

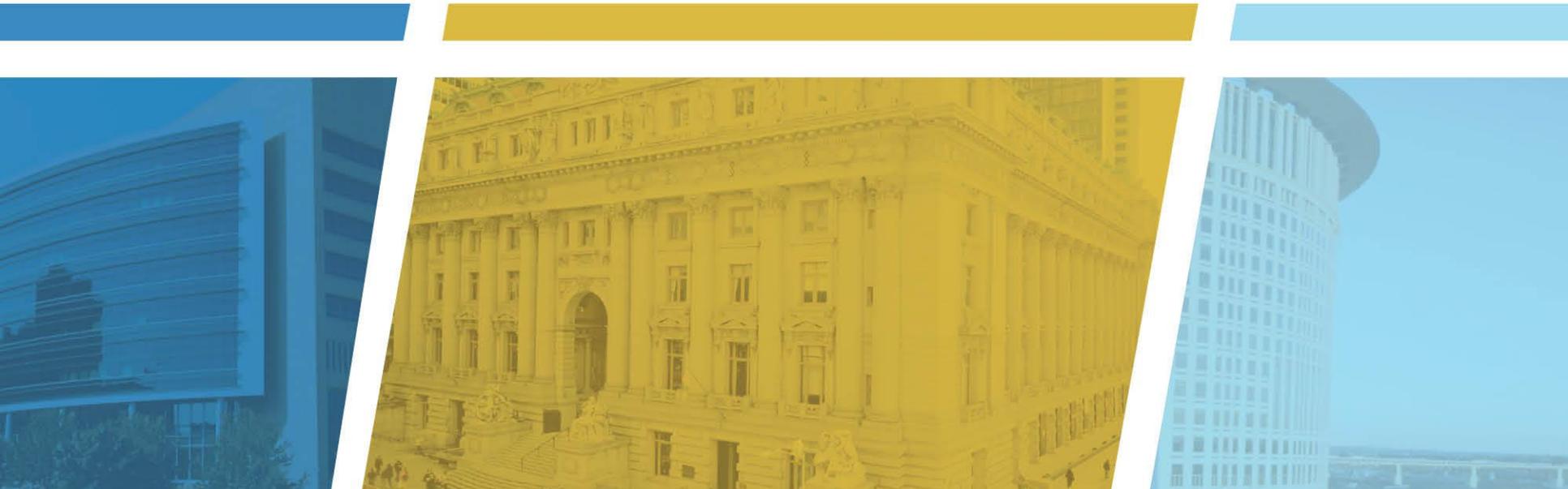


GSA Public Buildings Service

May 2012

FAIR ANNUAL RENT

The appraisal process.....





FAIR ANNUAL RENT

overview...

We will describe how we establish and manage rent rates in your Federal building. We'll cover the cyclical schedule, budgeting basics, the basic appraisal and ROI processes, and the review process. We'll have time for questions and answers and open discussion.



FAIR ANNUAL RENT

contents...

- **Who we are**
- **Our Mission**
- **RentEst & The Rent Cycle**
- **The Appraisal**
- **Return on Investment**
- **The Review**
- **Recent Changes**
- **Common Misconceptions**
- **Reviewing Your Rent**

FAIR ANNUAL RENT



The Building Portfolio

Nationwide
1520 Buildings
182,000,000sq.ft.
10,633 OA's





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who we are...

- 11 Regional Offices + Central Office
- 31 Certified General Appraisers
- 9 MAI's
- 3 ASA's
- 1 Fair Annual Rent Lead Appraiser
- 1 Valuations Director



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our mission....

The code of federal regulations requires GSA to develop and charge agencies commercially equivalent rates for occupancy. The Fair Annual Rent Program was created to fulfill this mission.



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our mission....

The law...

- **Establish** the rent charged to Federal tenants for occupancy in PBS owned space.
- **The Federal Building Fund (FBF)** is to be funded by user charges (rents) for the space and services GSA provides (40 U.S.C. § 592).
- “....rates shall approximate commercial charges for comparable space and services...”(40 U.S.C. § 586)
- **Rent for Federally owned space....is based on market appraisals** of fully serviced rental values... (41 C.F.R. § 102-85.115)



