



097089

75-0137

*REPORT TO THE  
COMMITTEE ON APPROPRIATIONS  
HOUSE OF REPRESENTATIVES*



LM097089

General Services Administration's  
Methods For Computing Rent For  
Federally Occupied Buildings  
Need Further Improvement

General Services Administration

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

LCD-75-325

~~702272~~

097089

MARCH 10, 1975



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-95136

The Honorable George H. Mahon  
Chairman, Committee on Appropriations  
House of Representatives

H. 00300

Dear Mr. Chairman:

We reviewed the General Services Administration's (GSA's) methods of establishing fiscal year 1975 rental rates for agencies occupying building space in the Washington, Denver, and Chicago regions.

The methods used to establish the rental rates were deficient, primarily because they did not fully consider that specific location is a major factor in determining such rental rates on the commercial market. As a result, GSA could not insure that the rates it established were similar to commercial rates for comparable space. Although GSA has improved its methods for computing rates, it needs to make further improvements.

LEGISLATIVE BACKGROUND

Public Law 92-313, dated June 16, 1972 (40 U.S.C. 490), authorizes GSA to charge agencies rent for space they occupy. The rent proceeds are deposited in the Federal Buildings Fund. GSA may use the moneys deposited for financing its public buildings operations, land acquisition, design, construction, repair, and improvements.

In sponsoring this law, GSA said that requiring agencies to finance the cost of the space they occupy is consistent with the performance-budgeting concept under which total program costs are shown in the cost accounts of the agencies. Among the methods for establishing rental charges that GSA considered were (1) the cost-recovery method included in prior proposed legislation and (2) the rent-equivalent method (commercial rate) later embodied in the law.

Under the cost-recovery method, charges would be based on the estimated cost of operating and maintaining Government-owned buildings, the cost of leasing space, and depreciation cost on Government-owned structures. Income generated by the depreciation increment would be available to finance construction and major repairs.

LCD-75-325

GSA rejected the cost-recovery method because it would not produce sufficient income to finance construction and major repairs. The balance available to finance capital items would be an estimated \$44 million if depreciation were based on initial costs, or an estimated \$158 million if depreciation were based on replacement costs. GSA estimated that it would need additional appropriations of about \$150 million annually under the replacement-cost basis.

GSA favored the commercial-rate method because it would produce sufficient annual income to finance operating costs and enable GSA to accelerate project construction authorized by the Congress, but not funded.

C2 In September 1971, when testifying in support of this law before the Subcommittee on Buildings and Grounds, Senate Committee on Public Works, GSA officials said that the agencies' rent paid to the fund would amount to about \$800 million a year. The officials said this amount would finance building operations and, based on 1971 obligations, provide about \$300 million for capital expenditures. 203101

C3 According to Senate Report 92-412, October 28, 1971, the Committee on Public Works did not want GSA to establish high rates that would produce an excessive surplus of moneys in the fund. The Committee wanted the rates to be sufficient to defray only the cost of constructing, maintaining, and replacing public buildings and facilities and providing related services. S. 03100

C4 At the request of the House Public Works Committee, GSA estimated early in 1972 that appropriations to be made to the using agencies for rent to be deposited into the Federal Buildings Fund should be \$999 million in fiscal year 1975, \$1,049 million in 1976, \$1,110 million in 1977, and \$1,175 million in 1978. A year later, in April 1973, GSA told the House Committee on Appropriations that it estimated that \$1.23 billion would be received for rent in fiscal year 1975 according to GSA's planned standard level rent for space and services and, assuming no increases or decreases in the amount of space, the rent would increase about 3 percent a year. H. 03100

In its fiscal year 1975 budget submission to the Office of Management and Budget (OMB), GSA estimated that the proposed rent would permit the collection of \$1.33 billion in rent from agencies occupying about 266 million square feet of space (158 million square feet in Government-owned buildings, 67 million square feet in leased buildings, and about 41 million square feet of parking areas). OMB reduced

the individual agency rent requests to \$1.156 billion, or 13 percent, and reduced GSA's proposed expenditures to \$980 million, or about 26 percent. The difference of \$176 million between the budgeted receipts and expenditures would remain in the fund or be deposited in the Treasury as miscellaneous receipts.

Section 4 of Public Law 92-313, states that agencies' rental rates "shall approximate commercial charges for comparable space and services." The law, however, does not contain any criteria or guidance for computing comparable commercial rental rates. The comparable commercial rate concept can be interpreted differently which can have a sizable effect on the total rent collected from agencies.

