

# Federal Real Property Overview With a Leasing Emphasis

CREW Baltimore Presentation (March 12, 2009)  
Robert S. Downs and Nathanael D. Hartland

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## Agenda

- Market Size and Trends
- Federal v. Private Sector Leasing
- Sample Lease Transaction
- Socioeconomic Programs and National Security Issues
- Entering and Finding Your Niche in the Marketplace
- Questions



## Market Size and Trends

# The Federal Government is the Biggest Customer in the World: Are you Ready?



We make sure you're ready.  
Before you even realize  
you need to be.



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## Market Size and Trends

*Note: Our Data Draws on Federal Real Property Profile Summary Reports of Recent Years and Other Publicly Available Sources. Federal Government has Stopped Reporting Some of This Data in Last Few Years.*



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## Market Size and Trends

How much real property does the federal government lease?

Leased Real Property	No. of Leases	% Total Leased Area	Annual Rental Cost	% Annual Rental Cost
In U.S.	Over 50,000	Approx. 90%	Over \$6 Billion	Approx. 92%
Outside U.S.	Over 12,738	Approx 10%	Over \$500 Million	Approx. 8%
Total	Over 61,000	100.0%	Approx. \$7 B	100.00%

A LOT.

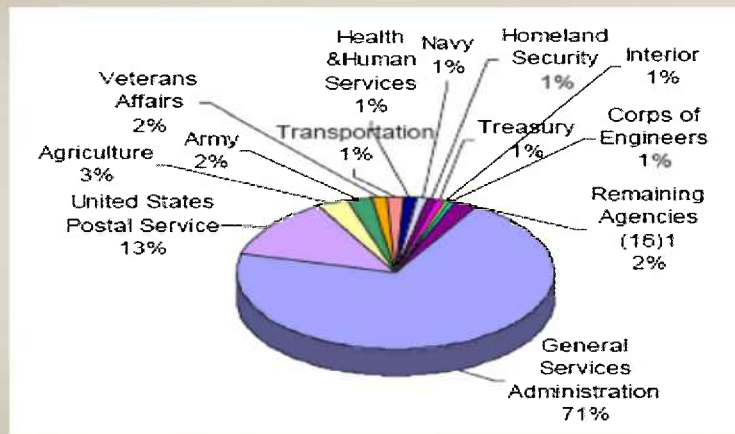
## Market Size and Trends

How much real property does the federal government lease?

- As of FY 2007, the federal government leased approximately 16% of the space that it occupied, or about 542 million square feet.
- The federal government spends approximately \$6 billion in annual rental cost for leased property within the U.S.
- In FY 2007, the federal government also spent approximately \$47.3 Billion in operating costs relating to federally owned or occupied buildings, land, and structures. A chunk of this goes to contractors.

## Market Size and Trends

### Approximate Rental Cost by Agency (Changing)



### Top Government Tenants

Agency	Approx. Leased Sq. Ft.	Approx. Annual Rental Cost	Approx. % Leased Space
GSA	176,040,607	\$4,249,034,785	70.69%
USPS	101,376,121	\$793,437,960	12.84%
Agriculture	11,950,446	\$193,804,441	3.14%
Army	10,247,040	\$152,745,599	2.47%
VA	6,466,005	\$109,883,052	1.78%

## Market Size and Trends

### Top Government Tenants – Continued

Agency	Approx. Leased Sq. Ft.	Approx. Annual Rental Cost	Approx. % Leased Space
Transportation	7,139,919	\$90,304,258	1.46%
Health and Human Services	3,520,966	\$86,947,570	1.41%
Navy	6,550,700	\$73,304,293	1.19%
Homeland Security	3,511,862	\$51,861,657	0.84%
Treasury	1,364,601	\$45,390,806	0.73%
Interior	2,792,558	\$37,869,139	0.61%
Corps of Engineers	3,166,178	\$36,324,163	0.59%
Remaining 16 Agencies	22,724,993	\$138,848,579	2.25%

