

One Oak Restoration Project

Summary of Major Provisions with Financial Estimates

With Project Aspire having come to an end, as a result of its funding strategy not having been met, we now find ourselves again trying to figure out what to do with One Oak Plaza given its age and needs. Over the years much has already been considered now that we are required to look for a “plan B.” Those include everything from going with the status quo until something else breaks, or renovating the building so we could up the rents, or even selling the property entirely.

On top of One Oak’s needs, our 1927 building designed by Douglas Ellington is now nearly 100 years old. We just finished a capital project restoring the exterior of the Sanctuary and there are already many more issues that must be addressed.

Our roofs are leaking, we are being required to add a fire suppression sprinkler system in the Children’s Building, and our 20-year-old fire alarm system needs to be replaced. We also have a funding gap of about \$400,000 in our current capital campaign (mostly interest on the loan). And there are other, smaller needs also begging for money. These all must be taken care of.

The responsibility for creating a plan to solve this financial dilemma rests on all of our shoulders. As a result, the Deacons, Finance Committee and One Oak Plaza Trust Committee want to introduce to the congregation a plan we feel will go a long way towards solving one of our biggest problems —finding the money to pay for most all of our capital needs without relying on the congregation for such funding.

One Oak Plaza Needs

We have initiated conversations with a well-qualified local commercial developer and consultant who has proposed the following plan to renovate and re-lease our commercial space and also enhance our existing revenue stream. As a result, they have offered the following recommendations:

- **Renovate and re-lease our property into “Class A” space.**
 - That means
 - Demo the interior except for first floor SECU space.
 - Update/replace the key systems; roof, heating and air conditioning, electrical, elevator improvements, ADA building access, new windows, and exterior building refreshing.
 - We would then provide “shell” space for each tenant to build out their space and provide rough “stub-in” to those systems
 - New tenants “build out” their own spaces at their own expense in accordance with all local building codes.
 - Leases are at least 10 years or longer.

- **Revise our existing leasing model**

- That means:

- Class A rates - \$30 - \$35 per square foot. (We currently average in the low twenty-dollar range)
- Charge the tenants for all operating expenses through a CAM charge of \$9 per square foot, reconciled to actual each year end. (Currently the church absorbs all these costs)
- We estimate it will increase gross income by at least 2 times and net income by 2-3 times.
- Our estimated investment will likely be between \$2.5 - \$3.25 million dollars in construction and soft costs.

- **Engage the developer in identifying and placing tenants**

- They already represent a national accounting firm looking for 14,000 feet of our 35,000 feet.
- This tenant at this moment requires a signed lease by September 1 and must be able to occupy their newly renovated space by August 1, 2025.
- Additionally, the One Oak Committee has approached SECU and initial negotiations are very positive and it appears they want to keep their current space long-term and may have interest in some portion of our remaining space.
- SECU wants to remain operational through construction if possible

We have been given an opportunity and a timeline that will not give in to compromise. We will need to move quickly to communicate the details of this to the congregation, answer your questions, obtain debt commitments, obtain required approvals including a long list of things necessary so that we could be under construction by January 1.

Church Complex Needs

We currently face a number of very immediate facility challenges in our 1927 building and its various additions. Those are as follows:

• Estimated Roofs Replacement	\$ 772,000
• Estimated Sprinkler System for Children’s Building	\$ 400,000
• Replace Fire Alarm System / Repair Gym windows / replace sanctuary sound system	\$ 91,000
• Loss of Income from One Oak during Construction	\$ 250,000
• Sacred Places Pledging Shortfall and interest paid	\$ 397,864
• Other	<u>\$ 114,136</u>

- **Total Estimated Costs / Amount to be Borrowed** **\$2,025,000**

Funding Strategy

Upon construction completion and full leasing, we anticipate annual income of just over \$1.1 million dollars per year. Our existing debt will be paid out completely by August of 2027. We would anticipate obtaining a construction loan not to exceed \$5.3 million dollars per year which would require debt service payments of \$472,296 per year if we borrowed the full amount assuming a 20-year amortization with interest at 6.5% as suggested by our bank. We have hopes of being able to reduce that total and have estimated for what we hope is the worst-case scenario.

After debt service, that should still result in net annual income of just over \$500 thousand per year, and will increase once the old debt pays out in 2027. Currently One Oak nets about \$330,000 per year after expenses all of which is going to debt service. Additionally, all of the new leases include annual escalations of 2% per year and CAM gets adjusted to the actual expense each year as well.

There will need to be an additional conversation regarding how best to use the funds this generates over time, but two key parts of that discussion have to include debt retirement and capital reserves for a long list of additional needs for the 1927 building and even future needs for One Oak.

You are invited

There is much more to discuss so we would like to invite you to an information session next **Wednesday, July 31 at 6:00 in the Dining Room** to offer lots of PowerPoint slides, additional details and opportunities for questions. If you cannot make that meeting don't worry, we will offer a couple of additional opportunities in August. Our goal is to have the congregation vote on the debt request on **August 25, 2024**, in order to be able to respond to the potential tenant within their timeframe.

In the uncertain wake of Project Aspire, we believe that in this new opportunity, we have been offered a significant "gift." While causing us to stretch our faith a bit, it still presents us with a variety of possibilities and meets many of the goals we originally sought to solve, financial and otherwise.

Grace and Peace,

