



UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

Room 1992, Federal Building
Seattle, Washington 98174

BF 804
119786

May 6, 1982

Mr. Vito T. Chiechi
Regional Administrator
General Services Administration
Region X
Auburn, Washington



119786

Dear Mr. Chiechi:

Subject: Improvements Needed in Space Leasing
Program (GAO/PLRD-82-88)

As part of our review of GSA's siting of Federal agencies under Executive Order 12072, we evaluated the relocation of ACTION and the Forest Service in Seattle. The relocation was one of the major moves accomplished by region X during 1980. Region X Space Management Division officials advised us that their approach in this case was typical of the way they lease space.

We believe it was appropriate for GSA to attempt to obtain offers from other property owners and not attempt to automatically negotiate a new lease with the owners of the building where the the agencies were located. But, we believe that region X's handling of the relocation of ACTION and the Forest Service demonstrates a need for improvement in the region's space leasing program. Cost was given little consideration throughout the leasing process. Region X Space Management Division officials at supervisory and specialist levels

- developed an unnecessarily restrictive solicitation package,
- rejected the only initial offer received for questionable reasons,
- and
- gave preferential treatment to two higher cost locations in subsequent sole-source negotiations.

As a result, ACTION and the Forest Service were relocated to space costing about \$160,000 a year more than necessary. ACTION officials believe that their new space is more luxurious and costly than warranted for their mission and clientele. They also said that the increased space cost diverted funds that they would have spent on operating programs and thus the move impaired their ability to perform their mission.

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Region X Space Management Division Officials believe that their actions were proper and in accordance with GSA regulations. While their actions may have been permissible, we do not believe they were prudent. In order to avoid costly and unnecessary moves, we believe region X space management officials should develop more timely and flexible solicitation packages, more critically review determinations that offers are nonresponsive, and place greater emphasis on the relative cost of available alternatives in every stage of the leasing process.

BACKGROUND

Prior to this leasing action, ACTION and the Forest Service occupied nearly 29,000 square feet of leased space in the 1601 Second Avenue Building. Forest Service was the largest Federal tenant, occupying about 20,000 square feet. The building was constructed in 1912 and is located in the downtown portion of the central business area. The lease for the space expired on October 31, 1980. The building's agent made two attempts to secure a succeeding lease for this space, first in September 1979, and again when GSA solicited offers in April 1980. Both attempts were rejected by GSA.

The two agencies were moved to new locations about the end of December 1980. ACTION was moved to the 1111 Third Avenue Building, a new high rise office building. The Forest Service was moved to the Holyoke Building, a renovated building listed in the Federal Register as an historic property. Both replacement sites are in the downtown area.

SCOPE AND METHODOLOGY

Our review of this leasing action was part of our broader work on GSA's implementation of Executive Order 12072. Our initial inquiry revealed that the city's preference for Federal agencies to reuse older buildings had been ignored in relocating ACTION. We also found that ACTION had objected strongly to the move and that the relocation had resulted in substantially higher lease costs. Therefore, we examined this leasing action more closely to determine what factors led to the relocation, whether the space needs of the two agencies could have been satisfied more economically, and what controls region X uses to ensure that proper leasing decisions are made.

Our work included

- review of region X's lease files on the buildings involved,
- review of region X's agency correspondence files for ACTION and the Forest Service,

- review of region X's correspondence files for the city,
- inspection of the space occupied in the 1111 Third Avenue, Holyoke, and 1601 Second Avenue Buildings,
- discussions with region X, ACTION, and Forest Service officials,
- interviews with city officials including Seattle's mayor,
- discussions with representatives of the 1601 Second Avenue and 1111 Third Avenue Buildings, and
- review of region X leasing procedures and practices.

SUBSTANTIALLY INCREASED LEASE COSTS
RESULTED FROM THE RELOCATION

The lease cost of the two new locations for ACTION and the Forest Service is about \$160,000 a year more than the proposed cost of space in the former location, the 1601 Second Avenue Building. In addition, one-time relocation costs of about \$56,000 were incurred.

The solicitation for offers (SFO) issued April 25, 1980, called for 29,880 square feet of office space, plus or minus 3 percent, at one location. GSA received one offer--from the 1601 Second Avenue Building. After declaring the offer non-responsive, region X leased space noncompetitively in the 1111 Third Avenue Building and the Holyoke Building.

Region X acquired about 33,100 square feet in the two locations--slightly more than the maximum sought by the SFO. The extra space was used to satisfy an increased requirement for the Forest Service and a small requirement for another agency.

