

Public Private Development Project Analysis

Federal Agency Headquarters Consolidation Case Study: Federal Bureau of Investigation Headquarters

An analysis by members of the Public Development and
Infrastructure Council

June 2011





Urban Land
Institute

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Public/Private Case Study
Federal Bureau of Investigation Headquarters Consolidation

Synopsis

The Public Development and Infrastructure Council considered the challenge of public/private development projects for major government headquarters facilities in an economic environment that doesn't support traditional public funding strategies. The case study was for the Federal Bureau of Investigation, which is a Federal Agency involved with national security and law enforcement missions whose Headquarters is currently housed in 20 separate locations. The current facility dispersion poses mission, cost, and security challenges. The Bureau is considering a consolidation into a single 2.2 Million square foot headquarters facility, a 900,000 square foot reduction in occupied space. The facility would be built on a secure semi-urban site near major highway interchanges and public transportation systems, consistent with smart growth initiatives.

Two alternatives were presented for consideration: 1) developer owned land and facility (traditional leasing), or 2) a building built by a developer on land owned or acquired by the government (leased facility on ground lease). Many aspects of the case study were considered including planning, zoning, security, development, cost, financing, and procurement process issues.

The consensus of the panel was that the development parameters being considered by the Federal Agency were reasonable, and that the best overall structure for the government would be a building constructed by the private sector on Federal land.

The panel recommended that the Government identify the minimum possible acreage and create a secure "hardened" facility that would be designed for maximum flexibility for future re-use. The concepts discussed are applicable for a number of Federal, state, and local projects facing similar challenging in balancing public mission requirements and fiscal constraints.

The Assignment

The Public Development and Infrastructure Council (PDIC) of the Urban Land Institute (ULI) focuses on development projects and challenges specific to public sector entities. The issues considered by the PDIC require study from multiple perspectives, so the PDIC includes members from many disciplines: private development, finance, traffic engineering, design, construction and the public sector.

In an effort to assist both public and private sector interests in improving public/private development projects (P3), PDIC agreed to hold a forum delving into the potential savings, in time and money, of P3 developments that can help solve critical public facility requirements in an economic environment that doesn't support direct public funding of these facilities. While a metropolitan Washington, DC federal facility requirement was used as a case study, the discussions and principles discussed in the forum are applicable to many public projects across the nation and at federal, state and local levels.

The current fiscally constrained environment at all levels of government gave special relevance to the topic. Many public entities must provide space for their own operations. Often the opportunity to consolidate offices, create energy savings and combine operations would be considered normal business activities. Today, these projects are not the highest priority for spending when government budgets are tight. P3 practices, widely used internationally, may merit serious consideration for increased use in the United States. It is predicted that the increasing trend of fiscally constrained budgets may create an even greater need for P3 projects to help public entities save money and encourage improved organizational effectiveness that comes with collocation. It is also envisioned that P3 projects can help bring jobs to the private sector to encourage positive economic momentum.

Traditionally, government facilities are directly owned (either built or purchased) or leased. Direct ownership is expensive and requires up-front funding. Leasing does not require substantial up-front funding but results in ongoing rent payments and generally provides no guaranteed eventual ownership ("residual value") to the government after the lease expiration. Ownership scenarios are generally preferred for requirements that are long term, while leasing scenarios are generally preferred for shorter-term or variable requirements. Since direct ownership through public funding does not require extensive private sector involvement, the PDIC was asked to consider the benefits two generic P3 methods to provide leased facilities:

- Traditional leasing with no guaranteed government ownership, and
- Traditional leasing on a ground lease which would result in eventual government ownership of the facilities.

The traditional leasing methods are frequently utilized by public sector entities, so much of the focus of the PDIC panel is on discussing traditional leasing on a ground lease.

Case Study Example

An example case study was selected based on the actual conditions and current situation of one federal agency headquarters, the Federal Bureau of Investigation. Several other case study examples were also considered during the discussion. The case study situation is described below:

The Federal Bureau of Investigation (FBI) is a Federal Agency which experienced significant mission changes following the terrorist attacks of 9-11. The Agency's headquarters staffing increased steadily as a result and its primary headquarters facility reached capacity less than two years later. Thereafter, further growth was housed in leased spaces. The multiple new requirements and the urgency of each successive expansion required the Agency to acquire a series of new leases over eight years, rather than being able to house all requirements in a single large leased or Federally-owned building.

As a result of the mission changes and fast-paced growth, the FBI headquarters is currently dispersed in more than 20 separate locations, totaling about 3.1 Million square feet in the metropolitan Washington, DC area. Each of these multiple locations effectively must stand alone, requiring its own access control, visitors screening, server rooms, security, etc.

