



SEP 24 2007

MEMORANDUM FOR ASSISTANT REGIONAL ADMINISTRATORS (PBS)

FROM: 
CATHLEEN C. KRONOPOLUS
ASSISTANT COMMISSIONER (PV)

SUBJECT: Pricing Policy Clarification #23,
PBS Fee Reduction

The attached pricing policy clarification reduces the PBS Fee from 8 percent to 7 percent in cancelable assignments, and from 6 percent to 5 percent in non-cancelable assignments. It is effective October 1, 2007. The new, lower fee will take place automatically with no effort required by the regions to institute the change.

This clarification is considered a conforming amendment to Commissioner Winstead's letter dated August 16, 2006 (attached) which outlines the policy change and has been established in the PBS Issuance System.

If you have questions regarding this clarification, please contact one of the National Pricing Points of Contact, Beth Lemanski at 202-501-3277, David C. Baker at 202-595-4648 or Kelly Juarez at 816-823-2545.

Attachments

cc: Assistant Commissioners
Regional PT Directors
Pricing Network
Realty Services Officers

Effective Date: October 1, 2007

Purpose: Pricing Policy Clarification #23 on the PBS Fee Reduction

The PBS Fee is being reduced. This clarification finalizes the policy decision to reduce cancelable transactions from 8 to 7 percent, and non-cancelable transactions from 6 to 5 percent.

Existing Desk Guide Language:

Language exists throughout the Pricing Desk Guide referring to the 8 percent fee charged on the contract value of leased locations. Most of the specifics are presented in 3.2.10, PBS Fee, however, the 8 percent fee is referred to throughout the desk guide.

Clarification:

This clarification deletes the section in 3.2.10, PBS Fee, titled "Leased Space" in its entirety and replaces it with the following. In addition, any other places that reference the 8 percent fee (or 6 percent fee in the case of non-cancelable assignments) are now 7 percent and 5 percent, respectively. The fee for assignments in USPS space remains 4 percent.

PBS Fee

**3.2.10 PBS Fee
Leased Space**

In the case of leased space, PBS passes through to the customer agency the actual lease contract cost and the cost of any additional conventional building operating services that PBS provides which are outside of the lease, plus a fee.

The PBS fee for leased space is a flat 7 percent. The fee applies to all new lease actions, succeeding leases, superseding leases, renewals, extensions and expansions. The same fee structure is applicable to and appropriate for all actions, including the exercise of renewal options, because PBS cannot tell before the fact whether a fixed price renewal option, even if already competed, will be advantageous to the government when the renewal option matures. PBS may need to re-compete or negotiate in earnest with the incumbent lessor to get a better offer that is in line with the current market. Commercial-sector brokers receive fees for negotiating renewal options; PBS charges a fee as well.

The 7 percent fee is not to be discounted (except as described below) or inflated. It is fixed at 7 percent, irrespective of the services that a customer agency may wish to self-perform. Eliminating discounts for services that a customer elects to perform aligns PBS pricing policy with PBS's role as a full-service real estate provider; the flat fee structure provides incentives to customer agencies to use the full complement of services that PBS offers.

PBS has much at stake in the space acquisition and lease management areas since PBS is the actual signatory on the lease and has the true contract

risk. PBS, as the risk holder, has a self-interest in ensuring that the acquisition process is executed in a timely manner and that the lease administration and enforcement functions are properly discharged. If PBS allows a customer agency to contract for its own space planning, PBS is not in control of the process. In the event the customer agency is delayed in awarding the space planning contract and the project is delayed, PBS could be at risk for a hold-over occupancy (in the case of an expiring lease), for rent payments for vacant space at a new leased location or for the lost potential income in federally-owned space. Allowing other customer agencies, whose primary mission is not real estate, to perform real estate services may be appropriate from time to time, even though there are risks to PBS. However PBS no longer encourages customer agencies to take on this work by discounting the fee.

There are two exceptions to the fixed 7 percent fee: USPS space where USPS is the property owner, and non-cancelable space. These exceptions are described in detail at the end of the fee section.

The flat 7 percent fee is calculated and billed each year based on the value of the lease contract for that year as well as the standard operating services that PBS provides for non-fully serviced leases. The 7 percent fee is not calculated on real estate tax escalations or enhanced services (even if the enhanced services are included in the contract rent). Each local market will determine what services are standard and what services are above standard. For instance, whether daytime cleaning is considered to be a standard or enhanced service could differ depending on the local market in which the asset is located.