GSA PROCEDURE FOR COMPUTING FISCAL YEAR 1975  
RENTAL RATES

To determine the approximate fiscal year 1975 commercial rates for individual buildings, GSA used "quality ratings" and "market surveys." GSA assigned numerical quality ratings, using a scale ranging from zero to 100 to each occupied building. GSA computed composite area rental rates for various classifications of space (office, storage, special, and parking) based on market surveys in 58 major Federal space areas. Composite rates as adjusted by the appropriate quality rates provide square foot costs of building space. For example, GSA computed an annual rent of \$29 million for the Pentagon building as follows:

<u>Type of space</u>	<u>Square feet</u>	<u>Rate a square foot</u>	<u>Amount</u>
Office	2,736,966	\$ 6.88	\$18,830,326
Storage	136,260	2.31	314,761
Special	<u>720,142</u>	10.39	<u>7,482,275</u>
Total	<u>3,593,368</u>		<u>26,627,362</u>
Inside parking	81,011	1.30	105,314
Outside parking	<u>3,031,500</u>	.75	<u>2,273,625</u>
Total	<u>6,705,879</u>		<u>\$29,006,301</u>

The market survey of the Washington, D.C., area established \$7.48 a square foot as a composite rate for office space with a numerical quality rating of 90. GSA assigned a quality rating of 78 and computed a rental rate of \$6.88 (subtract 5 cents for each quality step below 90, or 60 cents from \$7.48) for office space in the Pentagon building.

GSA assigned a quality rating of 96 to the Department of Justice building in Washington, D.C. It added 30 cents (5 cents for each quality step above 90) to the \$7.48 market survey composite rate to arrive at a rental of \$7.78 a square foot for office space in the Justice building.

Quality Ratings

The building-quality rating is important because the higher the rating, the greater the building rental charge. Our review disclosed that building-quality ratings for fiscal year 1975 were primarily based on subjective judgment and limited criteria.

GSA rates buildings on a scale of zero to 100, using 12 factors. Examples of four factors and the limited rating criteria used for each follow:

Structure--ceiling heights, allowable floor loading, floor covering, wall finish, permanency of structure, fire resistance, and similar features for the space desired.

(Evaluation: Good 8-10, Adequate 4-7, Poor 0-3)

Heating-- uniformity as well as adequacy.

(Evaluation: Good 8-10, Adequate 4-7, Poor 0-3)

Lighting-- level and uniformity of illumination, glare and brightness.

(Evaluation: Good 8-10, Adequate 4-7, Poor 0-3)

Location-- general use (not special location requirements), character of the area, accessibility by public and private transportation, relationship to other Government activities, and similar features.

(Evaluation: Good 8-10, Adequate 4-7, Poor 0-3)

These criteria were applied without specific standards. There was no requirement that instruments be used to determine the light or heat-rate value. The rating was left to the judgment of the individual performing the rating.

Personal judgment was involved in determining what point value to give for a factor that was considered to be good, adequate, or poor. Little consideration was given to building location although specific location is a major factor on the commercial market in determining rental rates.

We noted that many quality ratings had been performed years ago. Our review of ratings for 55 buildings in the GSA Chicago region disclosed that 19 ratings were made in 1971 or preceding years, including 4 in 1967, and 1 in 1964.

Composite Rates

GSA computed and used areawide composite rates for each space classification in the 58 major Federal space areas. These composite rates represent the weighted average of the central city rates and the suburban rates from the market survey. GSA assigned weights to the rates based on the amount of GSA-managed space in the city and suburbs. In the Washington, D.C., area, 61 percent of the GSA-managed space is in the central city and 39 percent is in the suburbs. Consequently, the central city average rate for office space (\$7.90 per square foot for space rated 90) was assigned a weight of .61, and the suburban average rate (\$5.65) was assigned a weight of .39. A composite rate, prior to adjustments for inflation and protection, was computed at \$7.01 a square foot ( $\$7.90 \times .61 + \$5.65 \times .39$ ) for office space. By using the composite rate, agencies occupying GSA office space in the Washington, D.C., area suburbs will pay \$1.36 a square foot more than the suburban average rate, and agencies in the city will be charged 89 cents less than the central city average rate. The following illustrates these differences:

GSA market survey rates for Washington, D.C., area (office space)	Composite rate (office space)	<u>Difference</u>
Suburban \$5.65	\$7.01	+\$1.36
Central City \$7.90	7.01	-.89

The \$7.01 composite rate was adjusted up to \$7.48 to provide for cost of protection and inflation.

