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

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The Honorable Nelson A. Rockefeller
President of the Senate

Dear Mr. President:

This is our report to comply with the requirements of Section 112 of Public Law 94-157, approved December 18, 1975. This law authorized the Senate Sergeant at Arms to negotiate a lease for all or part of a building at 400 North Capitol Street, Washington, D.C., at an annual rental not to exceed \$3,375,000 for the entire building, exclusive of amounts for reimbursement for taxes and utilities furnished by the lessor.

The law provides that the lease shall not become effective until approved by Senate resolution. Prior to the approval process the General Accounting Office shall examine the terms of the proposed lease and shall report to the Senate on its reasonableness, taking into account such factors as rental rates for similar space, advantages of proximity, and possible alternative arrangements. The law also specifies that the lease may be for a term not in excess of 5 years and shall contain an option to purchase such property, and shall include such other terms and conditions as the Senate Committee on Rules and Administration and the Senate Committee on Appropriations may determine to be in the best interests of the Government.

BACKGROUND

In January 1976 the building owners offered to lease the entire building (known as the North Capitol Plaza Building) to the Government at an annual rental of \$3,375,000. The Government would have been required to pay all tax, utilities, and services. We analyzed this proposed lease and orally provided the Senate Sergeant at Arms our views on the proposed lease. The General Services Administration also analyzed the proposed lease and provided the Sergeant at Arms with its comments in February 1976.

The General Services Administration appraised the property in January 1976 and estimated its fair market value, without

tenant improvements, at \$28.5 million, and with tenant improvements, at \$31.5 million. Further, the fair annual rental of the building, fully serviced and for a term of 5 years, was appraised at \$5,058,709. The \$5,058,709 fair annual rental consisted of 281,765 square feet of parking space appraised at \$1.64 per square foot; 17,651 square feet of retail space appraised at \$10.00 per square foot; and 552,513 square feet of office space appraised at \$8.00 per square foot. The \$8.00 per square foot included \$3.70 per square foot for fixed and operating expenses (see enclosure).

After a period of negotiations, the building owners and the Senate Sergeant at Arms could not arrive at an acceptable lease agreement. On March 17, 1976, the building owners withdrew their offer to lease and made a counter proposal to sell the building for a price between \$31.5 million and \$35 million. Since Public Law 94-157 provided for a lease, a new authorization was needed before the building could be purchased.

On April 9, 1976, hearings were held before the Subcommittee on Building and Grounds, Senate Committee on Public Works, on a proposal for the Senate to purchase the building. On May 20, 1976, the Public Works Committee decided not to approve acquiring the building by purchase. An amendment to the Legislative Branch Appropriations Act, 1977, H.R. 14238, authorizing and appropriating \$35.5 million for the acquisition of the building was defeated by the Senate on September 8, 1976.

We were advised on September 23, 1976, that the Senate planned to lease 38,012 square feet in the North Capital Plaza Building to house its computer operations.

CURRENT LEASE PROPOSAL

On September 23 and 24, 1976, we were provided certain information on the proposed lease terms, including the proposed annual rent rate. We were requested to complete our review of the information provided, and submit our report to the Senate on the results of our review by October 1, 1976. However, the lease rate was not negotiated until September 30, 1976. In view of this time constraint, our efforts were directed primarily to reviewing the information provided on the rental rate as of September 30, 1976, and to the extent possible, the related lease provisions. We were unable to review the finalized lease because it had not been signed at the time of our review. Time did not permit a study of possible alternative arrangements to leasing the 38,012 square feet of space in the North Capital Plaza Building.

Rent rates

On September 28, 1976, we informed the Senate Sergeant at Arms that the rate proposed by the owner appeared high when compared with the General Services Administration's appraised fair annual rental rate and our understanding of the rates being negotiated with other tenants in the building.

The Office of the Senate Sergeant at Arms has advised us that he has negotiated a much lower rate than offered. The rate negotiated on September 30, 1976, is \$6.50 a square foot, or \$247,077.96 a year for 5 years. The Senate will receive 3 months free rent. Therefore, the effective rate is \$6.175 a square foot. The owner will pay the taxes and provide standard quantities of partitioning and telephone outlets. The Senate will pay for electricity, estimated at \$1.15 a square foot, and janitorial services estimated at \$.65 a square foot. Therefore, the total rate as adjusted is \$7.97 a square foot ($\$6.17 + \$1.15 + \$.65$).