Source: CBRE Property Overview (CREW Baltimore)

## Market Size and Trends

### Predominant Uses of Leased Space

Building Use	Approx. Leased Building Area (Sq. Ft.)	Approx. % Leased Area
Office	195,877,451	57.03%
Housing	11,407,319	3.32%
Service	7,543,858	2.20%
Storage	4,800,917	1.40%
R&D	3,435,411	1.00%
Institutional - School	3,278,833	0.95%
Other Institutional Uses	5,500,267	1.60%
Institutional - Hospital	409,616	0.12%

Source: CBRE Property Overview (CREW Baltimore)

## Market Size and Trends

### Predominant Uses of Leased Space - Continued

Building Use	Approx. Leased Building Area (Sq. Ft.)	Approx. % Leased Area
Industrial	330,734	0.10%
All Other	18,143,345	5.28%
Post Office	92,565,215	26.95%
Institutional - Prison	0	0.00%
Communication Systems	126	0.00%
Navigation and Traffic	0	0.00%
Trust	145,500	0.04%
Total (Includes Prior Slide)	343,438,592	100.00%

Source: CREW Property Overview (CREW Baltimore)



## Market Size and Trends

### Distribution of Federal Leases (Selected States)

State	Leased SF (M)
California	47.2
Colorado	8.0
Connecticut	10.8
Delaware	0.3
District of Columbia	24.4
Florida	11.6
Georgia	10.6
Maryland	23.9

Source: CREW Property Overview (CREW Baltimore)



## Market Size and Trends

### Distribution of Federal Leases (Selected States) (Continued)

State	Leased SF (M)
Massachusetts	3.1
New Jersey	6.3
New York	15.8
North Carolina	13.5
Ohio	6.3
Pennsylvania	9.7
Texas	27.8

## Market Size and Trends

### Distribution of Federal Leases (Selected States) (Continued)

State	Leased SF (M)
Virginia	39.3
West Virginia	3.0
Other States Combined	118.5
Foreign and U.S. Territories	161.6
<b>TOTAL SF (Includes Prior Slides)</b>	<b>541.7</b>

## Market Size and Trends

### Growth of the Market

- While some states have lost leased space, Maryland, Virginia, and DC are net winners from BRAC and other federal government programs
- New departments/programs and growth in certain government focus areas are fueling demand (e.g. Homeland Security, Social Security/Medicare, Bank Oversight)
- Economic stimulus packages expected to include new federal and contract jobs and workers will need space



## Federal v. Private Sector Leasing



## Federal v. Private Sector Leasing

### Myths and Realities of Federal Real Property Leasing

Myth	Reality
Federal leases are impossible to deal with.	Our clients have successfully managed properties involving perhaps hundreds of federal leases.
Government tenants do not pay market rent.	Federal leasing is a growing and lucrative market. Comparing "apples to apples," Government tenants pay reasonable rates given carefully structured offers, different rent structure, credit, and long-term tenancies.
Government tenants degrade a building	Government tenants are often "anchor" tenants
Federal tenants are more demanding than private sector tenants.	Federal tenants are often more content, less demanding, and usually stay longer. Also, credit worthiness is not an issue.



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## Federal v. Private Sector Leasing

### Myths and Realities of Federal Real Property Leasing

Myth	Reality
Federal leases absolutely cannot be assigned/ transferred.	Assigning federal leases requires Government approval unless an exception applies, but Government approval can generally be obtained where necessary.
The process of entering into a new federal lease is difficult, onerous, expensive, and time-consuming.	This process can be completed quickly and efficiently.
Federal leases impair the security of a loan and value of a property.	Federal leases can enhance the security of a loan or value of a property, particularly where Loan/ Lease provisions are carefully negotiated "up front."
Onerous provisions in federal leases cannot be negotiated.	Some of the more onerous provisions can be altered, especially when they are negotiated "up front."



