ISSN 1553-9571

WINTER 2011 VOL. 7, NO. 4

Government Leasing News

A Quarterly Newsletter for Owners, Managers and Developers of Government-Leased Property

Editor's Welcome!

I am very proud of the fact that from its small beginnings some seven years ago, Government Leasing News is now well received by thousands of private-sector real estate practitioners, as well as by over three thousand realty specialists and close to seven hundred contracting officers throughout dozens of civilian and military agencies, probably every one of whom is under the mandate and feeling the pressure to reduce their agency's real estate footprint and associated operating costs. This makes the featured article in this issue on *Actions Federal Agencies Can Take Now to Stretch and Save Facility Dollars* by John Carpenter of Carpenter/Robbins Commercial Real Estate, Inc., and Ron Kendall of Kendall Associates, extremely relevant towards fulfilling those goals and objectives. Everyone in (and out) of government should read that article, which begins on page 5.

And as Ron Kendall points out in the guest editorial that begins on page 3, there's an even larger phenomenon that may be taking place in federal real estate; namely, a sea change in space requirements of government agencies that is being driven by the rapidly evolving concept of what constitutes the workplace itself.

The U.S. General Services Administration is well aware of this, and has taken the lead in the redesign of the workplace environment to meet the goals that it be a place where people want to come to work, enabling improved collaboration, professionalism, productivity, energy savings, and space utilization, achieved through a combination of mobile technology, modular space planning, teleworking and hoteling.

I recently attended a presentation by Gavin Bloch, GSA's Chief Asset Officer, on the complete makeover of the 7300 wing in GSA's headquarters building at 1800 F Street NW in Washington DC. The power-point presentation was impressive enough, but I was even more amazed when I went to see for myself the transformation of that wing from a warren of cubicles to that of an open-space environment, with its integrated design and flexible systems, an array of activity-based work settings, and much, much more.

One of those much more things that impressed me was the ability of GSA workers to reserve online from home or anywhere the type of workplace setting he or she would need days or weeks in advance. It's not just for the choice of workstation versus conference room, but the overall seamless approach to hoteling that takes advantage of the fact that on most mornings and afternoons, a considerable portion of the 7300-wing staff will be attending outside meetings, visiting building sites, on travel, or perhaps one day in ten, working from home.

In this Issue

Notable and Newsworthy

On November 17, 2011, a joint presentation was conducted by the real estate firm of Jones Lang LaSalle and the General Services Administration on the Federal Perspective 2012. The conference room at the Ritz-Carlton in downtown Washington DC was packed, and the main theme of the presentation was summed up in five words: *Government gridlock stalling economic growth*. For those of you who could not make it, send me an email and I'll forward a copy of major visuals as a pdf file.

I took plenty of notes that morning, not so much on the main topic of economic growth being presented by the speakers, but rather on the measures a few government agencies were already in the process of adopting to reduce the operating costs of their real estate portfolios. I learned, for example, that:

•Patent applications are increasing so rapidly that the USPTO is of necessity adding patent examiners in great numbers. To minimize footprint growth, examiners with two or more years with the Office are being asked to work from their homes wherever they are across the nation, reporting to USPTO headquarters in Northern Virginia just once every quarter for a couple of days.

•The Office of Leasing is putting out the word to Contracting Officers and Realty Specialists that lease procurement and its subsequent lease administration is to be

(Continued on page 11)

This Time It's Different – Or Is It?
A Guest Editorial
by Ron Kendall, Kendall Associates

Have we at last come to the end of an era of continual expansion and frequent upgrading of federal office space? Has the American populace—facing unemployment rates of 10% for the foreseeable future--grown so disaffected with or envious of public sector workers, their pensions, health insurance and job security, that elected representatives in Congress will turn a deaf ear to the pleadings of agencies for more and better workspace for civil servants?

Conventional wisdom holds that when it comes to real estate, federal government activity is countercyclical, meaning that in periods of general economic downturn, the government compensates by stepping up its game. Case in point: in the wake of the commercial real estate bust of 1992, (which was to give rise to the Resolution Trust Corporation and the repositioning of hundreds of billions of dollars worth of office, industrial and multifamily assets), GSA's National Capital Region alone expanded its leased portfolio by 2.5 million square feet in 1992, and another 2.0 million square feet in 1993. Fast forwarding to today, certainly the Obama Administration's stimulus bill, the American Recovery and Reinvestment Act (ARRA) which, among other things, gifted GSA with over $5.5 billion for building rehab and new construction, constitutes a classic Keynesian response to the 2008 economic "meltdown" of the US economy, which hit the real estate sector particularly hard. But as all now know, ARRA wasn't sufficient to counteract fully the recession unemployment numbers (though many contend that it mitigated them) nor lift the economy out of its funk. And with the sovereign debt debacle, the prospect of additional stimulus is remote.

But the conventional wisdom is largely wrong: federal demand for space has been increasing steadily for decades; federal activity looks countercyclical in periods of weak private sector demand because it stands out in sharp relief during those periods. But when one looks closely, the pattern—at least up until 2010—is of a constantly expanding federal workplace portfolio, matching a constantly expanding American population for which the government provides a vast array of services.

But is that pattern changing? Certainly, federal space growth as measured by new leased space absorption, is off its historic pace. And the GSA federal construction tap has been shut off completely. Is the federal debt "crisis," paired with rapidly changing technologies that are enabling office work to be done anywhere, ushering in a new dispensation for federal space needs? It appears to be so, based upon the following:

Agency budget duress, even in advance of the expected across-the-board cuts that will be needed to effect an additional $1.1 trillion in savings, is driving federal managers to look at reducing space, not increasing space.

The Republican House as well as the Democratic Administration both seem intent upon tightening federal space utilization standards, (which have been trending upwards for years) as well as consolidating agencies and wringing resultant excess properties out of the federal inventory.

Leased space has become politically toxic to both parties, ever since GAO appended the "costly" moniker to this category of space holding.

Public sympathy and respect for federal civil servants has been dropping steadily since the 1960's. As James Q. Wilson wrote in the 2000 preface to the latest edition of his magnum opus, <u>Bureaucracy</u>, "Clearly, public confidence in government is much lower now than it was when government was doing fewer things. No doubt there are many reasons for this…but one reason may be that we have less confidence in government precisely because it is trying to do many things

(Continued on page 4)

This Time It's Different— Or Is It? (cont'd)

(Continued from page 3)

that cannot be done, by anyone, very well." Still, with public concern about the welfare of federal workers continually waning, there is little political will to see to it that civil servants have quality workspaces.

Certainly budget pressures are not new to most executive branch agencies. And past grand schemes to shrink the bureaucracy have largely failed. For instance, even though Ronald Reagan tried to reduce the size of government, at the end of his tenure, he could claim only that he slowed its pace of growth. During the Clinton years the much heralded plan to cull the federal workforce by 300,000 people did not happen, and certainly did not dent the growth in total space occupied by federal workers.

In light of these facts, some seasoned observers of government are predicting that, once a plan is in place to address the debt crisis, we'll be back to business as usual: an ever expanding bureaucracy with an endless appetite for more space. Over the long term, the Government may well revert to its general growth path, but to this observer, for the next 3 years, and possibly quite longer, it looks like no net growth in federal space use. In fact, don't be surprised if there is genuine contraction.

As with any major change, there will be winners and losers. If space retrenchment does take hold, among the many ideas that will be stress tested is the "essentiality" construct underpinning many a long-term federally leased building.

Ron Kendall is a former staff director for the House Subcommittee on Economic Development, Public Buildings, and Emergency Management. He is a frequent contributor to Government Leasing News and is a member of its advisory board.

Actions Federal Agencies Can Take Now to Stretch and Save Facility Dollars

by John Carpenter, Carpenter/Robbins Commercial Real Estate, Inc. and Ron Kendall, Kendall Associates

Introduction

In the face of the U.S. Government's mounting debt problems, most federal agencies are already facing unrelenting budget pressure to reduce costs. Now with the failure of the Congressional "super committee" to agree upon a path forward to reduce the federal deficit by $1.1 trillion, the prospect of across-the-board cuts taking effect means that budget pressures will only intensify. Some in Congress and in the Administration are looking to surplus federal property sales to help offset the deficit, by as much as $15 billion. While the authors are skeptical of savings on this scale through disposal of unneeded federal real property, certainly a careful examination of the use and need for owned and leased assets is a legitimate exercise at any time, and may yield both sale proceeds for the government, and avoidance of costs.

But there are many more ways, within the context of real estate, that agencies can look to save money. This article attempts to identify several of these methods, although the list is by no means an exhaustive one. Some ideas are general in nature, while others are quite specific. From these we formulated a set of do's and don'ts (see the sidebars at the end of the article) for those faced with decisions in the short term. Not all these action steps will apply to every reader, but we hoped to strike a chord and offer some real-world cost reduction ideas that can be extracted directly from this article and utilized to save agency facility dollars even now in 2012.

Moves to Make Now

•Undertake a **rent validation initiative** to insure that the charge basis (i.e., rentable square footage) you are paying is accurate. This is a process of examining and measuring the space assigned to your agency and comparing the results to the space assignment numbers in the Occupancy Agreements which GSA issues. One large GSA client, with significant space holdings in government owned space, found annual savings of over $1.5 million through a rent validation initiative.

•While it is tempting to do a short term extension of a lease rather than a longer term lease replacement during tense times, a lease extension could be the worst move you could make. A quick solution today can be a missed opportunity to lower present and long term occupancy costs. Two options exist, the first is to avoid lease extensions or short term rollovers. They will push the lease decision out a year or two, but rates are likely to be higher and concessions scarce. If the future is unclear try writing a full term lease with the opportunity to terminate the lease prior to the full term. This is being done in the private sector in various market around the country and seems to be working for both parties. The second option is to renegotiate your lease now, even though the termination date is still a few years out through an "extend and blend" replacement lease. Naturally, going longer term is only appropriate for locations where you have reasonable certainty about your long-term need, and capacity to pay, for the space. With agency budgets in turmoil, and the reach of sequestration unknowable, certainly this strategy is not appropriate in many situations, but where an agency can foresee at least a minimal presence in a certain locality into the future, it may be economically advantageous to commit to a longer firm term for at least a subset of the present space holding, rather than just limp along with short term extensions. Now is the time to renegotiate that lease, not tomorrow.