The leasing cost for ACTION and the Forest Service in the two new locations exceeded the amount proposed for the 1601 Second Avenue Building by about \$162,000, or 56 percent. The following table shows the unsuccessful proposal and the two negotiated lease terms.

Comparison of Leasing Costs (note a)
Proposed for the 1601 Second Avenue Building
and Negotiated for the
1111 Third Avenue and Holyoke Buildings

	<u>1601 Second Avenue for both agencies</u>	<u>1111 Third Avenue for ACTION</u>	<u>Holyoke for Forest Service</u>
Cost per square foot	\$ 9.72	\$ 17.17	\$ 13.63
Number of square feet	x <u>29,880</u>	x <u>8,285</u>	x <u>22,737</u>
Annual lease cost	b/ <u>\$290,412</u>	<u>\$142,253</u>	b/ <u>\$310,000</u>
Combined cost for ACTION and Forest Service	<u>.\$290,412</u>	<u>\$452,253</u>	

a/Not included are one-time relocation costs and credits for proposed modifications that are virtually offsetting.

b/Individual calculations do not compute due to rounding of the costs per square foot.

Region X space management officials knew from a previous attempt to lease space that the Holyoke Building cost could easily exceed the cost proposed for the 1601 Second Avenue Building. The officials should have also been aware that space in new buildings like the 1111 Third Avenue Building was in high demand and expensive. However, we found no evidence that the space management officials evaluated the cost implications of their decision to reject the 1601 Second Avenue Building offer and negotiate on a sole-source basis for space in the two replacement locations.

RESTRICTIVE SOLICITATION
PACKAGE LIMITED COMPETITION

GSA's region X developed an unnecessarily restrictive solicitation package to meet the continuing space needs of ACTION and the Forest Service. This competitive solicitation package failed entirely when the contracting officer declared the proposal for a succeeding lease at 1601 Second Avenue to be nonresponsive to the solicitation (see page 7 for a further discussion of this determination). The contracting officer, the acquisitions branch chief, and the director of space management decided that it would not be practical to readvertise the requirements and seek competitive offers.

Instead, they decided to negotiate sole source for space in the 1111 Third Avenue and Holyoke Buildings.

• The market for office space in Seattle was tight and expensive

GSA sought replacement space for ACTION and the Forest Service during a period when available space in Seattle's central business district was scarce and costly. Newly constructed buildings were being filled almost as fast as they were completed. As could be expected, rental rates were rising rapidly. Region X officials were well aware of the tight market.

Finding large blocks of vacant space at reasonable prices in tight markets like downtown Seattle should be expected to be difficult. This increases the need for flexibility, ingenuity, and thoroughness in leasing actions. GSA regions are given considerable authority and flexibility to find and lease space that is economical to the Government.

Insufficient time was allowed to obtain space

Delay in initiating lease action ultimately limited the options available to satisfy the continuing space requirements of ACTION and the Forest Service. Region X officials initially indicated that the requirements would be advertised in early 1980 with lease award anticipated sometime around March 1980. However, the requirements were not advertised until March 20, 1980. Region X officials could not recall the reason(s) for this delay but acknowledged that it affected their decisions later in the leasing process.

Although only two potential lessors responded to the advertisement, region X officials decided to proceed with the leasing action as initially planned. On April 25, 1980, an SFO was sent to the two potential lessors. The SFO required offers to be received by GSA by May 9, 1980, only 14 days from the date issued. The contracting officer said that he imposed this short response deadline partly because he recognized the need to expedite the lease action. Only one offer, a proposal for a succeeding lease in the 1601 Second Avenue Building, was received. The proposal was prefaced

"This is to acknowledge receipt of your `Solicitation for Offers` dated April 25, 1980 for Solicitation No. 10PRA-80-07. This Solicitation did not reach our office until the 28th of April, and due to its complexity, we are not able to fully comply with all the requirements therein contained. If we had been given more time, our proposal would be more responsive."

This leasing effort failed when the contracting officer determined that the offer was nonresponsive to the solicitation.

On June 2, 1980, with 5 months remaining to lease expiration, region X officials decided to separate the two agencies and negotiate sole source for space in the Holyoke and 1111 Third Avenue Buildings. Neither of these two buildings had sufficient space available to meet the total requirements of both agencies.

Although region X officials acknowledged that additional offers could have been obtained by expanding the area of solicitation and readvertising, they decided that sole-source leasing was necessary to satisfy the requirements in a timely manner, even the smaller ACTION requirement. Ultimately the need to satisfy the requirements in a timely manner was also used to justify exceeding the fair annual rent for the space leased in the Holyoke Building. Even with this action, the two agencies were not able to move prior to lease expiration and a 2-month lease extension had to be arranged in the 1601 Second Avenue Building.