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## Federal v. Private Sector Leasing

### Myths and Realities of Federal Real Property Leasing

Myth	Reality
Federal leases should be treated exactly like private sector leases.	Federal leases are subject to statutory and regulatory requirements that can be understood and followed
The socioeconomic requirements of federal leases are impossible to comply with.	These requirements are not impossible, and can be negotiated within certain limits.
Government officials are impossible people to deal with.	Treating bureaucrats with understanding and respect, and complying with reasonable requirements and regulations often results in (1) amiable interactions, (2) good relationships, and (3) Government responsiveness.



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## Federal v. Private Sector Leasing

### Differences: For Federal Real Property Leases...

- Creditworthiness of Tenant is Rarely a Consideration, So Far
- Statutorily Prescribed Procurement Process Applies (More Later)
- Detailed Specifications for the Building and Premises Generally Included in Solicitation and Lease
- Rights and Duties Controlled (Mostly) by Federal Law
- Disputes Resolved Through Special Process



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## Federal v. Private Sector Leasing

### Differences: For Federal Real Property Leases

- Payment is Structured as:
  - ▶ Warm Lit Shell Rate Proposed +
  - ▶ Government's Requested TI Allowance Amortized over Firm Term at Set Rate +
  - ▶ Selected Operating Costs (Broken Down in Advance)
  - ▶ = Total Initial Rent
  - ▶ + CPI-based Escalation for Operating Costs
  - ▶ + Pass-Through of Tax Increases (if Comply with Notice Rules)



## Federal v. Private Sector Leasing Differences: Payment Structure GSA Form 1364 Offer to Lease Space

	ANSI/BOMA OFFICE AREA SQUARE FEET	RENTABLE SQUARE FEET	COMMON AREA FACTOR	INITIAL TERM	
				SQ. FT. RENT PER YEAR (RENTABLE)	TOTAL ANNUAL AMOUNT (2) x (1)
ANNUAL RENTAL Full Service Lease					
OPERATING COSTS (SERVICE COSTS)	<i>(Refer to Line 27 on GSA Form 1217)</i>			\$	\$
CURRENT REAL ESTATE TAX	Include in Shell Rent and Provide Current Year Statement <i>(Refer to Line 28 on GSA Form 1217)</i>				
AMORT. OF TENANT IMPROVEMENTS	<i>(Complete items 9a thru 10)</i>			\$	\$
SHELL RENTAL	<i>8a(5) minus sum of [8b(5) and 8d(5)]</i>			\$	\$



**Federal v. Private Sector Leasing  
Differences: Payment Structure  
GSA Form 1217 Lessor's Annual Cost Statement**

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LESSOR'S ANNUAL COST FOR		
SERVICES AND UTILITIES	ENTIRE BUILDING	GOV'T-LEASED AREA
A. CLEANING, JANITOR AND/OR CIAR SERVICE	↓	↓
B. HEATING	→	→
C. ELECTRICAL	→	→
D. PLUMBING	→	→
E. AIR CONDITIONING	→	→
F. ELEVATORS	→	→
G. MISCELLANEOUS	→	→
<b>TOTAL EXPENSES SUBJECT TO CPI-BASED ESCALATION</b>	<b>S</b>	<b>S</b>

Source: Real Property Overview (CREW Subform)

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**Federal v. Private Sector Leasing  
Differences: Payment Structure  
Form 1217 Lessor's Annual Cost Statement (Continued)**

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LESSOR'S ANNUAL COST FOR		
SERVICES AND UTILITIES	ENTIRE BUILDING	GOV'T-LEASED AREA
OTHER (BELOW THE LINE)	↓	↓
A. REAL ESTATE TAXES	→	→
B. INSURANCE (Hazard, Liability, Etc.)	→	→
C. BUILDING MAINTENANCE AND RESERVES	→	→
D. LEASE COMMISSION	→	→
E. MANAGEMENT	→	→
<b>TOTAL (INCLUDING EXPENSES AND EXPENSES SUBJECT TO AND NOT SUBJECT TO CPI-BASED ESCALATION)</b>	<b>S</b>	<b>S</b>

Source: Real Property Overview (CREW Subform)

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## Federal v. Private Sector Leasing

### Differences: For Federal Real Property Leases

- There are Socioeconomic Programs and Goals
- The Tenant Has Eminent Domain Power
- Bureaucrats to Negotiate/Deal With



## Sample Federal Lease Transaction

We make sure you're ready.  
Before you even realize  
you need us to be.

