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Report to the Vermont Legislature

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Act No. 190. (H.923)  
An act relating to capital construction and State bonding budget  
adjustment.

**Submitted to:** House Committee on Corrections and Institutions and the Senate  
Committee on Institutions

**Submitted by:** Christopher Cole, Commissioner of Buildings & General Services

**Prepared by:** Marc A. O'Grady, Director of Planning and Property Management

**Report Date:** December 15, 2018

In 2018, the Vermont Legislature passed h. 923, requiring the Department of Buildings and General Services (BGS) to prepare a report on the John J. Zampieri State Office Building at 108 Cherry Street in Burlington that includes 20-year economic projection for each of the options which are as follows:

*Sec. 1. 2017 Acts and Resolves No. 84, Sec. 2 is amended to read:*

*Sec. 2. STATE BUILDINGS*

*(e)(1) On or before December 15, 2018, the Commissioner of Buildings and General Services shall submit to the House Committee on Corrections and Institutions and the Senate Committee on Institutions a report on the John J. Zampieri State Office Building at 108 Cherry Street in Burlington that shall include 20-year economic projections for each of the following options:*

*(A) selling 108 Cherry Street and leasing, purchasing, or building a new State office space; and*

*(B) renovating 108 Cherry Street and continuing to use it as State office space in its entirety for State employees; and*

*(C) renovating 108 Cherry Street and using it as State office space for all direct-service employees currently housed there and leasing the remainder of the space to a non-State entity.*

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## **BGS Recommendation**

Based on the Legislative request, The Department of Buildings and General Services (BGS) worked with White and Burke Real Estate Investment Advisors to devise nineteen (19) probable development scenarios which ranged from maintaining the status quo and completing renovations to the John J. Zampieri State Office Building (108 Cherry Street), to selling 108 Cherry Street, demolishing 50 Cherry Street and 59 Pearl Street (Department of Labor Building), and constructing a new State office building on 59 Pearl Street. That analysis is included in the attached memorandum from White and Burke.

The subsurface parking garage at 108 Cherry Street is suffering from substantial deferred maintenance and requires a significant capital investment. A draft report completed by a structural engineer (November 2018) indicated that the cost to complete a 20-year cure for the deferred maintenance on the parking garage is approximately \$12,602,000.

After reviewing all the development scenarios and related assumptions, BGS concurs with the Consultant's recommendation to pursue A.2.a or A.2.b which are the least costly options for the State of Vermont (SOV). The scenario includes renovating the 108 Cherry Street parking garage immediately and other building components over time. As noted, this scenario includes the SOV occupying the building with all client-facing departments, other state agencies currently located in leased space, and the occupants of 50 Cherry Street. Vermont Department of Health (VDH) administration would relocate to suburban Chittenden County, in a lease situation.

The next least costly scenario is A.1 which includes renovating the 108 Cherry Street parking garage immediately, repairing the other building components over time, and keep the occupants status quo.

It is clear from the 20-year financial analysis that keeping 108 Cherry Street and immediately fixing the parking garage is the least costly option for the SOV. BGS will continue to work with AHS to optimize programming in the building.



## MEMORANDUM

To: Marc O’Grady, Director of Planning & Property Management

From: Joe Weith, Senior Project Manager

Date: November 26, 2018

Re: BGS 108 Cherry Street – Consultant Recommendation

White + Burke Real Estate Investment Advisors (W+B) completed its preliminary financial analysis comparing the cost implications of nineteen (19) separate real estate scenarios related to 108 Cherry Street in downtown Burlington. Our preliminary analysis dated 11/26/18 was submitted to BGS on 11/26/18. This memorandum provides our preliminary recommendation on the real estate scenarios which, in our professional opinion, we believe make the most sense for the State to pursue with further, more detailed analysis.

### **RECOMMENDATION**

In our professional opinion, the real estate options which appear to make the most sense from a cost and logistical standpoint include those which involve renovating 108 Cherry Street and occupying the building with Vermont Department of Health (VDH) direct service employees and other State employees who currently lease space at various locations in Burlington and Williston (scenarios A.2.a and A.2.b). Both scenarios involve renovating the building, including repairs to the underground parking garage, and moving VDH Administrative employees to 63,000 square feet of leased space in either suburban Chittenden County (scenario A.2.a) or Waterbury (scenario A.2.b). Both scenarios contemplate leasing out approximately 38,000 square feet of surplus space within 108 Cherry Street to non-State entities which would provide a revenue source.