Although it is comprised of three parts (contract risk, real estate brokerage services, and property management and lease administration services) it is not divisible. The fee is monolithic. It may be useful to explain to customer agencies the elements that comprise the fee, but such explanations do not open the door to fee negotiations. The fee is nonnegotiable. Agencies do not have the right to choose among the elements within the fee for purposes of reaching a discounted fee. Agencies can elect, with PBS approval, to perform certain tasks covered by the fee, but PBS will not discount the fee. As the discussion below on the "Components of the 7 percent Fee and Rationale" demonstrates, when the fee is taken as a whole, the services provided and contract risks accepted by PBS are an aggregate bargain. Customer agencies do have a choice; but choice does not exist, in terms of pricing, at the level of selecting discounts to the fee for services that the customer agency elects to self-perform. Customers can elect to have PBS acquire their leased space, in which case the 7 percent fee applies, or, if a prime motivation is to avoid the 7 percent fee, then they can elect to exercise the GSA Administrator's categorical delegation of leasing authority, and procure leased space on their own.



GSA Public Buildings Service

AUG 16 2006

Mr. Michael Donley
Director, Administration and Management
Office of the Secretary of Defense
U.S. Department of Defense
1001 Defense Pentagon
Washington, DC 20301-1000

Dear Mr. Donley:

The General Services Administration's (GSA's) Public Buildings Service (PBS) takes great pride in being your workplace provider, and, over the last couple of years, we have been working to restructure and introduce new efficiencies to our leasing program. We are pleased that we now can demonstrate financially the translation of these improvements by lowering the fee we charge to acquire and administer your leased space.

Starting in fiscal year (FY) 2008, PBS will implement an overall fee change depending on the type of leasing transaction. For the majority of our lease transactions, the fee will be reduced from eight to seven percent for cancelable transactions and six to five percent on non-cancelable transactions. This fee reduction represents GSA's confidence that the many enhancements we have implemented in our business process changes will be reflected positively in our ongoing cost structure.

GSA is becoming more efficient due to recent investments, new leasing technology, and the implementation of the National Broker Contract (NBC) program. Through this program, we are working with the private-sector brokers and using their expertise to obtain the best value for you—our customer.

As our efficiencies continue to improve, we are confident that we will strengthen our capabilities and continue to reduce overall costs. In the rent estimate guidance for FY 2008 that your agency contact received on July 24, 2006, we provided information on this fee reduction to help you formulate your FY 2008 budget requests.

If you have any questions about this change or any other issue, please do not hesitate to call your PBS National Account Executive or me at (202) 501-1100.

Sincerely,

A handwritten signature in black ink, appearing to read "David L. Winstead".

David L. Winstead
Commissioner

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405-0002
www.gsa.gov

Information Paper

SUBJECT: Pricing Policy Clarification #23, PBS Fee Reduction

1. PURPOSE:

To obtain approval/signature of Pricing Policy Clarification #23, PBS Fee Reduction.

2. BACKGROUND:

On August 16, 2007, Commissioner Winstead sent a letter to GSA customers informing them of a PBS fee reduction from 8 percent to 7 percent for cancelable assignments, and from 6 percent to 5 percent for non-cancelable assignments. He explained that PBS increased efficiencies allowed the fee to be reduced. This policy decision is memorialized in the Pricing Policy Desk Guide through Clarification #23.

3. OPTIONS AND COORDINATION:

Since the policy decision to reduce the PBS fee is complete, no options are needed. The policy was documented in the Commission Winstead letter, which has been recorded in the PBS Issuance System. Per Jeanne Trelogan, Senior Regulatory Liaison Expert Manager in the PBS Issuance Program area, the pricing clarification is considered a conforming amendment and does not need to undergo a formal review.

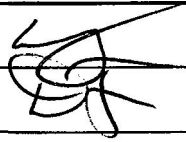

4. ACTION:

After signature by Cathy Kronopolus, PVC will forward the memo and Pricing Policy Clarification #23 to ARA's for distribution in the Regions, and to the Pricing Network, Realty Services Officers and Rent Bill Management representatives.

CORRESPONDENCE ROUTING SLIP

FOR SIGNATURE OF Cathleen C. Kronopolus	CONTROL NUMBER NONE
ADDRESSEE PBS Assistant Regional Administrators	DUE DATE NONE

ROUTE

CORRESPONDENCE SYMBOL	DATE		INITIAL
	IN	OUT	
1. PVC - M. Gibert	9/20/07	9/21/07	
2. PVA - D. Foley		9/21/07	
3. PV -C. Kronopolus		9/21/07	CK
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18. Return to N. Salim			