## Title: Encana Regional Headquarters: A "Develop / Design / Build / Leaseback," Case Study

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Encana is a global oil & gas company with its international headquarters located in Calgary, Canada. Encana's annual revenue is approximately \$8.5 billion per year. In 2009, Encana began to investigate the need to construct a new regional headquarters comprised of business units located in Texas and Louisiana. The target size of the facility was 320,000 square feet (29,729 square meters).

This effort resulted in a new building that was completed in July of 2012. The LEED Silver building has 12 floors with 600 occupants. The adjacent parking structure accommodates 1,280 vehicles.



Encana was faced with three scenarios for turning their vision into reality. The first scenario was to lease space within an existing building or campus of buildings. The second scenario included the purchase of an existing building that could be renovated to accomplish Encana's needs. The third scenario was to construct a building tailored the needs of Encana.

Leasing space within an existing building or campus posed a couple of challenges. The market did not have 320,000 square feet of contiguous space available. Even a campus would present the challenges of non-contiguous space and security issues surrounding a multi-tenant site.

Purchasing an existing building or group of buildings presented other challenges to Encana. Existing technologies would need to be accepted or renovated. Existing parking conditions may not be compatible with Encana's staff retention program. The location of an existing building of the required size was not ideally located within the areas that interested Encana the most.

The third scenario became the obvious solution. This scenario consisted of building a new facility that encompassed all of the technology and features that Encana required.

With the assistance of a national real estate broker, Encana began to investigate the process of identifying a developer to partner with. This also included an investigation for a solution of purchasing property and constructing a building. Various parts of the north Dallas were canvassed and the method for project was explored.

The first decisions Encana needed to make, once they committed to building a new building, were the schedule, budget and methodology for selecting a site, designing a building and constructing the project.

Common practices for executing such a project generally included the following steps.

- Work with land owners and developers to identify, purchase and improve a parcel suitable for the project.
- Develop a budget, schedule and create the funding for the entire project.
- Design and construct an engineering infrastructure such as service road and utilities.
- Hire a design firm to design the building core and shell, along with a parking structure.
- Hire a general contractor to construct the building shell, core and parking structure.
- Potentially select a separate interior architect to design the interior architecture.
- Build out the interior space.

The entire schedule, if planned sequentially, would take approximately five years. The required capital for purchasing land and building the project would be large. In the rapidly changing field of oil and gas, this amount of capital could be put to better use by exploring and drilling for energy. Exploring and drilling also has a higher return on the investment.

There are some traditional short cuts that would potentially reduce the schedule. These include combining the design and construction of the building shell, garage and interiors with one design firm and one general contractor. Encana clearly understood the benefit of combining these contracts, but the challenge surrounding land acquisition and site improvements remained. The schedule was still too long. Also, combining contracts did not reduce the amount of capital outlay that would be required of Encana. Encana also wanted to hire the interior architect independent of the developer.

After further market analysis and several planning meetings, Encana embarked upon a plan that would compress the project schedule, reduce the capital commitment and provide for single source accountability for the majority of the project delivery.

Encana solicited turnkey proposals from developers to include:

- Potential sites for a new building
- Site acquisition and infrastructure improvements
- Building shell, core and parking structure design (but not the interior architecture)
- Building shell, core and parking structure construction
- All costs built into a triple net lease

(a triple net lease is an arrangement where the lessee pays rent to the lessor, as well as all taxes, insurance and maintenance expenses that arise from the use of the property)

With this type of arrangement, Encana retains valuable capital required for exploration and drilling. The project costs associated with land acquisition and construction can be expensed over the length of the lease.

Encana worked with the turnkey developer to coordinate the interior architecture and specialty vendors contracted directly by Encana. The turnkey developer integrated the work of the interior architect to help determine the floor plate configuration and size of the shell building. The design work of the interiors team was also utilized to size the shell building engineering systems and help assure a LEED Silver certification.

A unique characteristic of the Encana talent attraction and retention program is the use of closed offices. Almost all staff resides in hard walled offices in lieu of an open office setting.



In addition to the interior architecture, Encana contracted directly for:

- Program management
- Furniture (including demountable partitions)
- Carpeting
- Security systems
- Information technology infrastructure
- Audio/visual infrastructure
- Low voltage system

Utilizing a comprehensive team approach to project meetings, all critical designers, contractors and vendors were able to coordinate work. This collaboration minimized conflicts and corrective work. The turnkey developer managed the entire project and worked closely with Encana and the Encana appointed program manager.

By placing the land procurement, building shell, core and garage design and construction under the turnkey developer, Encana converted a large capital expense into a monthly lease expense.

In addition to shifting costs from a Capital outlay to a monthly operating expense, Encana was also able to reduce the project duration from five years to three and a-half years. The time reduction in the schedule reduced the need to expand space and extend the lease of with their previous land lord. It provided the business flexibility required of the current economy within the energy business. Encana was able to launch an HR program of talent retention and attraction one and a half years sooner than otherwise possible.

| Conventional Delivery Schedule        | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------------------|------|------|------|------|------|
| Purchase Land                         |      |      |      |      |      |
| Hire Developer                        |      |      |      |      |      |
| Building Shell Design                 |      |      |      |      |      |
| Building Shell Construction           |      |      |      |      |      |
| Building Interior Design              |      |      |      |      |      |
| Building Interior Construction        |      |      |      |      |      |
| Move In                               |      |      |      |      |      |
|                                       |      |      |      |      |      |
| Encana Delivery Schedule              | 2009 | 2010 | 2011 | 2012 | 2013 |
| Hire Turnkey Developer                |      |      |      |      |      |
| Purchase Land                         |      |      |      |      |      |
| Building Shell Design                 |      |      |      |      |      |
| Building Interior Design              |      |      |      |      |      |
| Building Shell Construction           |      | _    |      |      |      |
| <b>Building Interior Construction</b> |      |      |      |      |      |
| Move In                               |      |      |      |      |      |

In summary, Encana realized that cash flow and schedule were the most important drivers in structuring the acquisition, design and construction of the new regional headquarters building in Plano, Texas. While maintaining control of critical space functionality, Encana utilized a turnkey development approach to the successful delivery of the project completed in July of 2012.