The primary reasons behind our recommendation include:

Cost: Of the 19 real estate scenarios analyzed, scenarios A.2.a and A.2.b would be the least costly in terms of annual operating cost (including debt service) over a 20 year term. Also, the estimated cost to renovate the 108 Cherry Street building and parking garage (roughly \$19.3 million) is significantly less than other scenarios which involve purchasing land and constructing a new building in downtown Burlington (roughly \$30 million) or redeveloping either 108 Cherry Street or 50 Cherry Street (roughly \$26 - \$48 million).

Location: The 108 Cherry Street building is extraordinarily well positioned within the greater Burlington marketplace to serve its direct service clientele. The building is located immediately adjacent to the new downtown transit hub and is within close walking proximity to dense populations. Maintaining client focused services in a State building in the heart of downtown Burlington promotes the State's longstanding policy of encouraging dense development patterns and large employment centers within our historic downtowns.

Logistics and Timing: The logistics and timing of implementing scenarios A.2.a or A.2.b are relatively straight forward compared to some of the other real estate scenarios, namely the scenarios involving leasing 60,000 sf of strategically located space with parking in downtown Burlington (such space does not exist at this time), as well as those scenarios involving complete demolition and redevelopment of 108 Cherry Street. The logistics and timing of implementing scenarios A.2.a or A.2.b could proceed relatively smoothly in three general phases:

- Phase I: Search for and secure 63,000 square feet of lease space for VDH Admin; begin phased repairs to parking garage; begin planning for interior renovations to accommodate existing and new State employees and separate space to be leased to non-State entities.
- Phase II: Move VDH Admin out of building and into new lease space; begin interior renovations; move State employees from off-site locations into temporary space within 108 Cherry; continue phased repairs to parking garage; put 50 Cherry Street on market for sale.
- Phase III: Complete interior renovations; move State employees into permanent space; begin leasing of surplus space to non-State entities; complete repairs to parking garage; complete sale of 50 Cherry Street.

Existing Market Conditions: Scenarios A.2.a and A.2.b present less risk than the scenarios which involve selling 108 Cherry Street. The Greater Burlington office market is currently oversupplied and is expected to remain so for the foreseeable future. Office vacancy rates, including those within the Burlington central business district, have remained above average since the Great Recession and have contributed to negative pressure on rental rates. These soft market conditions could present a significant challenge in selling a large office building such as 108 Cherry in a timely manner or at an acceptable price. It should also be noted that 108 Cherry Street still owes roughly \$7.5 million to the Property Management Fund which is more than the recently appraised value of the property. Therefore, if the building were to sell at the appraised value, there would be no sales proceeds to put toward construction or lease of a new building.

### **IMPORTANT ISSUES AND CONSIDERATIONS**

Notwithstanding the above, pursuit of any real estate option, including scenarios A.2.a or A.2.b, will require more thorough and in-depth planning and analysis, and consideration of several important issues. A few issues to keep in mind include:

Timing: Any real estate option, including scenarios A.2.a and A.2.b, will likely take several years to implement. It will take significant time and effort to search for and secure new lease space for VDH Admin as well as design, permit and construct any required renovations to 108 Cherry Street. The State should be prepared to take the long view in pursuing any of the 19 real estate options analyzed.

Planning and Cost Estimating: The preliminary financial analysis prepared by W+B is a very high-level, first blush attempt to quantify and compare the potential costs associated with the various real estate options. Further pursuit of any of the real estate options analyzed will require more thorough planning and analysis including evaluation of existing conditions and space needs, design and permitting of renovated or new space, preparation of more accurate cost estimates, and logistical planning. In the case of scenarios A.2.a and A.2.b, next steps will involve retaining architects and engineers to study and prepare plans for the redesign of space within 108 Cherry Street and prepare more accurate cost estimates. This more detailed and accurate planning and cost estimating could potentially alter the recommendations contained in this memorandum.

Leasing of Space to Non-State Entities: The leasing of 38,000 square feet of surplus space to non-State entities could take some time considering current market conditions for Class B+/A- office space. As stated previously, the office market in the Greater Burlington Area is oversupplied and is expected to continue for the foreseeable future as approved office developments are constructed and come online (e.g. 230,000 square feet of office space at City Place). On a positive note, the State may have more flexibility to

offer competitive lease rates compared to typical developers/investors who require a certain return on investment. Also, the State may elect to move other State agencies into the surplus space or use it as flex space, however, this would result in the loss of a potential revenue source.

