2022 Annual Lease & Purchase Option Report

January 1, 2023 – December 31, 2023

For leases expiring in the coming 2023 calendar year, this report analyzes whether the state should continue leasing or use its option to purchase.

In Accordance with 20 ILCS 405/405-300(4), the Illinois Department of Central Management Services submits the following report to Auditor General & General Assembly on or before February 15th.

Janel L. Forde
Director

Introduction

Options Analysis for Leased Properties with 100% State of Illinois Occupancy Expiring in 2023

Project Objectives and Approach

The State of Illinois (the "State") Department of Central Management Services ("CMS") has engaged JLL to conduct an options analysis for two office and warehouse properties currently leased by the State of Illinois (together, the "Subject Properties"). These properties are 100% occupied by the State, and each lease is set to expire during the 2023 calendar year.

JLL's options analysis consisted of two key parts: a market analysis and financial analysis. The market analysis was conducted to assess the supply and demand dynamics in each market, including demographic trends, sale and lease rates for comparable properties, and leasing activity in the market. JLL determined market rates in each market by utilizing historical sales and lease data, when available, in tandem with market data for properties currently listed for sale or lease in each market.

Next, JLL performed a financial analysis for each property in which a variety of inputs, including market rental rates, operating expenses, upfront capital expense, and ongoing capital expenses were used to compare scenarios in which the State would either purchase each property or continue to lease the property. Through this analysis, JLL determined a breakpoint purchase price for each property. For example, for a property with a $500,000 breakpoint, JLL determined that the State would be better off by purchasing the property for a price less than or equal to the breakpoint purchase price of $500,000. After determining the breakpoint purchase price for each property, JLL analyzed the market data to assess the feasibility that the State could purchase the property for a price less than or equal to the breakpoint purchase price. In cases where the market data indicated that the State could purchase the property at or below the breakpoint, JLL recommended that the State consider purchasing the property. However, for those properties in which the breakpoint was below the likely purchase price, JLL recommended that the State continue to lease the property. To help maximize CMS's time and resources, the State should only consider purchasing a property if the breakpoint is reasonably in line with the sales price in the market.

While this analysis may identify subject properties for which the State should consider acquisition, the State may face challenges in securing funding to acquire these properties given the State's current financial constraints. This analysis is intended to inform the State's decision making given those financial constraints so that the State may determine priorities for the use of its limited funding.

Acquisition Risk

Prior to acquiring any of the properties in the below analysis, the State must carefully consider the potential risks in purchasing property rather that continuing to lease. First, the State may not be able to acquire property at market value. Second, the full cost of renovating property both initially and over the course of a 10-year periods falls to the State, which then bears construction risk. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI and a disposition of a property at the end of the 10-year period. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the difference in total cost between acquiring a property and continuing to lease it, acquiring a property may justify the risks above. However, the State must carefully consider whether the risk is commensurate with the cost savings. JLL has offered some general guidance below.

Occupancy Strategy

CMS has developed new space standards, effective as of September 1st, 2020, in order to allow the State to reduce its footprint between 20% to 40%. However, due to the fact that the target leases expire in 2023 and reduction in lease square footage requires termination of the existing lease before spaces can be reduced, as well as the landlords' probable unwillingness to allow the State to reduce its leased space where the State currently leases 100% of the building, JLL's analysis did not include any determination of the State's utilization of the Subject Properties for programmatic fit with the user agency. **JLL recommends that the State complete a thorough portfolio assessment for all State-owned and -leased properties to determine the actual requirements for its user groups and identify opportunities for potential consolidation and footprint reduction**.

This portfolio assessment would review overall real estate strategy by the user group, review the occupancy of the subject building, and create a portfolio strategy that considers each asset. This review is critical to ensuring the State has all pertinent information to make an own vs. lease decision.

In addition to the State's newly adopted space standards, the COVID-19 pandemic has greatly increased remote work for many State departments. Post-pandemic workplace strategies may result in a permanent increase in remote work practices, potentially reducing the State's office space requirements as the State adopts hoteling and other desk sharing practices. As part of its portfolio assessment, the State should consider any newly adopted post-pandemic workplace strategies to ensure that the State does not lease or acquire space that its workforce no longer needs.

Conclusions

For each property, JLL identified one of three lowest cost technically acceptable alternatives:

1. **Continue to lease:** The current lease is the most cost-efficient alternative for the location. Neither purchasing the asset, nor any identified alternatives, are as cost effective as the existing lease. Even if the State opts to continue leasing the subject property, the State should consider conducting a portfolio assessment to determine the actual space requirements for its users in the market and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.
2. **Consider acquisition:** It is more cost effective to acquire the subject asset than to lease the asset. However, prior to any asset purchase, the State should consider not only conducting a portfolio assessment to determine the actual space requirements for its users in the market and surrounding markets, but also the condition of the existing building.
3. **Consider an alternative property:** There is an asset in the proximate geography that would be a more cost-effective option for the user group. However, before acquiring or leasing the alternative property, the State should consider conducting a portfolio assessment to determine the actual space requirements for its users in the market and surrounding markets.

JLL's analysis for each property is as follows:

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
1550 Douglas Drive Department of Human Services / Department of Veteran's Affairs - #L6462	Charleston	**Continue to Lease** The total cost of leasing over a 10-year period may be $91,564 less, or 4% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 44.
4800 Rodger Street Illinois Emergency Management Agency - #L4058	Springfield	**Continue to Lease** The total cost of leasing over a 10-year period may be $1,214,220 less, or 45% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
			and identify opportunities to consolidate its warehouse spaces. For additional discussion, please see page 44.

Definitions

Below is a list of definitions for terms used throughout the report:

Acquisition: In this analysis, this refers to the purchase of a building.

Base Rental Rate: Rental rate that does NOT include costs such as operating expenses, real estate taxes, and electricity. This is often referred to as the “Net” rental rate.

Capital Repairs and Renovations (CR&R): Repairs and renovations to the space that require money to be spent.

Class A, B, C: A ranking system used in real estate to signify the quality of a building. This takes in to account things such as aesthetics, energy efficiency, and building quality. A is the highest quality building and C is the lowest quality.

Consumer Price Index (CPI): The measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Deliveries or “Delivered Space”: New buildings / space that was constructed.

Gross Rental Rate: Includes base rental rate + Operating Expenses and Real Estate Taxes, all added up into one combined rental rate figure. The Gross Rental Rate will always be higher than the base/net rental rate because it encapsulates all costs.

Inventory: Physical space. Can be for office, warehouse, etc.