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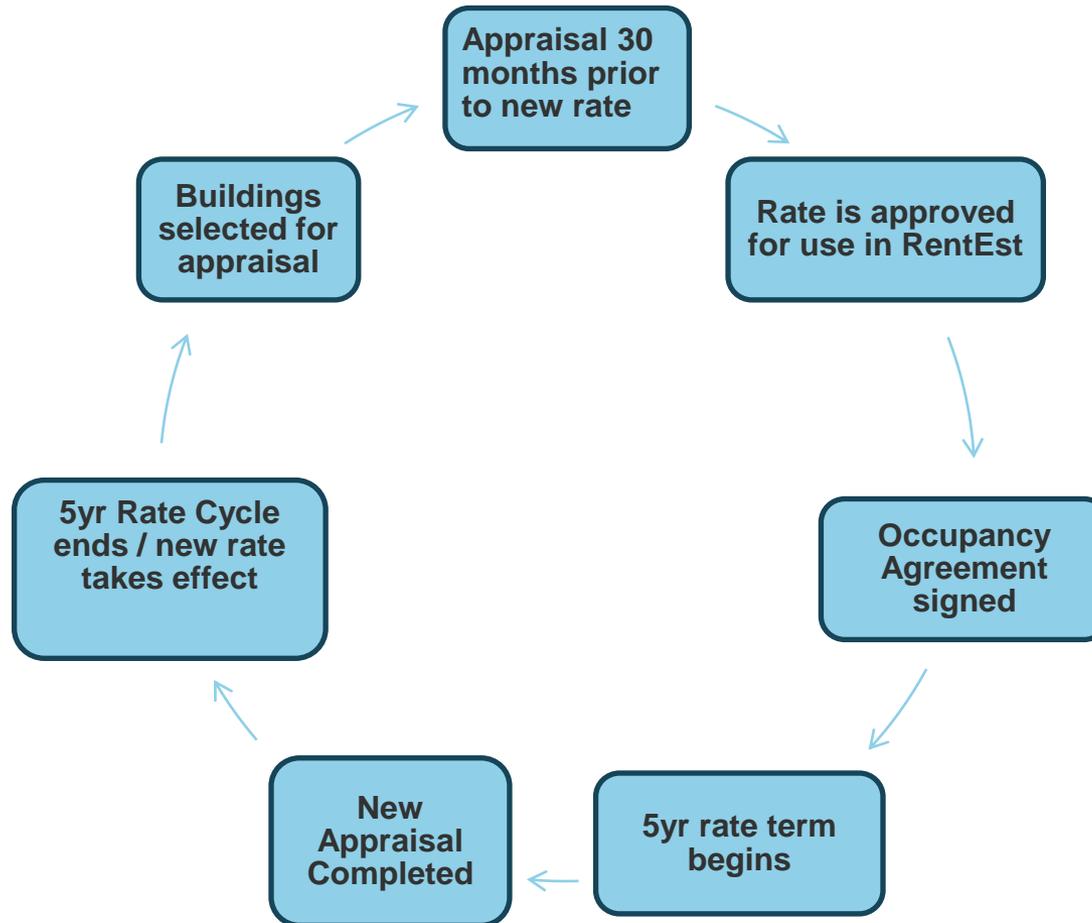
the annual Rent Estimate (RentEst)....

We decide which buildings to appraise at the regional level, based on several criteria:

- **Space turning over**
- **Date of previous appraisal (5yr max)**
- **Market volatility**
- **Internal building changes**

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the RentEst....





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the RentEst....

Rent Cycle

- Appraisal completed 30 months in advance
- Rate available for use in new OA's and market resets beginning (10-01-2013 the 1st day of fiscal 2014)
- This rate is available for use until it is replaced by a new appraisal.
- A new appraisal is required in 5 years but may be more frequent.
- New rates are only applicable to new OA's
- Once an OA is final its rate remains for a 5 year term



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the RentEst....

Key aspects of the rent cycle

- Rents are projected on a levelized basis for a 5 year period.
- OMB mandates we submit rent estimates in advance to allow agencies time to budget. This generally means preparing appraisals 30 months prior to their effective date
- Rates are only applied to new or expiring OA's



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our mission...

“Provide oversight, coordinate implementation, and approve all Fair Annual Rental Rates developed by appraisal, ROI analysis, or other methodologies, for application in PBS’ owned real property assets. Oversee the valuation and evaluation of GSA’s owned inventory, providing guidance and strategies for asset management and portfolio analysis. “

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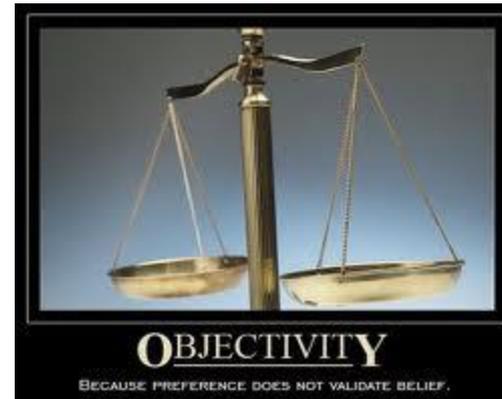
our mission...

