PROGRAM EVALUATION DIVISION
NORTH CAROLINA GENERAL ASSEMBLY

December 2017 Report No. 2017-11

Follow-up Report: State Property

The Department of Administration (DOA) is responsible for managing the State's portfolio of real property, which consists of nearly $26 billion in state-owned buildings, $1.6 billion in state-owned land, and $65 million in annual expenditures for leased space. The Program Evaluation Division found the State retains interest in unneeded real property that could generate an estimated $14.3 million in one-time revenue and provide $2.6 million in future cost avoidance. Additionally, the State lacks a systematic process and data to identify unused and underutilized real property, and DOA has not implemented portfolio management practices. PED recommended that the General Assembly direct DOA to comprehensively manage the State's portfolio of real property, dispose of properties identified as unneeded, and determine if suitable state-owned space could meet lease requirements. PED also recommended that the General Assembly require state agencies to collect, track, and report data on state-owned and leased space they occupy and maintain a current facilities management plan.

In 2016, the General Assembly passed Session Law 2016-119, an act to

- require DOA to actively manage the State's portfolio of real property;
- require measurement of the current utilization of state-owned facilities;
- ensure the accuracy of the real property inventories maintained by DOA; and
- ensure state-owned space is maximized before leases are entered into or renewed.

In January and September of 2017, DOA reported

- 13 of the properties identified for disposal have either been sold, are under contract, or are in the contract negotiation phase, generating a potential total of $6.8 million in revenue (see Exhibit 1);
- 2 of the highlighted leases have been terminated and relocated, generating annual savings of $53,000;
- agencies are now required to provide data on building utilization and leases using space standards effective December 1, 2016; and
- the department has contracted with CBRE, Inc. to evaluate the State's current real estate procedures and management structure and to advise how the State could increase efficiencies, reduce costs, and improve service delivery.

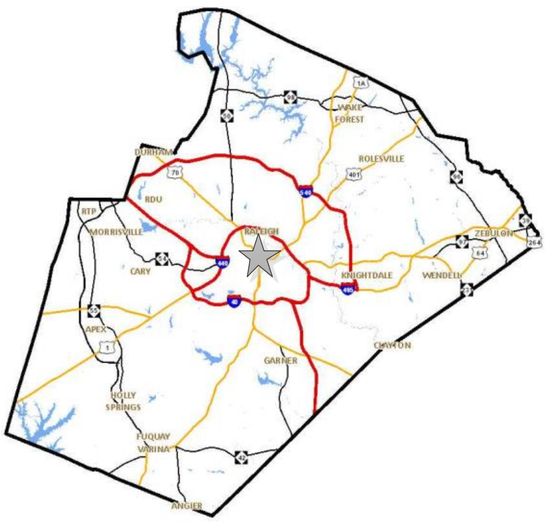
CBRE's contract consists of three phases:

- Phase 1: An assessment of how current real estate management practices influence portfolio performance and recommendations regarding space standards, portfolio benchmarks, and database management.
- Phase 2: An assessment of the State's current real estate management structure and organization with an implementation plan for Phase 1 recommendations.
- Phase 3: A five-year plan to manage, acquire, and dispose of real estate assets.

CBRE's work for Phase 1 found leased and owned space designated for office use is approximately 14.5 million square feet with a total annual office portfolio cost of $220 million. CBRE observed current state space standards are not consistently applied in practice. For example, guidelines set in 2008 provide one size for open workstations, yet two recent lease solicitations issued by the State contained five different sizes (see Exhibit 2).