Landlord Tenant Improvement (TI) Allowance: A sum of money that the landlord provides a tenant to be used towards improving the space a tenant occupies. A TI allowance can typically be used without many restraints. The amount of money the landlord provides as a TI allowance can vary significantly based on but not limited to the term length of the lease, how nice the space is, and the credit worthiness of the tenant.

Lease Comps: The asking rental rates on a per square foot basis for properties comparable in quality and use type (office, warehouse, etc.) that are currently available for lease. These asking rental rates are used for comparative purposes when looking at the cost to rent the subject property being studied. They can help indicate if then rent currently being paid is too high, or if it is too low and is favorable for the tenant.

Leasing Activity: Quoted in SF. The amount of physical space that was leased during a certain time period.

Market Value: The assumed value of the property at a given time.

Nominal Value: Future Value.

Operating Expenses: Expenses a business incurs through its normal business operations. Often abbreviated as OpEx, operating expenses include rent, equipment, inventory costs, marketing, payroll, insurance, and R&D.

Present Value Basis: The value of a property today; current value.

PSF: Per Square Foot.

Real Value: Present Value; the value of a property today.

Rental Rate Escalation: The amount a rental rate increases after a certain period.

Sales Comps: The asking purchases prices on a per square foot basis for properties comparable in quality and use type (office, warehouse, etc.) that are currently available for sale. These asking purchase prices, or “listing prices” are used to determine an what an approximate cost to purchase the subject property would be.

SF: Square Feet.

Vacancy Rate: Percentage of space that is unoccupied.

1550 Douglas Dr

Charleston, IL

Department of Human Services

Department of Veteran’s Affairs

Lease #L6462

Market Analysis

Property Description

Property Details	
Property Address:	1550 Douglas Drive, Charleston, IL
Lease Number:	L6462
Property Type:	Office
Building Size (SF):	17,278
Year Built:	1995
Using Agency:	Department of Human Services; Department of Veteran's Affairs
Lease Commencement Date:	October 2, 2018
Lease/Option End Date:	December 31, 2023
Demographics	
Population:	1 mile: 5,411 5 miles: 23,317
Median Household Income:	1 mile: $41,239 5 miles: $41,685

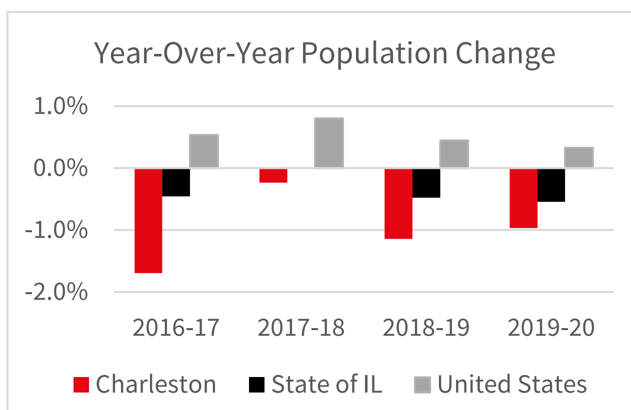
Source: CoStar

Demographic Overview for Charleston, IL

Population

In 2020, Charleston, Illinois had an estimated population of 20,042. Charleston has experienced population loss since 2016, with the 2020 population down 2.4% from 2016. Illinois has seen a 0.1% population decline since 2016, while the United States' population has grown 2.5% since 2016.

Year	Population Estimates
2020	20,042
2019	20,117
2018	20,192
2017	20,382
2016	20,539



Age

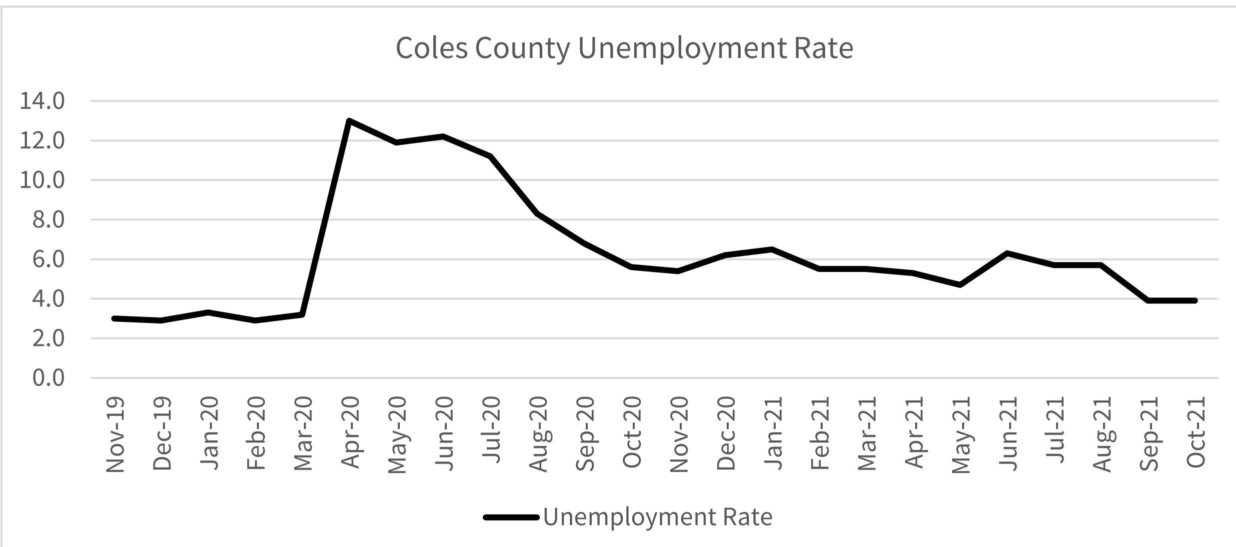
The median population in Charleston is 26.2 years old, younger than the statewide median age of 38.6.

Education

In Charleston, 34.7% of the population above the age of 25 has a bachelor's degree or higher, the same as the 34.7% statewide population above the age of 25 who has a bachelor's degree or higher.

Unemployment Rate – Effects of COVID-19

Charleston is located in Coles County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county hovered under 3.5% until March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 13.0% in April 2020 before steadily decreasing throughout the year. By October 2021, unemployment in the county was down to 3.9%, just above pre-pandemic levels.