Ensure the rent determination process preserves

EQUITY

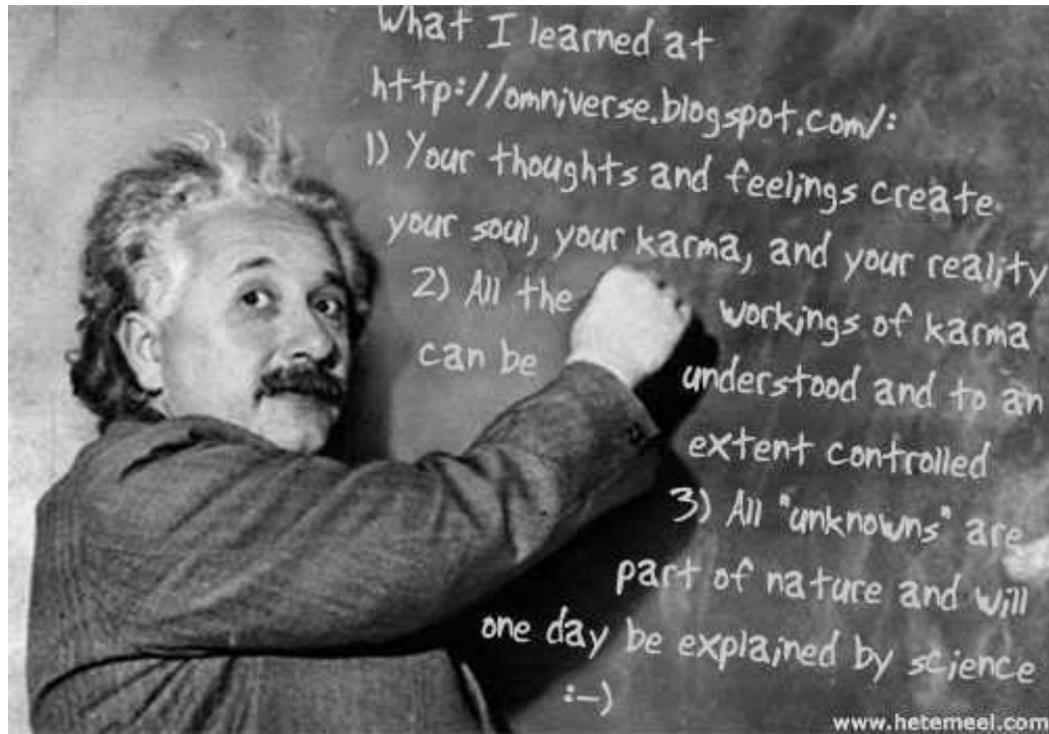
OBJECTIVITY

ACCURACY



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the appraisal...



It's not rocket science



FAIR ANNUAL RENT

the appraisal...

Definition:

Fair Annual Rent: The annual amount, **in rent**, that may reasonably be expected for the right to the agreed use of real property, as established by competition in the open market. The FAR is a fully serviced rental rate; the annual rate includes the cost of all services except Security.



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the appraisal... assignment conditions

1. **Levelized** 5 year **shell** rent.
2. **Full serviced** (gross) rent excluding security.
3. Separate parking rates, if needed.
4. As-Is condition. Take into account existing tenant improvements.
5. Account for the subject building's characteristics & efficiencies, including analysis of R/U factor of comps and subject.