As mentioned earlier, the General Services Administration, in its January 1976 appraisal of the North Capitol Plaza Building, had estimated that the fair annual rental rate for office space in the building would be \$8.00 per square foot, fully serviced, which includes the cost of utilities, taxes, janitorial services, and other expenses associated with leasing the space. As shown in the enclosure, the General Services Administration included in its \$8.00 per square foot estimate, \$1.15 per square foot for electricity and \$.65 per square foot for janitorial services. If the General Services Administration's estimate of the annual cost of these two expense items (\$1.80) is added to the negotiated effective rate of \$6.17 per square foot to place the two rates on a comparable basis, then it appears that the negotiated effective rate as adjusted of \$7.97 is about \$.03 less than the \$8.00 estimated fair annual rental rate a square foot.

Our review of information furnished by the lessor shows comparable rates in a signed agreement with another lessee for comparable space, and in tentative leases under negotiation with other prospective tenants.

We believe that the effective rental rate of \$6.175 a square foot negotiated by the Senate Sergeant at Arms is reasonable when compared with (1) the appraised fair annual rent established by the General Services Administration in January 1976, (2) the annual rental limitation in the Economy Act of 1932 (40 U.S.C. 278a), and (3) our understanding of what other tenants in the building will be paying. In addition, as recognized by the General Services Administration in its earlier calculations and as we recognize, the proximity of the North Capitol Plaza Building to existing Senate office buildings may well be of additional value to the Senate.

Other lease provision

In our oral comments to the Senate Sergeant at Arms in January 1976, we suggested certain revisions to the proposed lease terms then under consideration. The General Services Administration, in February 1976, also suggested a number of revisions. A common suggestion was that the Senate Sergeant at Arms should use the standard lease provisions that the General Services Administration use, modified to meet the Senate's needs, to insure that the Government's interests are protected by having all pertinent clauses included. On September 27, 1976, this suggestion was repeated.

On September 28, 1976, we were informed by the Office of the Sergeant at Arms that the owner will accept the standard lease provisions which are included in General Services Administration leases.

Option to purchase

As stated previously, the law specifies that the lease shall contain an option to purchase the property. The initial January 1976 proposed lease for the entire building did contain an option to purchase clause. A draft of the current proposed lease for 38,012 square feet also contained an option to purchase the entire building. By letter to the Office of the Sergeant at Arms dated September 24, 1976, the owners' leasing agent stated that the option clause was unacceptable. When the law was being considered in late 1975, it was contemplated that the Senate would lease the entire building.

In view of this and the fact that the Senate is now proposing to lease only 6.87 percent of the office space in the building, we think it would not be unreasonable for the owners to refuse to enter into such a lease if it contained an option to purchase clause.

Copies of this report are being sent to the Senate Committee on Appropriations and the Senate Committee on Rules and Administration.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

Enclosure

ENCLOSURE.

ENCLOSURE

ESTIMATED ANNUAL EXPENSE 1/
400 NORTH CAPITOL STREET
WASHINGTON, D.C.

	<u>Total</u>	<u>Square Foot</u>
<u>Fixed Expenses</u>		
Management	\$ 87,000	\$.0157
Real estate taxes	599,642	1.085
Insurance	63,760	0.115
Maintenance reserve	57,000	0.103
	<u>\$ 807,402</u>	<u>\$1.460</u>
<u>Operating Expenses</u>		
Cleaning	\$ 360,000	\$0.650
Electricity	635,390	1.150
Air conditioning/ heating	14,000	0.025
Water and sewer	11,000	0.020
Elevators	54,000	0.098
Repairs	27,500	0.050
Alterations and decoration	27,500	0.050
General building expenses	110,000	0.200
	<u>\$1,239,390</u>	<u>\$2.243</u>
Total	<u>\$2,046,792</u>	<u>\$3.70</u>

1/This estimate is for 552,513 square feet of office space.