**FINANCIAL ANALYSIS SUMMARY**

BGS - 108 Cherry Street  
11/26/2018

Scenario #	Scenario Description	Total Square Feet Controlled by State	Total Construction/Renovation Cost	NPV Annual Expenses Over 20 Years (5%)	NPV Per Square Feet Controlled by State
A.1	Renovate 108 Cherry Status Quo	181,699	19,411,225	42,421,149	\$233
A.2.a	Renovate 108 Cherry for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co.	178,250	\$19,316,225	\$37,367,845	\$210
A.2.b	Renovate 108 Cherry for Direct Service Employees Relocate VDH Admin to Waterbury	178,250	\$19,316,225	\$37,271,475	\$209
B.1.a	Sell 108 Cherry Lease Existing Building in Downtown Burlington for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co.	133,540	\$0	\$57,016,066	\$427
B.1.b	Sell 108 Cherry Lease Existing Building in Downtown Burlington for Direct Service Employees Relocate VDH Admin to Waterbury	133,540	\$0	\$56,919,696	\$426
B.2.a	Sell 108 Cherry Lease New Building in Downtown Burlington (Build-to-Lease) for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co.	133,540	\$0	\$65,827,085	\$493
B.2.b	Sell 108 Cherry Lease New Building in Downtown Burlington (Build-to-Lease) for Direct Service Employees Relocate VDH Admin to Waterbury	133,540	\$0	\$65,730,715	\$492
B.3.a	Sell 108 Cherry Build New Building in Downtown Burlington (State-Owned) for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co.	141,000	\$30,804,000	\$49,561,654	\$352
B.3.b	Sell 108 Cherry Build New Building in Downtown Burlington (State-Owned) for Direct Service Employees Relocate VDH Admin to Waterbury	141,000	\$30,804,000	\$49,465,284	\$351
B.4.a(1)	Sell 108 Cherry Build New Building in Suburban Chitt. Co. (State-Owned) for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co.	133,540	\$17,310,000	\$44,020,458	\$330
B.4.a(2)	Sell 108 Cherry Build New Building in Suburban Chitt. Co. (State-Owned) for Direct Service Employees Relocate VDH Admin to Waterbury	133,540	\$17,310,000	\$43,924,087	\$329
B.4.b	Sell 108 Cherry Build New Building in Suburban Chitt. Co. (State-Owned) for Direct and Non-Direct Service Employees (Including VDH Admin)	133,540	\$35,448,000	\$38,454,541	\$288
C.1	Demolish & Rebuild on 108 Cherry for Direct and Non-Direct Service Employees (Including VDH Admin)	141,000	\$48,266,449	\$41,032,771	\$291
C.2.a	Demolish & Rebuild on 108 Cherry for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co.	141,000	\$27,384,289	\$46,746,983	\$332
C.2.b	Demolish & Rebuild on 108 Cherry for Direct Service Employees Relocate VDH Admin to Waterbury	141,000	\$27,384,289	\$46,650,612	\$331
D.1	Demolish & Rebuild on 50 Cherry for Direct and Non-Direct Service Employees (Including VDH Admin) Sell 108 Cherry	141,000	\$46,989,611	\$41,840,587	\$297
D.2.a	Demolish & Rebuild on 50 Cherry for Direct Service Employees Relocate VDH Admin to Suburban Chitt. Co. Sell 108 Cherry	141,000	\$26,107,451	\$47,554,799	\$337
D.2.b	Demolish & Rebuild on 50 Cherry for Direct Service Employees Relocate VDH Admin to Waterbury Sell 108 Cherry	141,000	\$26,107,451	\$47,458,428	\$337
E	Demolish & Rebuild on 50 Cherry & 59 Pearl for Direct and Non-Direct Service Employees (Including VDH Admin) Sell 108 Cherry	163,000	\$54,505,098	\$47,713,526	\$293

DISCLAIMER NOTICE: All financial projections and other information furnished herein are provided for general reference purposes only. These projections and other information have been based upon various assumptions relating to the general economy, competition and other factors beyond White + Burke Real Estate Investment Advisors, Inc.'s (W+B's) reasonable control, and therefore these are subject to material variation. Furthermore, neither W+B nor any of its staff is acting as an attorney, accountant or financial planner and therefore no opinion is given or implied as to the legal sufficiency, tax implications or financial prudence of any investment or other financial activity. W+B strongly advises consulting with an attorney, accountant and/or other professional advisor(s) prior to making any material financial decisions. There is no guarantee that past performance is any indication of future performance. Future value or income is not guaranteed. Neither W+B, nor its stockholder(s), representatives, or employees make any representation or warranty, expressed or implied, as to the accuracy or completeness of this projection, nor of any other information or contents herein.