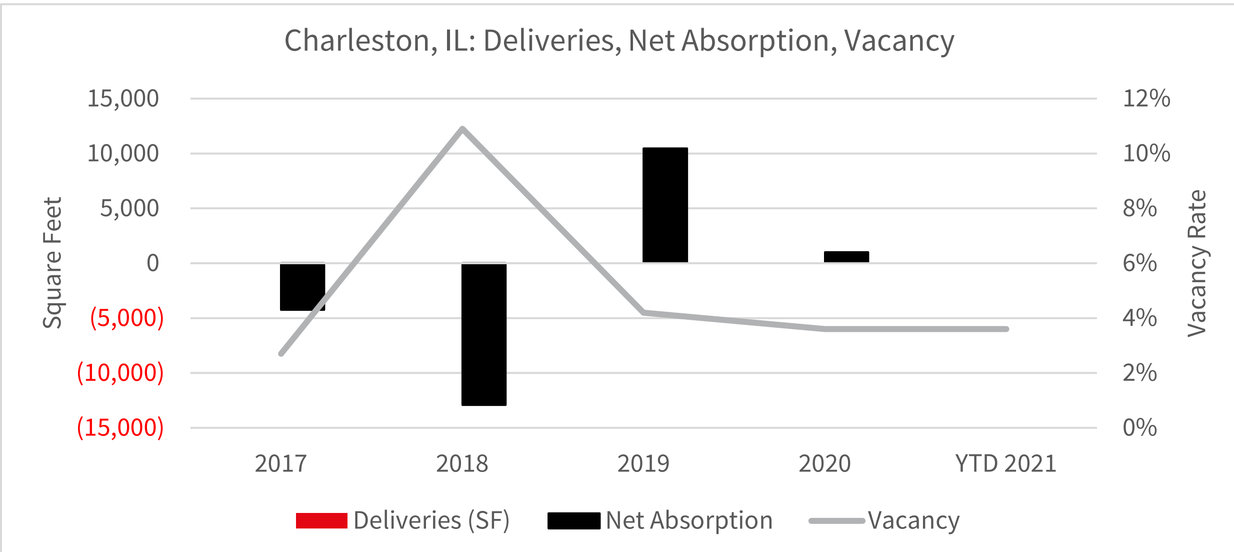
Source: U.S. Bureau of Labor Statistics

Source: U.S. Census Bureau

Office Market Conditions

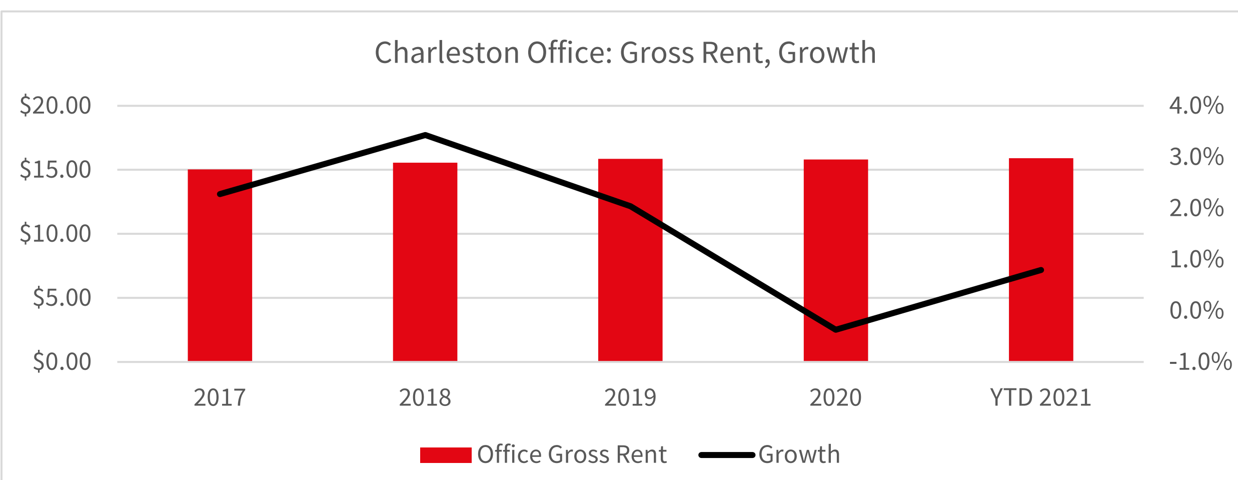
Inventory and Supply

The Charleston office market has 157,000 square feet of total office inventory with a vacancy rate of 3.6%. Net absorption has fluctuated in the last five years but has more recently seen positive net absorption following a negative absorption of 12,908 square feet of office space in 2018. Over the past five years, there have been no new deliveries. Vacancy in the market spiked above 10% in 2018, but vacancy has since dipped back to under 4% YTD 2021.



Source: CoStar

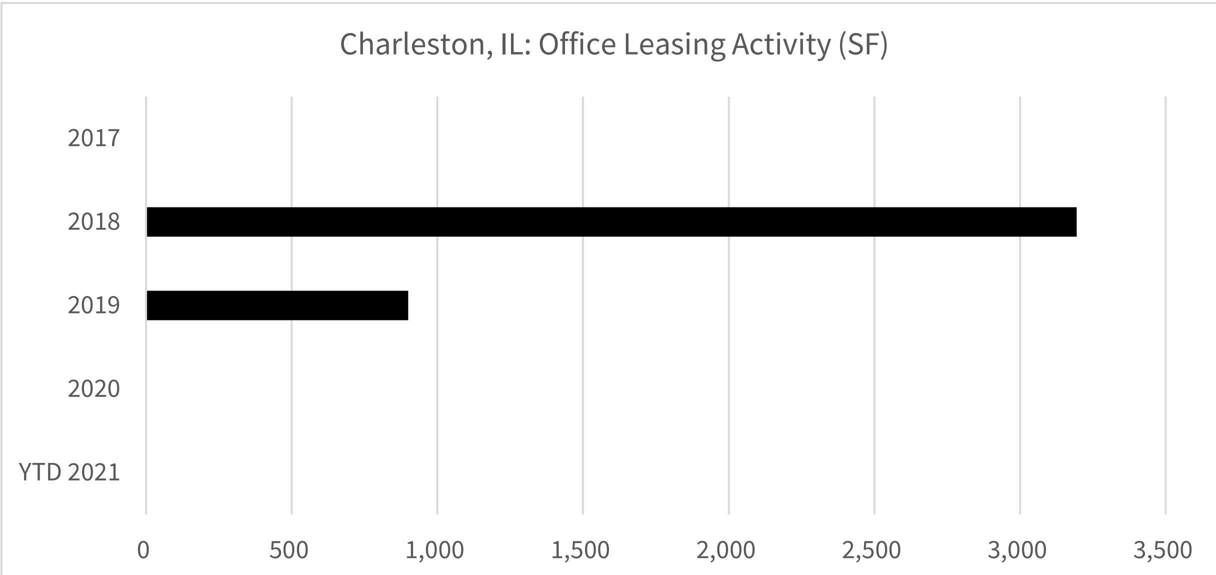
Despite the fluctuation in office rent growth year to year, office rents in the market have increased steadily to $15.92 per square foot, up from $15.04 per square foot in 2017, averaging over a 1% rent increase annually.



