



Welcome to today's Client Enrichment Series presentation:
Is Longer Term Leasing Right For You?
the presentation will start at 2:00pm Eastern

Note: Phones are automatically muted during the presentation. You have the ability to send questions to your fellow attendees and our presentation team via your “Chat” pane. Our team will answer as many of the questions as possible throughout and at the end of the presentation. All questions will be captured, and answers sent to all participants prior to the next presentation.



- Prior Presentation – **Consolidation Program Roadshow**
- **TODAY – Is Longer Term Leasing Right For You?**

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ClientEnrichmentSeries@gsa.gov





Is Longer Term Leasing Right For You?

April 19, 2018

Hosted by:

James Fotopoulos

Regional Account Manager

Portfolio Management Division/Office of Client Solutions

GSA Region 6 - Kansas City, MO



Presented by:

Justin Hawes

Division Director

PBS Office of Leasing



Garhett Gordon

Zone Manager

PBS Office of Leasing





Agenda

- Quotes from PBS Commissioner Dan Mathews
- Data on Lease Terms
- GSA Decision Matrix (Term Setting Tool) on Longer Firm Terms
- Factors GSA Considers When Setting the Lease Term
- Types of Occupancy Agreements (OAs)
- OA Term vs. Lease Term
- Importance of Firm Term
- Stats and Examples
- Summary
- Q&A



PBS Commissioner Mathews on Lease Terms

- “The average amount of time a ***Federal government tenant stays in leased space is roughly 23 years***,” Mathews said, “but the GSA only ***signs leases with average terms of about 6 years***.”
- These short-term deals mean the ***government is paying higher rates*** and ***getting fewer incentives ...***”
- “If anything, I really learned over the years that is really the ***most powerful tool*** [long-term leases], more powerful than shrinking the footprint...”



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Agency Reform Plan Initiative

- Longer term leases is on GSA's Agency Reform Plan
 - High Visibility
 - Being focused on by senior leadership
- Recent GSA Reverse Industry Day
 - Market demanding longer term leases



Data on Lease Terms

- The original, average full term of our current entire lease inventory is 6.9 years
- GSA customers remain in the same location for a weighted average of 21.6 years
 - Why is there a 14.7 year disconnect?
 - Are we missing out on substantial value by procuring unnecessarily short lease terms?



GSA Decision Matrix / Lease Term Setting Tool

- Decision Matrix (Lease Term Setting Tool)
 - GSA uses a national decision matrix, or a lease term setting tool, to help standardize our approach to setting a lease term
 - “Lease Term Strategy” Leasing Alert: Issued April 20, 2016



3 Goals: Decision Matrix / Term Setting Tool

- Obtain lower rental rates by better leveraging the Government's financial strength and its 20 year lease acquisition authority by entering into longer firm term leases where appropriate.
- Reduce the burden of leasing workload on government agencies through the use of longer firm term lease strategies.
- Implement these strategies in a manner that does not result in a material increase in government risk or vacant leased space



Sample Matrix Considerations

- Does the utilization rate meet approved targets?
- Is the lease a core location for the customer?
 - Regional Headquarters or Field Office
- Is the customer spending substantial funds to customize the space?
 - Return On Investment (ROI) related to tenant improvements?
- Is there a strong likelihood of another agency backfilling the space should the Occupancy Agreement (OA) be cancelled?



Each Project Is Unique

- Setting the lease term is an art, not strictly a science
- No magic formula or algorithm
- Input and intel from GSA and you, our customer, are imperative to making the right decision



When to Consider *Avoiding* a Longer Term

- Projects where capital lease scoring is triggered
- A specific alternative housing solution for the long term has been identified
 - Relocation to a Federal building
 - Consolidation with another lease
- Where the risk of sustained vacancy is much greater due to limited/smaller market
- Ultra-competitive markets where Lessors are seeking higher rates for longer terms because rates are expected to continue to rise
- Other situations as determined on a case-by-case basis



Cancellable OA vs. Non-Cancellable OA

- A ***cancellable OA can be terminated*** by a customer agency at any time with 120 day notice with some liability
 - 7% PBS fee
 - remaining TI balance
 - prorated value of any rent concessions

- A ***non-cancellable OA can not be terminated*** before the expiration date
 - 5% PBS fee



Occupancy Agreement (OA) vs. Lease

- The OA is the binding agreement between a Customer Agency and GSA
- The lease is the binding agreement between GSA and the building owner/Lessor
- OA Term vs. Lease Term
 - Do ***not*** have to match
 - Lease term strategy is GSA's decision
 - OA term is variable with high level approvals
 - OA Internal Concurrence Memo - (for GSA use)
 - Signed by both regional realty and portfolio directors when OA and lease term do not match