•**Space relinquishment** is the buzz word today. The President has stated that governmental agencies will reduce their real estate foot print in Washington

(Continued on page 6)

Actions Federal Agencies Can Take Now (cont'd)

(Continued from page 5)

and around the country. GSA has developed tools and expertise to assist agencies in evaluating the potential for space **consolidation, reorganization and reduction opportunities**. This is generally a good deal for those agencies that have space assigned to them by GSA, and some will save substantial facility costs within as little as 120 days from request for relinquishment.

•Before selecting or awarding that contract for new or replacement furniture, have the **quotation(s) reviewed** by an independent furniture dealer with extensive government experience. They can help drive down the cost of both new and used furniture and in many markets they can help obtain almost new furniture for the cost of removal and set-up. Another way to save is to forego the purchase of new furniture altogether and to move current furniture stock to the new location.

•**Know the local market!** For those agencies with independent leasing authority, consult the GSA *Bull's-eye Report* at gsa.gov to make sure the rents being offered by your Landlord are in line with today's local market rates.

•**Tenant Improvement (TI) dollars** come in two buckets; the first is filled with the landlords' dollars that are offered as an inducement to tenants to rent space in their buildings; the second is filled with agency-funded TI dollars used for special (above lessor's allowance) tenant improvements. The better credit the tenant has, the more landlord TI dollars are available. Get the landlord to provide all the TI dollars you need; maybe you won't have to use yours!

•Get everything you can out of the **National Broker Contract**. This program was put in place to provide leasing experts who only represent the government's best interests at the agency's side of the negotiating table. These experts are available if you request them, and they are some of the most experienced and respected real estate negotiators in the country., Get one on your side. Request a private sector broker, it won't cost you any more and may save your agency money.

•**Utilities and services** have long been debated as areas where operating dollars could be saved on a monthly basis. Trouble is, there is a long history of GSA negotiating fully serviced leases and lock step service contracts. In today's world of expense control innovation it is worthwhile to challenge the status quo. When we have done this in the areas of 'space utilization' and 'sustainable energy application' we have found that substantial savings can be achieved; why not do the same with utility and service conservation? Some ideas to ponder:

1. Electrical and gas prices can be highly volatile over the course of a lease, so removing the risk from the landlord and agreeing to pay the actual costs of these two utilities will create substantial savings to government tenants; if it is possible to install separate meters to specifically quantify your use, all the better. Yes, this does require some accounting acumen, but most landlords are equipped to handle utility estimation and year-end reconciliation, or if not, an eager pool of third-party contractors is at the ready to fill this need.

2. Another area worthy of consideration is janitorial services. Some areas of service need daily treatment while others are less crucial. Nightly desk-top dusting and waste paper removal could be cut in half; this will create cost savings.

3. Consolidating service and management contracts, if not already done, should be considered on a case-by-case basis. This move is not flashy, but is a way for some agencies to realize immediate cost savings.

4. Technological advances in facilities management have gone through a substantial catharsis in the past five years; indeed, even thermostats can make coffee now. Okay, that's a little over the top, but if you have not looked at this area since your last move you will be amazed at how much such cost saving technology can contribute to the bottom-line.

(Continued on page 7)

Actions Federal Agencies Can Take Now (cont'd)

(Continued from page 6)

Strategic Moves

•Strategic real estate planning has got to be one of the dullest subjects to consider in a climate that is rewarding short term cost reductions. We all have to be sensitive regarding the need to reduce facility costs thru short term space reduction, relinquishment and improved utilization, but the big dollar savings are in the strategic reduction of the need for space now and in the future. We are currently at a low point in the business cycle and calculated real estate moves made today, utilizing leased premises, will yield cost savings now and into the future that will save agencies and Federal budgets billions of dollars if approached in a disciplined and systematic way.

•Create a **portfolio management approach** for your real estate needs. Is your organization one that manages space by Occupancy Agreement expiration date in a series of one-off transactions, or do you have a strategic approach, utilizing demand forecasting and a broad based perspective on the entirety of your real estate needs: by function, by city, by region, and nationally? Better portfolio planning will translate into more effective and efficient matching of changing organizational needs and space resources.

•Create a **strategic planning team** for current and future agency facility needs. This should be a combination between appropriate agency representatives and outside consultants. The cost savings realized thru this process will positively align your agency to be in a strong position as work place habits shift and the need for both public and private facilities begins to diminish.

The Strategic Planning Committee

This committee should give first priority to doing the following:

- Estimating future space needs based on technological changes and the need for large centralized facilities
- Conducting utilization surveys of current space holdings
- Recommending space utilization standards and benchmarks
- Developing planning models for facility sizing
- Creating institute management and line staff training curriculums
- Developing new space planning models that reflect changing space utilization
- Developing new budget forecasting models

Envision the Office Space of Tomorrow

We all know that our world is changing, so now is the time to **re-assess how we will use office space tomorrow.** In this increasingly digital, connected world, the appliances associated with new technologies (smart phones, PDAs, laptop computers, digital tablets), and the new means of interaction enabled by these devices (email, distance-learning, webinars, video-conferencing, telepresence), coupled with an understanding that, when people are physically together to work they need collaboration space rather than private offices—are driving a fundamental rethinking (and likely reduction) in the amount of space and the kind of space organizations need to accomplish their work. Now is the time to move in this direction so you are not left in the dust!

Our space is limited here and there is so much more to discuss on the topic of facility cost reduction. We are just at the beginning of this dialogue in Federal space. Look for more articles on this subject and our upcoming Facilities cost reduction seminar in 2012 in cooperation with the National Federal Development Association.

Should you have an immediate concern or questions, please don't hesitate to contact John Carpenter at *jc@crcre.com* or Ron Kendall at *RonKendallAssocs@verizon.net* to get you to the right person to help address your concerns. Mr. Carpenter has over thirty years experience in commercial real estate, and for the past 14 years has been a principal of Carpenter/Robbins Commercial Real Estate, Inc., providing

(Continued on page 8)

Actions Federal Agencies Can Take Now (cont'd)

(Continued from page 7)

consulting and real estate services to the Federal government. He has served as the President and CEO of the Real Estate Investment Trust of California (NYSE), and Regional President with the Grubb & Ellis Company. The firm currently holds a number of national Federal contracts and provides real estate services in twenty states and 136 cities throughout the country.

Before founding his own consulting company, Mr. Kendall served in executive positions in all three branches of the federal government. Over the course of his 26 years with GSA, he was a leasing chief in the National Capital Region, the first director of the International Trade Center at the Ronald Reagan Building, and Chief Asset Officer for the Public Buildings Service. He is the principal architect of the PBS pricing policy, and of a near decade-long PBS portfolio restructuring initiative. He reconstituted the federal Judiciary's long-range facility planning process and designed the courts' Circuit Rent Budget Program. In his final public servant role, he served in Congress as the staff director for the House Subcommittee on Economic Development, Public Buildings, and Emergency Management. He was also a senior vice president with Jones Lang LaSalle, Inc. Ron is a frequent contributor to GLN and a member of its editorial advisory board.

Do's

- **Do a Rent Validation**
- **Identify consolidation/reorganization opportunities that have the potential to create real estate savings.**
- **Take advantage of the space relinquishment clause in your GSA Occupancy Agreements. Seriously consider this strategy now!**
- **Know the lease rate in your market by utilizing the GSA *Bull's-eye Report* available at *www.gsa.gov*.**
- **Take advantage of low-cost, private-sector real estate experts to help drive down occupancy dollars.**
- **Initiate a strategic planning process.**

Don'ts

- **Don't miss this once in a life time opportunity to lower occupancy costs.**
- **Don't buy new furniture without checking local inventories.**
- **Don't leave Tenant Improvement dollars on the table in your next move or renegotiation.**
- **Don't assume you can't renegotiate your lease before the end of the firm term.**

In-Building Cell phone Coverage – Another Utility?

A System Integrator's Perspective

by Elton Sayani, Lord & Co. Technologies

Cell phones, iPads and tablets have made our lives easier and to a certain more dependent on technology. We browse the internet, make calls, conduct financial transactions, take pictures and even pay bills (at least on college campuses) via these devices. Getting them to work for lack of signal in a building or in your cubicle can be quite challenging at times and will get more challenging in the future for the following reasons.

•**LEED Buildings** – LEED Low-E Glass contains metal particles which reflects or attenuates signal.

•**Smartphones** – iPhone or Droids – require many more times the capacity of the old clamshell models required because of data requirements – pictures, video, browsing the internet. Imagine the dial-up to broadband revolution all over again but this time on mobile devices.

•**Growth of new Towers to offload capacity** – The growth of new outdoor cell towers cannot keep up with the load put on by these new devices. Building new towers or adding outdoor coverage is getting harder, due to zoning, environmental, building and other concerns.

•**Location, Location, Location** – Sometimes you're out in the country or behind a hill and no matter what you do or whom you scream at, you just won't get signal for your phone.

All the above factors, tougher skins for the signal to penetrate, higher bandwidth requirements by smartphones coupled with heavily loaded towers that can't keep up with the information requests from all these devices are causing developers, federal real estate and leasing agents to examine providing for in-building cellular coverage for their occupants.