Source: CoStar

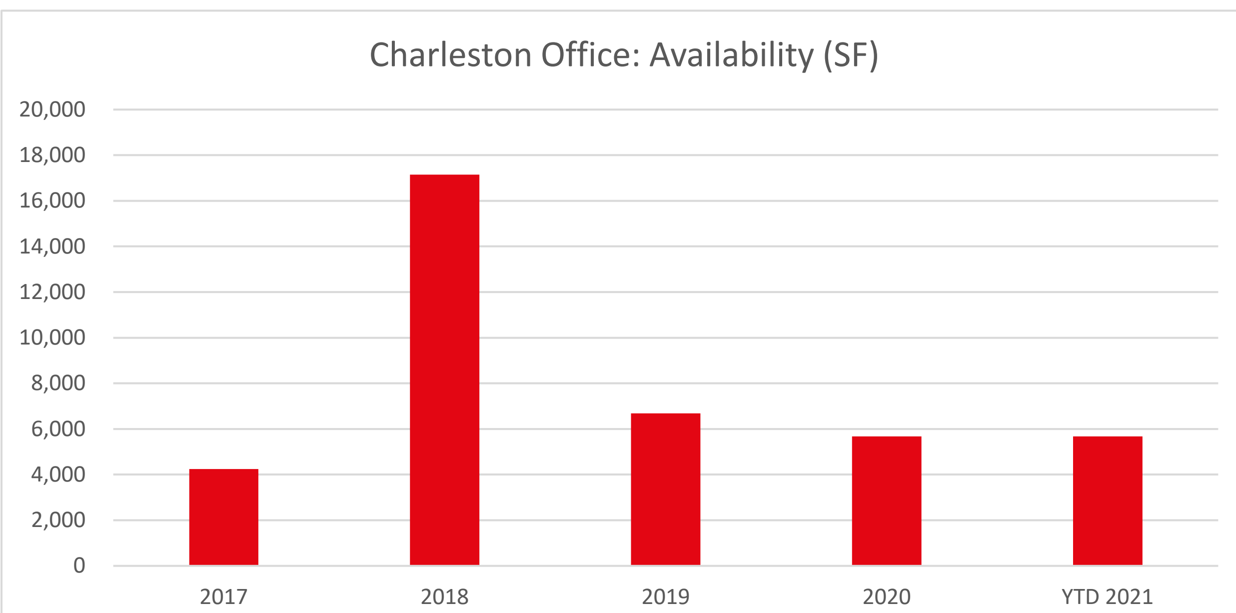
Leasing Activity and Availability

Over the past five years, office leasing activity in Charleston, IL has been limited to about a total of 4,000 SF of leasing activity, indicating limited turnover across office space in the market.



Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been steadily decreasing in the past four years, with total availability of over 16,000 square feet in 2018 more than half to about 5,700 square feet in 2021 YTD.

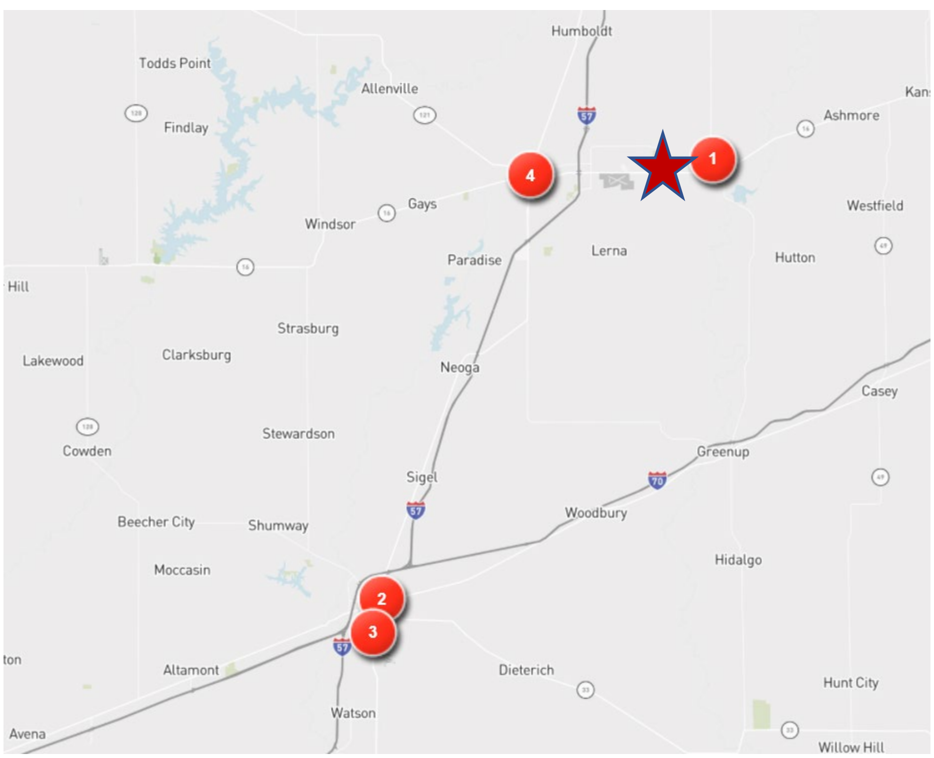


Source: CoStar

Sale Comparables

In recent years, there has been only one office property sale (with a publicly disclosed price) in the market: the 4,400 square foot office property at 501-521 7th St in Charleston sold for $15.45 PSF in February 2020. Outside of Charleston, there have been three office properties sold in nearby markets in recent years. The 5,376 square foot property at 406 E Jefferson Ave in Effingham sold for $35.34 PSF in September 2020. The 6,000 square foot property at 2801 S Banker St in Effingham sold for $33.00 PSF in August 2020. Lastly, the 49,053 SF property at 121 S 17th St in Mattoon sold for $6.12 PSF in June 2021.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	501-521 7th St, Charleston, IL	C	4,400	$15.45	Feb-2020
2	406 E Jefferson Ave, Effingham, IL	B	5,376	$35.34	Sep-2020
3	2801 S Banker St, Effingham, IL	C	6,000	$33.00	Aug-2020
4	121 S 17th St, Mattoon, IL	B	49,053	$6.12	Jun-2021