The FBI's headquarters also requires a high level of physical security, given its sensitive missions and the size of the headquarters work force. The headquarters will be an Interagency Security Committee (ISC) Level V Facility, which is the US Government's highest physical security category. Missions of Level V facilities are considered as "critical to national security". The Central Intelligence Agency headquarters and the Pentagon, for example, are both classified as Level V for security purposes. Given that almost all of the mission changes and headquarters growth discussed above relate to national security, combined with the size of the headquarters work force, the Level V physical security is clearly warranted. Preliminary programming accomplished by the Agency demonstrates through consolidation, significant efficiency would be achieved and redundancies eliminated, reducing the space required by over 900,000 rentable square feet. Nominally, a site of over 50 acres is required for this consolidation given desired government security set-backs. Ideally the site would be located near a Metro station and have major highway access.

Below is a broad summary of the Program Requirements:

The conceptual building program is shown in the table below:

Building	Gross SF	Rentable SF	Usable SF
Main Office Complex	2,310,000		
Conference Center	29,000		
Visitor Building	9,000		
Truck Screening	5,000		
Mail Delivery Facility	38,000		
Total Occupied Space	2,391,000	2,214,741	1,925,844
Parking Structure	1,285,000		
Total Built Space	3,676,000		

For a more complete description of the FBI case study and the briefing materials contemplated by the PDIC panel, see Exhibit A.

Proposed Agency Headquarters Consolidation Strategy:

The proposed strategy to achieve a consolidated Headquarters facility is a P3 strategy wherein the appropriate Federal Agency would enter into an operating lease (“Facility Lease”) for the use and occupancy of a facility which is privately financed, constructed, and owned on Federally-owned land. There is no option by the Federal Agency to renew the Facility Lease or purchase the facility. The private facility would be constructed on parcel which is leased on a long term basis from the Federal Government. The ground lease and the Facility Lease are two separate, independent, arms-length, fair market value based, transactions. Upon conclusion of the ground lease, the facility would come into Federal ownership by operation of common law. Key features of this strategy include:

- Utilizing existing Federally-owned land, or achieving Federal land ownership through purchase, donation or land exchange.
- Establishing a 30-year ground lease with a private entity.
- Having the private entity secure the financing and develop the site as a secure office complex using private capital.
- The Federal Agency would enter in an operating lease with the private entity to house the consolidated Federal Agency headquarters.
- Achieving ownership of the headquarters facility, at the conclusion of the ground lease period, through the Federal government’s reversionary interests.

ULI / PDIC Panel Review:

The ULI/PDIC panel discussion energetically debated the assumptions in the case study and the potential challenges and resolution to issues which might arise when implementing the project through a P3 structure. Additionally the panel discussed

examples where similar issues were faced and how those example projects resolved the challenges. Finally, the panel discussed potential broader application of the P3 concepts being discussed to ensure that the solutions were not specific to the case study. As a tangible outcome of the discussions, the forum members evaluated the proposed case study project's feasibility. The results of the discussion are summarized below and described in more detail in Exhibit B:

1. Planning and Design Considerations

Consideration should be given to flexible building design concepts which can accommodate changes to the entities mission or technology capabilities. Additionally the building/campus design should carefully consider potential reusability of the facilities by the private sector if the facilities are no longer required by the public sector entity. This approach has dual benefits of ensuring long term value and appropriate value-engineering decision-making in the planning stages of the project and can result in highly cost effective buildings which can easily be converted to private sector use.

A project of this magnitude will require extensive utilities infrastructure, especially for the portion of the buildings requiring back-up power. All available utilities providers should be analyzed, and if a cogeneration plant is required, third party private sector participation is encouraged to reduce the up-front costs and encourage P3 activities and entrepreneurship.

2. Zoning and Entitlement

The impact of such a large project on the local communities and potential required off-site improvements should be mitigated through carefully selecting a site that would minimize these deleterious impacts coupled with extensive coordination with leadership of the local government and appropriate stakeholders.

3. Security

The land size poses some unique challenges to entities that require high security buildings. The cost, size and entitlement challenges associated with a large piece of land in a dense metropolitan area should be mitigated through a site-by-site balance of reducing security set-backs requirements wherever possible at the risk of increased costs building superstructure costs. Specifically, the high cost of land in the Washington, DC area results in project costs which are higher than expected, and therefore it may be more cost effective to reduce the land size but increase the building

4. Development Cost and Financing Considerations

The proposed costs included in the case study briefing were modified slightly to reflect recent panel members' experiences, as shown in the following table.