Colocation was the
only option solicited

Even though available space was scarce, region X advertisements and the SFO indicated that their space requirements had to be met in a single location. This colocation requirement precluded offers for space in buildings which could meet one agency's space needs but not both agencies' requirements. For example, neither of the two buildings in which space was finally obtained through noncompetitive, sole source negotiations could satisfy the combined space needs originally solicited.

To promote economy and efficiency, GSA, as a general policy, seeks to consolidate office space into the smallest practicable number of buildings. However, GSA's leasing handbook recognizes the need to be flexible in soliciting offers for leased space. This flexibility according to the handbook is needed " * * * to meet varying lease requirements and to promote maximum possible competition in the space market." The handbook also requires the realty specialist to assure that the leasing package is

" * * * commercially feasible, i.e., the package must request space that is available from the private sector at a reasonable price. Further, the package must not restrict competition unreasonably."

We believe region X should have considered the alternative of splitting the two agencies' space requirements much earlier. Region X separated the space requirements of ACTION and the Forest Service after declaring the one offer received nonresponsive. At that time, region X space management officials decided that, with

so little time left before the lease expired, the only way to satisfy the space needs was through noncompetitive sole-source negotiations.

The SFO could have included an option of meeting the combined or separate space needs of ACTION and the Forest Service. Region X officials knew that the two agencies had no operational need to be colocated and that large blocks of available space were scarce.

Space was solicited only in the core of the central business area

Region X limited the area of solicitation to a downtown portion of the central business area recommended by the Forest Service. This core area is generally comprised of the most costly retail and office space in the city. The area was acceptable to ACTION since it included the 1601 Second Avenue Building where ACTION wished to remain. But ACTION did not express a need to limit solicitation to the core area.

We do not believe that region X had to limit its search for space to the immediate area requested by tenant agencies. Tenant agencies are required to cooperate with GSA and to economize in their requirements for space (41 C. F. R. 101-18.103). GSA's lease acquisition handbook calls for the Assignment and Utilization Branch of the Space Management Division to provide the acquisition branch with a "suggested" delineated area. The acquisition branch is then required to assemble a commercially feasible solicitation package.

When justifying sole source negotiation (after the initial solicitation failed) region X leasing officials acknowledged that additional offers could possibly have been obtained by expanding the area of solicitation but, in their opinion, occupancy may have been delayed.

QUESTIONABLE REJECTION OF THE ONLY OFFER RECEIVED

We believe that region X officials used poor judgment in rejecting the proposal for a succeeding lease in the 1601 Second Avenue Building. Available documentation indicates that the offer was rejected because the building's agent refused to meet GSA's restroom accessibility standards for the handicapped while still maintaining the minimum number of toilet facilities required per floor. The determination was made by the contracting officer and accepted by his supervisor and the director of space management without considering acceptable options available for meeting restroom accessibility standards, changing standards for the number of toilet facilities required per floor, or cost. Region X's handicap coordinator, an architect in design and construction, were not consulted in making this determination.

In a letter dated May 20, 1980, region X notified the agent for the 1601 Second Avenue Building that his proposal for a succeeding lease was nonresponsive to the solicitation. No reasons for this determination were cited in the letter but the letter noted that " * * * the prelude to any negotiations on rent will have to be for you to make your offer fully responsive." In a telephone contact record dated May 26, 1980, the contracting officer states that he called the building's agent " * * * to ask him if he intended to change his offer * * *" to make it responsive. The record claims that the agent refused to change the offer submitted. One week later, on June 2, 1980, the contracting officer informed the agent by telephone that region X would negotiate the space elsewhere. (Region X Space Management officials had decided to negotiate for space in the Holyoke and 1111 Third Avenue Buildings.)

In a meeting with us in November 1981 the contracting officer explained his decision to reject the 1601 Second Avenue Building offer. He had concluded, based on his knowledge of handicap access requirements, that the restrooms were too small to provide access to the toilet stalls. That was the only handicap access fault he found. In his opinion, access to toilet stalls had to be provided through the normal end of the stalls; access through the side wall was not acceptable. Since there was insufficient maneuvering area at the end of the stalls, he concluded that adequate access could not be provided in the existing restrooms without reducing the number of stalls. He preferred that separate toilet rooms be added for handicapped persons. The contracting officer was aware of the side-door access that had been provided on the floor that the Forest Service shared with a Washington State agency, but believed that side-access was not acceptable to GSA or the Federal Architectural and Transportation Barriers Compliance Board. He could not recall seeing any provisions for side access in GSA instructions. The contracting officer's supervisor and the director of the Space Management Division concurred with his explanation.