Own Versus Lease Analysis

To assess whether the State should continue leasing 1550 Douglas Dr or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at our below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

Rentable Square Feet (sf total):	16,300
Lease Term (years):	10
Base Rental Rate ($ sf year)	$ 12.44
Rental Rate Escalation (% year)	2.0%
Base OpEx ($ sf year)	$ 4.00
OpEx Escalation (% year)	2.0%
Tenant Improvement (TI) ($ sf)	$ 51.17
Landlord TI Allowance ($ sf)	$ 25.58
Initial Capital Repairs and Renovations ($ sf)	$ 50.00
Routine Capital Repairs and Renovations (CR&R) ($ sf year)	$ 1.00
CR&R Escalation	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be $2,247,777. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

Total Cost to Lease 1550 Douglas Dr	
Total Rent Cost	$ 2,220,297
+ Total OpEx	$ 713,922
Total Cost (Real)	**$ 2,247,777**

A note on capital requirements:
For initial capital repairs, a baseline of $10/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2023 acquisition cost/value by a factor of 1.60% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for a price less than the total cost of leasing the property.

Total Cost to Acquire 1550 Douglas Dr	
2022 Break-Even Acquisition Cost	$ -
+ Total Buildout Cost (full TI)	$ 834,023
+ Initial CapEx	$ 815,000
+ Total Ongoing CapEx	$ 178,480
+ Total OpEx	$ 713,922
- 2032 Market Value	$ -
Total Cost (Nominal)	$ 2,541,425
Total Cost (Real)	**$ 2,254,128**

The following property sales provide some indication of market sales prices for properties in Charleston.

Own Versus Lease Analysis (cont'd)

Address	SF	Sales Price	Price PSF
501-521 7th St, Charleston, IL	4,400	$ 67,980	$ 15.45
406 E Jefferson Ave, Effingham, IL	5,376	$ 189,988	$ 35.34
2801 S Banker St, Effingham, IL	6,000	$ 198,000	$ 33.00
121 S 17th St, Mattoon, IL	49,053	$ 300,204	$ 6.12
Average			**$ 22.48**

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales in Charleston, Effingham, and Mattoon, the average sale price is $22.48 per square foot.

Should the State acquire the property for $22.48 per square foot, the total cost of acquisition, including capital expenditure, would be $2,339,341.

Total Cost to Acquire 1550 Douglas Dr at Market Value	
2023 Market Acquisition Cost	$ 366,383
+ Total Buildout Cost (full TI)	$ 834,023
+ Initial CapEx	$ 815,000
+ Total Ongoing CapEx	$ 178,480
+ Total OpEx	$ 713,922
- 2033 Market Value	$ (429,578)
Total Cost (Nominal)	$ 2,478,230
Total Cost (Real)	**$ 2,339,341**

This is $91,564 more than the cost to lease the property on a present value basis.

Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

Acquisition Alternatives

Address	Rentable Square Feet	Asking Sales price psf	Asking Sales price
None			

Lease Alternatives

Address	Total Available SF	Square Feet	Asking Rent $/SF
510-626 W Lincoln Ave	54,320	16,300	$11.50

There are currently no alternative office properties for sale in Charleston. There is one lease alternative located at 510-626 W Lincoln Ave for $11.50 PSF annually. This analsyis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

Conclusion

The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for $91,564 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property. Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

Lease 1550 Douglas Dr	$ 2,247,777
Acquire 1550 Douglas Dr	$ 2,339,341
Acquisition Alternatives	**Total Cost to Acquire**
Lease Alternatives	**Total Cost to Lease**
510-626 W Lincoln Ave	$ 2,613,733

4800 Rodger Street

Springfield, IL

Illinois Emergency Management Agency

Lease #L4058

Market Analysis

Property Description

Property Details	
Property Address:	4800 Rodger Street, Springfield, IL
Lease Number:	L4058
Property Type:	Warehouse
Building Size (SF):	19,000
Using Agency:	Illinois Emergency Management Agency
Lease Commencement Date:	March 1, 2018
Lease/Option End Date:	February 28, 2023
Demographics	
Population:	1 mile: 2,985 5 miles: 84,029
Median Household Income:	1 mile: $77,121 5 miles: $59,536

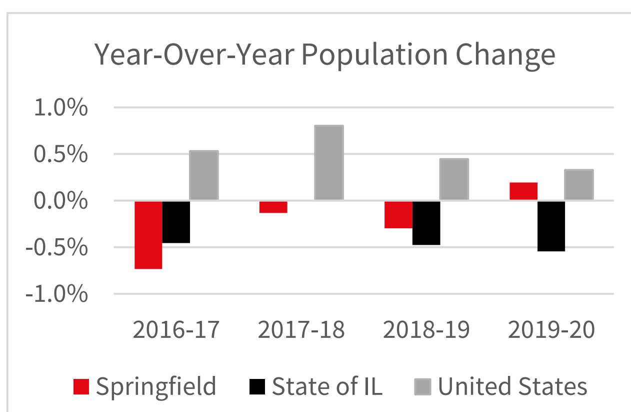
Source: Google

Demographic Overview for Springfield, IL

Population

In 2020, Springfield, Illinois had an estimated population of 114,394. Springfield has experienced population loss since 2016, with 2020 population down 0.9% from 2016. The State of Illinois has seen a 0.1% population decline since 2016, while the United States' population has grown 2.5% since 2016.

Year	Population Estimates
2020	114,394
2019	114,171
2018	114,512
2017	114,663
2016	115,511



