TN Department of General Services

Real Estate Strategy

State of Tennessee Real Estate Asset Management – January 2018

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I. Summary of Changes

A. 2ND EDITION DOCUMENT

1) STREAM's mission and guiding principles remain unchanged.
2) The 2nd Edition of the Real Estate Strategy has been updated with new formatting and organization with the intent to provide a more precise vision of the strategy. The decision to restructure the document was based on the need to add updated information not included in the previous edition and improve the overall readability. Further, the 2nd Edition was restructured to provide similar formatting to the agency strategic real estate plans.
3) The 2nd Edition has undergone significant editorial changes. Many sections, when compared to the 1st Edition, have been abbreviated and rearranged into different locations throughout the document to improve the overall organization. For example, the *2nd Edition, Section II – Introduction* represents an abridged version of the *1st Edition, Section I – STREAM Background*.
4) The 2nd Edition has been updated to provide examples of STREAM's execution of the guiding principles and strategies.
5) *Section V – The Future of Tennessee's Real Estate* has been added to the 2nd Edition, which includes a summary of current real estate trends and their potential effect on Tennessee State Government real estate.
   a) *Section V, Part A - State of Tennessee Real Estate Change Agents* introduces the significant drivers of change within the State portfolio.
   b) *Section V, Part B – Real Estate and Workplace Trends* highlights the potential effects of current industry developments.
   c) *Section V, Part C – Downtown Nashville and Metro Center Strategic Real Estate Plan* features an in-depth review of the Downtown Nashville and Metro Center buildings and identifies the main components that are driving the overall strategy for this area.
   d) *Section V, Part D – Other Major Markets* presents the reader with a high-level view of the State's footprint as well as the market.

B. OTHER SIGNIFICANT CHANGES[1]

1) *1st Edition, Section V – Real Estate Process* was eliminated.
2) The strategies in the 2nd Edition represent the majority of updates that occur when compared to the 1st Edition. The list below denotes the most significant changes.
    a) *Section III. B. 1. a)—Manage within budget and timelines:* Added sub-part (4) - *Lease Extension Reduction*
    b) *Section III. B. 1. b)—Maintain real estate management systems:* Renamed from *Maintain a statewide inventory of owned and leased land and buildings* in the 1st Edition to more accurately reflect the intent of the focus area within the strategy. Also, a) and b) in the 1st Edition, have been eliminated and replaced with (1) Integrated Workplace Management System and (2) Project Management Operating System.
    c) *Section III. B. 1. c)—Centralize real estate management:* Removed sections a) – d) from the 1st Edition based on the notion that these parts are more appropriate in other areas of the 2nd Edition. Added (1) Capital Project Insourcing, (2) Capital Project Close-out, and (3) Service Level Agreements.
    d) *Section III. B. 1. d)—Eliminate unneeded buildings and properties:* Removed a*) Conduct space plan analysis to consolidate unused or vacant space* because this is better suited for the 2nd Edition in *Section III. B. 2. a)—Adopt Alternative Workplace Solutions (AWS) across the portfolio.* Also, section *b) Identify excessive or unneeded properties statewide for disposal was* incorporated into the text of the focus area to eliminate repetitiveness.
    e) *Section III. B. 1—Manage real estate efficiently:* Removed *5. Perform Total Cost of Ownership (TCO) analysis* in the 2nd Edition because it is addressed in *Section III. A. 2—Employ financial metrics in decision making.*
    f) *Section III. B. 2—Implement real estate industry best practices:* Removed *3. Enhance Energy Management* in the 2nd Edition because state facility utility management was moved to the TN Dept. of Environment and Conservation at the beginning of 2017.
    g) *Section III. B. 3—Improve Recurring Building Maintenance Funding:* Renamed the strategy to include "recurring." Combined *1. Address FRF revenue "rent gap"* and *2. Continue to reduce deferred maintenance backlog* into a single tactic.

[1] This list is indicative of significant changes only—not all changes are represented

II. Introduction

A. STATE OF TENNESSEE REAL ESTATE PORTFOLIO

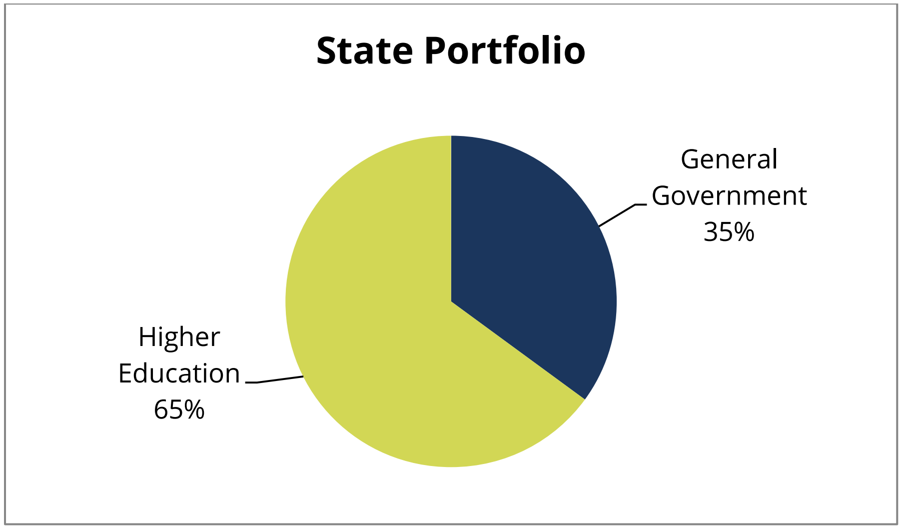


Figure 1 - Comparison of Higher Education SF to General Government SF

The State of Tennessee occupies approximately 97 million (M) square feet (SF) of building space. For this report, the square footage is broken down by higher education and general government. Collectively known as the higher education portfolio, the properties belonging to the University of Tennessee (UT), Tennessee Board of Regents (TBR), and the newly established Locally Governed Institutions[2] (LGI) account for nearly 63M SF or 65% of the State's real estate portfolio. The remaining 34M SF or 35% is known as the general government portfolio, which consists of space for State departments, agencies, and commissions in each of the three branches of government.[3] Within the general government portfolio, agencies typically maintain direct jurisdiction over program-specific real estate (i.e., TN Dept. of Environment and Conservation – State Parks; TN Dept. of Correction – Prisons; TN Dept. of Mental Health and Substance Abuse Services – Regional Mental Health Institutes, etc.). The TN Dept. of General Services division of real estate named State of TN Real Estate Asset Management (STREAM) has jurisdiction over the Facilities Revolving Fund (FRF), which is approximately 10M SF.

[2] University of Memphis, MTSU, ETSU, TTU, TSU, and APSU
[3] Not all locations in each branch are considered

The FRF portfolio can be described as single and multi-tenant office buildings, which differs when compared to non-FRF assets. Non-FRF buildings are typically for the sole use of a single department where the agency maintains responsibility for the management of the property.

FRF was established in 1989 by Tennessee Code Annotated § 9-4-901 to provide efficient management of the state office and warehousing facilities. State agencies are charged a rental rate based on usage, location, and market rate for the space they occupy. The rent collected, along with reserve funding, constitute FRF's operating funds, which pays for facilities management costs of state-owned and leased office and warehouse space. These expenses include debt service on buildings financed with bonds, routine and major maintenance, relocation expenses and furniture for state agencies, and payments for 3rd party leased office space occupied by state agencies. FRF accounts for approximately 30% of the total general government portfolio.

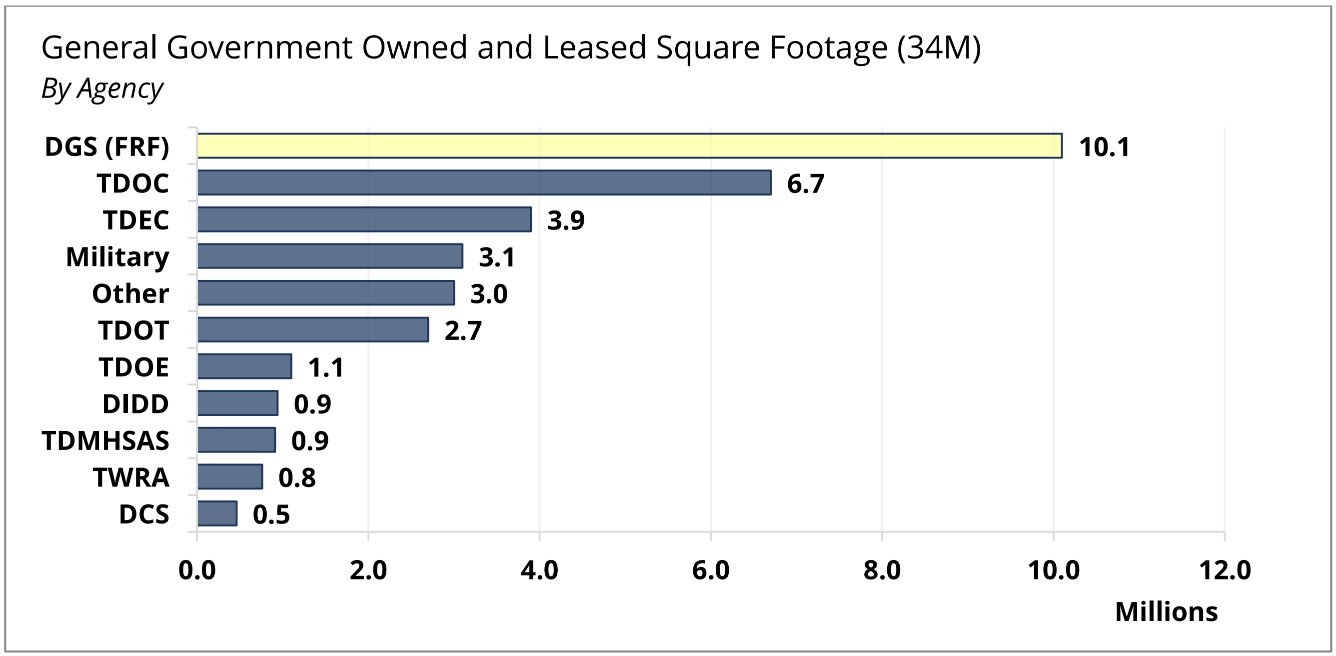


Figure 2 - Percentage of General Government Owned and Leased SF

III. Guiding Principles and Strategies

Mission Statement

Create and maintain a real estate portfolio that efficiently provides for the program requirements of State agencies, while minimizing the total cost of the portfolio.

Guiding Principles

1. Program requirements and government initiatives drive real estate strategies
2. Employ financial metrics in decision making
3. Reduce the size of the real estate portfolio

Strategies

1. Manage real estate efficiently
2. Implement real estate industry best practices
3. Improve building maintenance funding
4. Develop strategic real estate plans

Figure 3 - Guiding Principles and Strategies

The State must continually improve the management of the real estate portfolio over time and maximize the use of its assets. To do so, the State must have a framework to guide decisions regarding real estate. These principles are the guideposts of real estate decisions and should serve to support future strategies in the years ahead.

A. GUIDING PRINCIPLES

1. PROGRAM REQUIREMENTS AND GOVERNMENT INITIATIVES DRIVE REAL ESTATE DECISIONS

All General Government agencies should have real estate strategies that align with the requirements of State agency programs and government initiatives. These plans should outline an agency's mission and how real estate intends to support that mission.

Our Work

STREAM is collaborating with the state agencies to ensure program requirements and government initiatives align with the development of a strategic real estate plan for each department.[4] STREAM is in the process of developing strategic real estate plans for agencies in the executive branch.

Figure 4 – Middle Tennessee State Veterans Cemetery

[4] See Appendix A for the Tennessee Department of Veterans Services Strategic Real Estate Plan.

2. EMPLOY FINANCIAL METRICS IN DECISION MAKING

Sound financial management is the key to ensuring the long-term sustainability of the State's real estate portfolio. By employing financial metrics, the State can establish a position in which it can maintain its assets longer in the future.

Our Work

STREAM has developed financial metric tools to manage the portfolio, which includes total cost of ownership (TCO) analyses, lease vs. own studies, and market analyses. STREAM is ramping up its development of TCO analyses and began with two of its most significant projects. There are two types of projects that trigger a TCO analysis—(1) major renovation to an existing building (example: Cordell Hull Building) and (2) new building construction (example: the new State Museum). The TCO analysis is just one of many financial metrics and analysis STREAM is using to ensure essential taxpayer dollars are spent responsibly:

a) Total Cost of Ownership

Total Cost of Ownership Factors Considered		
Initial Capital Costs	**On-going Capital Costs of Building Systems**[5]	**Recurring Costs**
• Land	• Roofing	• Maintenance
• Construction	• Exterior	• Janitorial
• Soft Costs	• Conveyance systems	• Security
• Development Fees	• HVAC	• Management Fee
• Site work	• Electrical	• Utilities
	• Plumbing	
	• Built-in specialties	
	• Interior finishes	

Figure 5 - Total Cost of Ownership Factors Considered

[5] An alternate method of addressing on-going capital costs would be to establish a recurring capital reserve. See Section **Error! Reference source not found.** for a description of how a recurring capital reserve may be utilized.

b) Lease vs. Own Analysis

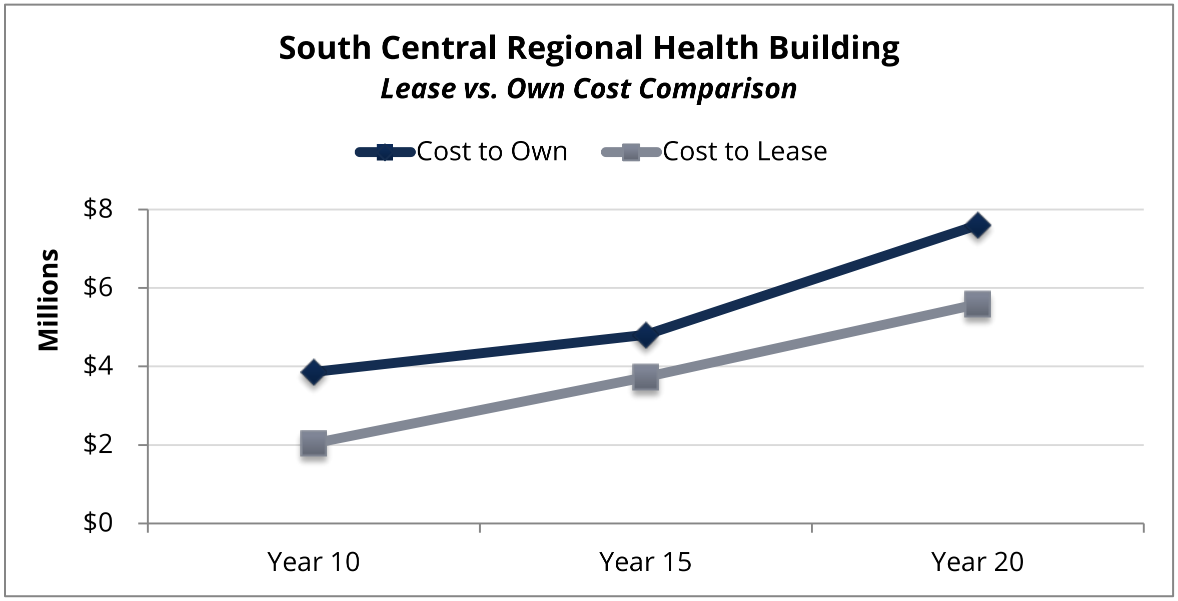
The basis of the decision to lease or own should not solely lie in financial analysis. Each lease-vs.-own decision should also be based on some factors such as occupancy length, the confidence of occupancy, market indicators, and other aspects noted in this lease-vs.-own matrix:

Lease Analysis: General Lease vs. Own Criteria	
Lease	**Own**
When **any** of the following are true:	When **all** are true:
• The demand for space is not predictable over the long term (15+ years)	• Stable and predictable need for space over 15+ years
• The alternative uses of capital are more important	• Capital is available for facilities Total Cost of Ownership (TCO)
• The financial risks and responsibilities of ownership need to be avoided	• There are systems in place to manage the risks and responsibilities to include full funding of its operations and maintenance on a recurring basis

Figure 6 - Lease vs. Own Analysis Criteria

Additionally, the decision to lease or own should take into account the predictability of the external environment such as economic cycles, geographic risks, sustainability, and demographics. Other factors that may influence the lease vs. own decision include, but are not limited to, future changes in the way GASB reports leases and federal reimbursements. In conclusion, the decision to lease or own should match the uncertainty of the demand—stable conditions favor an owned asset, while volatile or uncertain conditions favor leased space.