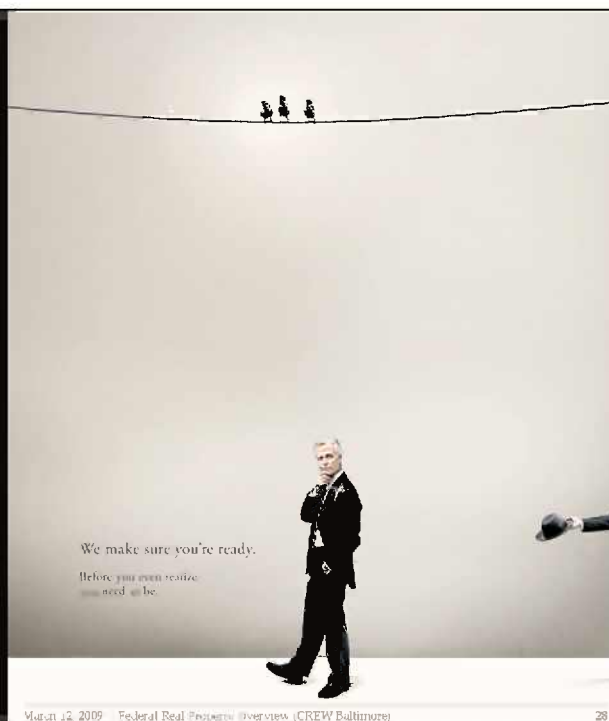
## Sample Federal Lease Transaction

### A Typical GSA Lease Transaction

- Government Identifies a Need
- Government and/or Government Broker Invites Expressions of Interest
- Solicitation for Offers
- Submission of Initial Detailed Offers (Alternative Offers Acceptable)
- Negotiation Period
- Submission of Best and Final Offers (BAFOs)
- Award Letter & Then Lease Execution, Buildout, Acceptance, Occupancy, and Supplemental Lease Agreement (SLA)



## Socioeconomic and National Security Issues



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## Socioeconomic Issues

### Small Business Subcontracting Plans

- Require a Good Faith Effort to Subcontract Certain Percentages of Subcontracting Dollars to Specified Types of Small Businesses
- Required by statute and regulation for contracts over \$550K (\$1M for construction), including options, etc.
- Requirement Does not Apply if Contractor Itself is "Small"
- Goals/Percentages are Negotiable Above Certain Minimums
- Sometimes Requirement is Waived
- Small Businesses are Not Necessarily "Tiny"



## Socioeconomic Issues

### Small Business Subcontracting Plans (Continued)

- Small Businesses Generally (Self-Certify)
- Small Disadvantaged Businesses (Prime Must Confirm)
- HUBZone Small Businesses (Prime Must Confirm)
- Women-Owned Small Businesses (Self-Certify)
- Veteran-Owned Small Businesses (Self-Certify)
- Service-Disabled Veteran-Owned Small Businesses (Self-Certify)

### Small Business Set-Asides

- Not Seen as Frequently in Prime Contractor Leasing Market But More Common in Construction and Services



## Socioeconomic Issues

### May be Required to Certify Compliance With

- Equal Opportunity Employment Plan Requirements
- Affirmative Action Plan Requirements

### E-Verify Employment Eligibility Checks

- Regulators Trying to Make this Mandatory for Contractors
- Industry Groups Have Delayed Implementation of the Rules until May 2009
- Rules Could Be Delayed Further and Might Never Go Into Effect