Source: U.S. Census Bureau

Age

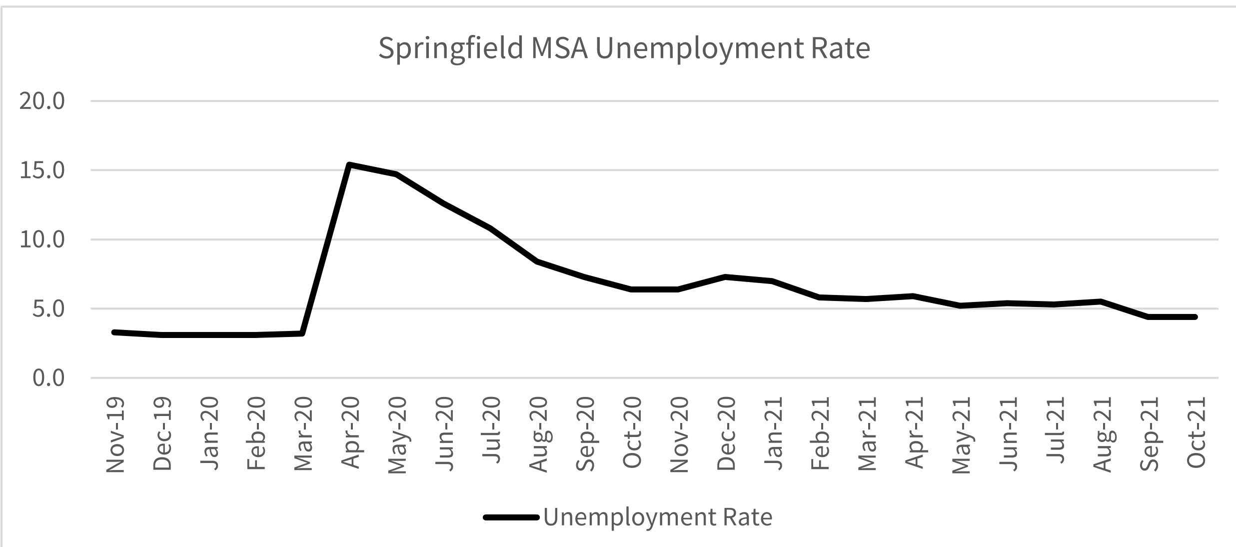
The median population in Springfield is 40.1 years old, which is younger than the statewide median age of 38.6.

Education

In Springfield, 34.0% of the population above the age of 25 has a bachelor's degree or higher, slightly less than the 34.7% statewide population above the age of 25 who has a bachelor's degree or higher.

Unemployment Rate – Effects of COVID-19

Springfield is located in the Springfield Metropolitan Statistical Area ("MSA"). Prior to the COVID-19 pandemic, the March 2020 unemployment rate in the MSA was 3.2%. The pandemic had a significant impact on unemployment in the county, peaking at 15.4% in April 2020 before decreasing throughout most of 2020 and 2021. By October 2021, unemployment in the county was down to 4.4%, above pre-pandemic levels.

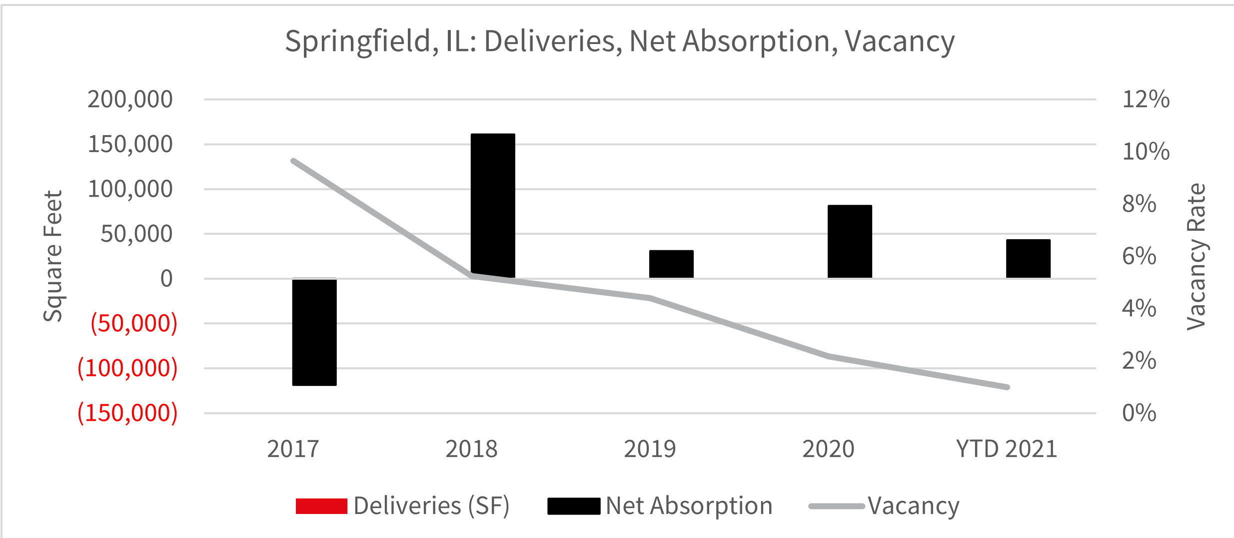


Source: Federal Reserve Bank of St. Louis

Office Market Conditions

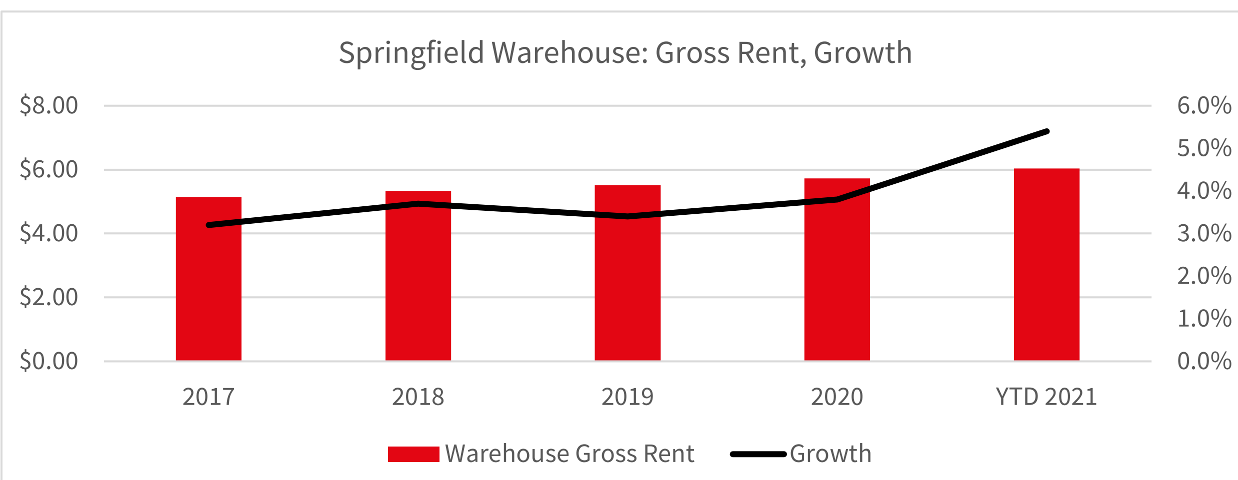
Inventory and Supply

The Springfield warehouse market has 3.6 million square feet of total warehouse inventory with a vacancy rate of 1.0%. Other than 2017, the market has seen positive net absorption every year since 2015, with net absorption fluctuating between 160,926 and 30,734 square feet per year since 2018. Over the past 5 years, there have been no new deliveries in the market. Vacancy in the market spiked to 9.7% in 2019, but vacancy has dropped every year since, decreasing to 1.0% in 2021 YTD.