- South Central Regional Health Building—Columbia, TN:
  - STREAM performed a lease vs. own analysis and recommended selling the building. This recommendation is based on current maintenance estimates, the reversionary clause in the deed, and the county's willingness to purchase. Additionally, the present space is too large for the agency's projected need; therefore, a footprint reduction is highly likely.



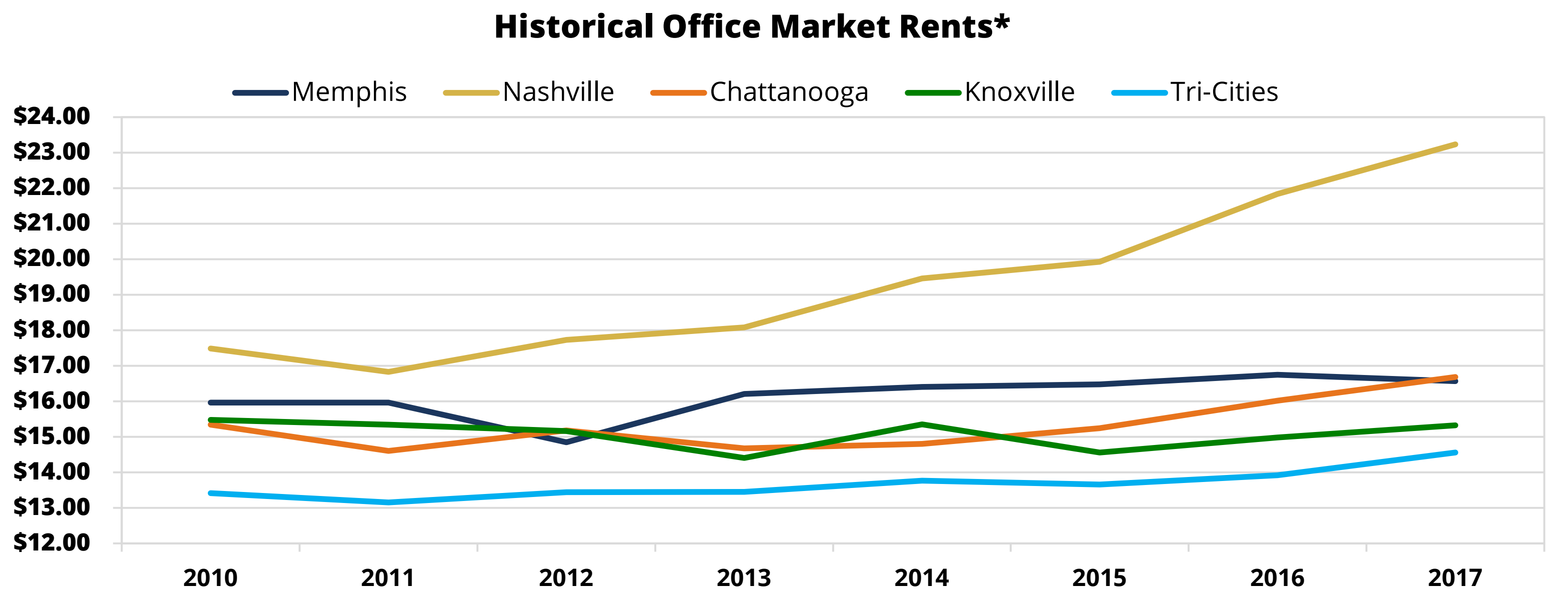
South Central Regional Health Building			
Year	**Cost to Own**	**Cost to Lease**	**Betterment to State If Leased**
Year 10	$3,861,240	$2,039,871	**+1,821,369**
Year 15	$4,803,928	$3,726,161	**+1,077,768**
Year 20	$7,605,959	$5,592,999	**+2,012,961**

Figure 7 - Lease vs. Own Analysis South Central Regional Health Building

TN

c) Market Rate Analysis

The Market Rate analysis compares lease rates in the various markets and sub-markets in Tennessee. The report generated from the analysis gives STREAM a tool to measure where current lease costs are in the identified markets and compare State lease rates. As part of this review, STREAM will be able to predict new lease rates for budgeting purposes.



Note: Tri-Cities include the cities of Bristol and Kingsport as well as Hawkins, Scott, Sullivan and Washington Counties.

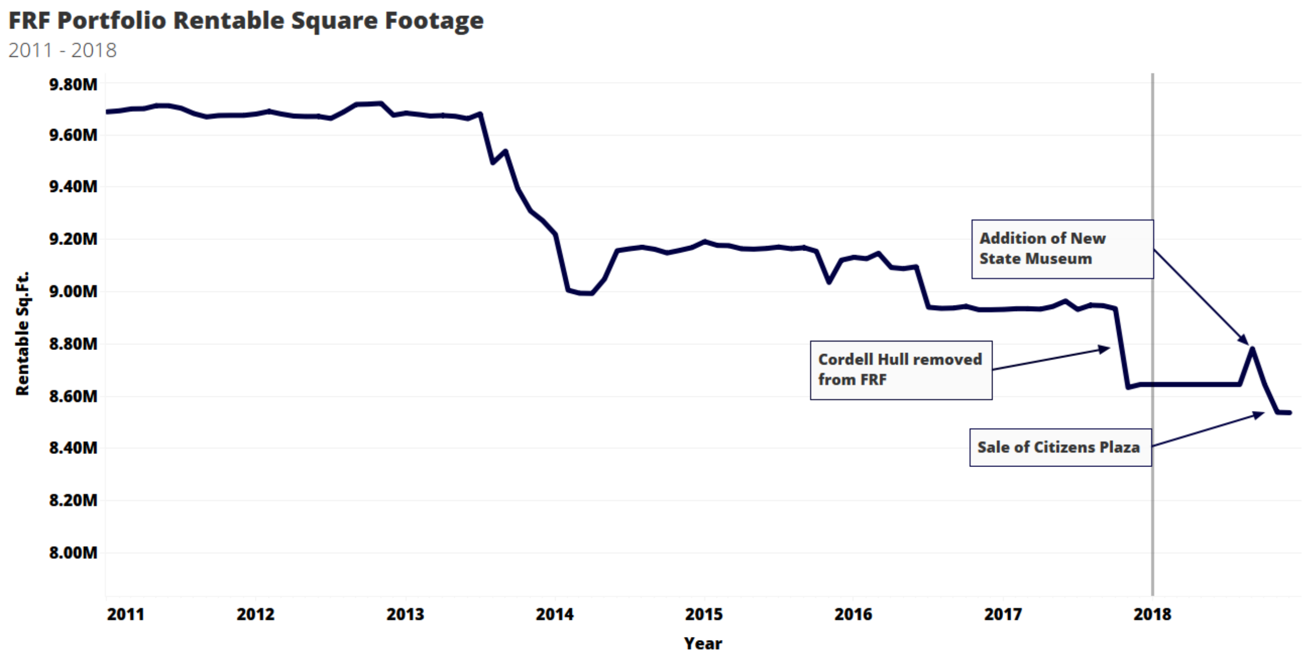
**For comparative purposes, rents above are full-service gross and represent class B office space.*

Figure 8 - Historical Office Market Rents

3. REDUCE THE SIZE OF THE REAL ESTATE PORTFOLIO

Reducing the real estate portfolio, including both buildings and land, allows the State to avoid unnecessary costs, and potentially, return valuable property to the local tax base unless purchased by another government entity

Since 2011, STREAM has focused on increasing the operational efficiency of the portfolio, which has resulted in the overall reduction of FRF's footprint. FRF has taken many positive steps to eliminate several hundred thousand square feet of space and expects to surpass 1M square feet of permanent vacant space before the end 2018. Figure 6 shows how the FRF portfolio has continually decreased since 2011 and the anticipated decrease for the remainder of 2018.



**Please note that the large drop in square footage at the end of 2017 is a result of the Cordell Hull Building being removed from the FRF portfolio.*

Figure 9 – FRF Portfolio Rentable Square Footage

B. STRATEGIES

In 2017, STREAM developed four strategies to supplement the guiding principles. These plans represent the outline of where STREAM's tactical efforts are focused. The four real estate strategies are (1) manage real estate efficiently, (2) implement real estate industry best practices, (3) Improve recurring building maintenance funding, and (4) develop and implement strategic real estate plans.

1. MANAGE REAL ESTATE EFFICIENTLY

a) Manage within budgets and timelines

(1) Pre-planning

Pre-planning is an intense program verification process used to define capital projects. It is intended to provide more detailed and thoroughly analyzed cost estimates to the State Building Commission (SBC) and other stakeholders.

(2) Project Charters

STREAM intentionally increased the level of focus on implementing project charters, which define the scope of the project, budget, and schedule. Project charters ensure that a plan is agreed upon before its commencement and as a result reduces the number of changes once the project begins.

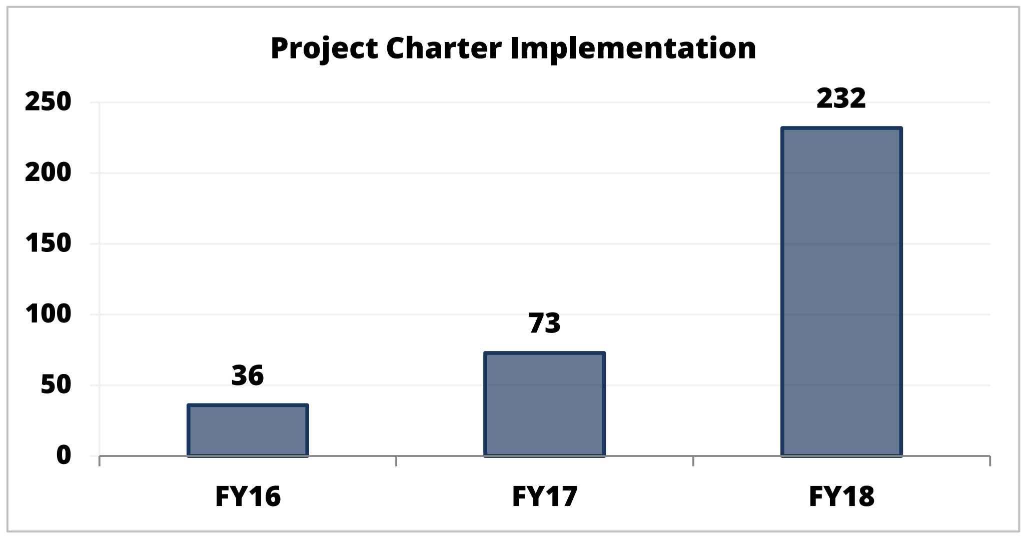
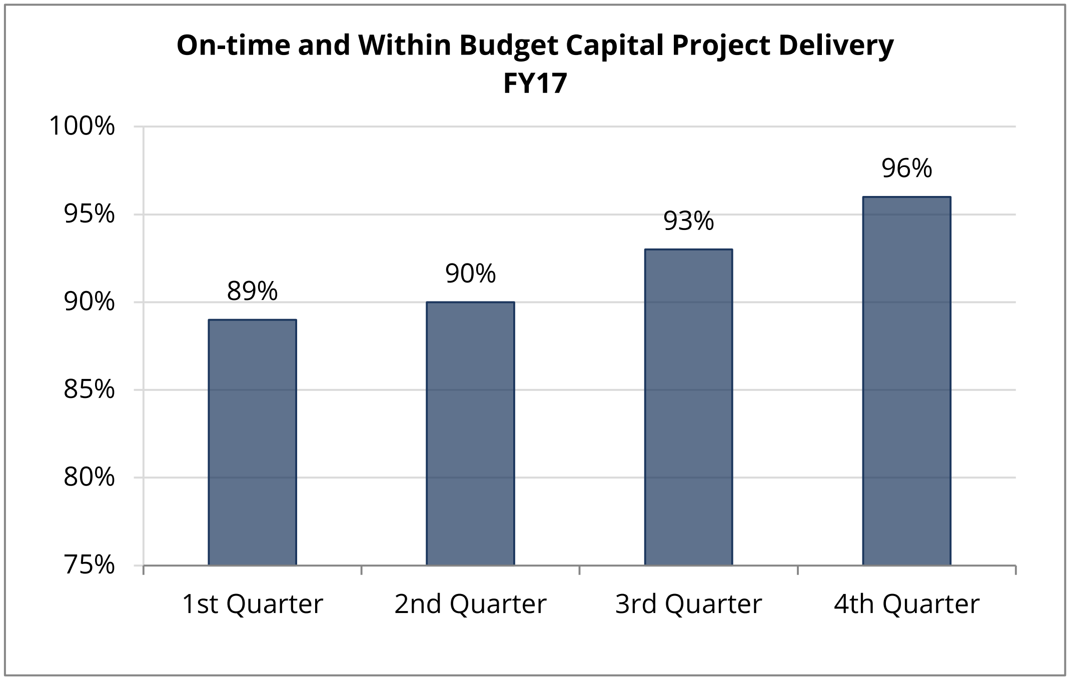


Figure 10 - Project Charter Implementation

(3) Improve time to completion and deliver within budget

Last year, the Capital Projects Group consistently performed above expectations for both on-time project delivery and delivering those projects within budget.



On-time delivery is measured based on the Contractual Substantial Completion Date

Figure 11 - On-time and Within Budget Project Delivery

(4) Lease Extension Reduction

Since September 2016, the Leasing Group has significantly reduced the number of leases in extension by a net of 40. This is the result of a concentrated effort and intense focus coupled with an extensive reduction strategy. The Lease Extension Reduction graph indicates the net reduction of extensions over the past year. It also forecasts the targeted reduction through the end of the current fiscal year.

STREAM's intent is to eliminate extensions. However, situations will likely arise that may force them to occur. Therefore, a normalized range for lease extensions has been identified and will become active once the portfolio is in a stabilized state. STREAM will continue the work to realize this stabilized state, which assumes that some leases, due to outside circumstances, may go into a maximum 1-year extension in order to properly align schedules.

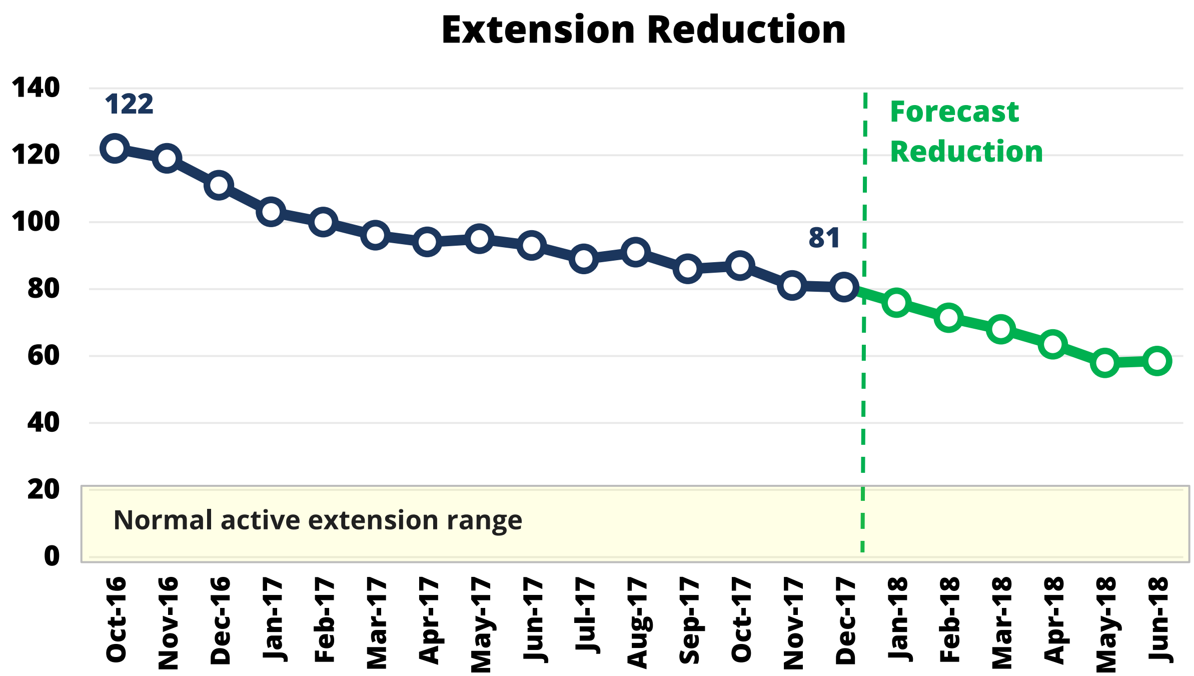


Figure 12 - Lease Extension Reduction

b) Maintain real estate management systems

It is necessary to have systems in place to manage the State's sizeable general government portfolio. While STREAM has direct jurisdiction over the FRF portfolio, many of its business units manage real estate services for all of general government. As an example, the Land Transaction team handles all acquisitions and dispositions of property for general government and higher education. Therefore, STREAM is implementing tools to ensure the appropriate management of the real estate portfolio.