When a composite rate is determined by rates that differ greatly, (\$5.65 and \$7.90) the rent of many GSA-managed buildings will differ from the rent of comparable space on the commercial market. This could cause some agencies to feel that they were being treated unfairly.

Market Surveys

Our review of GSA market surveys in the three selected regions indicated that the surveys did not provide an adequate basis for determining the approximate commercial rate for each classification of space.

GSA instructions for building selections for the market surveys required that the buildings (1) have more than 10,000 square feet and have a quality rating between 80 and 100 and (2) be either commercial buildings available for lease in the area or those currently under lease to GSA, provided the lease was 6 months old or less. The instructions also stated that the number and location of the buildings selected in each GSA region be left to the professional judgment of the personnel conducting the survey. However, a sufficient number of buildings were to be selected to insure that the rental rates could be defended.

In the Chicago region, GSA surveyed 17 million square feet of commercial space to set rental rates for 25 million square feet of federally occupied space; in the Denver region, it surveyed 3.3 million square feet to set rental rates for 12.2 million square feet. In the Washington region--which has three or more times as much space as in any of other nine GSA regions--GSA surveyed only 2.9 million square feet of commercial space to set rental rates for about 75 million square feet of space.

In the Washington, D.C., area, GSA surveyed 14 relatively small commercial buildings, varying in size from 13,418 to 186,000 square feet and having a total area of about 1 million square feet, to determine the rental rates for 33 million square feet of Government-owned space and 22 million square feet of Government-leased space. GSA records do not show the total number or size of commercial buildings available for rent when it made its market survey. For the most part, the 14 selected commercial buildings available for rent were not comparable in area to the buildings occupied by Federal agencies. There are 21 large Government-owned and occupied buildings, each with 500,000 or more square feet of space and which in total account for 21 million square feet, or 64 percent of the Government-owned space in the Washington, D.C., area.

The commercial square foot rental rate for the Washington, D.C., area for small blocks of space may not be comparable to the GSA rental rate for larger Government-owned

or leased buildings, such as the Pentagon or the Parklawn Building, Rockville, Maryland.

In its market surveys, GSA used listed or quoted commercial rates. These rates, however, may have been higher than rates GSA could negotiate if it were willing to enter into long-term leases. GSA also computed some rental rates without the benefit of market surveys because in some cities it did not survey all space classifications.

#### Rental Rates for Leased Buildings

GSA's rental charges are generally much higher than the rates it is paying for leased space; however, we did note a few cases where the GSA rental charge is less.

A comparison of GSA's estimated fiscal year 1975 rent for 15 buildings under lease to other agencies by GSA, showed that rent of \$45 million (excluding parking) exceeded lease costs of \$27.4 million by \$17.6 million, or 64 percent. For example, in 1969 GSA leased the Parklawn Building for 20 years at an annual rent of \$4.6 million. The building is fully serviced, excluding guard service which is estimated to cost \$243,000 for fiscal year 1975. Based on fiscal year 1975 estimated rent, the tenant agencies will pay GSA about \$7.4 million for rent and \$750,000 for parking. The difference between the proposed GSA rent and the actual cost of the building to GSA (including protection costs) is about \$3.3 million.

Most of the 15 buildings we reviewed are leased for long terms; therefore, the lease costs should remain relatively stable. GSA computed rental rates for these buildings on the basis of commercial rates for buildings available for rent at the time of the GSA market survey. Each year the GSA's rental rate for space in a given building is subject to adjustment.

A GSA official told us that GSA used the rate a businessman would pay for similar space on the commercial market and not what the Government, a blue chip tenant, would pay. He also said that more favorable rates can usually be obtained with long-term GSA leases.

The basic method used to compute fiscal year 1975 rental (comprising composite rates, market surveys, and



quality ratings) was also used to compute fiscal year 1976 rentals.

We did not review the fiscal year 1976 procedures. GSA's Office of Audits did review these procedures and noted, in its internal audit report, that the 1976 procedures were better than those used in fiscal year 1975. According to the report, the development of equitable rental rates comparable to commercial rates requires that the current rate structure allow for building location as well as certain other improvements to the method used to develop rates.