Source: CoStar

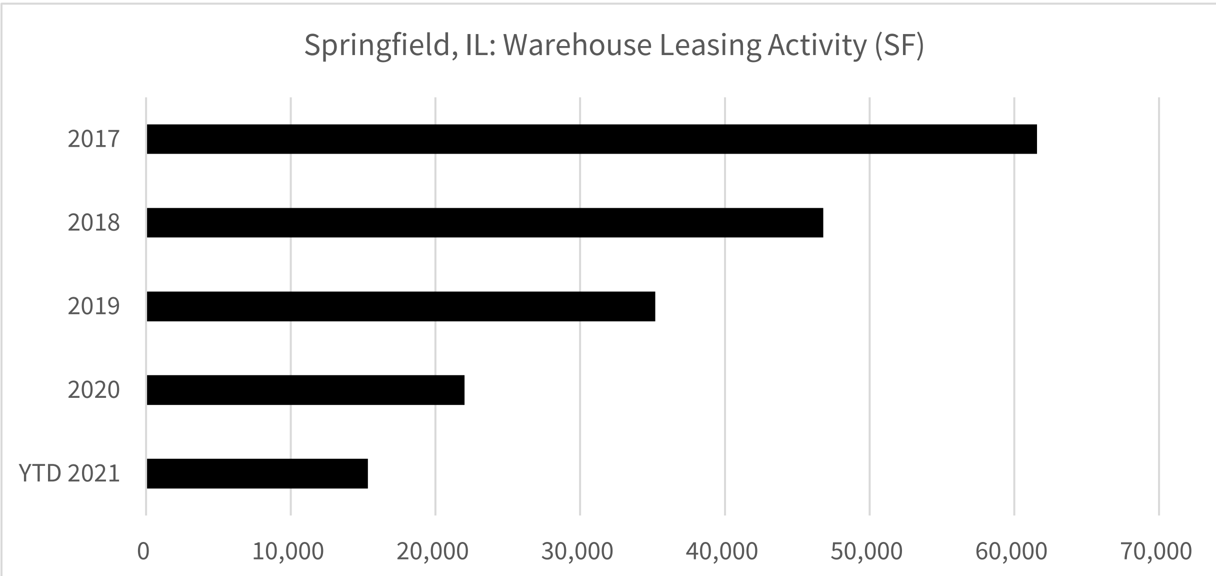
Warehouse rents in Springfield have increased to $6.04 in 2021 YTD, up from $5.15 per square foot in 2017. Rents have increased at least 3.0% per year over the past five years, with rents up 5.5% from 2020 to 2021.



Source: CoStar

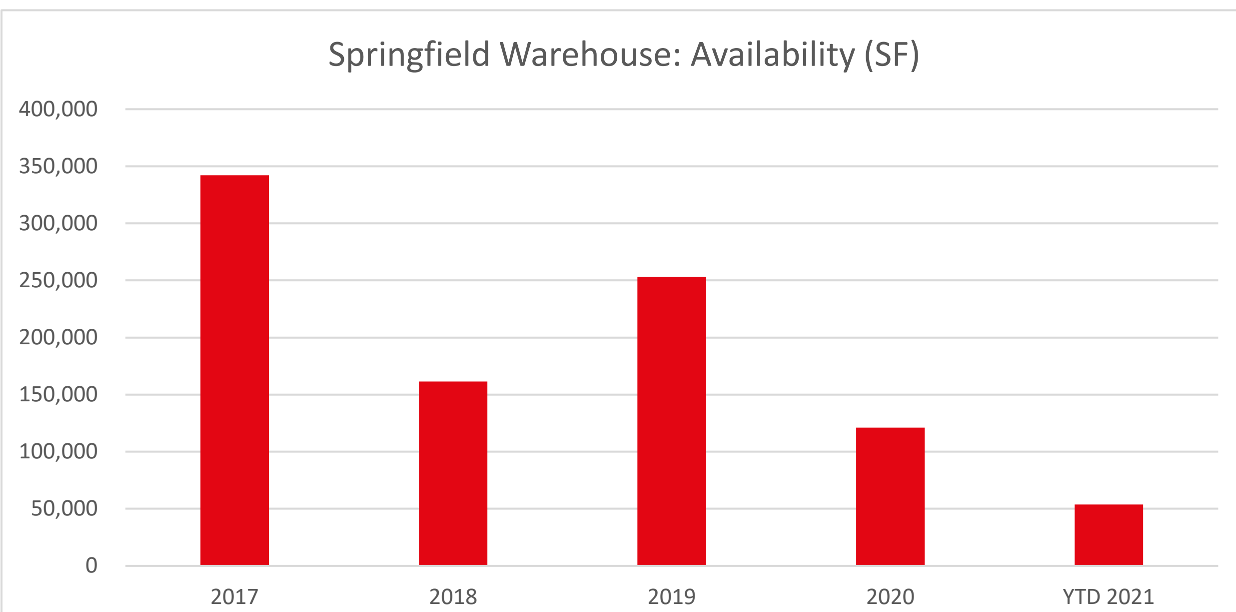
Leasing Activity and Availability

Over the past five years, warehouse leasing activity in Springfield, IL has gone down every year, going from 61,560 square feet in 2017 to 15,340 square feet in 2021 YTD. With vacancy in the market at 1.0%, leasing activity may have been slowed by a lack of available space in the market.



Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has decreased over the past 5 years, with total availability of over 342,050 square feet in 2017 decreasing to 53,700 square feet in 2021 YTD.