[continued on page 4]

Exhibit 1: Thirteen Properties Identified for Disposal by the Program Evaluation Division Have Either Been Sold, Are Under Contract, or Are in the Contract Negotiation Phase

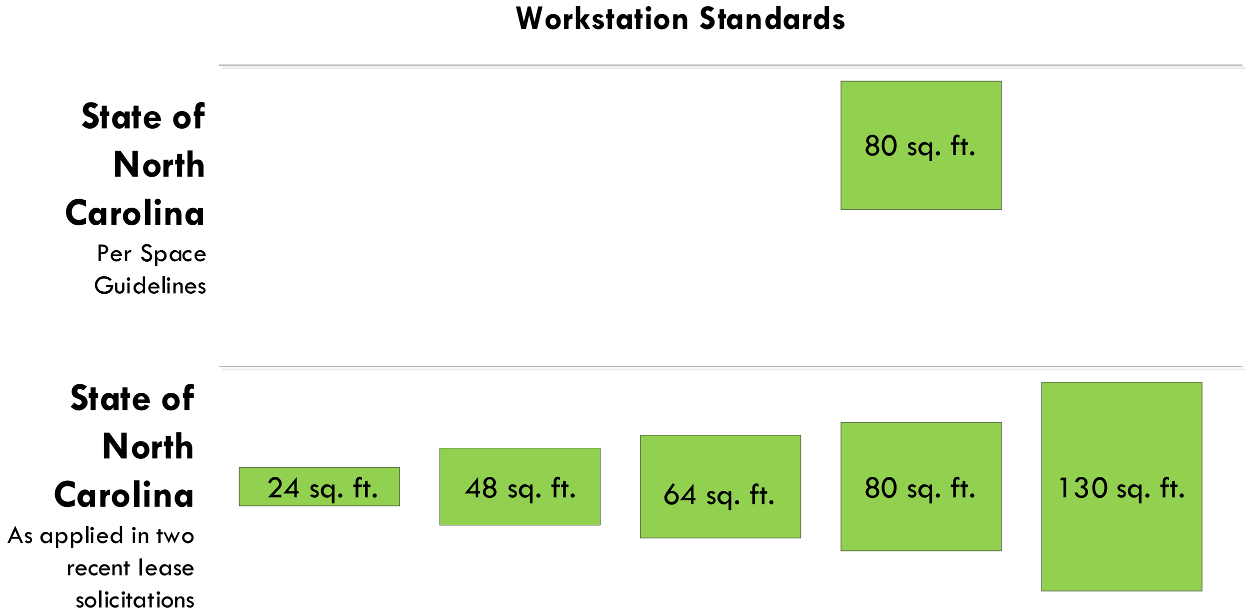


Map No.	Property Name	Total Size	Total Assessed Value	Est. Annual Local Tax Proceeds	Status	Sale Price
1	Howell House	2,814 square feet	$1.6 million	$15,961	Under Contract	$680,000
2	Heck-Andrews House	4,834 square feet	947,748	9,325	Sold	$1.5 million
3	Andrews-Duncan House	4,798 square feet	1.6 million	15,466	Negotiating Contract	$860,500
4	McGee House	2,315 square feet	-	-	Sold	*
5	Coble Helms House	2,776 square feet	803,205	7,907	Sold	$735,000
6	Heartt House and Storage	5,416 square feet	3.9 million	37,823	Under Contract	$860,500
7	Gay House	2,025 square feet	347,992	3,437	Under Contract	$275,000
8	Worth House	1,530 square feet	118,845	1,187	Under Contract	$245,100
9	Watson House	1,606 square feet	398,065	3,928	Under Contract	$291,600
10	Cambridge House	2,496 square feet	393,916	3,887	Under Contract	$350,000
11	Lamar House	3,416 square feet	422,956	4,173	Sold	$536,000
12	Ashley House	3,352 square feet	585,122	5,765	Sold	$500,500
	TOTAL					**$6.8 million**

Note: The Andrews-Duncan Carriage House (not labeled) and McGee House were sold with the Coble Helms House.

Source: Program Evaluation Division based on site visits and data from the Department of Administration.

Exhibit 2: Statewide Space Guidelines Provide Only One Size for Open Workstations, Yet Recent Lease Solicitations Issued by the State Contained Five Different Sizes



Source: Program Evaluation Division based on Phase 1 of the Real Property Assessment Services Contract, prepared by CBRE, Inc. and submitted November 2016.