General Government Stats	
5,000+	Number of buildings
34M	Square Footage
800,000+	Acreage

(1) Integrated Workplace Management System (IWMS)

Before 2017, the year STREAM implemented the current management system; the portfolio was managed with spreadsheets and notebooks. Now, STREAM maintains a database that contains relevant building information for all general government buildings and is an integral tool supporting the management of the real estate portfolio. It also serves as the lease management system and holds data, documents, and correspondence for over 300 leases managed by STREAM. Additionally, the IWMS will be the centralized data source for State land. The project to merge the systems is in its beginning stages and at the time of this document a completion date has not been set.

(2) Project Management Operating System (PMOS)

The PMOS has recently been installed and will serve as the project management tool used by STREAM to help plan, design, construct, and deliver capital projects on time and within budget. The PMOS will utilize industry standard methodology to coherently organize the State's business processes into easy to use and efficient workflows. The PMOS will be outward facing to allow design and construction vendors to enter data directly into the system avoiding time-consuming double entry by State employees. The PMOS will house all project related correspondence and documentation on an external cloud environment allowing the State to minimize internal server use and associated costs. The PMOS includes dashboards and a higher level of reporting functionality enabling the reporting of metrics in a variety of ways to a range of customers.

c) Centralize real estate management

(1) Capital Projects Insourcing

In April 2016, STREAM created a new organizational structure for its Capital Projects Group (CPG) by hiring State employees to perform project management services. STREAM previously utilized a vendor for several years and determined it was more efficient to create new State employee roles. The full-time equivalent positions for the CPG was reduced by 30% with savings to the State estimated at $3M per year.

In partnership with F&A, STREAM has closed out approximately 55 projects totaling $10 million during the calendar year 2017.

(2) Capital Project Close-out

STREAM has closed out approximately 55 projects totaling $10 million during the calendar year 2017. Projects are closed out upon achieving Substantial Completion on a project; the Project Manager initiates the Closeout Phase. The Closeout Phase consists of collecting the required record documentation from the designer and making sure all items have been addressed by the contractor. Once the requirements of the contracts have been met, the project is financially closed out with any excess funding returned to the proper source.

(3) Service Level Agreements

STREAM has successfully signed three agreements with the TN Dept. of Children's Services, the TN Dept. of Safety and Homeland Security, and the TN Dept. of Veterans' Services that define the level of services provided to the agencies as part of being in the FRF portfolio. Each of these departments has properties under its jurisdiction and agreed to move to FRF.

d) Eliminate unneeded buildings and properties

To ensure Tennessee tax dollars are efficiently used, STREAM has implemented a strategy to identify and eliminate real property assets that are no longer needed. The effort to remove properties also includes increasing the efficient utilization of current properties to consolidate unused or vacant space. Over the past year, the State has sold or transferred ownership of nearly 300,000 square feet and 137 acres.[6]

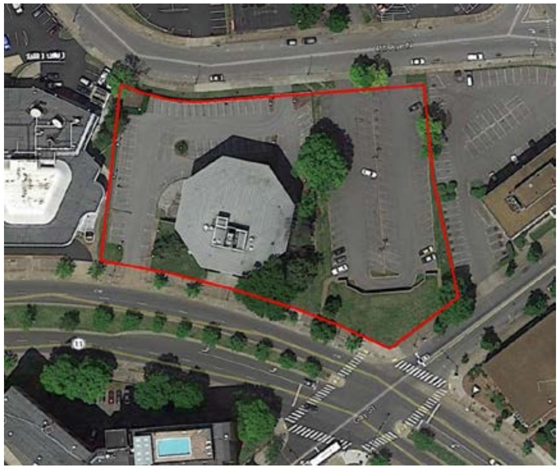
460 James Robertson Parkway	Citizens Plaza
	
In August 2017, the State sold the former Tennessee Regulatory Authority building in Downtown Nashville, an asset that was no longer needed with a net result of $8.17M to the State.	The State will vacate the Citizens Plaza building by the end of November 2018. This asset is considered no longer necessary as the agencies have been or will be relocated to vacant space in downtown Nashville created by the Alternative Workplace Solutions (AWS) initiative.

Figure 13 - Eliminate Unneeded Buildings and Properties

[6] Includes the entire State of Tennessee portfolio as DGS manages the transactional aspect of all disposals with the exception of direct sales.

2. IMPLEMENT REAL ESTATE INDUSTRY BEST PRACTICES

a) Adopt Alternative Workplace Solutions (AWS) across the portfolio

AWS is an initiative that creates a cultural and physical transformation using non-traditional workspaces to increase productivity, efficiency, and flexibility for State employees. By focusing on workforce mobility, workspaces are enhanced to allow eligible employees to work how they work best for the job they are currently doing. As agencies adopt AWS, their space needs are reduced—creating underutilized or vacant space. The space created by AWS will generate unnecessary square footage and should allow for the elimination of unneeded buildings and properties. Cultural implementation is being conducted in 17 of 23 agencies with the real estate implementation and reduction beginning to take effect in 2017.

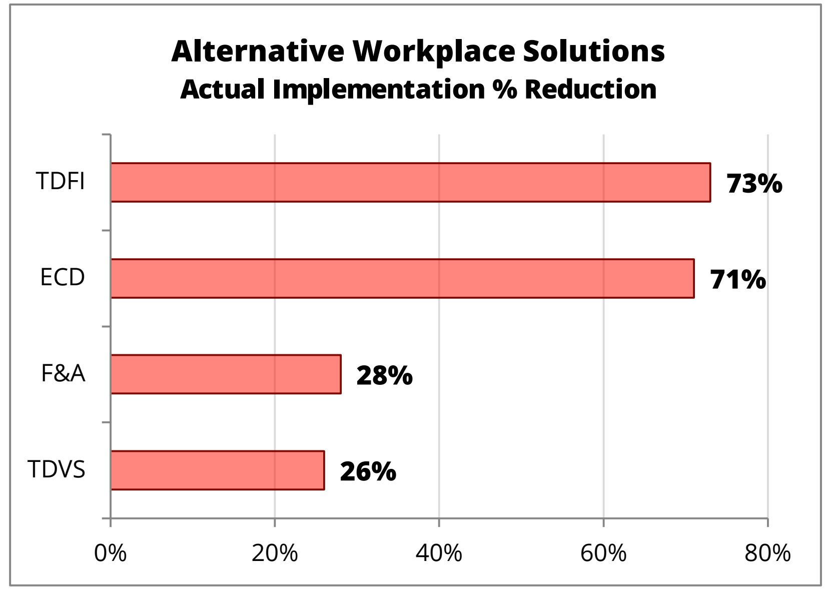


Figure 14 - AWS Actual Implementation

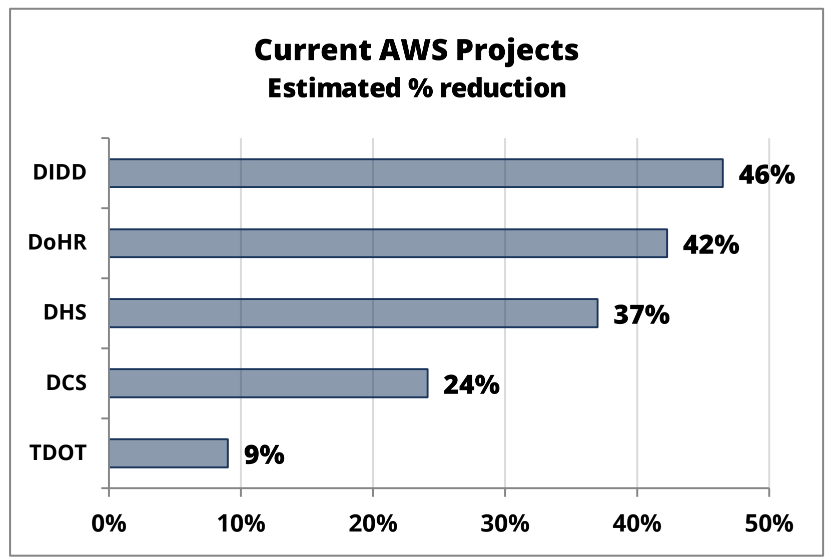


Figure 15 - Current AWS Estimated Reduction

b) Optimize facilities management

STREAM has significantly improved the maintenance of owned properties, while also reducing the annual cost to the State. Since 2013, the cost to manage FRF facilities has decreased from the 2013 baseline by nearly $14.2M. It is clear this program represents exceptional value for Tennessee taxpayers as the State is saving money while also improving customer satisfaction and reducing the maintenance costs in FRF buildings. The current contract for facilities management was approved by the Fiscal Review Committee in October 2017 for a one-year extension.

Because the State has experienced very positive results over the last 4+ years with the FRF facilities management program, the State issued a 2nd contract, finalized in May 2017, to expand services to the State's entire real estate portfolio. The new contract provides similar services and potential cost reductions to properties outside FRF. The agencies are working with the vendor to conduct facilities management assessments to understand where the new contract can provide the most benefit. As properties under the contract expand, the State should receive more substantial discounts, which may result in more significant facilities management cost reductions as more agencies utilize and take advantage of the 2nd contract.

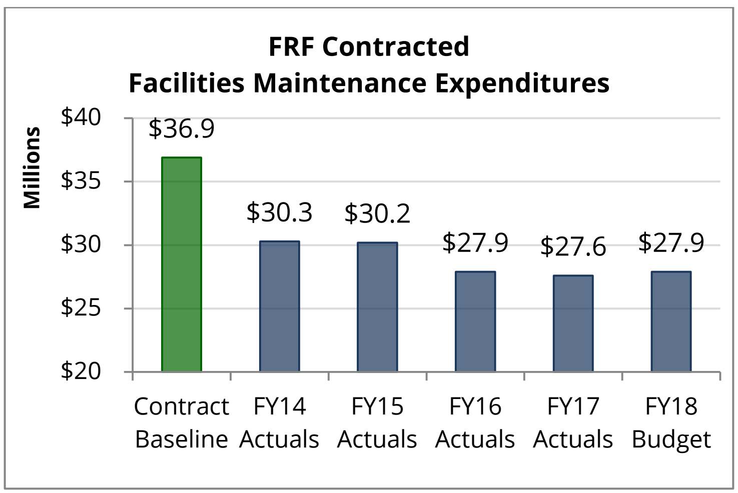


Figure 16 - FRF Contracted FM Expenditures

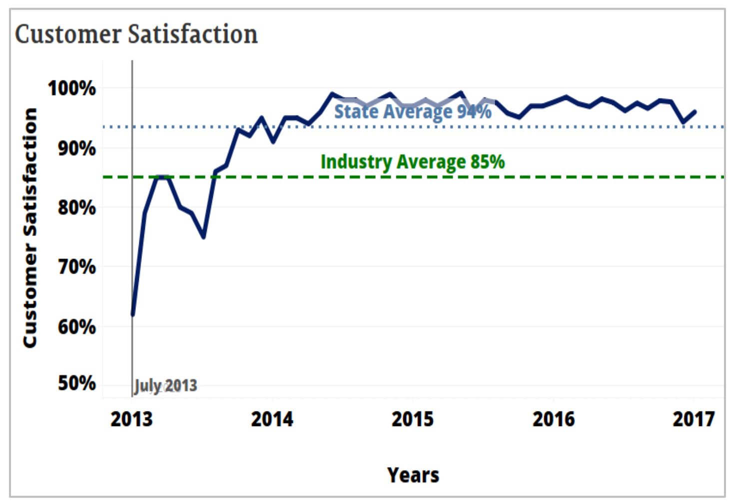


Figure 17 – FM Customer Satisfaction

3. IMPROVE RECURRING BUILDING MAINTENANCE FUNDING

The State Office Buildings and Support Facilities Revolving Fund (FRF) was established in 1989 to provide efficient management of the state office and warehousing facilities. State agencies are charged a rental rate based on usage, location, and market rate for the space they occupy. These rent revenues constitute the primary source of operating funds for FRF. FRF pays for the cost of operating State buildings, payments to landlords for leased office space not owned by the State but occupied by State agencies; routine and major maintenance; relocation and furniture costs for State agencies; and debt service on buildings financed with bonds—all expenses that are similar to what a standalone real estate company would incur.

Credit: Getty Images

Several factors, however, including the two identified in the bullet points below, prevent FRF from charging and collecting 100 percent of the market rent rate. As a result, FRF cannot adequately cover the costs required to maintain State-owned buildings without supplemental funding from the General Fund or the elimination of free or reduced rent agreements. Without such funding, unfunded maintenance projects could accumulate, demanding more expensive repair as time progresses.

- For some properties, FRF cannot charge the full market rate due to Federal Reimbursement limitations
- Some entities occupying State property are not charged rent at all or have reduced rent agreements

TN

a) Address FRF revenue rent gap and reduce deferred maintenance backlog

STREAM has worked with F&A Budget to help address the funding gap that exists between what FRF collects in rent revenue and what it could collect if all its rent revenue was based on the market rate. If the funding gap in rent collections had remained unaddressed, FRF revenue would not be sufficient to fully address all capital maintenance requirements. STREAM and F&A Budget will, as part of the annual budget request process, continue to compare actual rent collections to potential rent collections based on the market rate. In FY18, STREAM received a recurring $30.2M in Statewide Capital Maintenance funds to assist in reducing the deferred maintenance backlog in the General Government portfolio.

b) Recognize the cost of operating and maintaining new assets through a recurring capital reserve

As new facilities are added, additional operating and maintenance funds should be allocated. A delay in addressing a new facility's operating and capital maintenance requirements increases the cost of repairs as time progresses. According to industry best practices, for office buildings, the recurring budget for capital maintenance alone should be at least 2% of its original cost of construction.[7] For example, if a new office building, with construction costs totaling $240M, is added to the FRF portfolio, the FRF operating budget should be increased by a recurring $4.8M to ensure adequate funding is available to address the capital maintenance needs of the new facility over the entire period of its useful life.

[7] 2% is an average for new office buildings in the private sector. It should be noted that each new asset may have a different cost standard for capital maintenance.

4. DEVELOP AND IMPLEMENT STRATEGIC REAL ESTATE PLANS

Decisions regarding the portfolio should be guided by strategic plans that provide recommendations for the different functional areas of real estate across the state. These plans should be based on agencies' programs, which should be reviewed to identify similarities and possible physical co-locations to serve Tennessee citizens better. Market conditions should also be a factor in strategic planning, which should consider conditions of the four major real estate markets in the state—Memphis, Nashville, Chattanooga, and Knoxville. Changes in citizen needs, program requirements, and real estate markets make it essential to adapt strategic plans continuously. Therefore, the State should make efforts to capitalize on program changes or favorable opportunities within a given market.

Credit: Getty Images

STREAM has developed 12 of 23 agency strategic real estate plans that are in various phases of approval and drafting.[8] The 12 agencies include:

1. TN Dept. of Children Services
2. TN Dept. of Human Services
3. TN Dept. of Safety and Homeland Security
4. TN Dept. of Veterans Services
5. Division of TennCare
6. TN Dept. of Intellectual and Developmental Disabilities
7. TN Dept. of Mental Health and Substance Abuse Services
8. TN Dept. of Health
9. TN Dept. of Commerce and Insurance
10. TN Dept. of Labor and Workforce Development
11. TN Dept. of Correction
12. TN Dept. of Education

The Downtown Nashville and MetroCenter Strategic Real Estate Plan are addressed in the Future of Tennessee's Real Estate.

