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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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Code

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION



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Contracting for Real Estate Agency Fees Incurred by Federal Agencies

The Honorable James T. McIntyre, Jr.
Director, Office of Management and Budget
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Dear Mr. McIntyre:

We believe that through the use of competitive procurement procedures it may be possible to significantly reduce the cost of real estate agent fees incurred by Federal agencies. Currently, civilian Government employees pay and are then reimbursed for the real estate agent commissions involved in selling their homes when they move at Government expense. Generally, no attempt is made to obtain competition in contracting for these services.

While statistics showing the exact number of civilian Federal employees moving annually are not readily available, we estimate that as many as 140,000 employees relocate each year. The real estate fee an employee pays for selling a residence is normally in the range of 6 to 7 percent of the selling price. Assuming a 6-percent fee and applying it to the \$49,400 national average sales price of an existing home, the Government spends about \$415 million annually for the services of real estate agents (140,000 x \$49,400 x 6 percent). Thus, a commission reduction for each 1 percent could save the Government about \$69 million annually (\$415 million divided by 6).

Opportunities to Reduce Real Estate Costs Are Available

The Air Force spent about \$6.7 million in FY 1977 to reimburse relocating civilian employees for real estate fees. At a 6 percent commission rate, a 1-percent reduction through competitive contracting would have reduced the Air Force expense by \$1.1 million.

As another example, the Marine Corps recently moved its Philadelphia, Pennsylvania, finance center to Albany, Georgia. The move caused 164 civilian employees to transfer. The total value of home sales was about \$5.7 million, and the real estate

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fees amounted to \$373,000. The average commission rate in this case was 6.6 percent. A 1-percent reduction would have saved about \$56,000.

We believe that there are many other opportunities for the Government to reduce expenditures for real estate costs. Similar opportunities are acted on in the private sector. For example, a San Antonio home builder with only two houses to sell negotiated a 1-percent fee reduction with a large real estate firm. A further reduction of 1 percent was agreed to if the builder sold the houses to other than a real estate agency customer.

We also found that a company providing nationwide relocation management services to private companies is able to obtain reduced commissions because of the large volume of homes sold each year. An official of the relocation management service said reduced rates result because agents desire repeat business. According to this official, the Government should have little trouble in contracting for reduced commissions because of the large number of house sales resulting from relocations. The individual we spoke to thought that relocation service companies, including the one he represents, would be interested in offering the Government a reduced commission on a regional basis.

Conclusion and Suggestion

We believe it is possible that competitive contracting for real estate services could save the Government millions of dollars annually and further the President's inflation-fighting program. The large volume of yearly real estate sales resulting from relocation of Federal employees should enable the Government to obtain reduced rates for real estate services either on a local or regional basis.

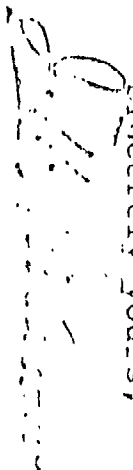
We realize that there will be many objections to changing present practices. In view of the potential savings, however, we suggest that you determine the feasibility of competitively contracting for real estate services.

It might be desirable to first test the use of the competitive procedures in a particular city or regional area where a substantial number of Government employees will be moving. One possibility would be to develop and test contracting procedures along the lines of those used by the Federal Supply Service in awarding supply schedule contracts. Under these procedures, a competitive benchmark rate for real estate agent

fees could be established, and multiple contracts could be awarded to all real estate firms in an area willing to meet the benchmark rate. A Government employee could use any real estate agent listed on the schedule or contract with any other firm as long as the Government's reimbursement for those services was limited to an amount based on the benchmark rate.

Please keep us advised of the actions taken on this matter.

Sincerely yours,



J. H. Stolarow
Director