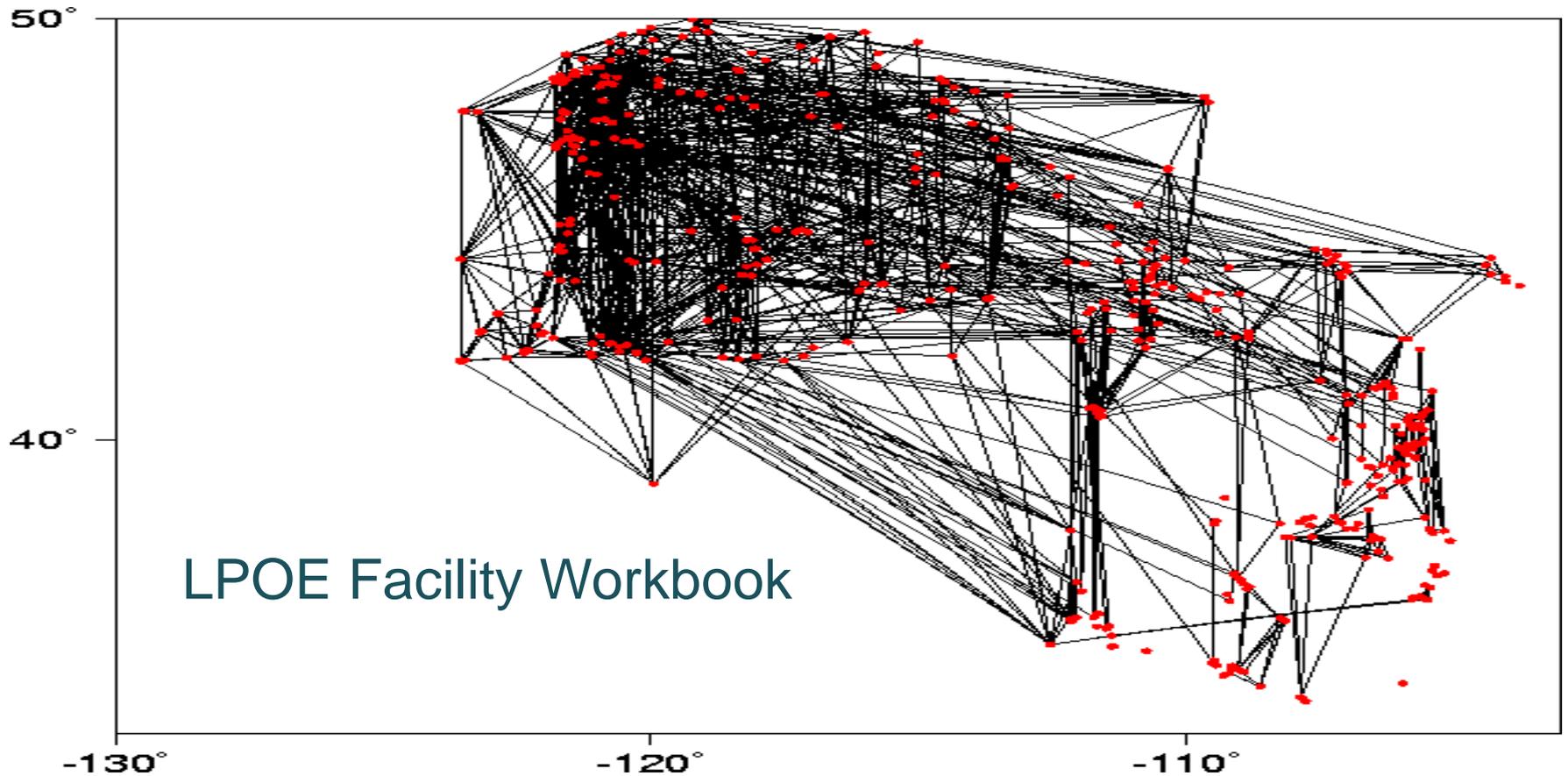
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the appraisal... assignment conditions cont....

6. **Operating expenses** for subject property must be supported by market derived and subject data. Where possible, cite expense comparables.
7. **Allocate the concluded full service rent** between operating expenses and shell as defined in the Contractor Instructions.
8. Appraised Rate should reflect the market rate for finished assignable **OFFICE SPACE** within the subject building.

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Return On Investment...





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Return on Investment (ROI)....

Key Elements of ROI Workbooks

- Workbooks on LPOE's completed on a facility basis
- Rent separated by shell and operating rate
- Operating Expenses are to be passed through
- Charges are to be reconciled against actual expenses on an annual basis



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the review process...

