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United States
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General Government Division

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The Honorable Arlen Specter
United States Senate



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The Honorable Robert A. Borski
Chairman, Subcommittee on Investigations
and Oversight
Committee on Public Works and Transportation
House of Representatives

This letter responds to your inquiries regarding a proposed Federal Center at 30th and Walnut Streets in Philadelphia. We have not reviewed this project in any detail. However, we have become aware of several news media articles on the project, and we did discuss the project with General Services Administration (GSA) and U. S. Postal Service officials and specifically inquired about the various assertions made in these articles. The following is a summary of the information we obtained from GSA and Postal Service officials.

ASSERTIONS MADE IN RECENT MEDIA ARTICLES

Since November 1992, articles appearing in the Philadelphia Inquirer, Forbes, National Journal, and the New York Times have made the following assertions about the Federal Center project.

1. The Postal Service plans to build a \$250 million, 1 million square foot office building for lease to GSA, in which 5,600 government employees will be housed starting in 1996.
2. New construction in Philadelphia is not justified at this time because Philadelphia has 6 million square feet of vacant office space, which represents a 15 to 18 percent vacancy rate of existing office buildings.
3. GSA will pay the Postal Service \$28 to \$33 per square foot in rent initially, which will increase to \$46 per square foot over 30 years.

GAO/GGD-93-12R, Philadelphia Building

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4. GSA justifies the project by saying that existing buildings in the city do not meet federal requirements, and this project will consolidate federal agencies at one location.

5. Senator Specter and Representative Borski were patrons of the project, which helped them in the Fall 1992 elections.

INFORMATION OBTAINED FROM GSA
AND THE POSTAL SERVICE

GSA and Postal Service officials in Philadelphia and Washington, D.C., provided us the following information pertaining to the five media assertions summarized above.

1. Postal Service officials said they initially conceived the Philadelphia project as an opportunity to develop an underutilized Postal asset for joint GSA/Postal Service tenancy. The 14-acre site has been used for surface parking for Postal vehicles, which was not the highest and best use of the property. But, with the recent Postal Service reorganization and downsizing, the Postal Service found it did not need additional office space. As currently proposed, Postal Service officials said they will own the building and use one floor of the building's basement for vehicle parking, and GSA will lease the remainder of the building from the Postal Service.

2. According to Postal and GSA officials, of the 6 million square feet of vacant office space in Philadelphia, less than 2 million square feet is considered "class A" office space, which GSA prefers to lease. These officials also said that some of the 2 million square feet of class A space does not meet federal standards, which sometimes exceed local standards, and most available space is in relatively small and scattered blocks. Last year GSA solicited privately owned space in Philadelphia and received offers that were inadequate because only renovated warehouses or buildings with inefficient floor designs were offered.

3. GSA officials indicated that current rental rates in Philadelphia are \$19 per square foot or higher, net of services, for buildings without the amenities the Postal Service is offering, such as parking, a child care center, a physical fitness facility, and an auditorium. GSA and the

Postal Service have tentatively negotiated an annual lease rate of \$18.50 per square foot, net of services, beginning in 1996 and fixed for two 20-year terms, with an option for another 20 years at a rate to be determined at year 40 based on the appreciation in land value. GSA officials said that a comparable market lease with escalation at 5-year intervals over 40 years would have to start at about \$11 per square foot to equal the proposed Postal Service rate of \$18.50 per square foot.

GSA officials believe that a comparable rate could not be offered by the private sector. Postal Service and GSA officials said that the Postal Service is able to offer such an attractive rate because the Postal Service already owns the land, does not require a profit margin as large as the private sector, does not have to pay real estate taxes, can finance the project at a lower rate than the private sector, and sees this project as a means to improve the value of the remaining portion of the 14-acre site for future development.

GSA officials said that some of the differences between the media and GSA data is due to the use of different information. For example, quoted lease rates vary greatly depending on whether they refer to gross or net square feet, occupiable or usable square feet, fully serviced or unserviced space, current or constant dollar value, and other variables on which public and private sector real estate conventions differ.

4. According to GSA officials, the project will be superior to conventional leased space with the amenities offered and the ability to allow "one-stop" federal service to the taxpayers in Philadelphia.

5. The project predates the support of Senator Specter and Representative Borski, according to Postal and GSA officials.

We did not verify the information provided by Postal and GSA officials but neither did we find it difficult to accept based on our experience in analyzing other real estate transactions of both agencies. Assuming the information is accurate, the project appears to allow GSA to obtain higher

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quality space at an attractive, fixed rate for at least 40 years. Also, we believe that the circumstances surrounding the Philadelphia project would have been clearer had GSA provided private sector developers the opportunity to compete for such a large lease requirement, although we understand that the Postal Service has competed the contract to develop the project. A lease competition would have allowed GSA to produce actual market offers, which might have given government, media, and private sector analysts a common measure by which to compare alternatives.

I hope this information is helpful. If you have any questions, please call me on (202) 275-8676.

A handwritten signature in cursive script, reading "L. Nye Stevens".

L. Nye Stevens
Director of Planning and Reporting