#### CONGRESSIONAL ACTION ON FISCAL YEAR 1975 RENTAL RATES

GSA rental rates were the subject of extensive discussion during congressional hearings on agencies' and GSA's budget requests for fiscal year 1975. The Administrator of General Services stated before the House Appropriations Subcommittee on Treasury, Postal Service, and General Government that many agencies and Members of Congress are skeptical about the Federal Buildings Fund. The Administrator asked the Subcommittee to give GSA 2 years to test the fund, and if after 2 years the fund does not work or is abused, GSA will support legislation to abolish it.

In a report dated June 20, 1974, the House Committee on Appropriations stated that the rent GSA had proposed for fiscal year 1975 was too high and in excess of comparable commercial rates for space and services. The Committee therefore included a provision in the appropriation acts that reduced the rates that agencies may pay GSA by 10 percent--reducing rent income from \$1.156 billion to \$1.04 billion. The Senate Committee on Appropriations agreed with the House Committee's provision.

#### OBSERVATIONS AND CONCLUSIONS

The composite rental rate does not fully support one of GSA's basic premises used in sponsoring Public Law 92-313; i.e., the performance-budgeting concept. Under this concept, total program costs should be reflected in the cost accounts of the program agencies. The inclusion of a composite rental rate should improve the accuracy of the performance costs. However, because the composite rate system results in charging average rental values, some agencies' costs will be overstated and others understated. In effect,

agencies paying higher rates than commercial tenants in the area for similar space and services will be subsidizing the rental costs of other agencies who are paying lower rates.

The GSA areawide composite rate, made up of divergent city and suburban rates, ignores the fact that a specific location is a major factor in determining rental rates for buildings on the commercial market. For example, a building located in the center of the business area of a city (such as at Connecticut Avenue and K Street, N.W., Washington, D.C.) would command a higher commercial rent than a similar building located in another part of the city or in the suburbs.

Agencies paying higher rent than commercial neighbors for comparable space could easily become disenchanted with the system and question the reasonableness of GSA's rates, thus creating an adversary environment.

We recognize that the composite rate system has the advantage of simplicity and may result in administration cost savings. However, it does not insure that the rental rates are closely related to commercial rates for comparable space.

We believe that the GSA rental rates should be based on a survey and appraisal of each Government owned and leased building by GSA that has the objective of determining the comparable commercial rental rates. GSA should identify building improvements that have been financed with agency funds and should reduce the indicated rental rates accordingly. Once realistic comparable commercial rates are established, it would not be necessary to re-survey each building annually.

#### RECOMMENDATION

To provide a more equitable and objective method of charging agencies rent for GSA-furnished space, we recommend that GSA adopt a building-by-building approach. The objective would be to assign a rent for each Government owned and leased building that would be equivalent to commercial rent for comparable space and services as determined by an individual survey and appraisal by GSA.

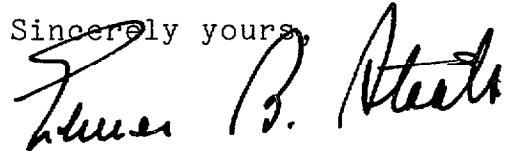
AGENCY COMMENTS

In a letter dated November 25, 1974, GSA agreed that the fiscal year 1975 rate system had a number of deficiencies and said the revised fiscal year 1976 rate system has corrected many of them. We believe the revisions cited would result in substantial improvement.

Regarding our criticism of GSA's use of areawide composite rates, GSA agreed with our statement that location is a major factor in determining rental rates for buildings on the commercial market and said that GSA is exploring alternative methods for quantifying the effect of location on cost.

We are sending copies of this report today to the Administrator of General Services; the Director, Office of Management and Budget; the Chairmen of the House and Senate Committees on Government Operations and Public Works; the Senate Committee on Appropriations; and the Subcommittee on Treasury, Postal Service, and General Government of the Senate Committee on Appropriations.

Sincerely yours,



Comptroller General  
of the United States

Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members; officials of Federal, State, local, and foreign governments; members of the press; college libraries, faculty members, and students; and non-profit organizations.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office  
Distribution Section, Room 4522  
441 G Street, NW.  
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office  
Distribution Section  
P.O. Box 1020  
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner of the front cover.

**AN EQUAL OPPORTUNITY EMPLOYER**

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

OFFICIAL BUSINESS  
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID  
U. S. GENERAL ACCOUNTING OFFICE



**THIRD CLASS**