Exhibit 3: Gensler's Space Standard Recommendations Contain a Range of Utilization Targets Depending on the Administrative Office Environment

Field Space Staff	General Office	Office Intensive
Small workstations: 65-75%	Small workstations: 10-15%	Small workstations: 20-35%
Standard workstations: 5-10%	Standard workstations: 60-70%	Standard workstations: 15-20%
Offices: 15-20%	Offices: 15-20%	Offices: 30-50%
TARGET: 145-180 Square Feet	**TARGET: 175-210 Square Feet**	**TARGET: 215-265 Square Feet**

Source: Program Evaluation Division based on Phase 1 of the Real Property Assessment Services Contract, prepared by CBRE, Inc. and submitted November 2016.

Exhibit 4: Appropriate State Office Portfolio, If Rightsized, is Approximately 4.5 Million Net Square Feet Less Than Current Conditions

Type of Space	Number of Spaces	Net Square Feet	Phase I Standards (31% Reduction)
State-Owned Office Space	1,194	10,865,026	7,493,121
State-Leased Office Space	588	3,656,978	2,522,054
Total	**1,782**	**14,522,004**	**10,015,175**

Source: *Program Evaluation Division based on Final Report of the Real Property Assessment Services Contract, prepared by CBRE, Inc. and submitted May 2017.*

[continued from page 1]

Using a blend of space standards developed by Gensler, a global architecture, design, and strategic planning firm (see Exhibit 3), CBRE recommended a target utilization ratio of 220 net square feet (NSF) per full-time employee (FTE). If this target utilization ratio was achieved, it would be a 31% improvement from the 319 NSF/FTE ratio found in a previous study of the State's office utilization (see Exhibit 4).

In accordance with Phase 2 of its contract, CBRE assessed state property management practices and procedures for all state agencies subject to DOA oversight and subsequently made a number of recommendations (see Exhibit 5).

Exhibit 5: Requirements of CBRE's Assessment of Existing Property Management Practices and Procedures and Subsequent Recommendations

Requirement	Recommendations
Assess the number, duties, organization, and capabilities of staff related to real property management	• Consolidate all real estate functions into a single Office of Real Estate (ORE) • Set up a strategic planning function under the proposed ORE that works with state agencies subject to DOA's oversight to provide an overall portfolio assessment and implement a consistent set of space standards • Improve cost accounting through better data management
Assess the collection and reporting of information on the use of such property	• Implement a database to manage real-time data collection and perform robust, custom reporting • Use key performance indicators to measure performance of the State's real estate portfolio and facilitate decision making • Adopt a Standard Chart of Accounts to collect and track facilities' data including operating expenses by location
Assess the means used to record, store, and verify real property inventories and usage	• Migrate to a modern and fully-integrated technology platform to support efficient and effective real estate decisions, maintenance tracking, and expense reporting
Assess the nature and extent of any efforts to determine and provide for existing and projected future needs for agency space and facility needs	• Develop a property-by-property regional view of the portfolio to identify consolidation and collocation opportunities • Create and maintain staff counts by location • Identify opportunities for better space utilization
Address additional areas or functions that the vendor considers essential to a full understanding of state property management practices and procedures	• Explore opportunities for cost savings through intergovernmental sharing of facilities and resources • Develop facilities management work processes • Fund a mandate to support electronic document management to focus on removing file storage areas from active office floors so that the space can be re-purposed for service delivery • Evaluate the level of partnered functions and work with procurement to identify barriers to larger procurement bids and encourage competition among service providers to reduce costs • Develop and maintain an ongoing training program to expedite and reinforce change management recommendations and accelerate savings

Source: Program Evaluation Division based on Final Report of the Real Property Assessment Services Contract, prepared by CBRE, Inc. and submitted May 2017.

For more information on this follow-up report, please contact the lead evaluator, Sean Hamel, at sean.hamel@ncleg.net.

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