Side door access to toilet stalls was and is an acceptable approach for handicapped persons. In May 1977 GSA's Public Building Service released guidelines titled "Design Criteria New Public Building Accessibility." Drawings in the guidelines showed side-access as an acceptable approach. On February 6, 1980, GSA proposed new rules for minimum Federal accessibility standards (F.R. 8028). The proposed standards included drawings showing side-access as an acceptable design. The new accessibility standards, effective October 14, 1980, also included drawings showing side access to toilet stalls.

The contracting officer said that if the restrooms had been modified to provide toilet stalls accessible to the handicapped, the number of

fixtures would have been reduced to below the minimum required by the SFO. ^{1/}
 The following table shows that the proposed arrangement would have provided
 one less water closet in each women's restroom than required by the SFO.
 All other SFO fixture requirements would have been met.

Comparison of Restroom Fixtures
 Required by the SFO and Proposed
 by the Offerer for Each Floor of
 the 1601 Second Avenue Building to
 be Occupied by Federal Agencies

<u>Fixture</u>	<u>Required</u>	<u>Proposed</u>	<u>Over (Under)</u>
Men`s:			
Water closets	2	2	-
Urinals	1	2	1
Lavatories	2	2	-
Women`s:			
Water closets	3	2	(1)
Lavatories	2	2	-

On May 22, 1980, GSA instructed GSA regional administrators to use a new set of SFO standards. Included in the new standards were decreased requirements for restroom fixtures. The 1601 Second Avenue Building proposal met or exceeded the number of fixtures required by the new SFO standards. We found no indication that region X space management officials reassessed the 1601 Second Avenue Building in light of the revised SFO standards. As mentioned on page 11, the contracting officer informed the agent for the 1601 Second Avenue Building on June 2, 1980, that GSA was going to lease space elsewhere.

In explaining his decision to us, the contracting officer also said that, although not documented, he believed that the offer was not adequate for other reasons as well. The most significant of these, according to the contracting officer, was the offer's failure to include a complete upgrade of the building's heating, ventilation, and air-conditioning system. The

^{1/}The number of required fixtures varies based on the square footage of space on each floor.

offer had included " * * * modifications to the existing air-conditioning system to meet GSA specifications as the space is currently subdivided." The contracting officer said he was concerned that, if GSA later moved partitions in the space, the air-conditioning system might not perform adequately throughout each floor. If that happened, GSA could incur the additional expense of modifying the system.

PREFERENTIAL TREATMENT GIVEN
TO THE EVENTUAL LESSORS

Region X space management officials were more lenient toward the successful lessors than they were to the 1601 Second Avenue Building. Upon deciding that the offer received for space in the 1601 Second Avenue Building was nonresponsive, the officials negotiated on a sole-source basis for space in two other buildings. In one case, the 1111 Third Avenue Building, fewer restroom fixtures were provided than called for by the SFO (one of the reasons given for rejecting a succeeding lease in the 1601 Second Avenue Building). For the second building, the Holyoke, GSA agreed to pay more than the fair annual rent and allowed a shorter lease period than was stated in the SFO.

Region X leased 10,335 square feet in the 1111 Third Avenue Building for ACTION and another unspecified agency. We found that the 1111 Third Avenue Building was less responsive than the 1601 Second Avenue Building in meeting the minimum number of restroom fixtures required per floor by the SFO. As shown on page 13, the 1601 Second Avenue Building was short one water closet for women. The 1111 Third Avenue Building was short one each of a women's water closet and lavatory and a man's water closet. While the 1601 Second Avenue Building proposal would have satisfied the revised GSA standards of May 22, 1980, the 1111 Third Avenue Building was still short one lavatory in each restroom. Region X space management division officials offered no explanation or comment on this discrepancy when we discussed it with them in November 1981.

Region X leased 22,737 square feet in the Holyoke Building to satisfy the Forest Service space requirement. The Holyoke qualified as an historical building. GSA's leasing handbook permits noncompetitive leasing of space in historical buildings when it is feasible and prudent to do so. But, the handbook explains that this approach is imprudent and/or infeasible when the rental exceeds the appraised fair annual rental value or the term of the lease is not consistent with Government requirements. Region X leased the Holyoke Building at a cost of \$23,000 above the appraised fair annual rental value. In addition, region X agreed to a 3-year term with no renewal option as compared to the SFO requirement for a 5-year term and a desired renewal option for two additional 5-year periods.