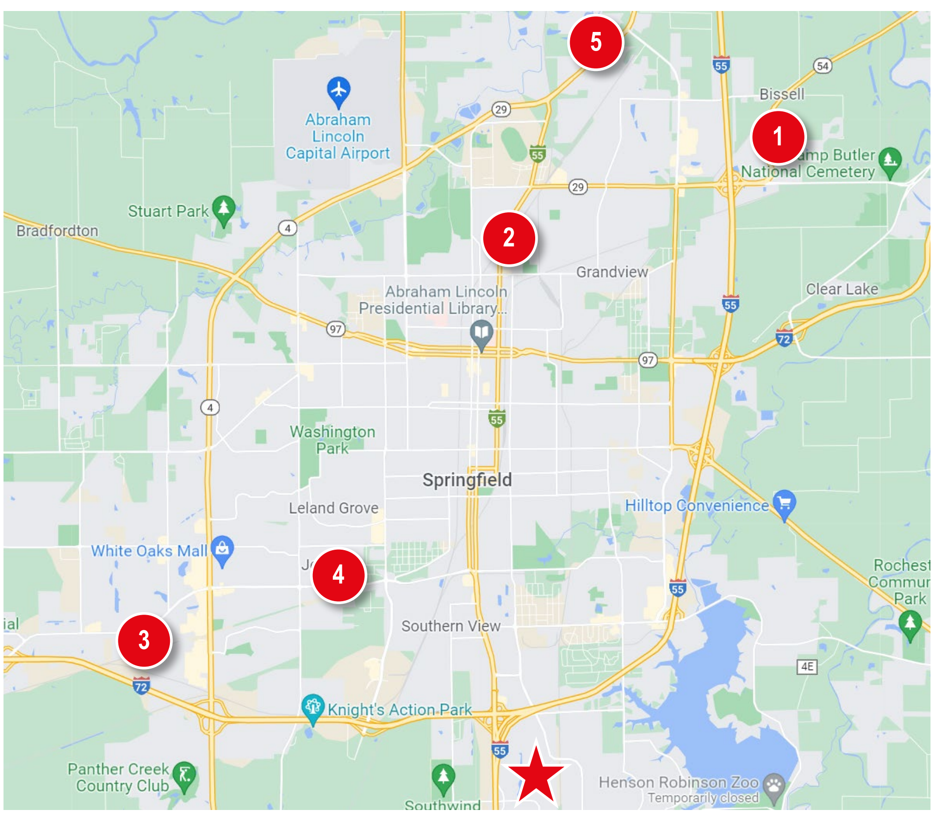


Source: CoStar

Sale Comparables

There have been seven warehouse property sales (with a publicly disclosed price) in the market during the past two years. Of these seven properties, only five are above 14,500 square feet and are large enough to accommodate the State's current program at 4800 Rodger Street. The five warehouse properties sold in the market since December 2019 are as follows: the 41,216 square foot property at 2601 Colt Road, which sold for $27.30 PSF in June 2020; the 37,604 square foot property at 1527 N 11th Street, which sold for $3.46 PSF in January 2020; the 27,240 square foot property at 3151 Cockrell Lane, which sold for $22.58 PSF in February 2020; the 22,000 square foot property at 1530 Wabash Avenue, which sold for $13.89 PSF in March 2020; and the 19,880 square foot property at 2145 Catalina Lane, which sold for $14.34 PSF in December 2020.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	2601 Colt Road	B	41,216	$27.30	Jun-2020
2	1527 N 11th Street	C	37,604	$3.46	Jan-2020
3	3151 Cockrell Lane	B	27,240	$22.56	Feb-2020
4	1530 Wabash Avenue	C	22,000	$13.89	Mar-2020
5	2145 Catalina Lane	C	19,880	$14.34	Dec-2020



Own Versus Lease Analysis

To assess whether the State should continue leasing 4800 Rodger St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at our below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

Rentable Square Feet (sf total):	19,000
Lease Term (years):	10
Base Rental Rate ($ sf year)	$ 5.32
Rental Rate Escalation (% year)	2.0%
Base OpEx ($ sf year)	$ 4.00
OpEx Escalation (% year)	2.0%
Tenant Improvement (TI) ($ sf)	$ 51.17
Landlord TI Allowance ($ sf)	$ 25.58
Initial Capital Repairs and Renovations ($ sf)	$ 50.00
Routine Capital Repairs and Renovations (CR&R) ($ sf year)	$ 1.00
CR&R Escalation	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be $1,485,366. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

Total Cost to Lease 4800 Rodger St	
Total Rent Cost	$ 1,106,798
+ Total OpEx	$ 832,179
Total Cost (Real)	**$ 1,485,366**

A note on capital requirements:
For initial capital repairs, a baseline of $10/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2023 acquisition cost/value by a factor of 1.60% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for a price less than the total cost of leasing the property.

Total Cost to Acquire 4800 Rodger St	
2022 Break-Even Acquisition Cost	$ -
+ Total Buildout Cost (full TI)	$ 972,173
+ Initial CapEx	$ 950,000
+ Total Ongoing CapEx	$ 208,045
+ Total OpEx	$ 832,179
- 2032 Market Value	$ -
Total Cost (Nominal)	$ 2,962,397
Total Cost (Real)	**$ 2,627,511**

The following property sales provide some indication of market sales prices for properties in Springfield.

Own Versus Lease Analysis (cont'd)

Address	**SF**	**Sales Price**	**Price PSF**
2601 Colt Road	41,216	$ 1,125,197	$ 27.30
1527 N 11th Street	37,604	$ 130,110	$ 3.46
3151 Cockrell Lane	27,240	$ 614,534	$ 22.56
1530 Wabash Avenue	22,000	$ 305,580	$ 13.89
2145 Catalina Lane	19,880	$ 285,079	$ 14.34
Average			**$ 16.31**

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales in Springfield, the average sale price is $16.31 per square foot.

Should the State acquire the property for $16.31 per square foot, the total cost of acquisition, including capital expenditure, would be $2,699,585.

Total Cost to Acquire 4800 Rodger St at Market Value	
2023 Market Acquisition Cost	$ 309,890
+ Total Buildout Cost (full TI)	$ 972,173
+ Initial CapEx	$ 950,000
+ Total Ongoing CapEx	$ 208,045
+ Total OpEx	$ 832,179
- 2033 Market Value	$ (363,340)
Total Cost (Nominal)	$ 2,908,947
Total Cost (Real)	**$ 2,699,585**

This is $1,214,220 more than the cost to lease the property on a present value basis.

Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

Acquisition Alternatives

Address	**Rentable Square Feet**	**Asking Sales price psf**	**Asking Sales price**
None			

Lease Alternatives

Address	**Total Available SF**	**Square Feet**	**Asking Rent $/SF**
700 N Macarthur Blvd	32,700	19,000	$6.00
3401 Remington St	18,000	18,000	$6.00
1800 E Adams St	3,000	3,000	$6.00

There are currently no alternative warehouse properties for sale in Springfield. There are two lease alternatives of similar or greater size than the State's leased space at 4800 Roder St: 700 N Macarthur Blvd and 3401 Remington St. This analsyis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

Conclusion

The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for $1,214,220 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property. Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

Lease 4800 Rodger St	$ 1,485,366
Acquire 4800 Rodger St	$ 2,699,585
Acquisition Alternatives	**Total Cost to Acquire**
Lease Alternatives	**Total Cost to Lease**
700 N Macarthur Blvd	$ 2,170,125
3401 Remington St	$ 2,055,908