The industry parlance is a Distributed Antenna System or a "DAS". The DAS is fast becoming another utility – a requirement in new buildings to provide cellular re-enforcement. Through a network of antennas, remote units in LAN closets all connected back to head end equipment located in a server room in a building, cell phone signal is taken either off the air or from the internet (via a base station) and ubiquitously piped throughout the building via co-axial cable and fiber, just like lighting, heating, ventilation are provided for today over a baseline infrastructure.

The real estate professional's dilemma in solving this boils down to a few financial considerations:

•**New construction, a DAS** is a ready possibility provided for in low voltage specifications, given the availability of funds.

(Continued on page 10)

In-Building Cell phone Coverage (cont'd)

(Continued from page 9)

•In existing buildings, carriers will fund it partially or completely only if it is a large or prominent customer of theirs or it is a large prominent location (US Capitol) or where there is a large pass through traffic (i.e. subway system).

•Owner funded models cover the rest. Tenant Improvement (TI) can cover some or all the costs depending on lease term. A DAS on average costs between $ 50 cents to $ 1.25 per sq. ft., depending on carriers selected, building size, profile and number of floors.

To summarize, in-building cell phone coverage is fast becoming a tenant expectation and a necessity in LEED buildings. Owners and developers are looking for innovative solutions. A Distributed Antenna System (DAS) remains the preferred way to solve this problem. Cost can be a sticky item. As an owner, or building manager, this is becoming another utility to be provided for. For a tenant or occupant, full bar cellular coverage is becoming another item on the checklist of requirements, and thus another utility.

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Notable and Newsworthy (cont'd)

(Continued from page 2)

regarded as a public-private partnership, giving due recognition to the fact that the average duration of a GSA lease, including subsequent renewals, is 32.3 years, and that in this time of crisis, GSA should look to the private sector for the financial resources to help make things work.

•GSA now purchases for all new employees laptop computers only, thereby enabling total mobility of its staff to work anywhere, whether from home, on travel, or onsite at a project or at client agency's office. I was told that DHS has adopted the same policy. Most all other agencies, according to GSA, continue to purchase desktop computers for them, thereby restricting workers to fixed locations.

•A recent survey of utilization rates revealed that they currently vary from 200 to 300 square feet per person throughout the federal government. As a result, GSA is urging agencies to reduce their utilization rate, and the first such agency to do so has been HHS, which has reduced its utilization rate to 170 square feet per person.

•One of the benefits resulting from requiring LEED Gold certification in high-performance lease construction projects has been a reduction in electrical energy from 7 watts per square foot to 4 watts per square foot, representing a close to 43 percent reduction in plug load.

•The standand 10-year GSA lease with 5 years firm and 5 years soft, is being modified to let the agencies assigned have their say as to the split between firm and soft terms. Agencies willing to commit to a 10-year lease with all 10 years firm will typically pay lower rents due to the reduced risk of early termination in the eyes of both owners and lenders.

On September 22, 2011, the National Federal Development Association and the U.S. General Services Administration sponsored a joint forum on lease construction and prospectus leases. The general content of that meeting was described in the Fall issue of Government Leasing News. The minutes of that meeting are being published in Government Leasing News as a multi-part series, commencing with this issue on page 12.

According to the Homeland Security News Wire Published December 28, 2011, the latest Congres-

(Continued on page 24)

Summary of the Joint NFDA-GSA Forum on Lease Construction and Prospectus Leases: Part I

Opening Remarks:

Dennis Eisen (Executive Vice President, NFDA) provided general comments on the purpose of the Joint Forum.

By way of background, Dr. Eisen noted that GSA's previous lease reform efforts were limited to leases under the current prospectus lease threshold and therefore were not applicable to many of the lease types within GSA's portfolio.

Dr. Eisen noted that this previous attempt was done for practical purposes. Given the much smaller size of GSA's below-threshold leases, GSA was able to review and process the results of its previous reform efforts quicker.

GSA is now actively engaged in reforming the construction and prospectus lease process. As such, the purpose of this meeting is to assist in those efforts.

Introduction of the Panel:

Dr. Eisen introduced three panel members for a short discussion of the specific provisions in Public Laws, Executive Orders, OMB Circulars and Agency Directives that guide GSA in the leasing process. The panel members were:

•**Sheldon Kravitz**: currently at the Capital Investment Office for Capital Portfolio Management

•**Barry Segal**: currently the Associate General Counsel for the Real Property at GSA

•**Ron Kendall**: currently the President of Kendall & Associates

Opening Remarks:

Following this introduction, each of the panelists provided a brief overview of various items related to potential reforms for GSA leasing and/or a discussion of the legal and regulatory framework (and constraints) within which GSA exercised its leasing authority.

(1) First, **Mr. Kendall** opened the panel discussion with an overview of potential discussion topics listed in the agenda and what discussion topics would not be discussed.

(2) Next, **Mr. Segal** provided a basic overview of the responsibilities of his office – the Real Property division – at GSA. In this regard, Barry discussed that his office provides strategic direction, administration, and management support services for real estate portfolio management, asset business strategies, capital allocation, portfolio analysis, asset valuations, pricing policy, occupancy administration, and property utilization and disposal.

Upon framing how GSA approaches leasing, he noted what the current legal framework does not prohibit GSA from doing under its organic leasing authority. Indeed, Mr. Segal noted that too often the discourse on GSA's leasing authority was framed, inappropriately, on how GSA was constrained by the current legal and regulatory apparatus. In fact, Mr. Segal noted that the legal framework of GSA's leasing authority is pretty broad and far reaching in what it permits. For example, he noted that under the Federal Property and Administrative Services Act, GSA can lease space for terms up to 20 years and that he has never found the 20-year limit to be an impediment to a lease transaction. Another example of a legal require-

(Continued on page 13)

*On September 22, 2011, the National Federal Development Association and the U.S. General Services Administration sponsored a joint forum on lease construction and prospectus leases that was held in Washington DC. The general content of that meeting was described in the Fall issue of Government Leasing News. The extensive summary notes of that meeting are being published in Government Leasing News as a multi-part series, commencing with this issue. Government Leasing News and NFDA are indebted to McKenna Long & Aldridge LLP for providing this summary through the efforts of Sandy Hoe, Esq.; Justin Ganderson, Esq.; and Marques Peterson, Esq., all three having a focus in the area of Government Contracts. Mr. Hoe is a partner in the Washington DC office of McKenna Long & Aldridge LLP, and Messrs. Ganderson and Peterson are associates in the DC office of McKenna Long & Aldridge LLP. These notes are intended to be a summary of the highlights of the program and are not intended to provide a verbatim recital of all statements made.

Summary of the Joint NFDA-GSA Forum (cont'd)

(Continued from page 12)

ment that does not impede GSA's leasing authority is the requirement that GSA's leases contain certain socio-economic clauses. Mr. Segal stated that he had not seen these clauses become a structural impediment to leasing deals going forward.

Mr. Segal noted that GSA is in the middle of reforming its leasing process, a project of particular interest to the Commissioner. The purpose of the current reform efforts are to make GSA's leasing framework more user friendly and market-oriented based upon current realities. For example, Mr. Segal noted that although many leasing competitions are drawn out, he stated that the competition structure does not require lease competitions take 18 to 20 months. In this regard, GSA is working on streamlining the process.

Mr. Segal next discussed some of the focus areas of GSA's current reform efforts. In one area, the prospectus process, he noted that the drawn out process associated with prospectus leasing makes it apparent to GSA that it's an impediment to doing business. Mr. Segal also discussed the OMB scoring criteria. He noted that it's important to consider that the scoring rules, in and of themselves, are not a bad thing. In this regard, Mr. Segal noted that the scoring rules serve a valid purpose of controlling and directing public spending. However, he stated that the struggle stems from the application of the scoring rules to the real estate transactions, which in some ways defeats the purpose of having the scoring rules in the first place. For example, the way the scoring rules are interpreted and applied by OMB is not uniform; indeed, in other transactions; *i.e.* non-real estate, the scoring rules are applied differently than in leasing transactions. Thus, Mr. Segal noted the current reform efforts seek to ameliorate the problem that the scoring rules cause GSA to make imprudent real estate transactions because the rules, at times, dictate results that are not good business decisions.

In addition to the scoring rules, Mr. Segal discussed other areas of potential leasing reform:

Operating Cost adjustments and tax reform. Mr. Segal noted that where GSA is the sole or dominant tenant, there is no legal requirement that GSA treat taxes as an operating cost plus. Thus, GSA's current practice of treating taxes as an operating cost is based upon internal decisions that are being examined as part of the overall GSA Leasing reform efforts.

Fire and Casualty Clause. GSA is examining how rights in the context of partial or complete casualty damages are structured under the clause. GSA's current approach represents a business determination as opposed to compliance with specific legal rules.

Termination Rights.

In conclusion, Mr. Segal noted that GSA's current reform efforts focus on moving away from a one-size fits all approach for leasing transactions because such a uniformed approach, which requires drafting uniform regulations, has impeded past reform efforts.

(3) **Mr. Kravitz** discussed lease scoring in the OMB Circular and other specific provisions in law, executive orders and agency directives that limit OMB's and GSA's ability to enter into leases.

According to Mr. Kravitz, OMB scores leases based upon who shoulders the burden of the risk of ownership. Thus, if it is an operating lease, it's the private sector. Therefore, the goals of the lease provisions are to ensure that ownership risk stays with the private sector. Mr. Kravitz stated that anything that would result in the government owning the asset is avoided. A lease that includes a bargain purchase price will be scored as an operating lease. A lease that has a $1 transfer at the end of the lease is not an operating lease.

Mr. Kravitz discussed some other factors OMB considers in lease scoring:

OMB considers whether the present value of the lease payment stream exceeds 90% of the fair market value (FMV) of the property at the time of entry into the lease. This is a focus because a payment stream that

(Continued on page 14)

Summary of the Joint NFDA-GSA Forum (cont'd)

(Continued from page 13)

exceeds the 90% rule indicates a capital rather than an operating lease. However, the 90% rule is only one of several rules OMB applies in determining whether a lease is a capital or operating lease.