Firm Term Importance

- Firm Term is the key to savings with Lessors
- 10 year lease, or even a 20 year lease, with only 5 Firm has minimal benefit
 - The Lessor is unable to pass on favorable pricing
 - Causes difficulty when financing or refinancing
 - Banks care about what's guaranteed – only the ***Firm Term***
 - Building valuation is focused on firm term
- AAAP data backs up that ***Firm Terms*** matter!
 - Best pricing with AAAP offers are those with the longest firm term

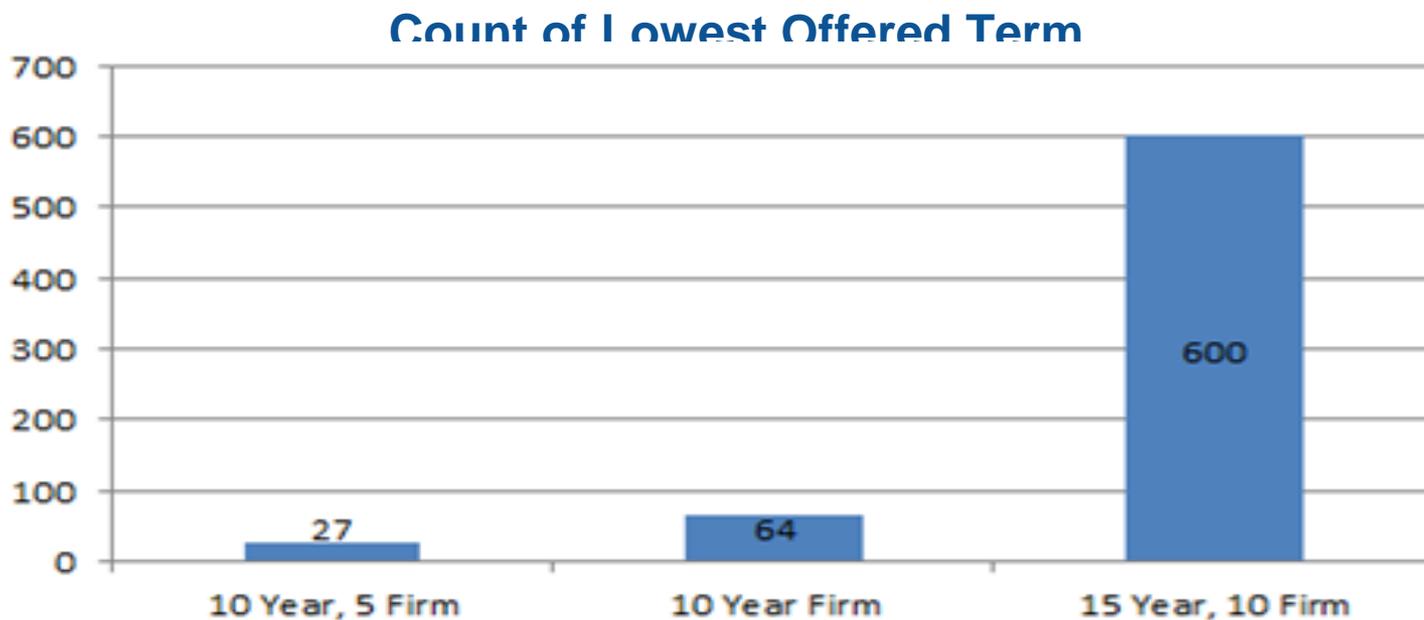


Characteristics of the Soft Term

- Lease terms do not need to be 5 or 10 year increments
 - They can be any duration that creates the most value and complies with scoring guidelines
- Purpose of Soft Term
 - Provides the government flexibility to move and terminate near the end of the lease
 - Is 5 years of flexibility useful to the government?
 - There is a cost associated with Soft Term
- Strengthens the government's negotiation position for the future lease effort
- How often do we use it?