[8] As of December 2017

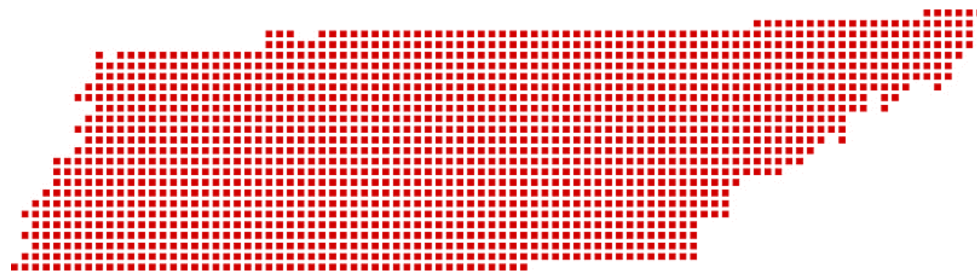
The Future of Real Estate

Credit: Getty Images

IV. The Future of Tennessee's Real Estate

As the State explores the future of its real estate portfolio, it is important to remain open-minded about concepts that may seem arbitrary today. Throughout the research, we have come across many real estate trends that will most likely come and go. Therefore, our concentration has not been on the popular fads that seem poised to falter. Instead, it has been on what makes the most sense in Tennessee with the focus on supporting the efficient and effective operation of State government. This is accomplished by optimizing the utilization of the portfolio to ensure the proper stewardship of taxpayer dollars.

This section of the report will address the significant real estate change agents and how workplace tendencies might affect the State's space needs in the future.



Credit: Getty Images

A. STATE OF TENNESSEE REAL ESTATE CHANGE AGENTS

Figure 18 - State of Tennessee Real Estate Change Agents

1. TECHNOLOGY

Technology is the primary driver that has, can, and will affect the State's real estate portfolio for years to come. Technology has the potential to decrease the brick and mortar real estate need across the state—a few examples are: As the State continues to implement paperless initiatives; there will be less need for space to store paper documents. There are also indirect effects of technology on real estate. For example, as technology improves and becomes more accessible to all, customer self-service is expected to increase, and face-to-face service centers may decline. Below you will find some critical technological forces driving change.

- E-Government[i], as defined by the Center for Technology in Government, University at Albany State University of New York, is the use of information technology to support government operations, engage citizens, and provide government services. The Center goes on to divide e-government into four dimensions:
  - E-services – the delivery of government information, programs, and services often, but not exclusively, over the internet.
  - E-democracy – the use of digital communications to increase participation in public decision making
  - E-commerce – the digital exchange of money for goods and services (renewal of driver licenses)
  - E-management – the use of technology to manage government business processes.[ii]
- Transportation and Mobility
  - Mass transit
  - Automated vehicles
- Artificial Intelligence[iii]
  - Change in employee role and function
  - Technology performing repetitive tasks

2. LEGISLATIVE

Many State agencies must react and quickly adapt to changes in state and federal legislation and policies, which could mean a significant increase in State staff or contracted vendors. In these instances, reconfigurations of current space or procurement of new space within a tight timeline may be necessary.

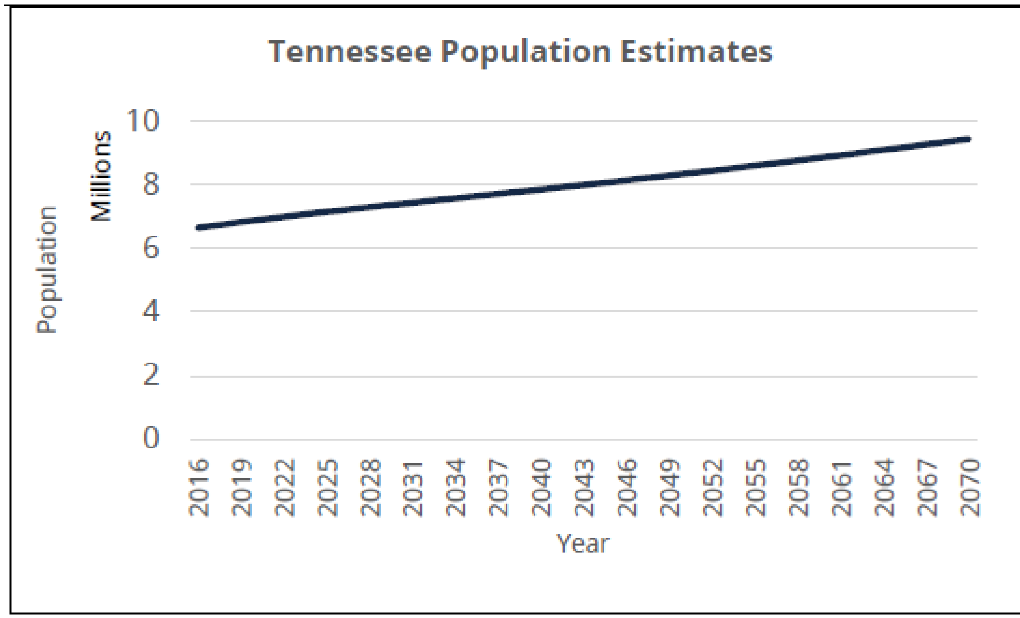
3. LEGAL

Legal pressures, typically lawsuits, have significantly affected the size of the portfolio. As a result of legal proceedings, the State has seen drastic programmatic changes that have dramatically changed the size of the footprint. For example, the Clover Bottom Lawsuit and subsequent Exit Plans altered the delivery of services for TN Dept. of Intellectual and Developmental Disabilities to community-based care vs. the institutional care that was in place before the lawsuit.

4. DEMOGRAPHICS

As legislation and laws change, demographics also change. For example, the increase or decrease in the age in which the juvenile system provides jurisdiction would have a profound impact on whom the TN Dept. of Children's Services serves. Additionally, as the State begins to see population increases, it may potentially play a role in the need for physical space changes.

Tennessee is in the midst of tremendous demographic and population change that could affect the need for government services. The current population is approximately 6.5M, and by 2030, that number is expected to grow to nearly 7.4M—an increase of almost 1M people. The makeup of age composition in the State is also crucial in identifying potential changes in services for governments. For example, by 2030 the population of 80 to 84-year-olds is estimated to increase by 65% when compared to the 2017 figures (126,607 in 2017; 208,951 in 2030).[iv]



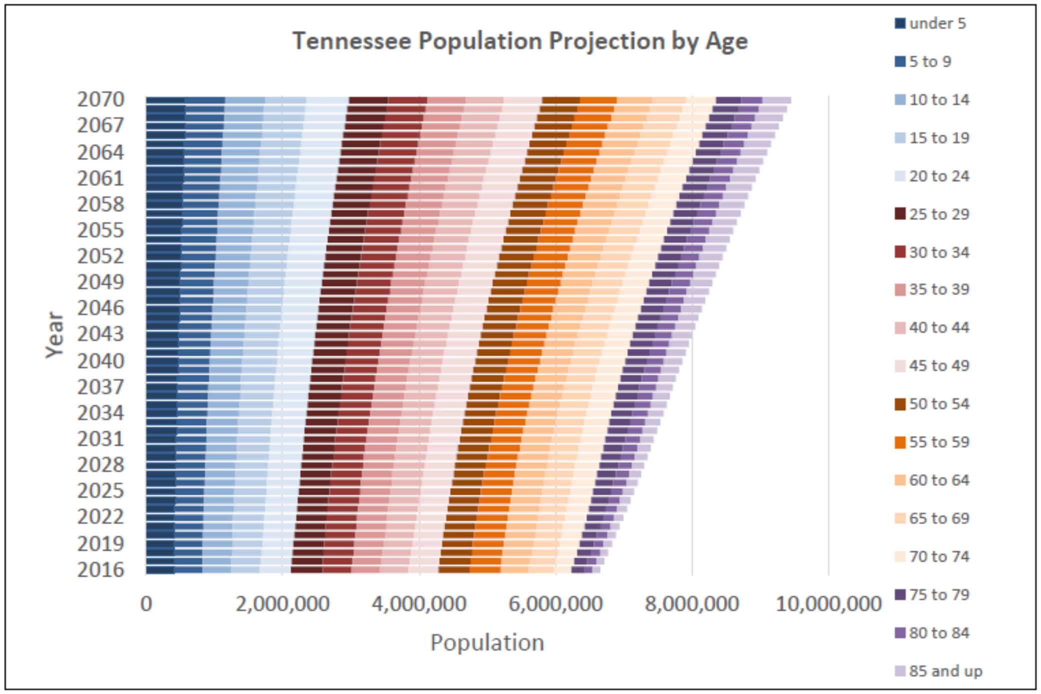
Source: Boyd Center for Business and Economic Research, University of Tennessee, Knoxville September 2017

Figure 19 - TN Population Estimates

5. PROGRAMMATIC CHANGES

Departments may make changes within their programs that could result in physical space need changes. These changes could be the result of the need to attract and retain talent. As specific industries change, departments must also be flexible and react to those adjustments, which may mean an increase in space needs or locations.

- Attracting and retaining talent
- Innovation
- Specific-industry change



Source: Boyd Center for Business and Economic Research, University of Tennessee, Knoxville September 2017

Figure 20 - TN Population Projection by Age

B. REAL ESTATE AND WORKPLACE TRENDS

74% of the portfolio is located within Memphis, Nashville, Chattanooga, and Knoxville.

As noted in the previous section, there is a myriad of factors outside of real estate that drives the need for change. Technology and demographics will be the two change agents most likely to create significant changes in the State's need for space. This section addresses real estate and workplace trends that may affect the State's real estate with the emphasis on space in major metropolitan areas.

Emerging Drivers of Change

A 2014 study by CBRE, commissioned by Genesis, titled "Fast Forward 2030: The Future of Work and the Workplace," identified four game-changers that impact and transform the business structure and the way people work.[v] The 1st game changer is a competitive advantage, or attracting and retaining top talent. In the US, 45% of workers are defined as contingent workers, and this trend is spreading. Contingent workers are typically independent contractors or other outsourced non-permanent workers who are hired on a per-project basis.[vi] The need to attract talent will continuously increase, and it will involve people outside of the organization as well as those within.[vii] The 2nd is the holistic worker. People want to be part of meaningful work and projects, so much so, that happiness is now being valued over money when it comes to working.[viii] The 3rd game changer is lean, agile and authentic corporations that can adapt quickly and leverage technology while promoting values, purpose, and opportunity. The key for the State will be defining the line between what to keep in-house and what to outsource to increase citizen value through flexibility, scalability, and innovation. Finally, the 4th game changer is the sharing economy, which is "a socio-economic system built around the sharing of human and physical resources."[ix] Communal space, or shared space, is part of the co-working trend and is beginning to take flight. By the end of 2017, over 1 million people worldwide will have worked in a co-working space, which is up almost 100% from the 2015 estimate of 500,000.[x]

This means that employees are now looking for what CBRE and Genesis are calling the "High-Performance Workplace." In the past, workplaces have been designed under a "one-size fits all" approach, which is now incapable of effectively supporting the new way of working. These new workplaces are being purposefully created to align with "business objectives, work practices, and optimize the ability of people to 'get the job done."[xi] The report concludes with the suggestion that by 2030 traditional workplace will be in the minority and that the best workplaces today share offices, enclaves, and other quiet spaces that provide the optimal environment for employees.

Downtown Nashville and Metro Center Strategic Real Estate Plan

Credit: Getty Images

C. DOWNTOWN NASHVILLE AND METRO CENTER STRATEGIC REAL ESTATE PLAN

Nashville is currently known as the "it" city with approximately 80–100 people moving to the area daily. With nearly 20% more jobs than before the recession in 2008, Nashville boasts one of the best job recoveries in the nation. Over the past two years, according to the Nashville Chamber of Commerce, more than 200 companies have moved to the city or expanded in the area. This has accounted for nearly 15M SF absorption of the commercial real estate (CRE) in the city. Nashville's CRE market success can be attributed to low vacancies, increased national and international investor interest, and the fact that Nashville is the U.S. healthcare industry capital. This is important as the healthcare industry brings stability and could sustain the CRE market in the event of another recession. However, should the healthcare industry struggle, its impact would be severe, as this sector's companies occupy nearly 35M square feet in Nashville proper—equating to over 20% of office, flex, and light industrial inventory.[xii]

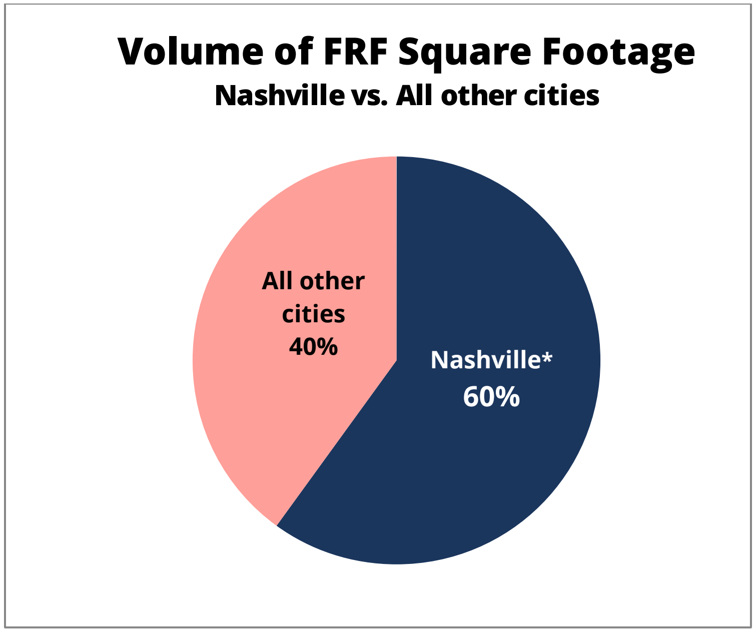


Figure 21 - Volume of FRF SF - Nashville vs. Other Cities
**Represents Nashville/Davidson County—not just downtown and Metro Center*

The vacancy rate in Nashville is one of the lowest in the country and expected to stay below the national average. Accordingly, rental rate growth remains strong. The growth has been positive since 2012 with a peak of 9% year-over-year growth in 2016. As construction completion increases and vacancies fall in the forecast, the rent growth will subside and level out.[xiii]

In a recent report by the Urban Land Institute, Nashville was ranked as the 6th overall U.S. market to watch—above larger cities like San Francisco, Denver, Boston, and Atlanta. Nashville is now considered an "upper-tier secondary market" and has become one of the hottest CRE markets in the nation. Therefore, the State should assess its CRE need and overall footprint in Nashville/Davidson County and develop a high-level, long-term plan to ensure it is delivering the best value for Tennesseans.[xiv]

The strategies presented are built upon STREAM's Guiding Principles to formulate a shared vision and to create a systematic approach to developing an action plan.

Assumptions for the 2018 Downtown Nashville and Metro Center Strategic Real Estate Plan:

- Commissions, boards, and agencies with small footprints along with non-Executive branch entities will likely not reduce their current footprint
- The State Capitol building will remain unchanged.
- Legislative Plaza will remain vacant, although a project exists to convert the current office portion to a parking garage.
- TACIR will remain at 226 Capitol Blvd.
- The War Memorial Building will be used to hotel the Attorney General through 2019 as the John Sevier Building is renovated.
- The actions throughout the strategic real estate plan are based on the estimated optimal space reduction opportunity from AWS implementation and the formation of vacant space.

Strategy Summary:

The strategy is based on three main components, each intended to be simultaneously executed with the ultimate goal being optimal space utilization.

1. Exit and eliminate leases, where applicable in the Downtown Nashville and MetroCenter area
2. Reduce the footprint of all departments with significant square footage (current average for agencies implementing AWS in Downtown Nashville: 57%)
3. Point vacancy into targeted building(s), so that the State retain unoccupied space spread out in multiple buildings.

All concepts presented herein are recommendations only and do not represent final, approved plans. Since agency programmatic needs are dynamic, this is a living document and will be updated as needed.

1. DOWNTOWN NASHVILLE

a) Overview

The State of Tennessee occupies 2.9M sq. ft. of owned space and nearly 226,000 sq. ft. of leased space in Downtown Nashville (does not include UT leased space), which roughly accounts for 33% of the FRF portfolio.