OPPORTUNITY FOR CONSULTATION
WITH LOCAL OFFICIALS MISSED

Federal Property Management Regulations (41 C.F.R. 101-17) require GSA to consult with local officials and consider their recommendations regarding Federal use of space in the community. The purposes of this consultation are to help conserve existing urban resources and encourage the development and redevelopment of cities. This requirement was incorporated in the regulation in response to Executive Order 12072, dated August 16, 1978. The executive order, in part, directed GSA to "Consult with * * * local government officials and consider their recommendations for and objections to a proposed selection site or space acquisition."

In May 1979, region X asked Seattle to designate a "central business area" which region X would focus on when locating Federal agencies. Seattle's Mayor, responding in a letter of June 1, 1979, particularly encouraged region X to reuse older buildings whenever possible. The director of Seattle's Office of Economic Development repeated this request in a letter to region X in May 1980. No arrangement was made between region X and Seattle for consultation about specific GSA space acquisitions.

Region X's move of the Forest Service to the historical Holyoke Building satisfied the city's preference of reusing older buildings, but the move of ACTION from the older 1601 Second Avenue Building to the 1111 Third Avenue Building (a new high rise building) did not. City officials, including the mayor, said that region X did not consult with them on the relocations. The city did receive copies of region X's flyers advertising the combined space requirements, but the city was not consulted when region X decided that the only way of satisfying the requirements was to negotiate on a sole-source basis for space in the two replacement locations. Seattle officials expressed dissatisfaction with region X's general lack of cooperation and consultation in the placement of Federal activities. 1/

Region X space management officials told us that they do not believe it is necessary to consult with city officials about individual cases. They believe it is sufficient to obtain the city's general geographic preferences such as they did by asking cities to define their "central business areas." We believe that when faced with little space available for leasing, such as in Seattle, region X should take advantage of whatever help is available for locating economical space for Federal activities. In so doing region X may also find ways of supporting local government preservation and development efforts.

1/Officials of two other large cities served by region X whom we contacted in our review expressed similar dissatisfaction.

CONCLUSIONS AND RECOMMENDATIONS

We believe GSA's region X incurred unnecessary costs by moving ACTION and the Forest Service from the 1601 Second Avenue Building to the 1111 Third Avenue and Holyoke Buildings. Region X officials allowed insufficient time to handle a major move in a tight rental market, failed to prepare a versatile leasing package that would encourage competition for one or both of the space requirements, and rejected the only competitive offer received because of what appears to be their inadequate familiarity with GSA restroom standards. The space management officials also did not seek assistance of city officials concerning possible locations for ACTION or the Forest Service. After rejecting the 1601 Second Avenue Building offer, the officials showed more leniency in their sole-source negotiations for more expensive space in the 1111 Third Avenue and Holyoke Buildings.

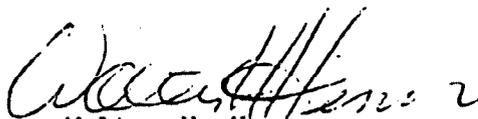
We believe region X should place greater emphasis on cost, timeliness, and marketability in its space leasing program. A more flexible and businesslike approach to leasing, with careful review of key decisions throughout the leasing process, should result in better decisions and more economical leases. Specifically, we recommend that the Administrator, GSA Region X:

- Encourage competition by increasing the versatility incorporated in solicitations. For example, when faced with a known tight rental market, individual segments of the total requirement could be separated, and the solicitation could include the option of competing for all or part of the total requirement. GSA could select the most advantageous combination of offers received to satisfy the total requirement;
- Promote competition in the leasing program by expanding the areas of solicitation used in individual leasing actions. The areas used must be reasonable but still must ensure adequate competition. Preference may be given to the areas recommended by the tenant agencies involved but the amount of preference should be determined in light of established cost difference between alternative locations;
- Require consultation with knowledgeable professionals before rejecting offers for reasons beyond the expertise of the contracting officer, e.g., architectural design for handicap accessibility or fire safety. Professional review should include a determination of the feasibility of correcting identified deficiencies and, if feasible, the approximate cost; and

—Establish a working relationship to include local officials in the planning phase of major lease actions. The responsible city development office could be provided with periodic forecasts of anticipated lease actions including the agencies involved, the space required per agency, lease expiration dates, current locations and any known special requirements.

We would appreciate receiving your comments on corrective action you intend to take.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Walter H. Henson".

Walter H. Henson
Regional Manager