



General Services Administration  
Public Buildings Service  
Washington, DC 20405



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MEMORANDUM TO ASSISTANT REGIONAL ADMINISTRATORS FOR  
PUBLIC BUILDINGS SERVICE - 2P, 3P, 4P, 5P, 6P,  
7P, 9P, WQ

FROM: DUNCAN LENT HOWARD  
COMMISSIONER - P

SUBJECT: Lease Negotiations

The GSA leasing program has an annual budget of approximately \$1 billion. It involves many complex acquisitions in changing markets which offer GSA great opportunities to negotiate excellent leasing deals. However, the high turnover of GSA realty specialists has resulted in many regional Real Estate Divisions having a significant percentage of inexperienced lease negotiators. The difference between average and good negotiations can be millions of dollars in rental over the term of a lease. Therefore, we believe that much can be gained by enhancement of the lease negotiations process.

Our goal should be to increase the quality and effectiveness of lease negotiations. Maximum use of the talents within GSA and other resources available by subscription and contract will give the realty specialist full knowledge of the market and each offeror's position, thereby placing the Government on equal footing with commercial entrepreneurs. It is not appropriate to simply negotiate offers within the appraised value. The completed Government leasing transaction should be the product of diligent planning and effective bargaining which results in the best value being received by the Government.

APPRAISERS ASSISTANCE IN NEGOTIATIONS

Staff and/or contract appraisers could be utilized in projects involving large square footage or dollar amounts to prepare negotiation materials and assist in the development of negotiation strategy. Users of commercial real estate, private and governmental, routinely consider estimates of market value prepared by real estate appraisers in determining the price to pay for rental of space. Recent changes in the market have increased the importance of the appraisal input to real estate decisions. Rental rates in the market are referred to as quoted rates and effective rates. The effective rate is the quoted rate minus rent concessions typically given in order to attract

tenants to a property. These rent concessions take many forms which are limited only by the imagination of the entrepreneur, such as free rent, above market buildout, cash payment, retirement of tenant's old lease, participation in equity, options to renew, etc.

Due to increasing complexity of the commercial rental market, the appraisal function is beneficial to management not only in providing the traditional appraised value but also in providing real estate counseling to the negotiating team.

Example: Proposal to rent 100 percent of a large vacant office building in one of the many overbuilt markets where vacancy rates are substantial.

In the typical market, the owner faces a 2- to 4-year rent up period to achieve stabilized occupancy at 90 to 95 percent. When the Government lease is signed, the owner realizes 100 percent rent for the entire lease term. The present worth of the bonus rent cash flows from the Government lease increases the market value of the property from 10 to 30 percent. The longer the period to rent up the building in the market, the more the Government lease will increase the market value of the property. The Government's negotiation strategy should propose that the Government participate in the increase in the market value of the property attributable to the Government lease. The result would be a reduction in rent equal to the present worth of the participation.

#### ATTORNEYS ASSISTANCE IN NEGOTIATIONS

Real estate attorneys could provide valuable assistance in the negotiations process, give the Government greater credibility when negotiations involve complex legal matters, and present an overall more professional negotiations posture.

Examples: Commercial real estate building owners or their representatives have their attorneys conduct a detailed review and analysis of GSA's lease SFO's in preparation for negotiations on all major lease acquisitions. In addition, the owners regularly include their attorneys in actual negotiations. These attorneys commonly propose new clauses to cover their particular concerns. They also propose changes to GSA Form 3517, General Clauses, and the automated portion of the SFO. Many of these changes involve legal issues and are not compatible with public law and regulations. Other changes would be inequitable to the Government if accepted as proposed. When these changes are rejected, building owners and representatives often ask to speak with GSA's attorneys during negotiations. Therefore, if GSA had legal representation in the negotiation session, many issues would be resolved initially and the negotiations would be more productive.

OTHER RESOURCES IN PREPARING FOR NEGOTIATIONS

Many commercial real estate publications and computer services are available which can provide data that will be of benefit in negotiations. For example, one useful publication is the BOMA Experience Exchange Report, which is published annually in June. The report provides tables of operating income and expense data for office buildings throughout North America, based on a survey of over 30,000 office building owners and managers conducted from January to March of each year. Other market reports and computer listings are available on local and nationwide levels to aid the negotiating team in formulating their negotiation objectives.

Please implement these recommendations as appropriate. If you have any related recommendations or concerns about the impacts of these recommendations please forward them to John Myers, Acting Assistant Commissioner for Real Property Development (PQ).

cc: Regional Administrators - 2A, 3A, 4A, 5A, 6A, 7A, 9A, WA  
Regional Directors, RED - 1PE, 2PE, 3PE, 4PE, 5PE, 6PE,  
7PE, 8PE, 9PE, 10PE, WQE