Office Buildings	Capitol Hill	Field Offices	Leases
Andrew Jackson	Cordell Hull	900 2nd Avenue	UBS Building
Andrew Johnson	John Sevier	1000 2nd Avenue	Parkway Towers
Citizens Plaza	Library and Archives		226 Capitol Blvd.
Davy Crockett	State Capitol		
James K. Polk	Supreme Court		
Legislative Plaza			
Rachel Jackson			
Tennessee Tower			
War Memorial			

Additionally, the State is constructing a new Tennessee State Museum and new Tennessee State Library and Archives.

State-Owned Properties

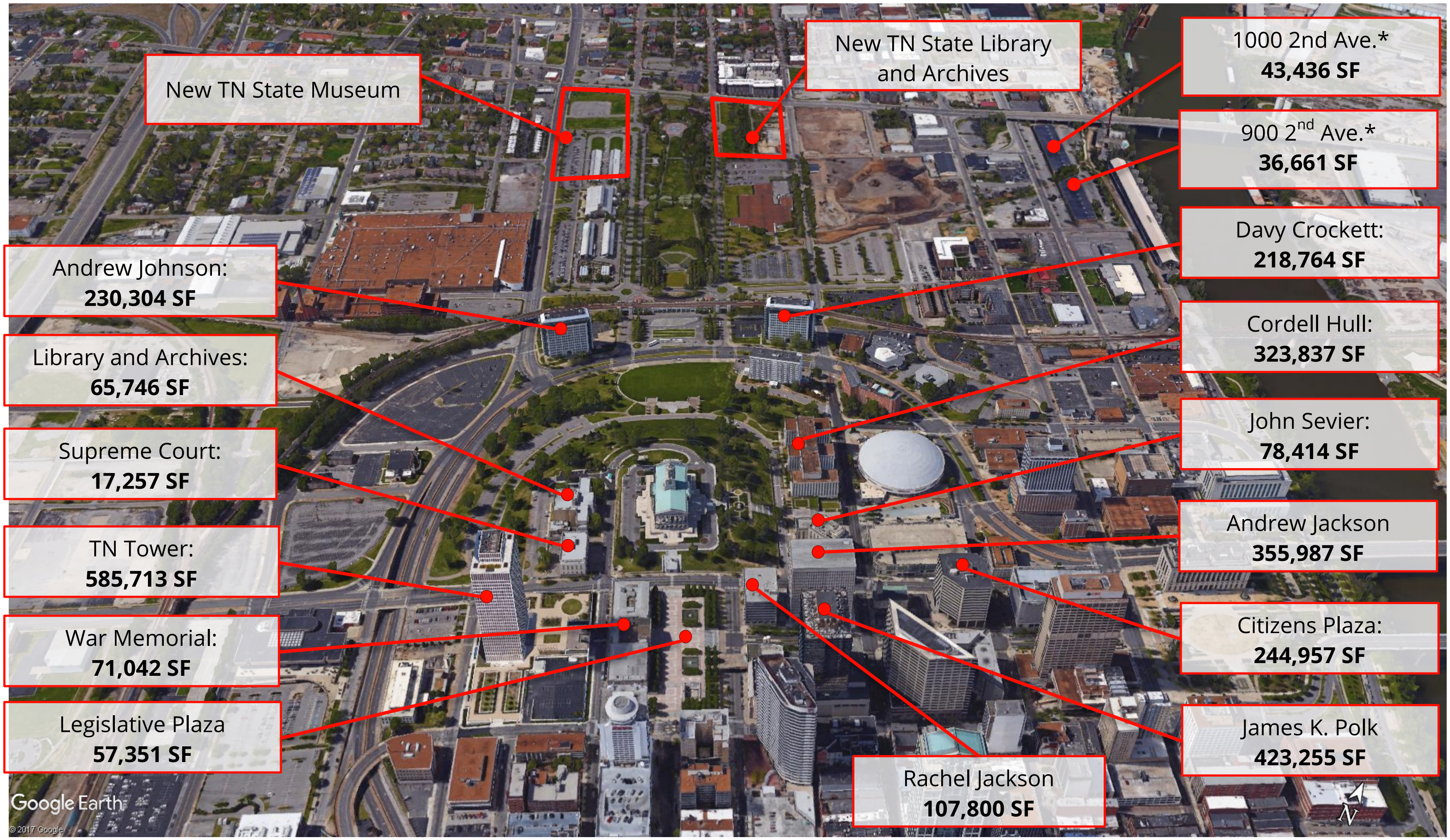


Figure 22 - Downtown Nashville State-Owned Properties

Leased Properties

Figure 23 - Downtown Nashville Leased Properties

b) Owned Office Buildings

(1) Andrew Jackson

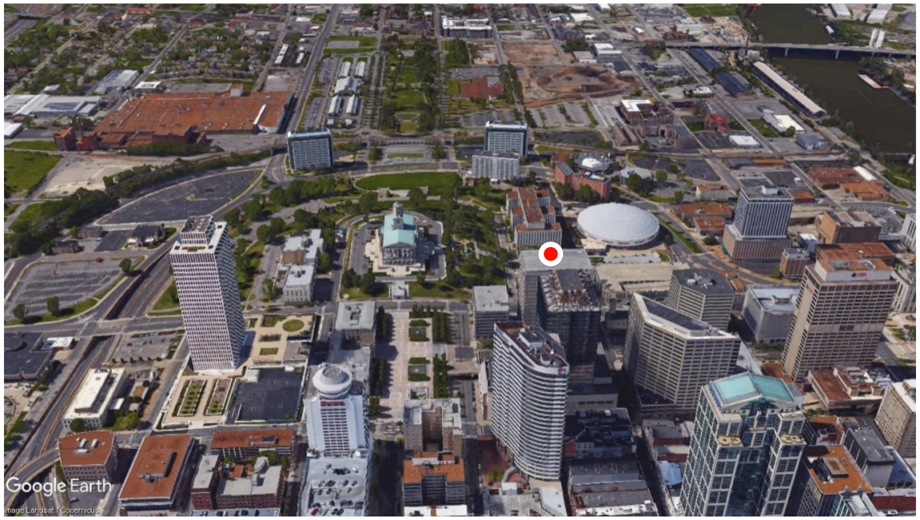


Figure 24 - Andrew Jackson Building

Building Sq. Ft.

355,987

Est. Available Sq. Ft.

49,538

Percent of Available Space

14%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
Comm. on Children & Youth	6,524	6,524	--
Commission On Aging	10,108	10,108	--
Bldg. Mgmt.	5,096	5,096	--
Printing	32,886	32,886	--
Health Svcs. and Dev. Agency	4,994	4,994	--
Mental Health	45,100	31,570	13,530
Revenue	120,028	84,020	36,008
TN Regulatory Authority	22,550	22,550	--
TN Housing Dev. Authority	45,100	45,100	--
Treasury	63,601	63,601	--

Figure 25 - Andrew Jackson Building Projected Reduction

Summary

The TN Dept. of Mental Health and Substance Abuse Services and the TN Dept. of Revenue may reduce their respective space need by the optimal estimated AWS reduction factor of 30%. If these two agencies were able to accomplish the optimal estimated reduction, it would open approximately 50,000 square feet of space for use by other agencies.

(2) Andrew Johnson

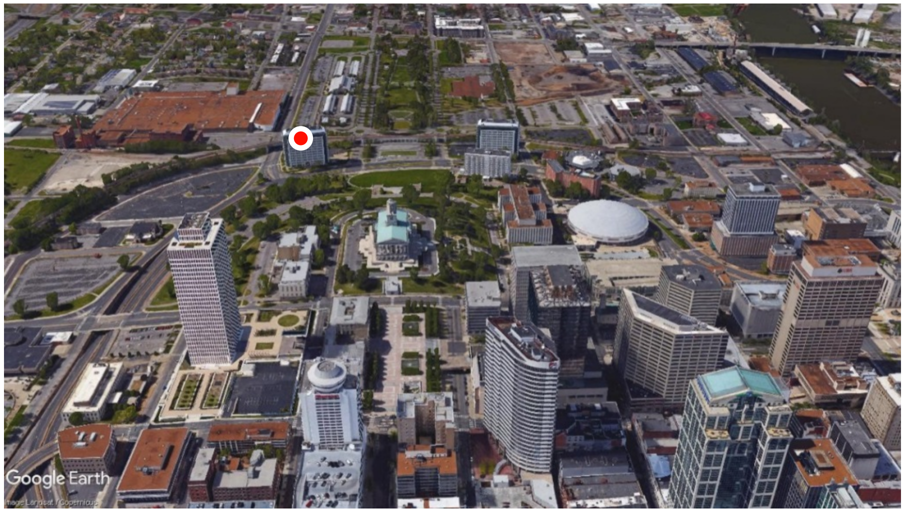


Figure 26 - Andrew Johnson Building

Building Sq. Ft.

230,304

Est. Available Sq. Ft.

67,871

Percent of Available Space

29%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
Education	78,124	54,687	23,437
Bldg. Mgmt.	3,797	3,797	--
Health	148,112	103,678	44,434
Human Services	271	271	--

Figure 27 - Andrew Johnson Building Projected Reduction

Summary

The TN Dept. of Education and the TN Dept. of Health may reduce their respective space needs by the optimal estimated AWS reduction factor of 30%. If these two agencies were able to accomplish the optimal estimated reduction, it would open approximately 68,000 square feet of space for use by other agencies.

One of the primary goals of real estate for the current TN Dept. of Health Administration is to locate the entirety of its central office into a single building. This could potentially be accomplished through the strategic implementation of AWS and a collaborative partnership with STREAM.

(3) Citizens Plaza

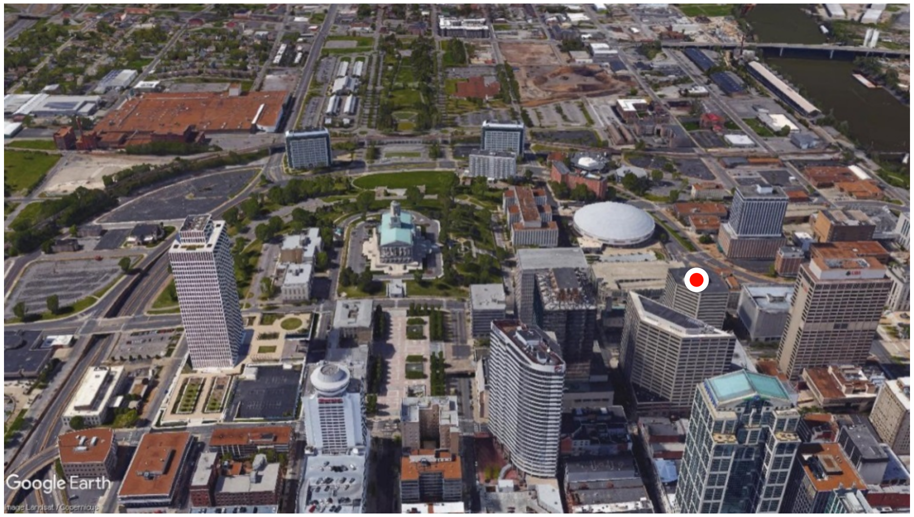


Figure 28 - Citizens Plaza Building

Building Sq. Ft.

244,957

Est. Available Sq. Ft.

244,957

Percent of Available Space

100%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
Human Services	178,317	112,254*	66,063
Intellectual and Dev. Disabilities	33,638	20,034**	13,604
Arts Commission	8,695	8,695***	--
Credit Union	1,332	1,332****	--
Bldg. Maint.	572	--	--
Vacant	22,403	--	--

*in the James K. Polk Building

**in the UBS Building

***location to be determined as of the date of this report

****will sign a new lease and remain at the building post disposal

Figure 29 - Citizens Plaza Building Projected Reduction

Summary

The State's general strategy is to ensure that vacant space in the downtown area is concentrated into a single building to ensure small, unusable pockets of space are not spread throughout those buildings.

The recommended strategy is to sell Citizens Plaza by the end of 2018 as a result of the current agencies implementing AWS.

- DHS will move to the James K. Polk Building by Fall 2018
- DIDD will move in the UBS lease by Spring 2018
- STREAM is working to determine satisfactory relocation plans are in place for the Tennessee Arts Commission and the Tennessee Employees Credit Union.

(4) Davy Crockett

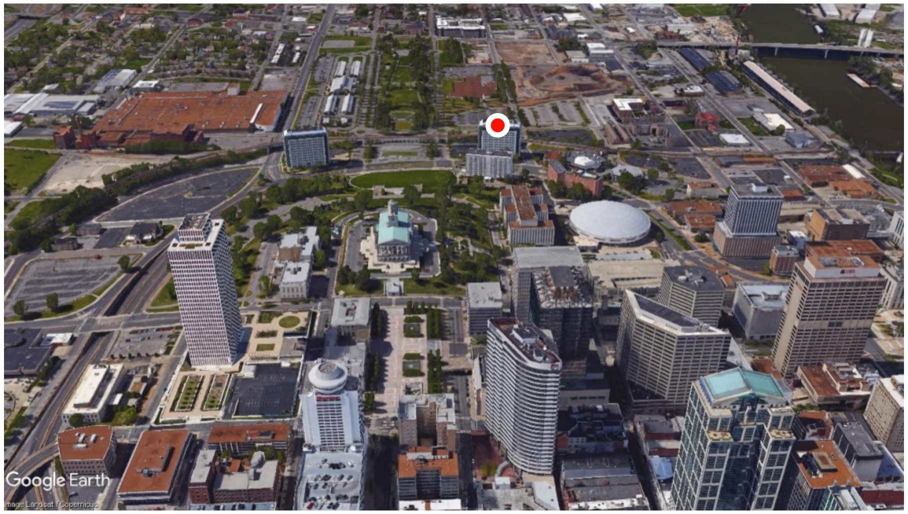


Figure 30 - Davy Crockett Building

Building Sq. Ft.

218,764

Est. Available Sq. Ft.

71,051

Percent of Available Space

32%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
Alcoholic Beverage Comm.	11,047	11,047	--
Children's Services	19,128	13,390	5,738
Commerce and Insurance	176,430	118,230	58,200
Bldg. Mgmt.	1,752	1,752	--
TN Council on Dev. Disabilities	3,294	3,294	--

Figure 31 - Davy Crockett Building Projected Reduction

Summary

The TN Dept. of Commerce and Insurance is actively implementing AWS in the Davy Crockett Building. Early forecasts indicate an estimated reduction of 58,000 square feet, which could be used by other agencies in Downtown Nashville leases.[9] Additionally, the TN Dept. of Children Services may reduce their respective space needs by the optimal estimated AWS reduction factor of 30%, which would equal almost 6,000 square feet of extra available space.

[9] Estimate as of December 2017.

(5) James K. Polk

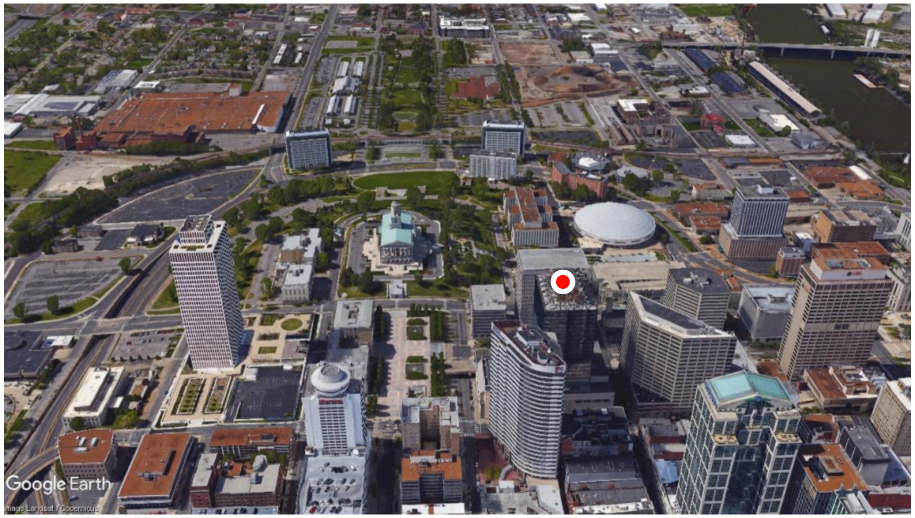


Figure 32 - James K. Polk Building

Building Sq. Ft. (Tower only)

423,255

Est. Available Sq. Ft.

