



U.S. General Services Administration

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Lease at Constitution Center
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Good morning Chairman Denham, Ranking Member Norton, and Members of the Committee. I appreciate being invited here today to discuss the U.S. General Services Administration's (GSA) approach to the acquisition of leased space for Federal agencies.

GSA searches for the most effective ways to provide space for Federal agencies that help them achieve their missions, while protecting the public's interest. In order to accomplish these goals, GSA implements a deliberate and comprehensive process that ensures adequate competition and takes into account other public interests, including placement in central business districts or facilities which are close to public transportation.

GSA currently has an inventory of over 370 million square feet of space, approximately half of which is spread among nearly 9,000 leases across the country. GSA effectively manages its leased space. In FY2010, leased space vacancy was only 0.8 percent. GSA leases space for most Federal agencies including, but not limited, to offices, laboratories, warehouses, and clinics. Leases are located according to the client agency's mission requirements in urban, suburban, and rural areas and in accordance with established location laws and policies.

Space Planning with Agencies

A potential leasing action begins when a Federal agency brings a space request to GSA. These requests can range from replacement leases, expansion space, or more effective space for an agency's mission. In all cases, we first determine if federally owned or leased space is already available that could meet the agency's requirements. If unavailable, GSA evaluates the appropriateness of a potential leasing action.

GSA's inventory includes approximately 9,000 leases. GSA tailors its approach to space requests based on the size and complexity of the identified need. Leases under the current prospectus threshold (i.e., a net annual rent less than \$2.79 million for FY2011) represent approximately 98 percent our leases and 73 percent of the leased square footage. Prospectus-level leases with annual rent exceeding \$2.79 million represent 2 percent of leases transacted and 33 percent of the annual rent payments that GSA makes to lessors.

The requirements-development, review, and evaluation process of prospectus-level leases is more extensive due to the size and cost of these leases. Consistent with broader Administration policy for real property, GSA strives to ensure that prospectus level lease actions reflect the best and most cost effective approach to providing the Federal government with necessary space. Specifically, GSA seeks to ensure that space is efficiently utilized, including the emerging approaches for office space configurations, identification of specialized space necessary to meet mission requirements, and

availability of space in subject markets. Additionally, these large leases require review and clearance by both GSA's Central Office and the Office of Management and Budget (OMB) prior to submission to Congress. While ensuring that proposed leases comply with all criteria governing lease scoring treatment under OMB Circular A-11, OMB also reviews the leases to ensure that the proposed action is consistent with personnel and resource estimates in the President's budget and anticipated in the outyears.

The lease prospectus discussion involving GSA, the customer agency and OMB, is the opportunity for the three parties to discuss the relationships among requirements, costs, and availability of resources leading to sound decisions that meet Government needs in a manner consistent with taxpayer interests.

GSA's Leasing Process

Once GSA has worked with an agency to carefully define and scope their requirements and ensure that the space they need is based on accurate projections and reflects available funds, GSA's lease acquisition process runs through a carefully sequenced set of steps to ensure adequate competition and a fair rental rate for taxpayers.

One of GSA's fundamental, key strategies is to promote competition by attempting to maximize the number of potential qualified offerors for a lease solicitation. By improving communication with the commercial real estate sector, GSA's presence in the market is strengthened and a sense of partnership with leasing industry practitioners emerges, resulting in increased competition for GSA leases.

GSA follows a sequenced and efficient leasing acquisition process, which includes market advertising and surveying, assessments, evaluations, negotiations, and contract execution. The details of this process are highlighted below.

Advertisement: If the space requirement is greater than 10,000 square feet, GSA advertises requirements for space on the Federal Business Opportunities website at www.fedbizopps.gov, or in the local newspaper where appropriate, in order to obtain maximum competition from the private sector. While advertising is not required for smaller space requirements, GSA often does so in order to promote competition.

Market Survey: Based on agency requirements, GSA conducts a market survey with agency representatives to identify properties that meet the agency's requirements. This is a critical step in the procurement process. If GSA determines during the market survey that there is insufficient competition in the area, GSA will work with the client agency to expand the area of consideration or refine their space requirements before soliciting the local commercial real estate market.

The Request for Lease Proposal (RLP): GSA develops the RLP package (previously known as a Solicitation for Offers (SFO), a standard document tailored to the requirements of each particular solicitation, and sends it to all prospective offerors identified during the market survey. The RLP is available upon request to any party.

Negotiations and Evaluation: Once offers are received and evaluated, GSA begins negotiations. GSA internally establishes negotiation objectives (acceptable ranges for rental rates, costs for tenant improvements, and cost ranges for additional requirements) and conducts discussions with potential lessors in the competitive range.

Final Proposal Revisions: Once negotiations are completed, GSA requests Final Proposal Revisions, where offerors are requested to submit their “best and final offer” to the Government.

Final Evaluation and Award: After submission of final revisions, GSA reviews and evaluates offers and makes an award determination. Award is made based on price or price and other factors explained in the RLP. Most leases are awarded to the offeror who meets the Government’s minimum requirements at the lowest price. For more complex requirements, such as prospectus level leases, GSA may conduct “best value” procurements, which allows for a balance between the technical merits of the proposal and the cost.

Contract Execution: GSA compiles and sends an executable lease document with all negotiated terms and conditions to the apparent successful offeror for signature. Upon return of the signed lease from the apparent successful offeror, the GSA Lease Contracting Officer awards the lease by executing the lease contract.

Build-out and Acceptance: The lessor completes the build-out of the space in accordance with the requirements of the lease and GSA inspects and accepts the space when completed. Following GSA’s acceptance of space as substantially complete, the Government starts payment of rent to the lessor.

Move-in: Concurrent with GSA’s acceptance of space from the lessor, we assist our tenants in occupying the space, at which time their payment of rent to GSA begins pursuant to an Occupancy Agreement between GSA and the tenant agency which sets forth the terms and conditions related to their occupancy. This step completes the lease acquisition process.

Improving and Streamlining the Leasing Process

While these controls are important, GSA constantly looks for ways to streamline, standardize, and simplify our leasing processes to minimize the costs associated with acquiring a lease. We also continually assess our performance against other rental rates in the markets in which we lease space through a Lease Cost Relative to Market measure. GSA is committed to adapting its internal processes to mirror leasing in the private sector, and to fully utilizing the market leverage that results from the Federal government being a reliable tenant.

Consultation with the private sector leasing and lending community inspired GSA to undertake many improvements, such as aligning a simplified lease acquisition threshold and space terminology with private sector practices, introducing a succeeding lease model for situations where relocation is not cost-effective, streamlining the acquisition process by creating a nationwide standardized template for use by GSA's regional offices, and redeveloping FedBizOpps advertisements for greater consistency and easier accessibility.

U.S. Securities and Exchange Commission Lease at Constitution Center

In regards to the lease SEC procured at Constitution Center in Washington, DC, SEC has recently reached out to GSA to request our assistance in filling the remaining vacant space. GSA is gathering additional details pertaining to this contract and the conditions under which SEC procured the lease. To the extent we can responsibly assist in protecting the public's interest and meeting the space needs of other agencies, we will consider doing so.

Conclusion

GSA's approach to leasing Federal space allows agencies to achieve their mission effectively and works to protect the public's interest in ensuring that space is acquired at a fair rate, while being flexible to ensure that the highest levels of control are placed on the largest potential leasing actions. In addition, we aim to constantly improve our processes to attract further competition from the private sector and minimize costs to taxpayers.

Thank you for inviting me to appear before you today. I appreciate the opportunity to discuss GSA's leasing practices and expertise, and I welcome your questions.