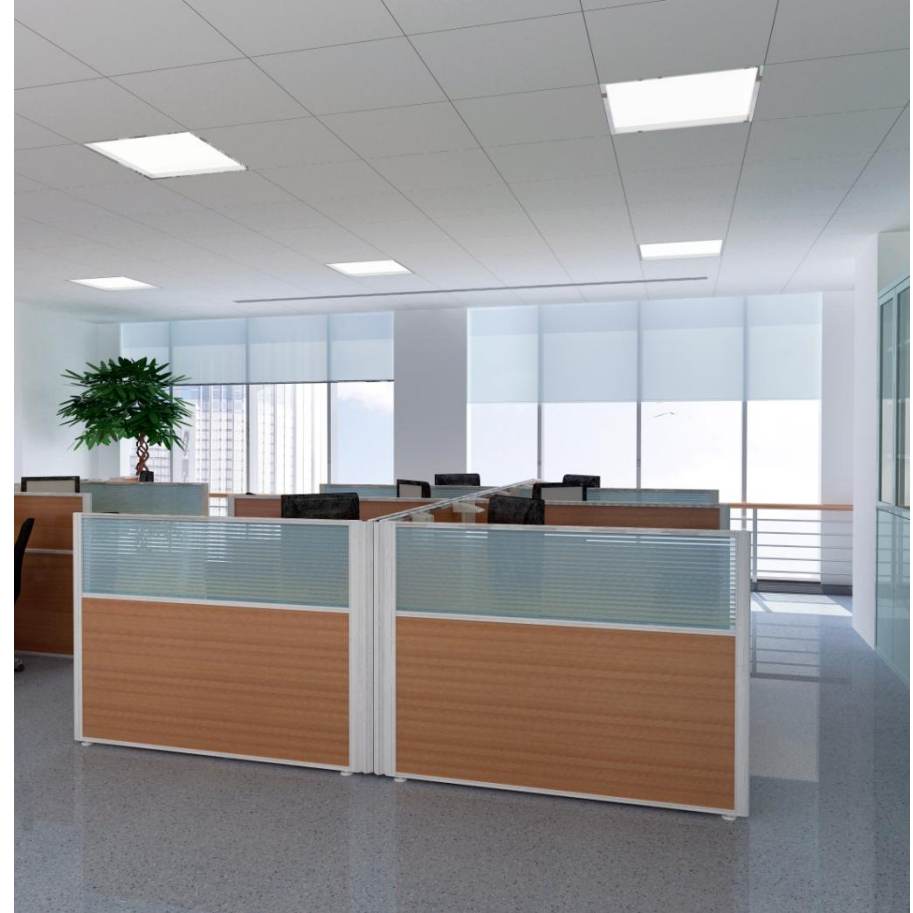
Recommended Lease Process

- Proactive rather than reactive: strategic planning
- Create real competition and alternatives: engage local market knowledge and industry experts
- More manageable workloads
- Redefine and benchmark price and terms against “market”
- Achieve the best lease terms



Recommended Governance and Strategic Planning

- Rulebook: shorter and clearer; enable assurance and flexibility
- Collect, track, and set targets for key metrics
- Annual or semi-annual portfolio reports
- Conduct Six-Year Strategic Facilities Plans with agencies
- Tie budget authority to strategic planning
- Upgrade technology and systems
- Define necessary internal and external staff to achieve savings

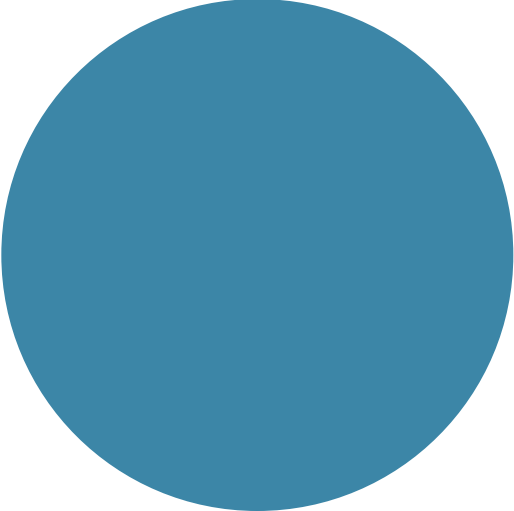


Colocation Opportunities

Many leased locations



Fewer large locations



Fewer: lobbies, reception, meeting rooms, kitchens, maintenance, hallways, etc.

Lower costs.

Summary of Findings and Forecast Savings

Current annual expenditures for 137 large DAS-managed leases:

\$52.2 million

Cost Reduction/ Optimization Strategies	Savings as Percent of Current Expenditures			Estimated Savings (\$ Million)		
	Low	Mid	High	Low	Mid	High
Governance and Strategic Planning	4.0%	5.0%	6.0%	\$2.1	\$2.6	\$3.1
Modify Leasing Process	15.5%	24.3%	33.1%	\$8.1	\$12.7	\$17.3
Reduce Underutilized Space	Savings range to be determined. These strategies may be incorporated into the strategic planning process.			To be determined.		
Reduce Space per Employee						
Bundle Real Estate and IT Delivery						
Investigate Colocation of Agencies						
Consider Adding Owned Property						
Alternative Workplace Strategies (AWS)						
Total Estimated Annual Savings	19.5%	29.3%	39.1%	\$10.2	\$15.3	\$20.4

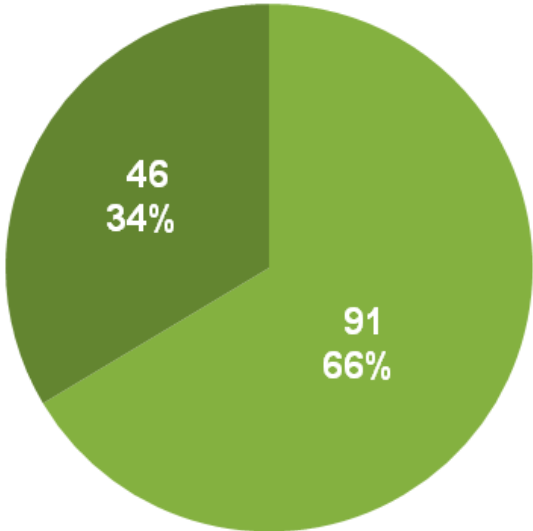
Savings estimates do not include potential savings on leases of less than 10,000 square feet, or savings on State-owned properties that can benefit from improvements to governance, procedures, reduced space per employee, and other strategies shown above.



Looking Forward – Action Plan

- 58 leases roll over in the 2013 to 2015 biennium
- 46 pending large leases to be renegotiated in 2013 and early 2014
- Recommendations from this research and findings should be applied to new leases to realize forecast savings
- Time is of the essence

Pending Large Leases Other Large Leases



Total: 137 large leases