## National Security Issues

### Solicitations and Leases Often Contain Detailed Security Requirements or Open-Ended Possibilities

- Understand the Requirement
- Clarify any Ambiguity UP FRONT
- Physical Security/Perimeter Detection
- Parking Lots and Lobbies
- Ownership Investigations
- Blast-Resistant Glass and other Architectural/Engineering Specs
- Guards, X-Ray Machines, Etc.
- Sensitive But Unclassified (SBU) Information



## Entering and Finding Your Niche in the Marketplace

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## Entering and Finding Your Niche in the Marketplace

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### Determine How You Want to Be Involved

- Government Landlord
- Landlord's Broker or Property Manager
- Subcontractors
  - Architects and Engineers
  - General Contractors, Subcontractors, and Suppliers
  - Post-Buildout Building Services
- Advisors to Government
  - Government Broker
  - Government Architects and Engineers
- Sellers of Real Property to Government
- Purchasers of Government Real Property



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## Entering and Finding Your Niche in the Marketplace

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### Will You Have a Direct Contractual Relationship with the Government?

- If So — You Will Want to Register in the Central Contractor Registration Database to Be Ready ([www.ccr.gov](http://www.ccr.gov))
- If Not — Should Probably Register Anyway and Determine Whether You Can Make Socio-Economic Representations that Give You An Edge on Socioeconomic Programs such as the Small Business Subcontracting Program



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## Entering and Finding Your Niche in the Marketplace

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### Market, Market, Market

- Market Your Services as Aggressively in the Federal Marketplace as Elsewhere (Being Mindful of Special Gratuities Laws, etc.)
- For Landlords and Brokers, Market to GSA and other Agencies and Monitor Opportunities:
  - [www.fbo.gov](http://www.fbo.gov) (Classification Type X for Leases, Y for Construction, Z for Maintenance and Repair, and Search by Other Criteria), Newspapers, and Other Publications and Listings; Talk with Government Brokers and Procurement Officials
  - See Following Slides/Pages on GSA/SSA Opportunities in/around Baltimore



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## Entering and Finding Your Niche in the Marketplace

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### Market, Market, Market (Continued)

- For Brokers and Property Managers, Do the Above AND Market Your Capabilities to Landlords
- For Construction Contractors, Architects and Engineers, etc., Market Your Capabilities to Landlords, Real Estate Brokers, and Property Managers and Possibly Also to the Government Directly



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## Entering and Finding Your Niche in the Marketplace

### Sample Opportunity

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*February 27, 2009 FBO Notice (Solicitation 5MD0148-A)*

The U.S. General Services Administration ("GSA") is seeking a new lease construction of approximately 538,000 rentable square feet of office and related space for the Social Security Administration.

The building will be built on a specified parcel of land within the city limits of Baltimore, Maryland, for which GSA will have an assignable option to purchase...The selected developer will acquire the parcel of land, build the complex to stated government specifications, and enter into a 20-year firm term lease with GSA for the completed building.

Occupancy: The building must be ready for occupancy before the end of the fourth quarter of calendar year 2012.

Interested parties should submit a written response . . . by 5:00 pm on Friday, March 13, 2009.



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## Entering and Finding Your Niche in the Marketplace

### Sample Opportunity

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*Baltimore Sun, February 19, 2009*

#### **Social Security looking for land for new data center**

*Stimulus package includes funds for project, reducing disability claim backlog*

By Paul West | paul.west@baltsun.com

Washington - Wanted: Large parcel of real estate suitable for high-security, high-tech databank containing names, earning histories and Social Security numbers of 300 million Americans. Must be within 40 miles of Baltimore.

Using a hefty down payment from the newly signed economic stimulus law, the Social Security Administration has embarked on a \$750 million project to replace its outmoded National Computer Center.

The agency received a total of \$1 billion in the stimulus, with half to go toward the computer project and half for reducing a huge backlog in processing disability claims. \* \* \* \* \*



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