42,447

Percent of Available Space

32%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
TDOT	260,820	238,369	22,451
Vacant	88,866	--	--
Human Resources	43,384	25,000*	43,384
Performing Arts Mgmt Corp	14,820	14,820	--
State Museum	11,836	11,836	--
State Museum (O/W)	2,206	2,206	--
Human Services Snack Bar	1,323	1,323	--

**Projected to move to the Tennessee Tower*

The TN Dept. of Human Services will relocate to the James K. Polk Building and occupy approximately 112,254 sq. ft. of space vacated by the Comptroller and the TN Dept. of Human Resources

Figure 33 - James K. Polk Building Projected Reduction

Summary

In the short-term, this building is of strategic importance with almost 89,000 square feet vacant as a result of Comptroller's office move to the Cordell Hull Building. To fill the vacant space and ensure the State does not spread its vacancy into multiple buildings, the TN Dept. of Human Services could move from Citizens Plaza to the James K. Polk Building.

The TN Dept. of Human Resources is moving to the Tennessee Tower and reducing its footprint by approximately 42%, which will provide more space for the TN Dept. of Human Services as well.

TDOT is implementing AWS but only in a small pilot affecting two divisions. It will result in a footprint reduction, but will not yield any cost savings for the State. However, TDOT is continuing the implementation of AWS and should realize additional space reductions.

(6) Legislative Plaza

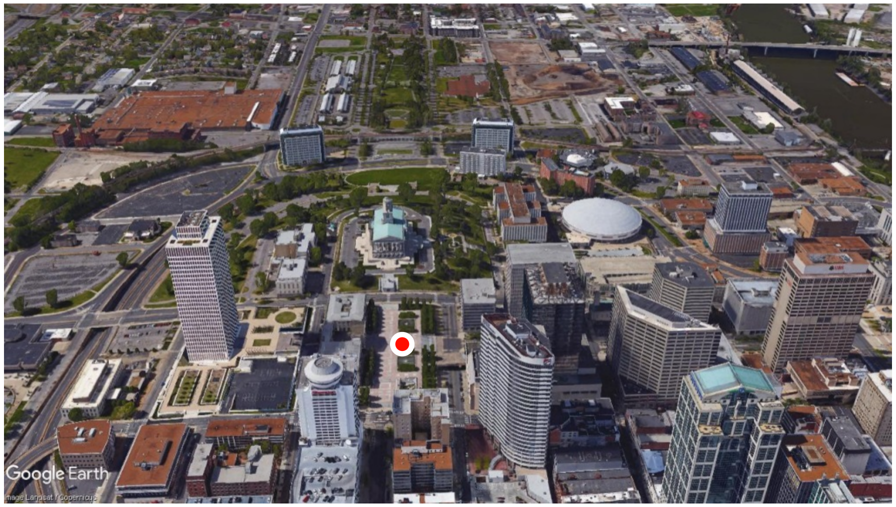


Figure 34 - Legislative Plaza

Building Sq. Ft.

57,351

Est. Available Sq. Ft.

57,351

Percent of Available Space

100%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
Vacant	57,351	--	--

Figure 35 - Legislative Plaza Projected Reduction

Summary

The plaza grounds will remain, generally, as-is. However, a planning project is underway to analyze an office space conversion to add additional parking garage for general government tenants in a more central downtown location.

(7) Rachel Jackson

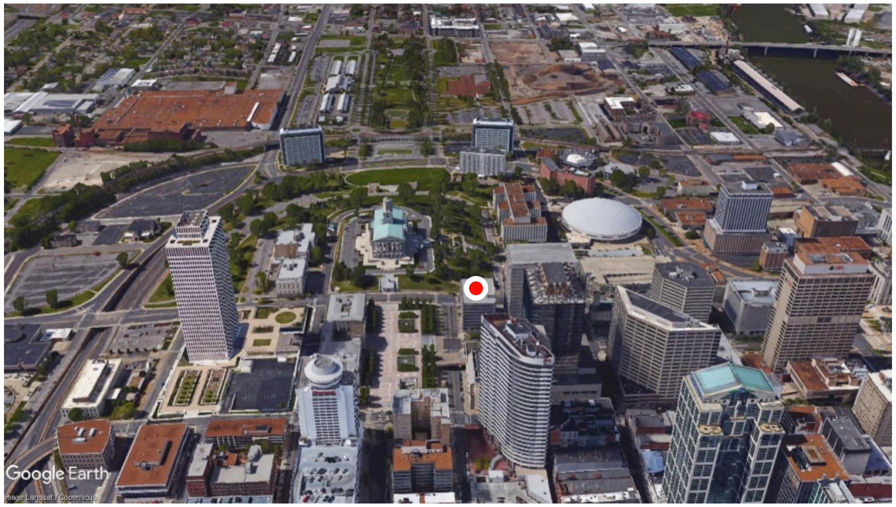


Figure 36 - Rachel Jackson Building

Building Sq. Ft.

107,800

Est. Available Sq. Ft.

34,560

Percent of Available Space

52%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Reduction**
Correction	71,067	71,067	--
DHS Snack Bar	2,173	2,173	--
Vacant	34,560	34,560	--

Figure 37 - Rachel Jackson Building Projected Reduction

Summary

As of November 2017, the Legislature vacated 34,000 square feet of space in the Rachel Jackson Building to take occupancy in the Cordell Hull Building. The asset must undergo major systems and interior upgrades before consideration for a large anchor tenant.

Moreover, a decision for TN Dept. of Correction headquarters and the Multi-agency Law Enforcement Training Academy at Cockrill Bend should be made before the final determination of a permanent occupant.

(8) Tennessee Tower

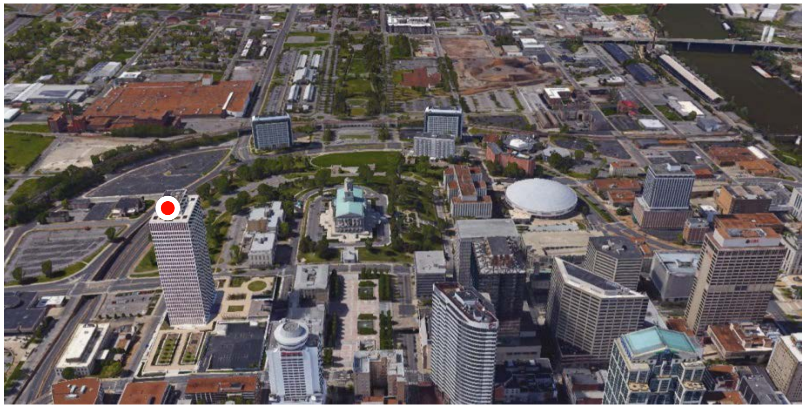


Figure 38 - Tennessee Tower

Building Sq. Ft.

585,713

Est. Available Sq. Ft.

112,733

Percent of Available Space

19%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Econ. and Community Dev.	13,644	13,644	--
Finance and Administration	92,382	92,382	--
Financial Institutions	9,976	9,976	--
Books from Birth	710	710	--
First Lady	5,392	5,392	--
Human Rights Commission	7,780	7,780	--
Safety and Homeland Security	16,712	16,712	--
Secretary of State	68,681	68,681	--
Tourist Development	13,121	13,121	--
Veterans Services	5,189	5,189	--
Alcoholic Beverage Comm.	5,027	5,027	--
General Services	126,005	88,203	37,801
Environment and Conservation	160,669	112,468	48,201
Vacant	60,425	60,425	--

Figure 39 - Tennessee Tower Projected Reduction

Summary

ECD, TDFI, and F&A have all significantly reduced square footage resulting in more than 60K square feet of vacancy in the building.

The TN Dept. of Human Resources may relocate to space recently vacated by TN Dept. of Finance and Administration.

Conceptually, the next agencies to implement AWS in this building would be DGS and TDEC, which would increase the amount of vacant space by nearly 80,000 sq. ft. (assuming the optimal estimated reduction of 30%).

**The TN Dept. of Human Resources will occupy 25,000 sq. ft. The Tennessee Tower is also a potential location for the TN Arts Commission.*

(9) War Memorial

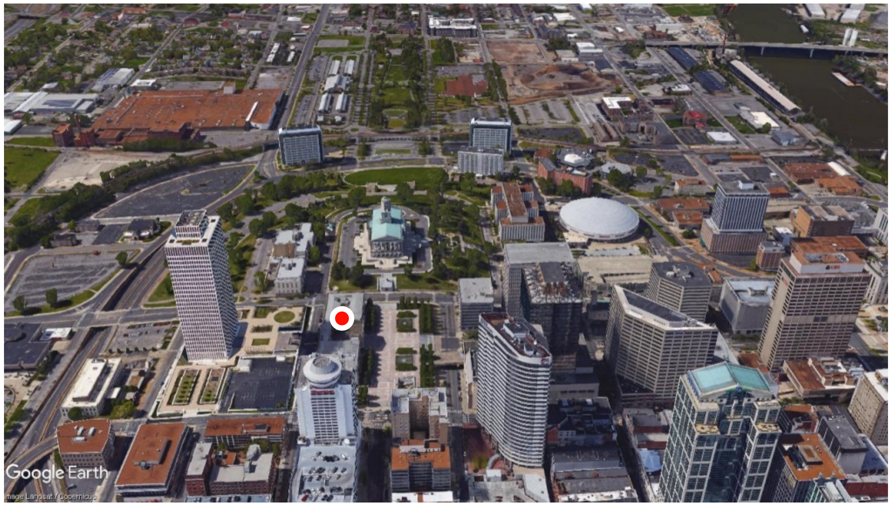


Figure 40 - War Memorial Building

Building Sq. Ft.

71,042

Est. Available Sq. Ft.

43,450

Percent of Available Space

61%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
General Services (Auditorium)	23,577	23,577	--
Veterans (non-state)	4,015	4,015	--
Vacant	43,450	43,450	43,450

Figure 41 - War Memorial Projected Reduction

Summary

The Legislature recently moved out of the office portion of the Cordell Hull Building. This is an asset the State will retain and must undergo significant renovations over the next few years. STREAM anticipates the Veterans (non-state) space, the Auditorium and the Military Museum to remain in its current location.

At the end of the Attorney General lease in the UBS Building in October 2025, the agency is anticipated take occupancy in the office portion of the War Memorial Building. As a result, the State will save the State nearly $1.5 million in annual lease costs.

c) Capitol Hill

(1) Cordell Hull

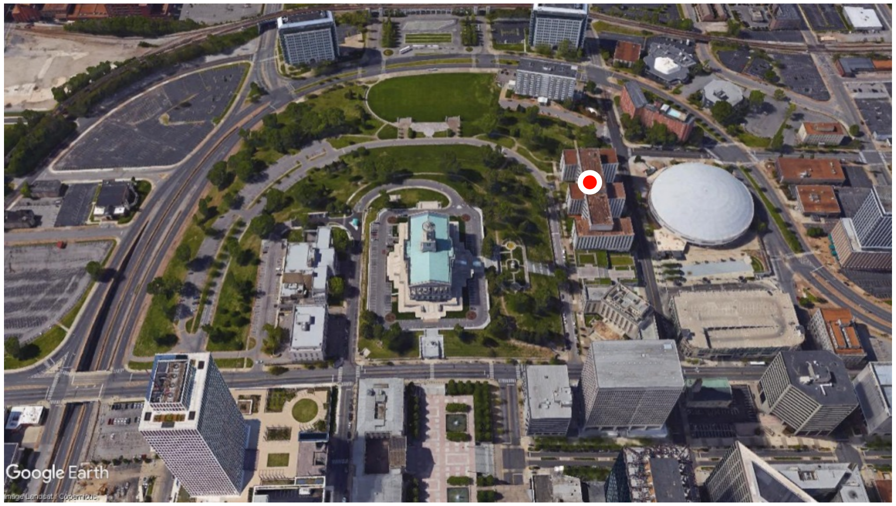


Figure 42 - Cordell Hull

Building Sq. Ft.

323,837

Est. Available Sq. Ft.

--

Percent of Available Space

--

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Comptroller	76,528	76,528	--
Legislature	240,994	240,994	--
Bldg. Maint.	6,315	6,315	--

Figure 43 - Cordell Hull Projected Reduction

Summary

As of November 2017, the Legislature has taken occupancy and as such, based on Tenn. Code Ann. § 4-3-102 "...maintain[s] control of the state buildings occupied predominantly by the legislative branch..."

As of December 2017, the Comptroller has also taken occupancy and vacated 88,000 square feet in the James K. Polk Building.

(2) John Sevier

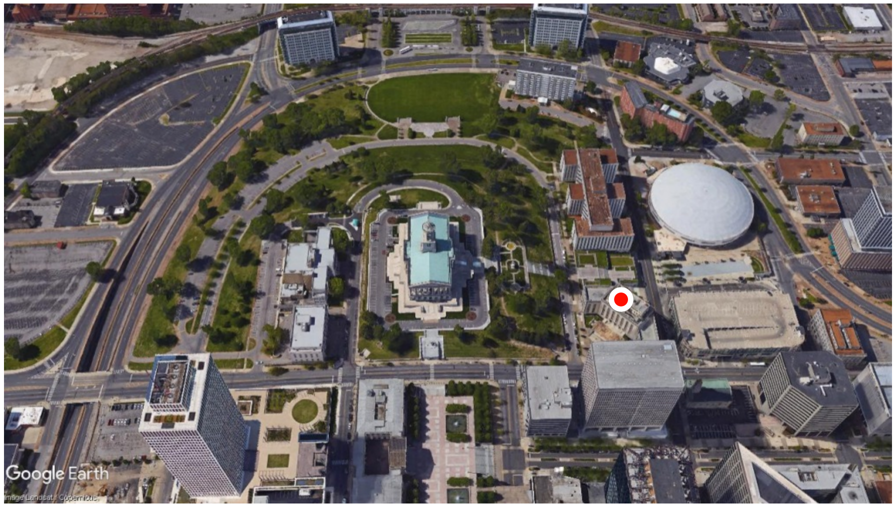


Figure 44 - John Sevier Building

Building Sq. Ft.

78,414

Est. Available Sq. Ft.

--

Percent of Available Space

--

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Attorney General	74,451	--	--
DHS Snack Bar	273	--	--
Safety (Capitol Police)	3,690	--	--

Figure 45 - John Sevier Building Projected Reduction

Summary

The building is approved to undergo major renovation over the next few years. While under renovation, the Attorney General staff from the John Sevier Building will hotel in the War Memorial Building. Once the project is complete, the staff will relocate back to the John Sevier Building.

(3) Library and Archives

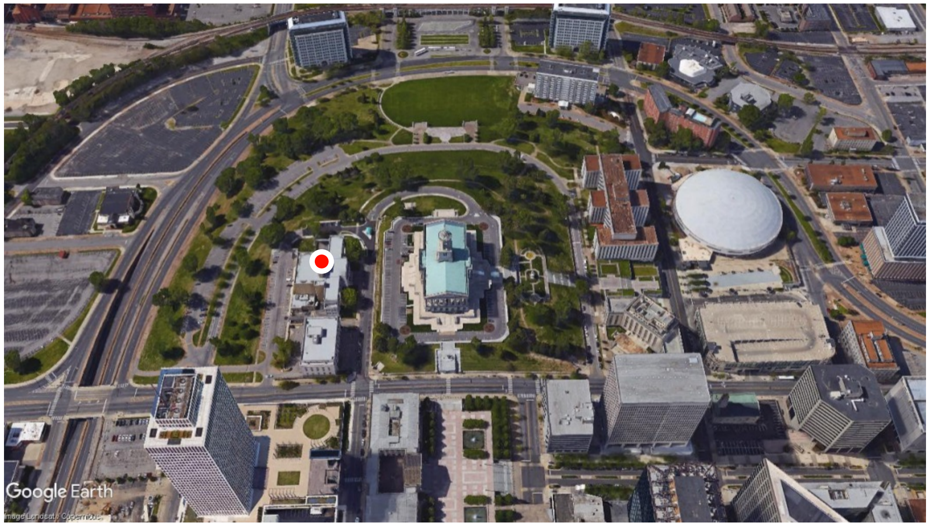


Figure 46 - Tennessee State Library and Archives

Building Sq. Ft.

65,746

Est. Available Sq. Ft.

--

Percent of Available Space

--

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Secretary of State	65,746	--	--

Figure 47 - Tennessee State Library and Archives Projected Reduction

Summary

With the accumulation of archives over time, the State has outgrown this building—built in 1952—which makes it inadequate for the storage needs of State records and documents. Additionally, the temperature and humidity control is insufficient for the valuable documents stored here.

