

1 June 3, 1985
2 6543A:CH/ssj

Gary Grant
Bob Greive
Introduced by: Bruce Laing

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4 Proposed No. 85-236

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ORDINANCE NO. 7226

AN ORDINANCE establishing an Ad Hoc
Building Purchase Negotiating Committee
for purchase of the Smith Tower.

PREAMBLE

The county council has reviewed downtown space requirements of the county government and has determined that the county is currently renting over 110,000 square feet in the downtown area. The council has also determined that current market conditions are favorable for purchase of an existing building.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. The Ad Hoc Building Purchase Negotiating Committee for purchase of the Smith Tower is hereby established to be comprised of the chairpersons of the county council, the council finance committee, and the council transportation and facilities committee to review the offer to sell the Smith Tower and propose contract provisions, financing methods and other policy. The committee is hereby authorized to retain necessary real estate, legal, community, and historic preservation assistance. The committee shall report to the full council within 60 days. The committee shall also be responsible for reviewing options for relocating certain county functions from the downtown area to alternative county locations. Criteria for relocation shall include improving program accessibility to the

1 service public and improving efficiency of agency operations.

2 INTRODUCED AND READ for the first time this 6th
3 day of May, 19 85.

4 PASSED this 3rd day of June. 1985.

5 KING COUNTY COUNCIL
6 KING COUNTY, WASHINGTON

7 Gary Grant
8 Chairman

9 ATTEST:

10 Janet M. Owens
11 Clerk of the Council

12 APPROVED this 13th day of June, 19 85.
13 VETOED

14 Randy Reed
15 King County Executive

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King County Executive
Randy Revelle

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1985 JUN 13 AM 4:28

CLERK
KING COUNTY COUNCIL

June 13, 1985

Honorable Gary Grant
Chairman, King County Council
C O U R T H O U S E

RE: Purchase of the Smith Tower

Dear Chairman Grant:

Enclosed with this letter, I am returning to the King County Council Ordinance 7226, pertaining to negotiating the purchase of the Smith Tower. I have vetoed the ordinance because we believe the arguments against King County ownership of the Smith Tower are sufficiently compelling to make negotiations for another sixty days futile. The lease offer we have negotiated with the Dexter Horton Building will be withdrawn unless we act quickly. We continue to believe the Dexter Horton Building lease is the best option for King County.

Before explaining the reasons for my veto, I want to emphasize that I have always appreciated the historic significance of the Smith Tower and its value to our community. It is not necessary, however, for King County to purchase the building in order to preserve it for future generations. A conservation easement has already been placed on the Smith Tower, and design review controls rest with the City of Seattle's Pioneer Square Review Board. The current owners of the Smith Tower have an excellent reputation for restoring historic buildings. Even Art Skolnik, who is a strong advocate and spokesman for historic preservation, advised us in a May 20, 1985 letter against purchasing the Smith Tower. He recommended targeting our historic preservation efforts and funds to historic properties which do not have the protection already afforded to the Smith Tower and which cannot attract private investors.

I am vetoing Ordinance 7226 for the following reasons:

First, we are convinced the Smith Tower is an inefficient building for government agencies and for the public who use our services. In the enclosed June 12, 1985 letter, the Building Owners & Managers Association of King County (BOMA)

Gary Grant
June 13, 1985
Page Two

supports our recommendation not to enter into a lease/purchase agreement with the Smith Tower. BOMA membership represents the majority of the office building industry in Seattle and King County, and their advice should not be taken lightly. In addition, knowledgeable professionals such as Jack Dierdorff, former Executive Vice-President of UNICO Properties, Scott Wyatt, architect and space planner, and Marvin Stein, office space planner, are unanimous in advising that a building with small floors is inefficient and therefore more costly than a building with larger floor space. These and other knowledgeable professionals have recommended against purchasing the Smith Tower.

The small floors in the Smith Tower make it almost impossible to locate individual County departments or work units in areas where the work flow is contiguous and inter-floor traffic can be held to a minimum. The resulting physical separation translates into lost time traveling between floors, increased difficulty in communication, and duplication of service areas.

Second, by purchasing the Smith Tower, we would lose much of our flexibility and impetus to locate County offices and services in locations other than in downtown Seattle.

Third, ownership of the Smith Tower, whose size is far in excess of our office space needs, would make us a competitor with the private sector in the general office real estate market. Not only do we seriously question whether this is a proper role for government, but we also believe King County cannot afford to take the financial risk of entering into a highly competitive field with developers and realtors who have far more experience and expertise than we do.

Finally, we believe the purchase of the Smith Tower involves serious financial risks for King County. The financial analysis which makes the Smith Tower purchase appear marginally more favorable than the Dexter Horton lease depends upon predicting a future which can command both higher lease rates and higher occupancy rates than are possible today.

While the downtown office rental market may improve, we are unwilling to gamble \$16.5 million of taxpayers' money on a speculative future. Further, the capital improvement costs we would experience in a building as old as the Smith Tower have not been adequately factored into the financial analysis. Both the Executive and Legislative Branches of government are responsible for ensuring careful stewardship of the public's money. Purchasing the Smith Tower is not a prudent investment.