The 90% rule includes an assessment of the FMV of the asset. How that is determined is important. In the first instance, FMV may be determined based upon current market prices. If there is no comparable asset; *i.e.*, the government wants the private sector to construct a building, then FMV is based on the cost the government would pay to construct the asset if the asset was essentially for "government ownership." In determining the FMV of an asset proposed for lease, the value of features or enhancements that were built or paid for by the government; *i.e.*, for the unique needs of the government, are paid in lump sum amounts up-front from appropriated funds and excluded from the FMV calculation. Therefore, for the 90% rule, FMV is determined without unique enhancements while rentals generally will be consistent with market rentals for the overall asset.

Specific purpose asset versus general purpose asset. If the asset cannot be easily and readily loaded up with specific government features, it's more of a general purpose asset. OMB considers these factors; *i.e.*, whether enhancements are required, in lease scoring.

Private sector market for the asset. The assumption here is that any structure built to government specifications would ultimately be less useful to the private market.

Generally, Mr. Kravitz noted that pure lease construction projects are difficult to enter into because scoring often leads to unacceptable capital lease treatment. Additionally, current economic conditions make lease constructions more difficult, the tenant agency has the budget to enter into leases, but the ongoing credit crunch in the market makes it difficult for lessors of GSA leased buildings to secure funding. Also given the President's June 2010 Memorandum, GSA has to review carefully the space of its tenant agencies and consider the square footage per person to determine the proper type of space available in these lease construction deals.

Finally, GSA uses a discount rate when implementing the 90% rule in lease transactions that is provided in OMB Circular A-11- Appendix C. This discount rate is typically updated on an annual basis based upon the assumptions of the President's budget.

Audience Questions to Panelist:

Question 1: Can you talk about the relationship between scoring and rent caps?

Rent caps are really market driven. In the National Capital Region (NCR), OMB uses program rates derived from annual negotiations between GSA and OMB. There is no conversation of how leases will score with the rent rates.

Outside of NCR, the rates are based upon the individual analysis in the market areas in support of the rental rate GSA wants the rate to be; then GSA and OMB negotiate this. The market information GSA considers has to be in relation to the size of the prospectus proposal.

Question 2: On the build-to-suit program, do you have to use the government's valuation which excludes interest, etc.?

FMV is what the government is willing to pay to a private sector entity to construct the building, which is different from what the private sector pays because of financing, etc. The government excludes interest costs, etc., as though it is using appropriated funds.

Currently, build-to-suit leases have a difficult time surviving in the market because the valuation is driven by the cost of land and the fact that the developer has to finance the project during the construction period. It's not impossible to do and there may be various subsidies along the way to reduce costs to bring it within the market of what the value of the asset is. If this can't be done, then build-to-suit is not the appropriate vehicle.

(Continued on page 15)

Summary of the Joint NFDA-GSA Forum (cont'd)

(Continued from page 14)

***Question 3: Is the cost approach (i) the government's costs of a construction project or (ii) the projected costs for a lessor to construct the project? Also, are you assuming that tenant improvement dollars would be used to build improvements*?**

The cost approach is what the government would pay a private entity to construct the building. With regard to tenant improvement dollars being used to build improvements, the scoring model excludes improvement costs as these are separately budgeted for by the tenant agencies.

Question 4: So enhancements are not embedded in the rent?

Enhancements are not included in the rent. They are excluded from the prospectus cap and not scored as part of the rental stream. Thus, the agency does not finance enhancements as these have to be budgeted and paid for lump sum.

Question 5: Is the government doing anything regarding scoring as a result of potential GAAP changes in FASB 13?

They are not aware of OMB changing the existing lease scoring system.

Question 6: How does the House's recent condition on the approval of GSA's leasing authority that it ob-

(Continued on page 16)

Summary of the Joint NFDA-GSA Forum (cont'd)

(Continued from page 15)

tain to the maximum extent practical a purchase option in the lease affect the scoring system?

It does not really have much of an effect because the ownership risk of any purchase option would have to be exercised under line item authority. Thus GSA would have to seek Congressional approval to exercise any such option.

Topic 1: Making the Real Estate Tax base a pure pass-through, rather than a developer risk (especially in cases in which GSA controls the site).

Question 1: How does GSA/government reconcile the Energy Act in Executive Order 13154 in real time with the requirements for their leases?

In January 2011, GSA conducted a detailed study of utility payments under leases: this included the extrapolation of the data and looking at power supplies and emissions. The Executive Order does not specifically state that GSA has to have a sub-meter or meter in the leased space. In any event, GSA is in the process of drafting a circular that requires lessors to provide quarterly reports of their energy uses. It's about $300,000 on average to install the advanced meter system per building.

Denise Broskey noted that since metering can be done for separate spaces within a leased building, it should make it easier for the government to acquiesce to utility payments as a pass-through cost. Thus, GSA is discussing in the context of lease construction projects permitting pass through for utilities and snow removal but probably not for janitorial services.

However, the primary issue with GSA permitting pass-through utility costs is the administrative manpower needed. Currently, GSA does not have the resources to review the thousands of utility consumption reports per quarter that this would require. As to taxes, ***Ms. Broskey*** also noted that permitting pass-through taxes to the GSA lease construction industry is one thing, but this is much more difficult when implemented nationwide.

Audience Member Response: GSA should come up with regional guidelines that would allow for auditing of proposals.

Audience Member Question: In terms of a lease renewal, or where a lease is currently set up under the CPI, would pass-through cost be acceptable to GSA?

Ms. Broskey said that GSA would be amendable to this. The goal is to incentivize the customer agency to use less energy from the end-user agency.

Audience Member Statement/Question: Not only do you get the tenant to be more responsible for utility uses, but there are contracts that may be cheaper to the government for utilities overall. So if government wants cheaper rates, it could use the better rates it obtains for utilities and pay for these as pass-through costs.

As far as direct rates, would this put undue burden on the government; *i.e*., pass-through costs, because it deals with so many cost codes? How do you envision implementing this?

Ms. Broskey indicated that the current internal GSA system is not equipped to handle the coding process associated with permitting pass-through costs. Thus, GSA is examining whether there is potential to make simple adjustments to GSA's current accounting system or if a total new process is needed.

Audience Statement: In terms of the way to deal with the fluctuation in monthly utility costs, GSA should review how residential communities deal with this issue. You can blend it into the next year's budget to get an informed rate.

Audience Statement/Question: If GSA decides to permit pass-through costs, GSA still must ensure that the risk of ownership stays with the lessor. Thus, if GSA permits the pass-through of utilities cost, is there any incentive for the building to be run efficiently? Would GSA want to take that risk on?

Ms. Broskey stated that, since lessors have to have energy star ratings, this is the incentive to run buildings efficiently. Moreover, lessors are going to be con-

(Continued on page 17)

Summary of the Joint NFDA-GSA Forum (cont'd)

(Continued from page 16)

cerned about how they stand on future lease transactions with GSA. However, the comment above is still valid because there still needs to be additional incentives. Still the assumption is that since the lessor gets the savings if GSA permits pass-through utility costs, they will run it as efficiently as possible. There may need to be a stipulation that lessors make a capital investment from the savings as an incentive mechanism.

Audience Question: Is there any difference in pass-through cost for leased buildings that have both government and commercial lessees?

Ms. Broskey stated that it's a function of how it would be enforced. Also, for an orderly progression to get things paid, the pass through costs have to go to the GSA directly.

Audience Question: Is there any validity to having a hybrid escalation factor that reflects rising energy costs? Currently, the assessment of energy costs is imprecise because of the amalgam of different factors within these costs. There are a lot of VA leasing deals where a lessor establishes a base cost and in the "out years," there is a "true up" based on the actual amount.

Mr. Segal noted that the above question raises two issues:

(1) Relationship with agency and lessors and developers, and issues GSA has with its occupant agencies. GSA has many tools to use with its lessors in segregating utilities and/or making tax adjustments if it elects to permit pass-through costs. However, a larger problem with pass-through costs is that the client agencies; *i.e.*, the tenants, want certainty in their budgets in terms of how much they need to be asking for rent money.

(2) Pass-through of baseline taxes

Audience Comment/Question: GSA must remember that it has reporting requirements back to Congress under its approved prospective program. If operating expenses are predicated at $6 a square foot but later comes out to being $9, how do you evaluate this?

Response: The tenant agency uses a standard formula that analyzes the CPI; this is how agencies do their yearly rent estimations. There is also a standard escalation included yearly and a reconciliation process.

Audience Question: If GSA controls a site and all offerors are competing to bid on the government site, why doesn't the GSA create a pass-through tax estimate by talking to the local taxing authority (and based upon the amount of expected development), and then standardize the tax number for the entire process?

Response: GSA says one problem with this approach is that it cannot afford to have inaccurate estimates because it could raise a question of whether they violated the prospectus.

Audience Comment: When Congress approves the project, it provides a prospectus cap. The current model inefficiently requires the private sector to guess on taxes 3+ years out which is impossible. If the competitive area has multiple tax rates, the model becomes even more problematic.

Mr. Segal says that the "clauses" are a vestige of clauses developed years ago when it seemed like the correct way to do it. In rare cases, where a building is to be constructed in a specific space and there is some predictability of what the taxes will be in the local jurisdiction, he is not worried about the risk of accepting pass-through costs. However, the larger worry relates to where GSA is the sole or mostly dominate tenant of a building, and it is costing GSA money unnecessarily. If GSA could challenge discriminatory tax assessments by jurisdictions, it would consider accepting lessor taxes as a pass-through. This is not the case now; any rule regarding GSA's acceptance of tax pass-through must be fair and transparent.

Mr. Kendall says that multi-jurisdiction tax issues are rare. In his opinion, the risk that a local government is going to pile on taxes to the federal government is more remote than the danger of a lessor having to estimate a higher tax rate because it does not know what its future years taxes will be.