For these reasons, construction on the new TSLA began in December 2017. Once the new TSLA is built, the Supreme Court could potentially expand into the current space based on a 1996 study.

(4) State Capitol

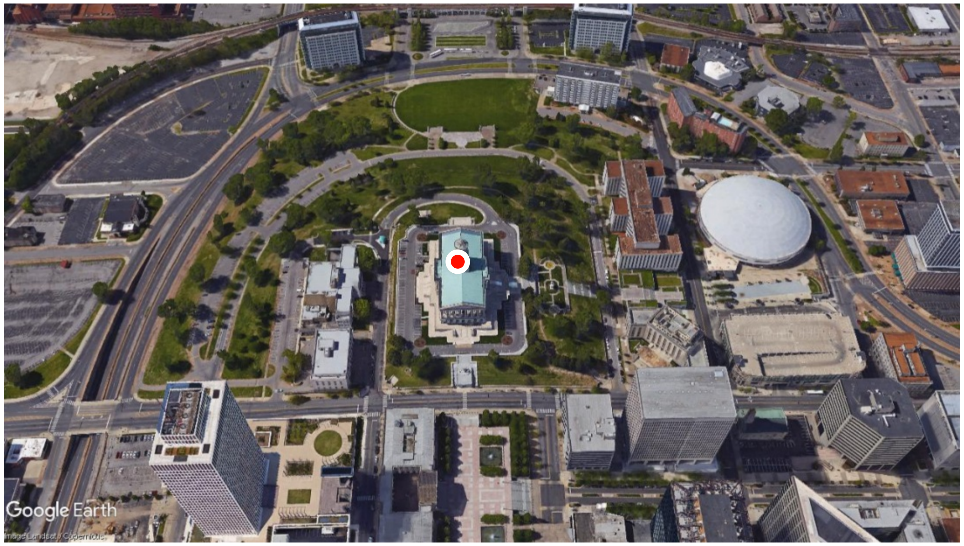


Figure 48 - Tennessee State Capitol

Building Sq. Ft.

41,465

Est. Available Sq. Ft.

--

Percent of Available Space

--

Tenant Roster			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Comptroller	1,229	1,229	--
Governor	13,349	13,349	--
Finance and Administration	1,229	1,229	--
Bldg. Mgmt.	1,000	1,000	--
DHS Snack Bar	584	584	--
Legislature	21,616	21,616	--
Secretary of State	1,229	1,229	--
Treasury	1,229	1,229	--

Figure 49 - Tennessee State Capitol Tenant Roster

Summary

The State Capitol is a legacy building and the face of State government in Tennessee. It should be maintained and invested as such.

(5) Supreme Court

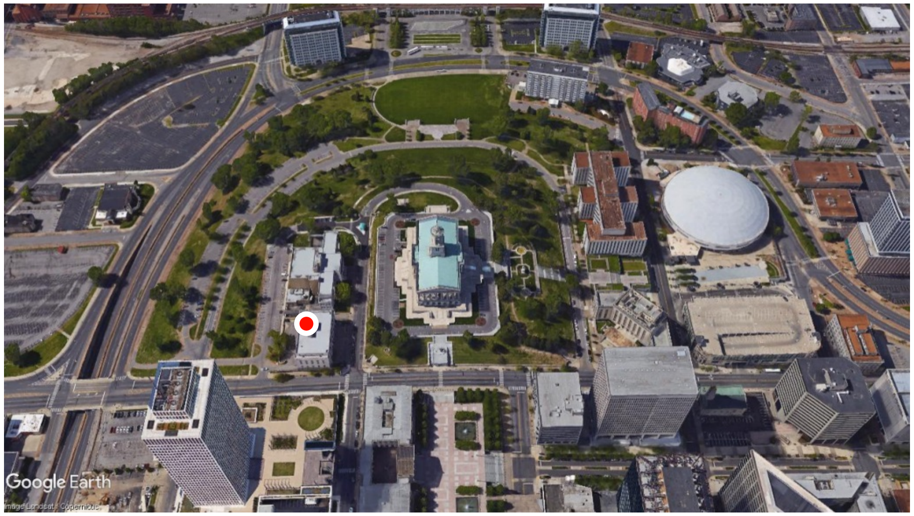


Figure 50 - Tennessee State Supreme Court Building

Building Sq. Ft.

17,257

Est. Available Sq. Ft.

--

Percent of Available Space

--

Tenant Roster			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Supreme Court	17,257	--	--

Figure 51 - Tennessee State Supreme Court Building Tenant Roster

Summary

The current Tennessee Supreme Court is insufficient for its ongoing programmatic space need. Based on the Update to the 1996 Facility Development Plan in September 2005, the Supreme Court has continued a slow growth consistent with the original study.

The original study was based on the annexation of the current Tennessee State Library and Archives. As it currently stands, this plan is still in development and should commence once the new Tennessee State Library and Archives is complete.

d) Owned Field Offices

(1) 900 2nd Avenue

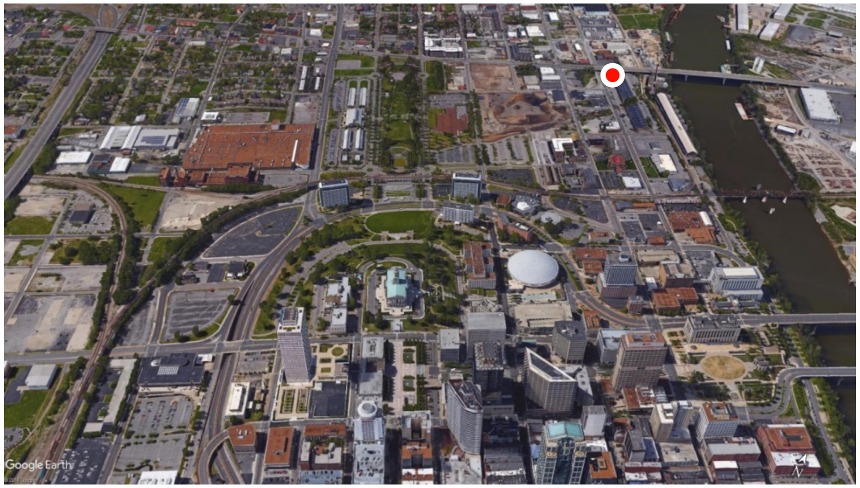


Figure 53 - 900 2nd Avenue

Building Sq. Ft.

36,661

Est. Available Sq. Ft.

--

Percent of Available Space

--

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Children's Services	36,661	36,661	--

Figure 52 - 900 2nd Avenue Projected Reduction

Summary

The Davidson County District Office at 900 2nd Avenue is in the Germantown neighborhood in the downtown Nashville area. This area has recently seen a spike in development and the value of real property. As the Downtown Nashville Strategy unfolds, the State should begin to review options to relocate.

This property, along with 1000 2nd Avenue, is unique in that it is an owned field office. A vast majority of our field offices are in leased locations due to the need for more frequent update requirements based on the traffic associated with a field office.

(2) 1000 2nd Avenue

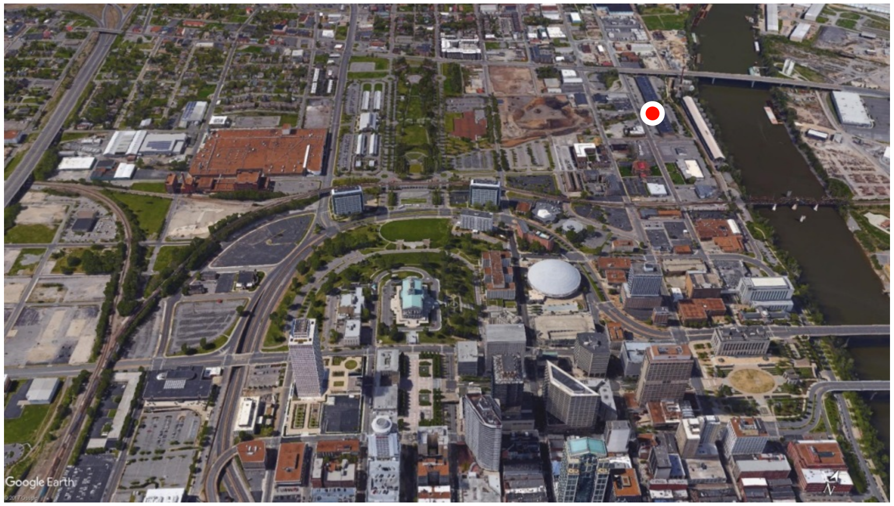


Figure 55 - 1000 2nd Avenue

Building Sq. Ft.

43,436

Est. Available Sq. Ft.

--

Percent of Available Space

--

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Human Services	43,436	--	--

Figure 54 - 1000 2nd Avenue Projected Reduction

Summary

The Davidson County Regional Office at 1000 2nd Avenue is in the Germantown neighborhood in the downtown Nashville area. This area has recently seen a spike in development and the value of real property. As the Downtown Nashville Strategy unfolds the State should begin to review options to relocate.

This property, along with 900 2nd Avenue, is unique in that it is an owned field office. A vast majority of our field offices are in leased locations due to the need for more frequent update requirements based on the traffic associated with a field office.

e) Leased Office Buildings

(1) Parkway Towers

Figure 57 - Parkway Towers

Building Sq. Ft.

80,156

Annual Costs (as of December 2017)

$1.33M

Avg. Cost per Sq. Ft.

$16.59

Tenant Roster		
Agency	**S/F**	**Exp. Date**
BECF*	3,990	06/30/18
Higher Ed. Commission	21,811	07/31/18
Student Assistance Corp.	16,235	07/31/18
TN Housing Dev. Agency	7,971	07/31/20
Finance and Administration	144	07/31/20
Board of Parole	23,810	07/31/20
Vacant	6,195	07/31/20

**Bureau of Ethics and Campaign Finance*

All leases are full-service gross

Figure 56 - Parkway Towers Tenant Roster

Summary

Currently, the aggregate sum of all leases in Parkway Towers totals $1.33M annually. Based on the December 2017 STREAM Market Rent Study, the average market rate for Nashville is $22.86/sq. ft. If each agency were to remain in the lease at the new rate, the cost would be $1.83M annually—an increase of $500,000. BECF will remain in Parkway Towers as it is crucial for the agency's mission to stay separate from other State entities.

(2) UBS Building

Figure 58 - UBS Building

Building Sq. Ft.

140,041

Annual Costs (as of December 2017)

$3.16M

**Does not include $100K in annual parking costs*

Avg. Cost per Sq. Ft.

$22.56

Tenant Roster		
Agency	**S/F**	**Exp. Date**
Attorney General	55,141	10/31/25
Intellectual and Dev. Disabilities	20,034	11/30/25
Children's Services	63,013	11/30/25
Children's Services (O/W)	2,213	11/30/25

Figure 59 - UBS Building Tenant Roster

Summary

The State does not intend to remain in the UBS Building once the current leases reach maturity. While a plan for the TN Dept. of Children's Services and the TN Dept. of Intellectual and Developmental Disabilities is in development, the Attorney General is currently planned to relocate to the office portion of the War Memorial Building.

f) Downtown Buildings under Development

Tennessee State Museum		• Construction is underway, and the building is nearly 50% complete as of December 2017. The new building will be approximately 140,682 SF. • Construction is expected to be complete by May 2018 • The exhibits are expected to be completed by August 2018. • The grand opening date has not been set as of the date of this publication.
New Tennessee State Library and Archives		• The new facility is planned on a 3.5-acre site on the east side of the Bicentennial Capitol Mall. This location is across the mall from the new Tennessee State Museum. • The new building will be approximately 165,000 SF and will be built with an axial relationship to the mall. • The new location is more convenient for the public and will provide adequate parking for visitors.

Figure 60 - Downtown Buildings Under Development

2. METRO CENTER

a) Overview

The State of Tennessee occupies 367,322 sq. ft. of owned space and leases nearly 553,138 sq. ft. of space in Metro Center for a total of 920,460 sq. ft., which roughly accounts for 10% of the FRF portfolio.

Owned Buildings	Leased Building
220 French Landing	44 Vantage Way
665 Mainstream Drive	200 Athens Way
	227 French Landing
	310 Great Circle

Figure 61 - Metro Center Owned and Leased Buildings

Average Class B Gross Rent[10]

$20.10

State's Average Rent

$18.72*

*State's Average Base Rent is $15.87. The figure above represents the base rent plus the State's estimated cost of utilities and janitorial ($2.85)

[10] Market rents typically allow for a certain allowance of furniture and tenant improvements. However, the State normally exceeds market costs since it requires specific, move-in ready interior construction. Each lease is different so determining an average interior construction cost remains difficult.

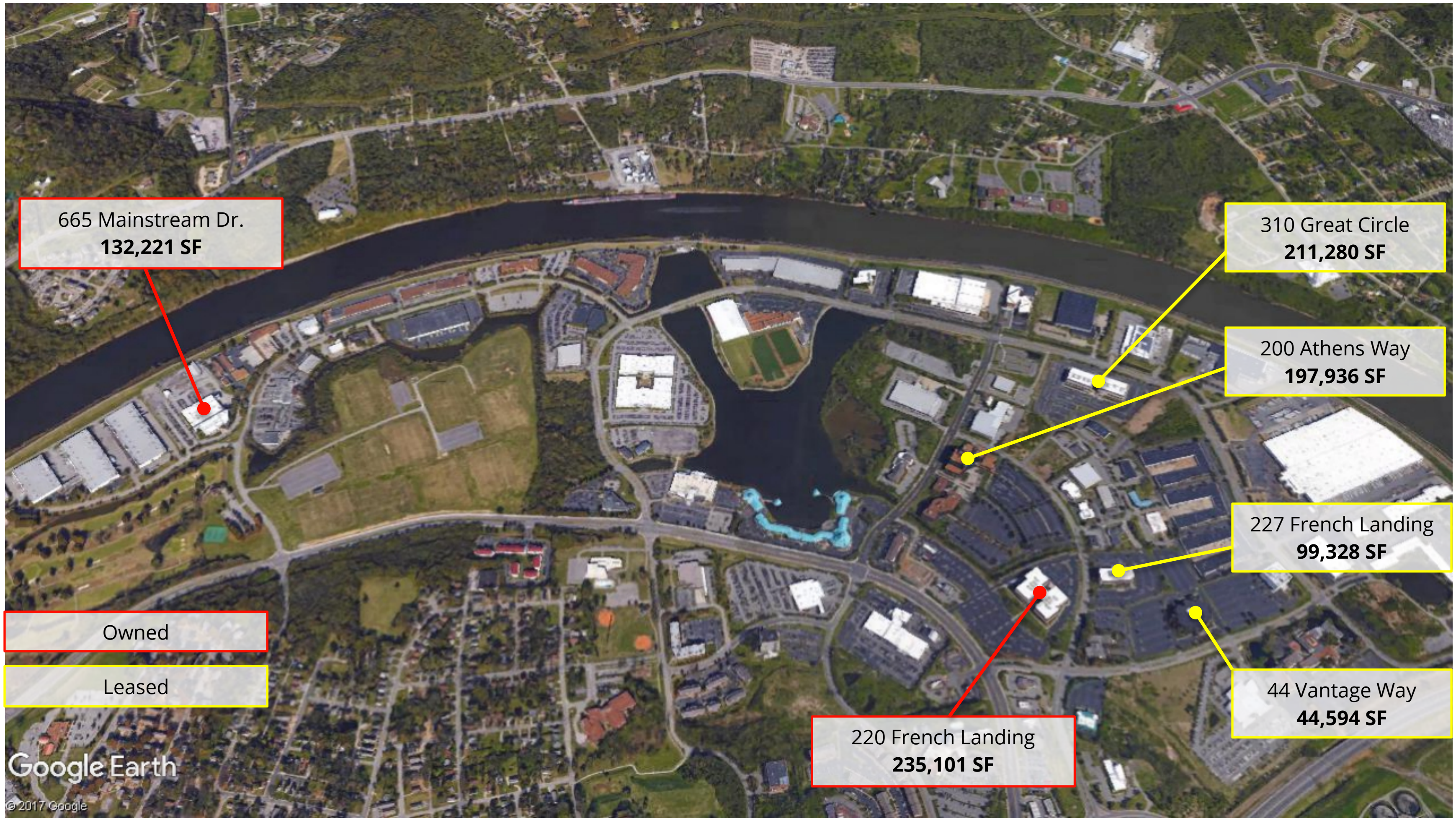


Figure 62 - Metro Center Buildings

b) Owned Buildings

(1) 220 French Landing

Figure 63 - 220 French Landing

Building Sq. Ft.

