

TO: Board of Commissioners, Missouri Housing Development Commission

FROM: Margaret D. Lineberry, Executive Director

RE: Prepared Remarks / Staff Recommendation regarding Kansas City Office Space

DATE: December 17, 2010

Mr. Chairman, the mail-out materials that were provided to the Board noted that MHDC's Kansas City office lease expires on January 31, 2012. That gives us just about a year to figure out where we need to land when our lease is up.

In April 2010, the Board authorized staff to retain Cassidy Turley Commercial Real Estate Services to assist us in exploring new space options. And our efforts in this regard have been overseen by the Facilities Committee, consisting of Commissioner Nash, who is a Kansas City real estate broker and lawyer, and Commissioner Bay, who is a Kansas City construction lawyer.

Over the past few months, we have been exploring four options: (1) continuing to lease our current space at 3435 Broadway, (2) leasing space in another building, (3) purchasing our current building, or (4) purchasing another building.

As we have considered the relative costs associated with leasing versus purchasing, we have concluded that purchasing a building is probably the most prudent avenue for us to take. First, in today's economy with real estate prices that are so depressed, we anticipate being able to negotiate a good purchase price. Second, MHDC's investments are earning such a low rate of return that we believe the money would be better spent in the purchase of a building rather than wasting it on rent with nothing to show for it at the end of our lease term.

As a result, staff has been running the numbers to determine whether we would get more bang for our buck if we bought our current building or if we bought a building in downtown Kansas City that we have under consideration. The downtown building's \$4 million price tag is particularly attractive given that it underwent a \$9 million renovation in 2000.

The problem is that staff cannot perform a complete comparison between these two options without being able to perform so-called "due diligence" on the downtown building. Basically, we want to compare apples to apples to figure out which is the better deal, the purchase of our current building or the purchase of the downtown building.

Our current building is a known quantity. We have detailed knowledge about our current building in terms of its structural makeup, energy efficiency, operating costs, anticipated future repair costs, etc. We do not have that same information about the downtown building. The only way we can gain access to that kind of detailed information is to enter into a contract for the purchase of the downtown building. At that point, we can have engineers and other experts perform inspections and do testing of the building components to confirm its structural integrity, the quality of its mechanical systems, etc., and we will be able to review the owner's records showing the details of the \$9 million renovation, the operating costs, repair and maintenance records, etc.

It is very important to note that the owner of the downtown building has agreed that we can have 60 days to do our due diligence, and that at the end of that 60 days we can walk away from the contract, with no cost or obligation, for any reason or for no reason. So first, there is really no risk associated with entering into the contract, and second, entering into the contract will allow us to have access to the information necessary to allow us to perform a complete comparison between the downtown building and our current building.

The mail-out materials included the recommendation that the Board authorize staff, with the oversight and consent of the Facilities Committee, to pursue to pursue contract negotiations and associated due diligence activities associated with the possible purchase of the downtown property.

Commissioner Nash noted, however, that because the mail-out materials are posted on the MHDC website, our search for new space may come to the attention of other building owners or landlords who may approach us with an even better option than the two we currently have under consideration. Obviously, the more competition there is among possible sellers or lessors, the more advantageous the offers made to MHDC, which is to the ultimate advantage of the taxpayer.

Therefore, I have requested that the Facilities Committee consider broadening its recommendation to the Board, and we are requesting that the Facilities Committee recommend that the Board authorize MHDC staff, with the continued oversight and consent of the Facilities Committee, to pursue suitable office space for MHDC's Kansas City operations, including the authority to enter into contract negotiations and due diligence associated with the purchase or lease of property, and the selection and engagement of contractors to perform any necessary build-out and relocation services.