Ms. Broskey emphasized that all must be mindful

(Continued on page 18)

Summary of the Joint NFDA-GSA Forum (cont'd)

(Continued from page 17)
that GSA's tenant agencies have a difficult budgeting process. Still, GSA is open to the idea of accepting taxes as pass-through costs, but interpreting the clauses and implementing them will be difficult.

Audience Question: Operating expenses and real estate taxes are also often dependent on how lessors use utilities; however, commercial entities have little control over how these are established. As a result, the true nature of operating costs and real estate taxes are subject to additional pressures. Moreover, because there is a time lag in some assessments, would GSA consider one millage rate for all offerors?

Mr. Kendall stated that the consensus is that when Congress gives a prospectus, it is treated as an all-inclusive number.

The above notes pretty well sum up the discussion, points raised and ideas advanced during the first half of the joint forum. The next (spring 2012) issue of Government Leasing News will do the same with regard to following topics, among others, that were brought up during the second half of the forum:

•Cures for inordinate government delays during design and construction process;

•Modification and Standardization of GSA lease General Clauses;

•Need for appropriate market reconnaissance by GSA; and

•Disaggregating project financing from selection of developer.

For Public Housing, This Time It Is Different

by Peter Shanley, Associate Editor

Over the past six years Government Leasing News has published an intermittent series of articles about the nation's public housing, a major segment of the federal government's real estate portfolio that is under the jurisdiction of the U.S. Department of Housing and Urban Development. Through generous HUD subsidies during that time period, local housing authorities were able to initiate and provide a substantial number of new and replacement housing units throughout the country, as typified by the Lakeland, Florida, story documented in our fall 2010 issue. What significantly helped control the development costs involved was the fact that the financing and accounting for these units had been *mostly* restructured so as to more rationally align with the practices of private-sector rental entities.

I say *mostly*, because as opposed to practices of the GSA or the private-sector community, these rental apartments have had the ongoing costs of repair and modernization financed by an annual appropriation rather than through a replacement reserve, as is common practice in other government agencies and the private sector.

HUD not long ago released a study (*Capital Needs in the Public Housing Program,* November 2010) detailing a shortfall of $25.6 billion for the major repair and modernization needs of the nation's 1.2 million public housing units. Their median age is now forty years—nearly a decade older than private-sector rental apartments. The federal budget crisis now facing the nation will effectively prohibit any large-scale appropriations, and may well result in a rapidly escalating deterioration of the public housing stock—unless dramatic and innovative approaches can be introduced to slow the process. It is highly unlikely that the problem can be sorted out in the current context, however, and it will take a concerted effort by HUD, housing authorities and highly skilled public housing consultants to figure out how limited resources should be allocated for maximal effect. Government Leasing News will have more to say about this situation in the future, but at present for the public housing business, it is likely that *this time it is different.*

The Washington Metro Area, Third Quarter 2011

Economic Highlights:

The Washington metro area economy experienced a slight rise in jobs over the past year. **Payroll employment** increased by 100 during the 12 months ending August 2011, as companies await a clearer picture on the Federal budget. The service providing industries continued to grow, adding 9,200 new positions during the past year. This compares to the goods producing sectors, which struggled, shedding 9,100 positions.

The Washington area **unemployment rate** was 6.0% at July 2011, down from 6.3% one year ago. This compares to the national rate of 9.1% in July 2011. The national rate remained unchanged at 9.1% in August 2011.

The Washington area's **gross regional product** (GRP) was $415.5 billion in 2010 in current year dollars, an increase of 4.5% in 2010 from revised 2009 figures. Approximately one-third of the Washington metro GRP is generated by the Federal government – the region's most important core industry. A core industry is one that imports capital and exports a good or service. Total Federal spending in the Washington metro area totaled $145.0 billion in 2010.

We expect the Washington metro area economy to progress during the balance of 2011 and into 2012. Although we believe the local economy is in the expansion phase of the economic cycle, we expect the speed to be slower than seen in previous expansion cycles as consumers and companies remain cautious and the Federal government institutes austerity.

Office Highlights:

The Washington metro area office market experienced improving conditions during the 3rd quarter of 2011, as leasing activity and pre-leased deliveries boosted net absorption. However, tenant move-outs continue to offset some gains. Effective rents remain under pressure, as the vacancy rate remains elevated and struggles to make any downward movement. Although asking rents are starting to climb and concession packages are stabilizing, concessions remain elevated enough to put downward pressure on effective rents in many submarkets. However, better buildings in stronger submarkets are seeing effective rent growth.

Source: Report on the Washington Metro Area Office Market and Economy, Third Quarter, 2011, courtesy of Delta Associates and Transwestern.

Third Quarter Market Highlights:

•**Net absorption:** 510,000 SF YTD 2011, compared to 6.4 million SF during all of 2010.

•**Sublease space:** Decreased by 143,000 SF YTD 2011. Sublease space represents 1.0% of the standing inventory.

•**Overall vacancy rate:** 12.1%, down from 12.2% one year ago. Third lowest rate in the nation.

•**Direct vacancy rate:** 11.1%, unchanged from one year ago.

•**Pipeline (U/C and U/R):** 7.1 million SF, up from 3.8 million SF one year ago.

•**Pipeline pre-lease rate:** 56%, compared to 63% one year ago.

•**Average Effective Rents:** Down 1.2%, compared to a decline of 6.5% in 2010.

Investment sales: $4.8 billion ($369/SF) YTD 2011, compared to $5.2 billion ($335/SF) during 2010.

Overall Outlook:

We expect the Washington metro area market to remain one of the best performing office markets in the nation in the intermediate and long run. Although we believe the recession ended locally during the first half of 2009, recovery will continue to be slow during the balance of 2011 and into 2012 as uncertainty about the broader economic climate causes hesitancy among tenants. We expect the share of government leasing to decline during 2011 and 2012, as Congress scrutinizes any large lease deals worth more than $2.6 million. Leasing by the private sector should gradually start to rise during the remainder of 2011 and into 2012. We expect leasing activity to be restrained by the private sector despite job growth, as companies with shaow space utilize the additional room before inking new deals. Companies with the budget to secure space at lowered rents will be active in the market. However, tenants currently inking deals are downsizing the total amount leased, as they right-size their office space due to staff reduction and more diligent use of space. Meaningful growth will not be felt until late 2012/early 2013. Overall, the intermediate-term outlook for the metro area remains positive, driven by the continued (though scaled-back) activity of the Federal government and rising private sector activity. We expect the Washington metro office market to remain among the best performers in the nation.

The Baltimore Metro Area, Third Quarter 2011

Economic Highlights:

The Baltimore metro area experienced sluggish economic conditions, as the metro area added 900 new **payroll jobs** during the 12 months ending August 2011. This compares to the 20-year average of 5,900 net new payroll jobs created. This represents a rise of 0.1%, compared to the national rise of 1.0% during this period.

The Baltimore area **unemployment rate** was 8.0% at July 2011, down from 8.2% one year ago. Among comparable metros, Baltimore holds the second lowest unemployment rate and compares favorably to the national rate of 9.1% as of July 2011. This rate remained at 9.1% at August 2011.

The Baltimore metro area's **gross regional product** (GRP) was $142.7 billion in 2010 in current year dollars, an increase of 3.1%. Federal and financial activities make up a notable portion of the economy, generating 23.7% and 21.3%, respectively of the Baltimore metro area economy.

We expect the Baltimore metro economy to slowly recover during the balance of 2011 and into 2012. BRAC will play a notable role in the Baltimore area's economic recovery, as military divisions finalize moves to the area due to the September 15, 2011 deadline (which has now passed) and contractors follow over the next few years. This influx will increase the need for retail services, housing, and office space. However, we expect the Baltimore metro area to experience further cuts in the government sector, as state and local governments throughout the nation face budget shortfalls.

Office Highlights:

The Baltimore metro area office market experienced improving conditions during the 3rd quarter of 2011. Net absorption was in positive territory during the past three months, boosted by several pre-leased deliveries and steady leasing activity. Although the vacancy rate is down over the past year, it remains elevated enough to put downward pressure on asking rents, although the decline is easing. Asking rents inched down 0.2% during the past nine months.

Third Quarter 2011 Market Highlights:

•**Net absorption:** 660,000 SF YTD 2011, compared to 1.7 million SF during all of 2010.

•**Sublease space:** Decreased by 251,000 SF YTD 2011. Sublease space is now just 0.4% of standing inventory.

•**Overall vacancy rate:** 13.8%, down from 14.0% one year ago.

•**Direct vacancy rate:** 13.4%, up from 13.2% one year ago.

•**Pipeline (U/C and U/R):** 846,000 SF, down slightly from 893,000 SF one year ago.

•**Pipeline pre-lease rate:** 20%, compared to 44% one year ago.

•**Rents:** Down 0.2%, compared to a decline of 3.8% in 2010.

•**Investment sales:** $183 million ($165/SF) YTD 2011, compared to $183 million ($198/SF) during all of 2010.

Overall Outlook:

We expect improving office market conditions in the Baltimore area during the balance of 2011 and into 2012, as BRAC and the life-science industries fuel demand. The Baltimore metro area is well positioned for steady long term growth.

Source: Report on the Baltimore Metro Area Office Market and Economy, Third Quarter, 2011, courtesy of Delta Associates and Transwestern.

Department of Veterans Affairs Lease Opportunities

The Real Property Service (RPS) within the Office of Construction & Facilities Management, maintains a list of anticipated leases and prospective contracting opportunities that is updated quarterly. In addition to leasing opportunities, the VA Website maintains links to detailed design guides for a wide range of medical and medically related facilities that are intended to help speed the design process, control costs, avoid errors and omissions, and get value for the dollars spent. You can also find the E-mail address of the Project Manager and a one-paragraph description of the proposed project by going to the VA's Website at www.cfm.va.gov/realProperty/VAAnticipatedLeases.pdf. The on-line list is updated quarterly and was last posted on September 22, 2011.