Automated Advanced Acquisition Program (AAAP) Term Comparison

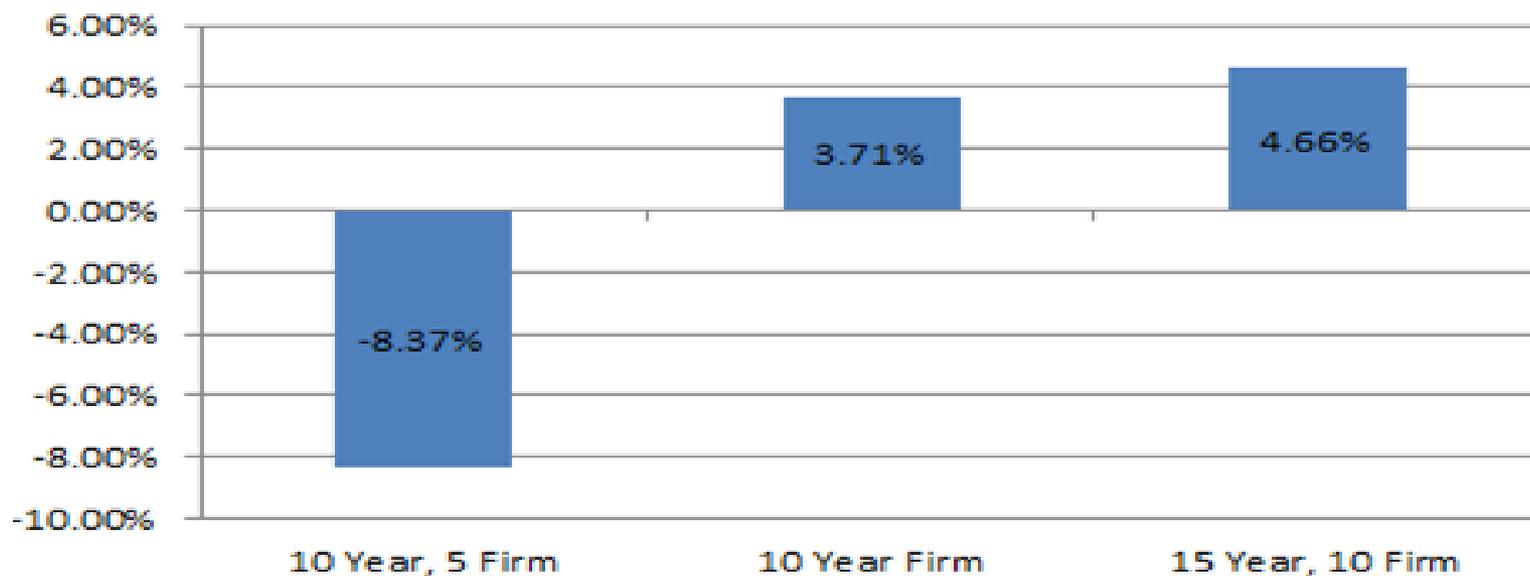


Of the AAAP submitted buildings, offers with a 15 year, 10 firm term had the lowest offered rate 87% of the time



AAAP Rate Comparison

Cost Savings %



Of the AAAP submitted buildings, lower rates are offered with longer firm terms



Lease Term Statistics

- GSA has been increasing its use of longer firm terms (10 years or more) in the past few fiscal years
 - FY14: 19% of GSA's leased inventory had a firm term of 10 years or more
 - FY17 (through July): 26% of the leased inventory had a firm term of 10 years or more

- GSA doubled the percentage of leases with a firm term of 15 years or more over the same period
 - From 3% to 6% of the inventory



Data: How is GSA Doing So Far?

Firm Term Trends by FY





Example 1

- Agency X Field Office
 - 150,000 RSF
 - Adequate U/R
 - Highly specialized buildout
 - In a market where there is potential backfill

- Lease Term Strategy
 - Firm term for as long as scoring would allow
 - 20 year firm term, ***or***
 - 15 year firm term with a 5 year evaluated/priced renewal option, ***or***
 - 20 year lease, with 18 years firm



Example 2

- Agency Y office requirement
 - 15,000 RSF
 - U/R meets agency target
 - Agency Y not confident in the future of their mission
 - Located in Atoka, Oklahoma
 - Only federal tenant in town
- Lease Term Strategy
 - Firm term of 7 years with two, 2 year evaluated/priced renewal options, or 10 year, 8 firm, etc.
 - Other strategies?



Summary

- Administration strongly supports GSA doing longer firm term leases where it makes sense
 - Longer term leasing is now part of GSA's Agency Reform Plan
 - Longer term leases help leverage the government's buying power
 - Firm term holds the real power
 - Soft term is costly and rarely used
- GSA's customers tend to remain in the same location for a weighted average of 21.6 years
 - Current average lease term is less than 7 years
- GSA uses the Decision Matrix/Term Setting Tool to help standardize the methodology for setting lease terms
- OA term doesn't always have to match the lease term as decided by GSA
 - Requires high levels of approval



Is Longer Term Leasing Right For You?

Questions?



Justin Hawes

Division Director
PBS Office of Leasing
justin.hawes@gsa.gov



Garhett Gordon

Zone Manager
PBS Office of Leasing
garhett.gordon@gsa.gov



We hope to see you at our next
Client Enrichment Series event

Broker Support Services
Thursday, May 17th 2pm Eastern
[Register Now by clicking here](#)

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We're on YouTube! - search "GSA PBS Client Enrichment Series"

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