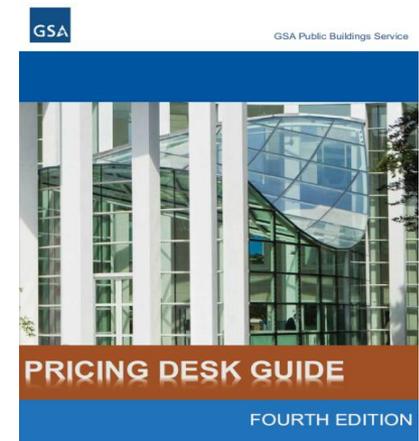
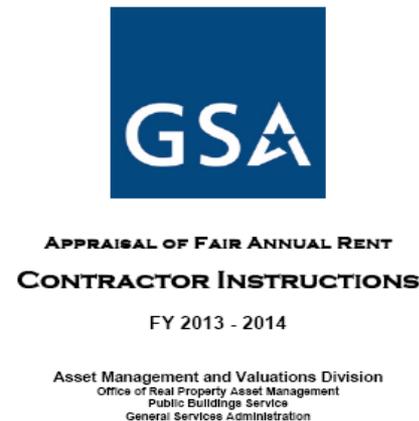
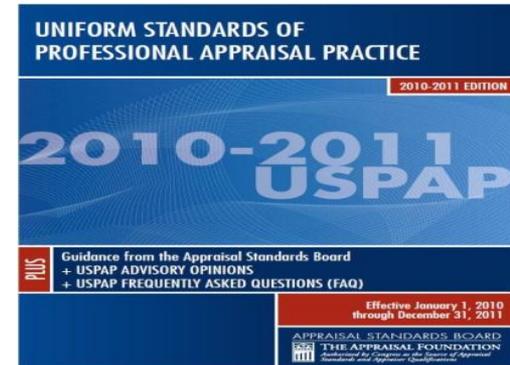
2006 Reforms

- Appraisers must have **General Certifications**
- Appraisals must be completed by **qualified, independent** 3rd party appraisers
- Value changes must be made by independent appraisers
- Staff Appraisers must not have conflicting roles
- FAR Rates must be approved by Central Office Lead Appraiser before being eligible for rate setting purposes in rentest & final OA's
- Establish **4 step review** process

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the review process...

- **USPAP** - Uniform Standards of Professional Appraisal Practice
- **FAR Instructions** - Annual updates
- **Pricing Desk Guide** – Fourth Edition (2010)
- **Annual RAQE** (Rent Appraisal Quality Evaluation)
- **Data Integrity** Inspections



May 2011

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the review process...

Four Step Review Process and Acceptance

All four steps must be completed prior to the appraised rate being used in any OA or for rate setting purposes.

1. **Regional Appraisal Review**
2. **PT Director Concurrence**
3. **CO Review**
4. **Lead Appraiser Acceptance**



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an evolving, adapting process...

We are continually evaluating the FAR program based on feedback from our stakeholders, customer agencies, appraisers, and market data

Typewriters to GPS
r/u factors to
employees/building measures





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an evolving, adapting process...

Why change ?

Better results:

Achieve a more realistic rate, closer to the market equivalent rate we are mandated to provide.



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an evolving, adapting process...

Why Change?

Observed problems

- **R/U adjustments**
- **Single tenant buildings**
- **Special purpose buildings**
- **Scope of work**



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an evolving, adapting process...

What's Changed?

- **Recognition of Existing Use**
- **No hypothetical subjects**
- **Market based analysis of building efficiency**



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common misconceptions...

Why has my rent increased so much in one year?

- 5 year cycles – cumulative change
- Rates can reflect up to 9 years of change
- Appraisals are opinions based on facts but subject to individual interpretations



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common misconceptions...

How can my rent increase when the market declined?

- For 2013 rates the market comparison is the appraisal completed in 2005/2006 (or earlier) and one completed in 2010
- Budget Cycle means rates are prepared up to 30- 36 months in advance



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common misconceptions...

Appraisers simply provide the number they are asked for, you can't trust their answers.

- Independent, objective 3rd party appraisers
- Written scope of work
- Professional standards for appraisals, appraisers, and reviewers
- GSA oversight & review



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common misconceptions...

- **I can get a cheaper rate in a better space if I move into leased space**
- **My building is less efficient than private leased buildings yet I am paying the same rate.**



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reviewing your rent bill...

What if I disagree with my rent bill?

- **Appraisal related issues are referred to the Regional Appraiser**
- **Set up a meeting between your agency representative (whoever is authorized to sign OA's) and our Regional appraiser**
- **The regional appraiser will provide a copy of the appraisal at or in preparation of this meeting**



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reviewing your rent bill...

**I've met with the Regional Appraiser
but would still like to submit a formal
appeal, how can I do this?**



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the appeal process...

Appeals:

- **Must be filed prior to signing an OA**
- **Must have a supporting appraisal that:**
 - **Indicates the rate is off by 20%**
 - **Has been written to the same scope as the GSA appraisal and has at least 3 comps that are**
 - **Similar in location,**
 - **Size,**
 - **Quality,**
 - **Terms**
 - **Point in time**



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the appeal process...

Appeal Sequence:

- **Informal Inquiry**
- **Appeal to Regional Administrator**
- **Appeal to PBS Commissioner**
- **Appeal to GSA Administrator**



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finally...

QUESTIONS

