STATEMENT OF

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BEFORE THE

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Good Morning, Chairman Norton, Ranking Member Diaz-Balart and members of the Sub-Committee. My name is Chip Morris. I am the Assistant Commissioner for the Office of Real Estate Acquisition in the Public Building Service (PBS) at the US General Services Administration (GSA). Thank you for inviting me here today to discuss GSA's leasing program and how we contract for brokerage services through the National Broker Contracts.

Background

Although the current National Broker Contracts represent a major change in how we contract for broker services, GSA has a long history of retaining real estate brokers. Historically, we had individual regional contracts with real estate brokers retained on a fee-for-service basis from a menu of available services. Our first attempt to provide a national contract for broker services was in 1997 when we awarded eight (8) National Real Estate Services (NRES) contracts covering four (4) zones.

In 2002, in response to audits by the Office of Inspector General on the former contracts, GSA decided to centralize broker services into a national program. A number of factors drove our decision to enter into national broker contracts, including increasing our capacity to deliver leases consistently and leveraging our market share with the good credit rating of the Government. Our goals were to increase consistency in service delivery and contract administration, to provide a greater degree of customer service to Federal agencies, and to reduce space

costs to the Government. Constrained budgets, limited staff, and the limited resources available for new, federally owned space continued to drive an increased need for leased space to meet agencies' workspace requirements. As a result, GSA determined that our reliance on brokers was essential to our ability to function.

Procurement

Based on market research, we proceeded with a "no-cost" commission-based contract as is customary in the industry in order to save public funds. Before proceeding with the solicitation, we requested an opinion from the Government Accountability Office (GAO) on our decision to pursue a commission-based contract. In August 2004, GAO issued an opinion that GSA would not be illegally augmenting its appropriations or asking contractors to perform voluntary services under the proposed contract. After a full and open competition, four contracts were awarded October 1, 2004 to Jones Lang LaSalle Americas, The Staubach Company- Northeast, Inc., Julien J. Studley, Inc., and The Trammel Crow Company. In the face of several protests that were filed with GAO after award, the Notices to Proceed were delayed until April 1, 2005. In 2007, CB Richard Ellis Real Estate Services, Inc. purchased The Trammel Crow Company, and in 2008, The Staubach Company merged with Jones Lang LaSalle, leaving us with three contractors at present: Jones Lang LaSalle Americas, CB Richard Ellis, and Julien J. Studley.

These contracts were structured to provide nationwide support to the regions for lease acquisition services. While there have been challenges in launching and administering the contracts, we believe that over the last four years the contracts have proven their value.

Contract Data and Administration

As of April 2009, 942 lease transactions for over 15.5 million square feet have been awarded using these broker services. Of these, 839 were for full lease acquisition transactions totaling 13.5 million square feet; 89 were extensions for 1.8 million square feet; and another 14 were expansions for 313,000 square feet. These transactions resulted in $55.5 million in commission rent credits being applied directly to reduce our rental obligations which are also passed through to our customer agencies. The total "take-home" or net commissions paid to the broker firms through April 2009 has been $78.7 million with the average commission per project at $83,500 and the average project size at 16,500 square feet.

We continually measure our lease rental rates against market rates. Our change to commission based pricing has not increased our lease costs relative to market averages. In fact, our lease costs remain significantly lower than and are increasing at a rate less than that of the market average. With 216 brokered leases for over three million (3,000,000) square feet completed and assessed through the second quarter of FY09, our average rental rates are 10.56 percent

below the midpoint of the market compared to the GSA goal of 9.25 percent below market. Sixty-nine percent of the assessed brokered leases are in the new and succeeding lease categories and have average rental rates at 11.12 percent and 11.32 percent below the midpoint of the market, respectively. This results in a cost avoidance of $10.4 million annually. It should also be noted that the annual savings will continue for the life of each lease which in some cases is 10 years or more.

Challenges

In spite of what we believe are successes in the program, there have also been challenges that we are continuing to address. Our brokers have had to learn government contracting principles that do not apply in the private sector commercial real estate market. Our lease contracting is regulated by over 48 different laws, regulations and executive orders that make acquisitions process-driven and documentation intensive compared to private sector commercial real estate deals. Documentation is necessary to avoid costly protests and litigation, comply with internal controls and achieve clean audits. The brokers have had to essentially learn to speak a new language. GSA's use of brokers is designed to add leverage to the in-house staff. Some of our leasing specialists are focusing to a greater degree on project management, while others are focused on oversight of the brokers. This oversight role includes the need to evaluate broker performance, something typically left to contracting officers and a new experience for leasing specialists

Notwithstanding the use of brokers, normal attrition including retirement has reduced staffing levels below thresholds necessary to perform in-house work and supervise the brokers. We continue succession planning for the Leasing Specialists and Lease Contracting Officers. It can take up to five years to adequately train a Leasing Specialist to become a seasoned Lease Contracting Officer. As a result, we continue to experience a shortage of experienced Lease Contracting Officers and must rely on the Brokers to supplement our workforce.

GSA is very aware of the need to carefully manage data and report accurately. We require monthly reports from the brokers and regional Contracting Officers as well as source documents to track and measure contract performance. We also utilize a data management services contract to receive, log, validate and reconcile the reports and provide monthly status reports along with *ad hoc* reports as needed.

Future Contracts

We have begun planning for the follow-on to these contracts by conducting industry conferences in Washington, D.C. and Los Angeles, CA, and have posted the transcripts on the FedBizOpps website. We had a large turn-out from industry, including many small businesses seeking opportunities to team up with larger businesses for follow-on contract opportunities. There were also several questions about how we forecast workload for the contract. We have conducted lessons learned sessions with our previous procurement team, General Counsel,

the current Brokers, and our regional program officials. A team is currently working to develop the statement of work that will best support our needs now and for the next five years. These contracts are not intended to replace our staff, rather to supplement the resources we have as we plan the most efficient space delivery program possible. It is necessary for GSA to continue to utilize brokers to supplement our in house capacities to meet our program responsibilities. GSA has learned that the commission based pricing can bring savings to the Government. We need to capitalize on what has worked with these contracts and make the necessary improvements to the follow on contracts that will make them more efficient and user friendly. GSA also needs to be able to better predict workload projections for the brokers and to utilize them to address continuing problems with extensions and holdovers.

Conclusion

While GSA believes the contracts have proven successful, we can improve their effectiveness in providing additional resources to assist our leasing specialists in meeting program demands.

This concludes my testimony and I will be happy to answer any questions that you may have.