VA Leasing Opportunities

Location	Project Type	NUSF	Term	SFO	Award	Occupancy
Anderson, SC	Outpatient Clinic	57,300	20	FY12 Q2	FY12 Q4	FY14 Q4
Ann Arbor, MI	R&D Center of Excellence	25,590	20	FY12 Q2	FY12 Q4	FY14 Q4
Atlanta, GA	Outpatient Clinic	83,157	20	FY12 Q3	FY13 Q1	FY15 Q1
Bakersfield, CA	Outpatient Clinic	30,100	20	FY12 Q3	FY13 Q1	FY15 Q1
Billings, MT	Outpatient Clinic	70.000	20	FY12 Q1	FY12 Q3	FY14 Q3
Binghamton, NY	Outpatient Clinic	24,888	20	FY12 Q3	FY13 Q1	FY14 Q1
Birmingham, AL	Annex Clinic & Garage	50,500	20	FY12 Q3	FY13 Q1	FY14 Q1
Boston, MA	Outpatient Clinic	29.000	20	FY12 Q2	FY12 Q4	FY13 Q4
Butler, PA	Health Care Center	180,000	20	FY12 Q`	FY12 Q3	FY14 Q3
Charlotte, NC	Health Care Center	295,000	20	FY12 Q1	FY12 Q3	FY14 Q3
Colorado Springs, CO	Outpatient Clinic	78,819	20	6/16/2011	FY12 Q3	FY14 Q4
Denver, CO	Residential Treatment Facility	25,194	10	5/26/2011	FY12 Q1	FY12 Q3
Eugene, OR	Community Based Outpatient Clinic	93,295	20	FY12 Q1	FY12 Q3	FY14 Q3
Fayetteville, NC	Health Care Center	250,000	20	FY12 Q1	FY12 Q3	FY14 Q3
Grand Rapids, MI	Outpatient Clinic	97,312	20	9/12/2011	FY12 Q3	FY14 Q3
Greenville, NC	Outpatient Clinic	106,614	20	3/1/2011	FY11 Q4	FY13 Q4
Huntsville, AL	Outpatient Clinic	47,800	20	FY12 Q2	FY12 Q4	FY13 Q4
Johnson City, KS	Community Based Outpatient Clinic	44,400	20	TBD	TBD	TBD

Department of Veterans Affairs Lease Opportunities (cont'd)

VA Leasing Opportunities

Location	Project Type	NUSF	Term	SFO	Award	Occupancy
Knoxville, IA	Community Based Outpatient Clinic	12,835	10	5/20/2011	FY11 Q4	FY12 Q3
Lakewood, CO	Community Based Outpatient Clinic	34,937	20	FY12 Q1	FY13 Q1	FY14 Q1
Loma Linda, CA	Health Care Center	271,000	20	FY12 Q2	FY12 Q4	FY14 Q4
McAllen, TX	Community Based Outpatient Clinic	51,675	20	FY11 Q3	FY12 Q1	FY13 Q1
Mesa, AZ	Community Based Outpatient Clinic	60,000	20	5/27/2011	FY12 Q1	FY13 Q1
Monterey, CA	Health Care Center	99,000	20	FY12 Q2	FY12 Q4	FY14 Q4
Montgomery, AL	Health Care Center	112,000	20	FY12 Q1	FY12 Q3	FY13 Q3
San Diego, CA	Community Based Outpatient Clinic	164,000	20	TBD	TBD	TBD
San Francisco, CA	Research and Development	50,000	20	6/9/2011	FY12 Q1	FY13 Q1
San Juan, PR	Mental Health Residential	52,000	20	TBD	TBD	TBD
Tallahassee, FL	Outpatient Clinic	142,700	20	FY12 Q1	FY12 Q4	FY14 Q4
Tampa (Brandon), FL	Outpatient Clinic	50,000	20	FY12 Q1	FY12 Q3	FY14 Q3
Tampa, FL	Mental Health Clinic	20,279	10	9/26/2011	FY12 Q2	FY13 Q1
West Palm Beach, FL	Off-Site Parking	300 spaces	3	7/72011	FY12 Q1	FY12 Q1
Winston-Salem, NC	Health Care Center	280,000	20	FY12 Q2	FY12 Q4	FY14 Q4

In Preparation

As the federal real estate community knows all too well, federal agency budgets are currently under great pressure and are facing further cuts. Moreover, prospectus level leases are mired on Capitol Hill. Without the funds or authority to relocate, consolidate or construct new space, federal agencies increasingly will be staying put. In the majority of cases, lessors and the GSA will negotiate lease renewals or new leases. However, some lessors will inevitably find themselves in unwelcome holdover status. Given today's political and economic climate, it is increasingly important for lessors and real estate service providers to understand the issues raised by such lease renewals and holdovers, and the potential uncertainty they can bring.

In the Spring Issue of Government Leasing News, attorneys Amy Rifkind and Matthew Johnston of Arnold & Porter LLP will explore these issues.

Notable and Newsworthy (cont'd)

(Continued from page 11)
sionally-approved budget for DHS will delay the building of the agency's new headquarters by at least five years and will cost an additional $500 million.

Originally, DHS had planned to consolidate its scattered campuses into a single building located at the former St. Elizabeth's hospital in southeast Washington DC by 2016. In view of the current Congressional funding cuts, the project will not be completed until 2021 and will cost $3.96 billion, more than $500 million over its initial cost of $3.45 billion.

Congress had allocated $56 million to complete the Coast Guard's headquarters, but did not approve enough funds to continue work on other facilities that will eventually house DHS's many agencies.

The new Coast Guard headquarters is expected to be completed in the spring of 2013, and DHS has relied heavily on $200 million in stimulus funding. It is the only DHS construction project at this time that is currently on schedule.

Public Service Announcement

In an effort to transform the security process for leased space, The Interagency Security Committee (ISC) has created the Best Practices for Working with Lessors Working Group. The primary mission of this working group is to develop guidelines for Federal tenant agencies, leasing officials, and security officials on how to work with lessors by providing helpful direction on how to secure common areas and protect leased space.

On Wednesday December 14, 2011, the Best Practices Group met with, heard from, and interacted with many lessors, developers, and building managers. The purpose of this meeting was to try and answer four basic questions:

- What primary challenges do lessors face while working with government lessees?
- If security conditions change and upgrades or additional countermeasures need to be added to a facility, what kind of approach to this challenge best suits the lessor?
- What is the lessors expectation regarding a lease with the federal government?
- What advice would a lessor give the federal government to enhance and strengthen the relationship?

At the meeting we received many answers to the above questions and hope to develop a more robust and complete set of guidelines, practices, and processes to "right size" security in leased space.

We hope that this meeting was the first of many between our working group and the private sector. We want continue to engage in robust dialogue, work to enhance and strengthen this relationship, and create better security in leased space through this new process.

For further information on this Best Practices Group, please contact Bernard Minakowski at GSA's National Leasing Office, Tel. 202-208-0672, or via e-mail to *bernie.minakowski@gsa.gov*.

New, Recently Initiated GSA Leases

The tables on this page and the next the 78 new and new/replacing leases in the GSA data base of active leases as of October 15, 2011, having start dates in the prior six-month period for leases of 10,000 or more RSF that were fully devoted to office space, and had lease terms of ten years or more. They are ordered by descending size. Bear in mind that the award dates for these leases may have taken place many months prior to the start-up date of the lease.