235,101

Est. Available Sq. Ft.

67,172

Percent of Available Space

29%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Labor & Workforce Dev.	205,461	143,823	61,638
TennCare	18,447	12,913	5,534
Foreign Language Institute	7,815	7,815	--
TN Employees Credit Union	2,312	2,312	--
Bldg. Mgmt.	1,066	1,066	--

Figure 64 - 220 French Landing Projected Reduction

Summary

The TN Dept. of Labor and Workforce Development and the Division of TennCare may reduce their respective space need by the optimal estimated AWS reduction factor of 30%. If these two agencies were able to accomplish the optimal estimated reduction, it would open approximately 67,000 square feet of space for use by other agencies.

The building at 220 French Landing was purchased with Reed Act funds, which means that LWFD must have higher than 50% occupancy.

(2) 665 Mainstream Drive

Figure 66 - 665 Mainstream Drive

Building Sq. Ft.

132,221

Est. Available Sq. Ft.

24,756

Percent of Available Space

19%

Projected Reduction			
Agency	**Current S/F**	**Est. New Need**	**Est. Available Space**
Health	66,711	46,698	20,013
Labor & Workforce Dev.	15,810	11,067	4,743
Finance and Administration	11,089	11,089	--
Vacant (O/W)	27,480	27,480	--
Commerce and Insurance (O/W)	6,908	6,908	--
Health (O/W)	1,872	1,872	--
Vacant (O/W)	1,440	1,440	--
Finance and Administration (O/W)	547	547	--
Bldg Mgmt (O/W)	182	182	--
Labor & Workforce Dev. (O/W)	182	182	--

Figure 65 - 665 Mainstream Drive Projected Reduction

Summary

The TN Dept. of Health and the TN Dept. of Labor and Workforce Development may reduce their respective space need by the optimal estimated AWS reduction factor of 30%. If these two agencies were able to accomplish the optimal estimated reduction, it would open approximately 25,000 square feet of space for use by other agencies.

c) Leased Buildings

(1) 44 Vantage Way

Figure 67 - 44 Vantage Way

Tenant Roster		
Agency	**S/F**	**Exp. Date**
Revenue	44,594	11/30/20

Figure 68 - 44 Vantage Way Tenant Roster

Building Sq. Ft.

44,594

Annual Costs (as of December 2017)

$735,801

Avg. Cost per Sq. Ft.

$16.50

(modified gross)

Summary

To reduce costs to the State, STREAM is reviewing opportunities to decrease the leased footprint in Nashville. A variety of options exist for the TN Dept. of Revenue to relocate out of 44 Vantage Way upon expiration. The agency may move into the Andrew Jackson Building and colocate with the remainder of its agency.

(2) 200 Athens Way

Figure 69 - 200 Athens Way

Building Sq. Ft.

197,936

Annual Costs (as of December 2017)

$3.43M

Avg. Cost per Sq. Ft.

$17.34

(modified gross)

Tenant Roster		
Agency	**S/F**	**Exp. Date**
Children's Services	64,571	09/30/29
Human Services/DDS*	133,365	12/31/31

*DDS – Disability Determination Services

Figure 70 - 200 Athens Way Tenant Roster

Summary

To reduce costs to the state, STREAM is reviewing opportunities to decrease the leased footprint in Nashville. As AWS continues to be implemented in the Nashville area, STREAM will look to create space efficiencies that will address the leased square footage for the TN Dept. of Children's Services. The Disability Determination Services (DDS) is a federal agency, and the State real estate strategy is not applicable.

(3) 227 French Landing

Figure 71 - 227 French Landing

Tenant Roster		
Agency	**S/F**	**Exp. Date**
TennCare	99,328	12/31/31

Figure 72 - 227 French Landing Tenant Roster

Building Sq. Ft.

99,328

Annual Costs (as of December 2017)

$1.73M

Avg. Cost per Sq. Ft.

$17.50

(modified gross)

Summary

- To reduce costs to the state, STREAM is reviewing opportunities to decrease the leased footprint in Nashville. As AWS continues to be implemented in the Nashville area, STREAM will look to create space efficiencies that will address the leased square footage for the Division of TennCare.

(4) 310 Great Circle

Figure 73 - 310 Great Circle

Building Sq. Ft.

211,280

Annual Costs (as of December 2017)

$2.18

Avg. Cost per Sq. Ft.

$10.31

(modified gross)

Tenant Roster		
Agency	**S/F**	**Exp. Date**
TennCare	211,280	03/31/20

Figure 74 - 310 Great Circle Tenant Roster

Summary

The State currently has an option to purchase 310 Great Circle prior to the expiration date of March 31, 2020, for $26.68M. STREAM believes it to be in the best interest of the state to purchase the building.

D. OTHER MAJOR MARKETS

1. MEMPHIS

% of FRF Portfolio	Total Square Footage	Owned Square Footage	Leased Square Footage	No. of Buildings	Avg. State Rent	Avg. Class B Gross Market Rate
5%	492,773	100,579 (20%)	392,194 (80%)	25	$18.11*	$16.49

**State's Average Base Rent is $15.26. The figure above represents the base rent plus the State's estimated cost of utilities and janitorial ($2.85)*

Market Summary

Vacancies in Memphis have historically remained unchanged since 2000. This has not amounted, however, to significant rent growth in the market and is expected to underperform when compared to the national benchmark. As it relates to sales, Memphis has not surpassed an average sale price per square foot of $100 in the past 10 years.[xv]

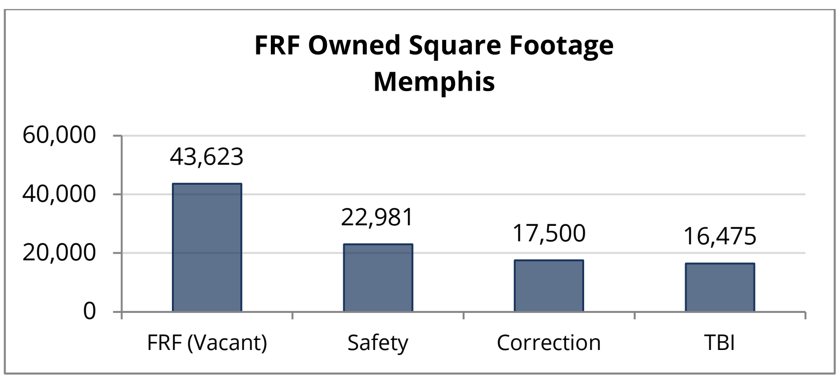


Figure 75 - FRF Owned Square Footage Memphis

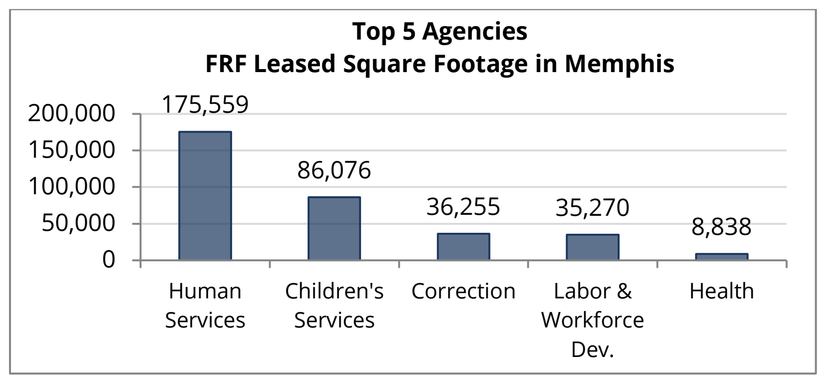
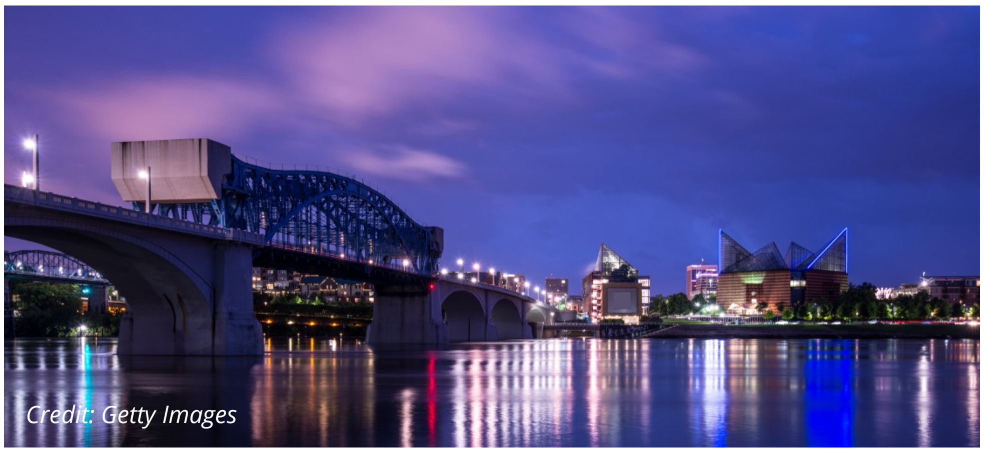


Figure 76 - Top 5 Agencies - FRF Leased Square Footage Memphis

2. CHATTANOOGA

% of FRF Portfolio	Total Square Footage	Owned Square Footage	Leased Square Footage	No. of Buildings	Avg. State Rent	Avg. Class B Gross Market Rate
3%	240,265	12,600 (5%)	227,665 (95%)	9	$19.42*	$16.20

**State's Average Base Rent is $16.57. The figure above represents the base rent plus the State's estimated cost of utilities and janitorial ($2.85)*



Market Summary

Chattanooga's economy was transformed by the $330 million fiber-optic network installed by the city and the Electric Power Board in 2010. The University of Tennessee-Chattanooga has estimated that the system has contributed more than $1 billion above the installation cost to the local economy. The Chattanooga market typically does not see new supply and as a result rent growth is healthy and above the historical averages.[xvi]

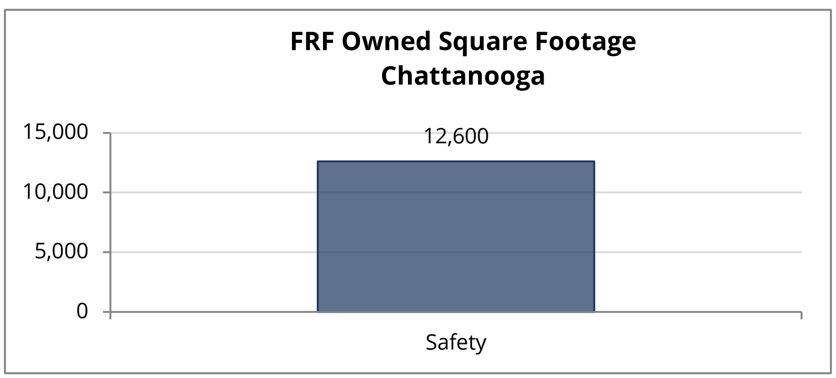


Figure 77 - FRF Owned Square Footage Chattanooga

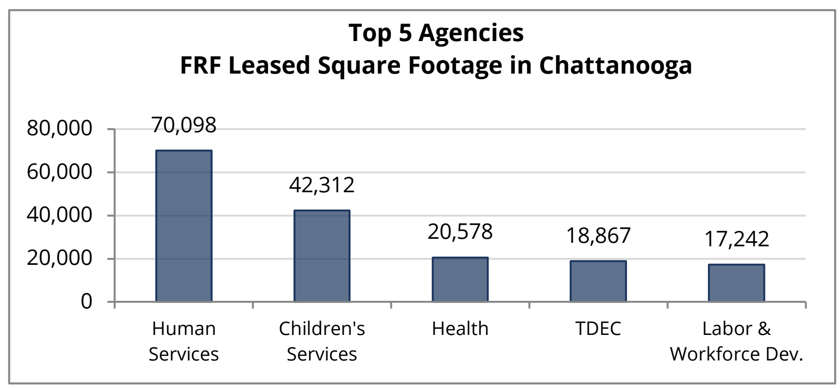


Figure 78 - Top 5 Agencies - FRF Leased Square Footage - Chattanooga

3. KNOXVILLE

% of FRF Portfolio	Total Square Footage	Owned Square Footage	Leased Square Footage	No. of Buildings	Avg. State Rent	Avg. Class B Gross Market Rate
6%	496,654	154,233 (31%)	342,421 (69%)	19	$15.64*	$15.24

**State's Average Base Rent is $12.79. The figure above represents the base rent plus the State's estimated cost of utilities and janitorial ($2.85)*

Market Summary

Demand for space has significantly outpaced supply by nine times since 2016. This has resulted in low vacancy rates with rent growth higher than historical averages. Although growth is higher, costs per square feet remain less than pre-recession levels.[xvii]

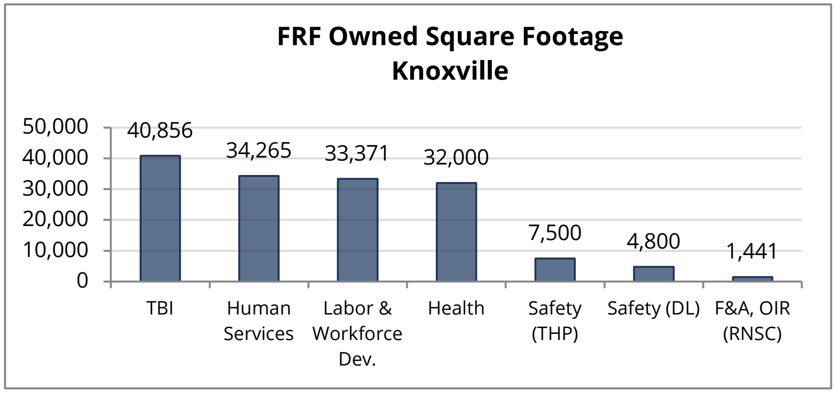


Figure 79 - FRF Owned Square Footage Knoxville

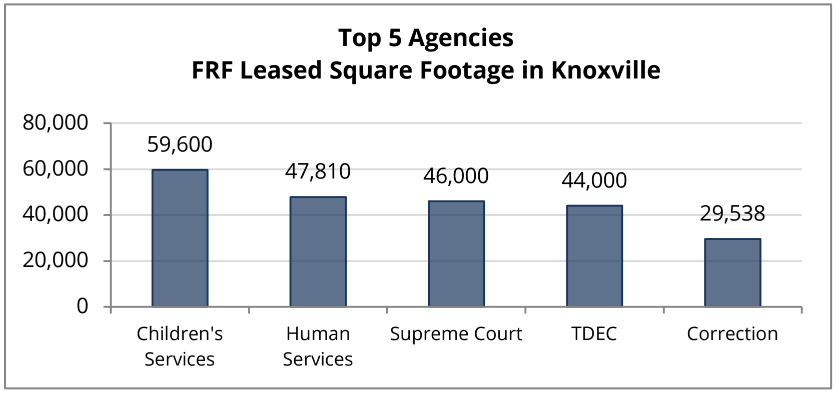


Figure 80 - Top 5 Agencies - FRF Leased Square Footage - Knoxville

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VI. End Notes

[i] (University at Albany, State University of New York, 2003)

[ii] Ibid.

[iii] (PwC, 2017)

[iv] Boyd Center for Business and Economic Research, University of Tennessee, Knoxville - September 2017

[v] (CBRE Workplace Strategy-Commissioned by Genesis, 2014)

[vi] (HCMWorks, 2015)

[vii] Ibid.

[viii] Ibid.

[ix] Ibid.

[x] Carsten Foertsch, "The Co-working Forecast 2017, January 25, 2017, http://www.deskmag.com/en/the-complete-2017-coworking-forecast-more-than-one-million-people-work-from-14000-coworking-spaces-s

[xi] (CBRE Workplace Strategy-Commissioned by Genesis, 2014)

[xii] (CoStar Group, Q3, 2017)

[xiii] (CoStar Group, Q3, 2017)

[xiv] (Urban Land Institute and PwC, 2017)

[xv] (CoStar Group, Q4, 2017)

[xvi] (CoStar Group, Q4, 2017)

[xvii] (CoStar Group, Q4, 2017)