Gary Grant
June 13, 1985
Page Three

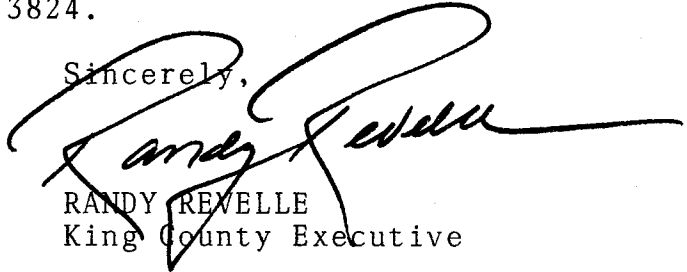
For over a year, we have worked with the County Council to analyze the different office space alternatives for County agencies. We now have pressing space needs and a long overdue commitment to co-locate the Department of Human Resources. We cannot afford another sixty-day delay and allow the offer from the Dexter Horton Building owner to be withdrawn.

We continue to believe that the lease we have negotiated with the Dexter Horton Building offers the best solution to the County's downtown space needs. This lease represents a prudent and fiscally responsible way of meeting current space needs and preserves our flexibility for different office locations in the future. The Dexter Horton lease offers the County the space we need at very competitive rates, with none of the risks attendant to being the owner of a building the age and size of the Smith Tower.

I respectfully urge the County Council reconsider authorizing a long-term lease in the Dexter Horton Building before this opportunity is lost. In spite of the differences we have had over this issue, I continue to hope we can work together in the future to ensure the best possible space for County employees and public services.

If you have any questions about my veto, please contact me or Lauraine Brekke at extension 3824.

Sincerely,

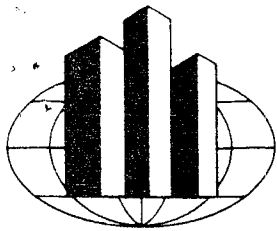


RANDY REVELLE
King County Executive

RR:mj

Enclosures

cc: King County Councilmembers
 ATTN: Cheryle Broom, Program Director
 Bob Williams, Special Projects Manager
 Jerry Peterson, Council Administrator
King County Executive Cabinet



BOMA

SEATTLE & KING COUNTY

RECEIVED
JUN 12 1985

KING COUNTY EXECUTIVE

June 12, 1985

BUILDING OWNERS & MANAGERS
ASSOCIATION OF
SEATTLE & KING COUNTY
825 SECURITIES BUILDING
SEATTLE, WASHINGTON 98101
(206) 622-8924

Mr. Randy Revelle
King County Executive
400 King County Court House
Seattle, Washington 98104

Dear Mr. Revelle:

Thank you for your letter of June 5th, 1985, in which you ask the Building Owners and Managers Association of Seattle & King County (BOMA) to review and comment on the two alternative space proposals currently being considered by King County.

BOMA has a significant interest in this issue, because it represents the majority of the office building industry in Seattle and King County and, through our federation with BOMA International, in the entire country. Our current local membership involves 75 companies and 120 buildings totaling more than 16,000,000 square feet of office space. We celebrated our 75th Anniversary last year, and have, for the entire 75 years, maintained a keen interest in the efficient and economical operation of local government. As a matter of interest, both the Smith Tower and the Dexter Horton Building have long been BOMA members, although the recent sale of the Smith Tower has caused an interruption in its membership.

We have reviewed the question of whether the County should enter into a lease/purchase option with the Smith Tower, or whether they should enter into a straight lease agreement in either building. It appears to us that very competitive lease proposals have been made by both buildings, and this is consistent with the current rental market. However, we are seriously concerned about the economic viability of the Smith Tower lease/option. Should the County exercise their option in 7 years, they are only getting credit for the actual option payments made, totaling \$3,000,000. There is no consideration for the time-value of these contributions. Coupling this with the overly optimistic rental income and occupancy assumptions, the purchase costs are significantly understated. Should the county decline to exercise the purchase option, preliminary net present value analysis indicates that the timing of option payments

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BOMA INTERNATIONAL

Mr. Randy Revelle
June 11, 1985
Page 2

prior to the 1992 election period would impose a significant penalty over and above the nominal \$750,000 cost cited in the agreement. Since economic disadvantage results from either scenario, we recommend against entering into such a lease/purchase option.

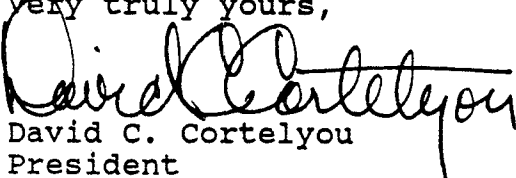
In addition to the economic issue, there are a variety of other considerations which we felt argued against the lease/purchase option.

1. We question the desirability of the County placing itself in an ownership role in the current Seattle office market. The County will find itself, in a most competitive marketplace, owning a 70 year old, high maintenance cost building, with a well documented need for major alterations.
2. Flexibility, the ability to respond to future changes in the location and/or space demands of County Government, is seriously compromised by a commitment to a lease/ purchase arrangement.
3. The question of comparative efficiency (or space utilization) between the two buildings would require a detailed analysis of the County's specific space needs versus the available space in each building. However, as any building owner, who has attempted to compete in the marketplace, knows, the requirement to house a major tenant on 14.5 floors vs. 5.5 floors generates some basic and nagging inefficiencies which cannot be ignored. The requirement that people must travel routinely between floor via elevators in their daily work is a major efficiency issue, and one which would argue strongly for space on a smaller number of floors.

In summary, it is our recommendation that the County not enter into a lease/purchase agreement with the Smith Tower. Any decision for the County to become the owner of the Smith Tower would appear to BOMA to be made for other than economic or efficiency reasons.

This response has necessarily been somewhat limited by virtue of the short time available, but BOMA is prepared to provide additional information if you felt this would be helpful in your decision making process.

Very truly yours,


David C. Cortelyou
President

DCC:rm