Building Address	City	State	CBD	Term	Firm	RSF	Rate	Lease	Lessor/Owner
1829 DUNN ROAD	ST. LOUIS	MO	N	20	20	412,904	$19.74	LMO80125	PH NARA, LLC
830 1ST ST NE	WASHINGTON	DC	Y	15	15	247,337	$39.00	LDC02296	830 FIRST STREET
7915 MICROSOFT WAY	CHARLOTTE	NC	N	15	15	171,460	$37.24	LNC59146	HIGHWOODS
8825 NELSON KLEIN PKWY	INDIANAPOLIS	IN	N	15	15	110,531	$26.20	LIN18064	INDY FEDREAU CO.
100 N MAIN ST	WINSTON SLM	NC	Y	10	8	90,280	$10.47	LNC61019	SL WINSTON-SALEM
4905 KOGER BOULEVARD	GREENSBORO	NC	Y	10	5	86,190	$5.03	LNC50010	GREENSBORO OFFICE
7701 N STEMMONS FWY	DALLAS	TX	Y	10	5	83,470	$16.51	LTX16945	ELMAN STEMMONS
500 WOODWARD AVENUE	DETROIT	MI	Y	10	5	81,413	$19.78	LMI18404	500 WOODWARD
12100 PARKLAWN DR	ROCKVILLE	MD	Y	10	10	78,177	$14.32	LMD02297	DORSEY MANAGEMENT
100 1ST ST	SAN FRANCISCO	CA	Y	15	7	72,736	$34.00	LCA02477	KILROY REALTY
2987 S DECKER LAKE DRIVE	SALT LAKE CITY	UT	Y	15	10	69,225	$33.00	LUT14366	DHS SALT LAKE
2801 MISSION STREET	SANTA CRUZ	CA	N	11	11	61,630	$27.54	LCA02141	UNIVERSITY BUS. PARK
333 BUSH ST	SAN FRANCISCO	CA	Y	10	5	58,848	$3.33	LCA02491	BREF 333
2765 BUSINESS CTR BLVD	MELBOURNE	FL	N	15	10	56,004	$16.45	LFL61860	MIRAMAR INVESTMENTS
208-224 N. ORCHARD	STILLWATER	OK	Y	10	5	44,120	$12.17	LOK16907	OKLAHOMA STATE U.
100 PENN SQ E	PHILADELPHIA	PA	Y	10	10	42,995	$17.79	LPA09429	WANAMAKER OFFICE
901 MARKET ST	SAN FRANCISCO	CA	Y	10	5	42,811	$22.39	LCA02741	CFRI URBAN 901 MARKET
2660 FRITTS CROSSING SE	ALBUQUERQUE	NM	Y	20	15	41,847	$40.95	LNM16796	SEVEN PROPERTIES.
7600 W. 119TH STREET	OVERLAND PK	KS	Y	10	5	40,151	$15.84	LKS01068	PRIVITERA REALTY
4121 CARMICHAEL ROAD	MONTGOMERY	AL	Y	10	5	40,097	$16.40	LAL50038	SUMMIT CENTRE
90 K STREET, NE	WASHINGTON	DC	Y	10	10	36,438	$41.75	LDC02200	SENTINEL SQUARE I
3848 WEST COLUMBUS DR	TAMPA	FL	N	10	5	35,616	$21.53	LFL61879	SPECIALTY MALLS
8860 SALROSE LANE	FT MYERS	FL	Y	15	10	34,312	$37.50	LFL48841	PROCACCI FORT MYER
105 TECH PARKWAY	STAFFORD	VA	Y	10	5	30,623	$28.28	LVA11334	ROUTE 610 BUILDING 5
6000 METRO DR	BALTIMORE	MD	Y	10	5	30,262	$21.77	LMD12008	6000 METRO
4551 STATE ROUTE 11 (E)	MALONE	NY	Y	20	15	29,100	$33.58	LNY23753	OXFORD FUND/BURKE
3520 W WATERS AVE	TAMPA	FL	Y	15	10	27,398	$22.30	LFL61858	GA LEGAL SERVICES
8490 PROGRESS DR	FREDERICK	MD	Y	10	5	27,025	$32.77	LMD09477	RIV FIVE
4330 WATT AVE	N. HIGHLANDS	CA	Y	15	10	26,601	$31.20	LCA02353	AGL EQUITY FUND 3
1500 J F KENNEDY BLVD	PHILADELPHIA	PA	Y	10	5	25,552	$32.73	LPA09420	CROWN TWO PENN CTR
135 CIRCLE LANE	KNOXVILLE	TN	N	15	10	25,508	$31.60	LTN59104	ROOKER KNOXVILLE
41 PASEO DE YUCATAN	RIO RICO	AZ	N	15	10	24,152	$43.39	LAZ02392	NOGALES IMPERIAL
354 SOUTH HWY 92	SIERRA VISTA	AZ	Y	10	10	23,485	$33.95	LAZ02614	HIGH RANGE SV
32 OLD SLIP	NEW YORK	NY	Y	10	4	23,404	$64.50	LNY23759	OLD SLIP PROPERTY
470/490 LENFANT PLZ SW	WASHINGTON	DC	Y	10	10	23,162	$45.80	LDC02302	POTOMAC CREEK
RESEARCH BLVD	MADISON	AL	Y	10	3	22,725	$18.84	LAL50116	CATALYST MRP WEST
5301 ROBIN HOOD RD	NORFOLK	VA	Y	10	5	22,501	$15.48	LVA11311	NORFOLK COMMERCE
15109 HEATHROW FOREST	HOUSTON	TX	Y	10	7	22,469	$26.13	LTX16730	15109 HEATHROW

New, Recently Initiated GSA Leases (cont'd)

Building Address	City	State	CBD	Term	Firm	RSF	Rate	Lease	Lessor/Owner
967 ILLINOIS AVE	BANGOR	ME	Y	10	5	22,417	$20.70	LME04766	GARY J HAGAN
3301 BUCKEYE ROAD	CHAMBLEE	GA	Y	10	5	20,415	$4.55	LGA61040	VIRGIL R WILLIAMS
1250 WATERS PLACE	BRONX	NY	Y	10	5	19,970	$48.71	LNY23775	HUTCH REALTY PTNRS
7815 N PALM AVE	FRESNO	CA	Y	15	10	19,493	$29.58	LCA02608	PARK PLACE HOLDINGS
2413 PACIFIC AVE	TACOMA	WA	Y	15	10	19,335	$31.00	LWA07100	2413 PACIFIC AVENUE
6005 LANDMARK CTR BLVD	GREENSBORO	NC	Y	10	5	18,984	$24.91	LNC59153	ALICE L WILLIAMS TRUST
3402 BUTTONWOOD DR	COLUMBIA	MO	Y	10	7	18,500	$24.87	LMO01006	PGS
701 MARKET ST	PHILADELPHIA	PA	Y	15	7	17,510	$28.20	LPA09612	INDEPEND. CTR REALTY
654 S 7TH ST	LOUISVILLE	KY	Y	10	7	17,420	$40.24	LKY50023	JDL-LOUISVILLE
220 N KANAWHA ST	BECKLEY	WV	Y	10	5	17,253	$20.02	LWV11350	B, D AND CYNTHIA
344 MERROW RD	TOLLAND	CT	Y	10	5	16,811	$21.35	LCT04691	MERROW PROPERTIES
150 ROWAN STREET	FAYETTEVILLE	NC	Y	15	10	16,750	$28.00	LNC59197	SEAMIST PROPERTIES
7900 OAK LANE	MIAMI LAKES	FL	Y	10	5	16,417	$27.12	LFL50816	GRAHAM COMPANIES
439 S. UNION STREET	LAWRENCE	MA	Y	10	8	15,551	$19.70	LMA04808	HERITAGE PLACE
2143 E PRIMROSE ST	SPRINGFIELD	MO	Y	10	5	15,000	$28.37	LMO90127	RISDAL ENTERPRISES
11606 CITY HALL PROM.	MIRAMAR	FL	Y	10	5	14,199	$30.94	LFL59812	ROCK-KIM MIRAMAR
101 PITKIN ST	E. HARTFORD	CT	N	10	5	13,830	$14.11	LCT04782	VINEYARD PROPERTIES
552 HOUBOLT ROAD	JOLIET	IL	Y	15	10	13,774	$38.09	LIL18263	JOLIET SSA
810 CONNECTICUT AVE NE	ROANOKE	VA	Y	15	10	13,640	$25.61	LVA09448	A & M ENTERPRISES.
1801 ALTON RD	MIAMI BEACH	FL	Y	10	5	13,234	$30.01	LFL50839	MIAMI FINANCIAL
5021 S NEVADA AVE	SIOUX FALLS	SD	Y	10	10	13,126	$27.57	LSD14397	LESTER A. KINSTAD
1528 S 16TH ST	WILMINGTON	NC	N	10	5	12,889	$27.35	LNC61022	TT&H-WILMINGTON
6 EXECUTIVE PARK DR.	ATLANTA	GA	Y	10	5	12,835	$15.52	LGA61039	CW NOM LLC
11810 W FAIRMONT PWKY	LA PORTE	TX	Y	10	7	12,574	$4.26	LTX16682	KELLEY FAIRMONT
250 S CLINTON ST	SYRACUSE	NY	Y	10	10	12,541	$25.98	LNY23752	250 SOUTH CLINTON
1201 WALNUT	KANSAS CITY	MO	Y	10	5	12,333	$16.00	LMO90057	TWP HOLDINGS
17925 SE DIVISION ST	GRESHAM	OR	Y	15	10	12,089	$40.29	LOR07116	CURTIS INVESTMENTS
2920 YALE BLVD SE	ALBUQUERQUE	NM	N	10	5	12,081	$18.75	LNM16891	ALBUQUERQUE CITY
4967 E KINGS CANYON RD	FRESNO	CA	Y	10	7	11,879	$10.30	LCA02545	KM FRESNO INVESTORS
590 E. WESTERN RESERVE	YOUNGSTOWN	OH	Y	15	10	11,615	$24.78	LOH17782	SYLVESTER & VERNAL.
300 E MAIN ST	NORFOLK	VA	Y	10	5	11,449	$34.62	LVA11325	BGK MAIN ST TOWER
3100 MOWRY AVE	FREMONT	CA	Y	15	10	11,398	$21.18	LCA02501	BERETTA INVEST GROUP
178 THORN HILL RD	WARRENDALE	PA	Y	10	5	11,380	$34.21	LPA09466	TERRACE VILLAGE PROP
64285 HIGHWAY 434	LA COMBE	LA	Y	15	10	11,360	$38.71	LLA16741	LBA-SGA COVINGTON
1005 HUNTER HILL RD	ROCKY MOUNT	NC	N	10	5	11,275	$26.99	LNC59118	OAKWOOD PROPERTIES
516 INDUSTRY WAY	IMPERIAL	CA	Y	10	5	10,800	$26.26	LCA02714	NSHE CA HEAT
2875 SABRE ST	VIRGINIA BEACH	VA	Y	10	5	10,600	$18.96	LVA11317	2700 INT'L PARKWAY
2297 NIELS BOHR COURT	SAN DIEGO	CA	Y	10	5	10,182	$35.64	LCA02569	PACIFIC RIM BUS. CTR
55 COMMUNITY DR	S. BURLINGTON	VT	Y	10	5	10,103	$35.65	LVT04755	TECH. PARK PARTNERS
350 PINE ST	BEAUMONT	TX	Y	10	5	10,051	$21.86	LTX16988	NEWKIRK STATMONT

GSA Prospectuses for Fiscal Year 2011

GSA submitted a total of 31 prospectuses to Congress for leasing projects for FY 2011, of which 18 prospectuses have been authorized solely by the Senate Committee on Environment and Public Works, one prospectus has been authorized solely by the House Committee on Transportation & Infrastructure, and 7 prospectuses authorized by both the House and Senate committees. No action has been taken to date on the other 5 prospectuses.

GSA Lease Prospectuses for FY 2011

Building/Address	City	State	Type	RSF	Term	PTAC	House	Senate
17. Federal Trade Commission	Washington	DC	Lease	427,000	15	$20,923,000		
18. 1800 G Street	Washington	DC	Repl. Lease	294,000	15	$14,406,000	✓	✓
19. Department of State, Consular Affairs	Washington	DC	Repl. Lease	469,000*	15	$23,000,000*	✓	
20. General Services Administration	Northern Virginia	VA	Lease	103,684	10	$3,939,992	✓	✓
21. DHS, USCG Operations Center	Martinsburg area	WV	Lease	161,000	20	$4,186,000	✓	✓
22. Internal Revenue Service	Fresno	CA	Lease Option	531,976	10	$15,959,280	✓	✓
23. Veterans Affairs	Los Angeles	CA	Lease	78,000	10	$3,360,000		✓
24. National Nuclear Security Admin,	Washington	DC	Lease	89,000	15	$4,361,000		
25. National Park Service	Washington	DC	Lease	231,000	15	$11,319,000		✓
26. Veterans Affairs	Washington	DC	Lease	192,000	15	$9,408,000		✓
27. Federal Communications Commission	Washington	DC	Lease	79,000	10	$3,871,000		✓
28. Centers for Disease Control & Prev.	Suburban MD	MD	Lease	148,000	15	$5,032,000		
29. Food and Drug Administration	Suburban MD	MD	Lease	101,000	3	$3,434,000		✓
30. National Institutes of Health	Suburban MD	MD	Lease	403,000	20	$13,702,000		✓
31. Drug Enforcement Administration	Houston	TX	Lease	136,000	20	$4,760,000		✓
32. Office of Naval Research	Northern VA	VA	Lease	329,000	15	$12,502,000	✓	✓
33. Department of Labor	Northern VA	VA	Lease	100,000	15	$3,800,000		✓
34. Department of State	Northern VA	VA	Lease	88,000	15	$3,344,000		✓

* The figures shown for prospectus No. 19 for the Department of State, Consular Affairs, of 469,000 RSF and PTAC of $23,000,000 represent reductions from the original prospectus amounts of $500,000 RSF and a PTAC of $24,500,000.

GSA Prospectuses for Fiscal Year 2011 (cont'd)

GSA Lease Prospectuses for FY 2011

Building/Address	City	State	Type	RSF	Term	PTAC	House	Senate
35. DOJ, Office of Justice Programs	Washington	DC	Lease	375,000	15	$18,375,000		✓
36. Presidential Inaugural Committee	Washington	DC	Extension	192,050	10 Mo.	$9,410,450		✓
37. FBI Presidential Transition Team	Washington	DC	Lease	225,000	15	$11,025,000		
38. Dept. of State and U.S. AID	Washington	DC	Lease	499,000	15	$24,451,000		✓
39. Dept. of Interior	Lakewood	CO	Lease	142,000	5	$3,692,000		✓
40. Federal Bureau of Investigation	Atlanta	GA	Lease	263,000	20	$8,153,000		✓
41. Drug Enforcement Agency	New York	NY	Repl. Lease	224,000	15	$19,090,000	✓	✓
42. Dept. of Defense	Northern Virginia	VA	Lease	100,000	20	$3,800,000		✓
43. National Science Foundation	Northern Virginia	VA	Lease	690,000	15	$26,220,000		
44. Federal Bureau of Investigation	Cleveland	OH	Repl. Lease	122,000	20	$3,759,615	✓	✓
45. General Service Administration	Philadelphia	PA	Lease	231,000	20	$7,854,000		✓
46. Nuclear Regulatory Commission	Suburban MD	MD	Lease	348,000	15	$11,832,000		✓
47. Bureau of Public Debt	Parkersburg	WV	Superseding	284,209	20	$5,527,865		✓

GSA Prospectuses for Fiscal Year 2012

As of April, 2011, GSA submitted 22 prospectuses for prospectus-level construction, design, repair & alteration, and leasing projects to Congress for authorization. For convenience we have split the prospectuses into three tables: Alteration and Modernization projects, Construction or construction-related projects, and Leasing projects. Check marks in the columns headed House and Senate when included indicate that authorizing resolutions have been adopted by the House Committee on Transportation & Infrastructure and the Senate Committee on Environment & Public Works. These prospectuses are now available online at GSA's Website at *www.gsa.gov/portal/category/100423*. Government Leasing News will continue tabulating them so that their progress through the authorization process in the House and Senate can be noted and tracked. Note that no action by the House and Senate has been taken to date on any of the eight R&A prospectuses submitted for FY 2012 (the one fact sheet accompanying them does not require authorization), and but a single authorizing resolution was adopted by the House for an FY 2012 replacement lease prospectus for a lease nearing expiration, as indicated on the next page.

GSA Prospectus-Level Repair & Alteration Requests for FY 2012

Building/Address	City	State	Type	$Requested	House	Senate
Charles F. Prevedel Federal Building	Overland	MO	Full Scope R&A	$24,386,000		
Eisenhower EOB Penn. Ave. Screening Facility	Washington	DC	Full Scope R&A	$17,000,000		
Energy/Water Retrofit & Conservation Measures	Nationwide		Special Emphasis Pgm	$40,000,000		
Fire Prevention Program	Nationwide		Special Emphasis Pgm	$15,000,000		
Harry S. Truman Building	Washington	DC	Full Scope R&A	$54,700,000		
Fact Sheet–Main Interior Building	Washington	DC	Full Scope R&A	$50,400,000	—	—
Phillip Burton FBI Consolidation	San Francisco	CA	Full Scope R&A	$49,900,000		
Prince Kalanianaole Federal Bldg & Courthouse	Honolulu	HI	Full Scope R&A	$198,650,000		
Wellness & Fitness Program	Nationwide		Special Emphasis Pgm	$7,000,000		

GSA Prospectus-Level Construction Requests for FY 2012

Building/Address	City	State	Type	$Requested	House	Senate
Fact Sheet–Denver Federal Ctr Remediation	Lakewood	CO	Construction	$9,307,000	—	—
FBI Record Management Facility	Frederick County	VA	Construction	$97,060,000		
FBI Consolidation	San Juan	PR	Construction	$145,506,000		
U. S. Land Port of Entry	Alexandria Bay	NY	Construction	$173,565,000		
U. S. Land Port of Entry	Columbus	NM	Construction	$59,598,000		
U. S. Land Port of Entry	Dunseith	ND	Construction	$35,863,000		
U. S. Land Port of Entry	Laredo	TX	Construction	$74,947,000		

GSA Prospectuses for Fiscal Year 2012 (cont'd)

GSA Prospectus-Level Lease Requests for FY 2012

Building/Address	City	State	Type	RSF	Term	PTAC	House	Senate
Dept. of Homeland Security/ICE	Dallas	TX	Lease	195,000	15	$4,972,000		
Dept. of Homeland Security/ICE	Houston	TX	Lease	144,000	15	$4,104,000		
Dept. of Homeland Security/ICE	Phoenix	AZ	Lease	131,000	15	$5,305,500		
Dept. of Homeland Security/CBP//ICE	New York	NY	Repl. Lease	147,000	10	$8,820,000	✓	
U.S. Coast Guard Headquarters	Corpus Christi	TX	Lease	180,000	20	$3,530,200		

We include for lease prospectuses the space size (as expressed in Rentable Square Feet) and the maximum leasing authority (Term) in years. The dollar amounts shown in all instances reflect the Proposed Total Annual Cost (PTAC), not the overall cost over the term of the lease. Lease terms of 20 years (and sometimes of 15 years) are typically indicative of lease procurements that are likely to be fulfilled through build-to-suits or similar construction-to-lease arrangements arising out of consolidations, campus-like developments, or security considerations.

GSA Prospectus-Level Design Requests for FY 2012

Building/Address	City	State	Type	$Requested	House	Senate
U.S. Federal Building (300 N. Los Angeles St.)	Los Angeles	CA	Design/Alt	$9,478.000		

Overall Office Vacancy Trends in Selected Metro Areas

Metro Area	Vacancy Rate Year-End 2006	Vacancy Rate Year-End 2007	Vacancy Rate Year-End 2008	Vacancy Rate Year-End 2009	Vacancy Rate Year-End 2010	Vacancy Rate Mid-Year 2011	Vacancy Rate 3rd Q 2011
Orange County, CA	6.8%	10.0%	13.5%	15.4%	15.8%	14.5%	14.4%
Washington, DC	8.5%	9.1%	10.5%	13.0%	11.9%	12.0%	12.1%
New York	7.5%	7.8%	9.4%	10.7%	11.2%	11.4%	11.4%
South Florida	7.6%	8.6%	10.8%	14.7%	15.2%	15.0%	15.0%
Los Angeles	7.6%	7.7%	9.5%	12.1%	13.1%	12.7%	12.8%
National Average	**10.4%**	**11.1%**	**12.4%**	**14.2%**	**14.6%**	**14.2%**	**14.3%**
Phoenix	10.4%	13.0%	18.9%	21.4%	21.7%	21.3%	21.2%
San Francisco Bay	10.2%	8.4%	10.4%	13.4%	13.4%	13.4%	13.2%
Boston	11.1%	9.8%	9.8%	10.8%	11.2%	11.0%	11.2%
Atlanta	12.9%	13.5%	14.8%	16.7%	17.6%	17.4%	17.2%
Houston	12.1%	10.9%	11.7%	13.5%	12.6%	12.4%	12.2%
Denver	13.1%	12.6%	13.6%	14.6%	13.9%	13.7%	13.5%
Chicago	13.4%	12.8%	13.0%	15.0%	15.6%	15.1%	14.8%
Dallas/Ft. Worth	17.3%	17.1%	17.2%	17.7%	18.4%	17.7%	17.8%

Source: Delta Associates, Transwestern, and CoStar. Data is from the Washington/Baltimore Office Market Report, Third Quarter 2011.

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