Financing would be available for project of this size and scope, and the rent could be determined by a lease constant of approximately 8%, reflecting a 15 year lease term, as long as the building were designed to be reusable for alternative uses such as private sector office buildings. The developer's profitability would be achieved through creating a project whose value after construction is greater than the development cost.

5. Expediting the process and schedule

The ULI / PIDC recommended a two step process where the land parcel was analyzed and selected to ensure that the parcel would meet the government's needs, followed by a development team (developer, architect, contractor, etc) solicitation.

Conclusions:

The Urban Land Institute's Public Development and Infrastructure Council reached the following consensus regarding the case study project's feasibility:

- Overall Feasibility - the ULI/PDIC concluded that a P3 strategy for the FBI Headquarters project is feasible. Specifically, this strategy provides for the private sector to finance and construct a private office building that would meet the requirements of a consolidated FBI headquarters on land that is ground leased from the Federal Government on a fair market, arms-length basis. The term of the ground lease could be ranging from 30 to 50 years. Thereafter, the appropriate Federal Agency could enter into an operating lease for office space in such facility. Assuming a range of between \$8-15 / SF for operating expenses, the total estimated full service rates in 2011 dollars could be \$49 to \$54, as shown below:

\$ 42 NNN Rent / RSF at 8% Lease Constant:

\$ 54 Estimated Full Service Rent (with \$12 / SF Op Ex, Taxes and Insurance)

\$ 37 NNN Rent / RSF at 7% Lease Constant:

\$ 49 Estimated Full Service Rent (with \$12 / SF Op Ex, Taxes and Insurance)

- Development - The project should be designed to allow for maximum flexibility to accommodate changes in federal needs, technology, and potentially private sector re-use. The ULI/PDIC concluded that the development costs proposed are in line with private sector expectations, as follows:

Real Property Building Costs	\$165/GSF with 22% soft costs
Tenant Improvements	\$48/RSF with 22% soft costs (plus \$9 / RSF for tenant-specific costs)
Employee Parking Structure	\$17,500/space with 18% soft costs
On-site Site Work	\$35/ground SF with 18% soft costs
Land Costs	\$131/FAR with 12% soft costs, with the land costs reflecting the high end of expected costs.

The project cost summary is shown below:

2011 Initial Cost / Project Assumptions	Building Cost / Unit	Soft Costs	Developer Cost / RSF	Tenant Cost / RSF	Total Cost / RSF
Real Property Building Costs	\$ 165 / GSF	22%	\$ 224		\$ 224
Tenant Improvements	\$ 48 / RSF	22%	\$ 58	\$ 9	\$ 68
Subtotal - Occupied Space			\$ 282	\$ 9	\$ 291
Employee Parking Structure	\$17,500 / Space	18%	\$ 41	\$ 0	\$ 41
Subtotal - Built space			\$ 323	\$ 9	\$ 332
On-Site Site Work	\$ 35 / Ground SF	18%	\$ 45		\$ 45
Subtotal - Site and Utilities Costs					\$ 45
Land Costs	\$ 131 / FAR	12%	\$ 163	\$ -	\$ 163
Subtotal - Site and Land Costs					\$ 208
TOTAL			\$ 530	\$ 9	\$ 540

- Total Project Cost – the ULI/PDIC concluded that a total project cost of \$540/RSF was realistic and reasonable.
- Risk - It is reasonable and feasible for all development, financing, and construction risks that are traditionally borne by the private sector in P3 developments can be borne by the private sector in this project.
- Timing - the ULI/PDIC concluded that the project could be implemented within a six (6) to eight (8) year timeframe.

- Private development on land that is ground leased from the Federal Government – A P3 structure wherein the private development is constructed on a ground leased parcel and thereafter leased to a Federal Agency is feasible and financeable. This strategy would ensure eventual federal ownership of the private facility by operation of law upon conclusion of the ground lease. Eventual ownership of the facility upon conclusion of the ground lease has the effect of lowering the overall net present value normally associated with Lease Construction (facilities leased by federal agencies which are located on privately owned land).
- Utilities – for projects of the size and scope as proposed for the Headquarters facility, the generation and provision of energy is commonly provided by a third party provider. The capital required for constructing the energy plant is to be provided either by the local utility provider or by a private entity which then pays for the construction of the energy plant and charges a market rate to cover the operation of the energy plant and repayment of its development (including its financing) costs. As such, the development cost of the energy plant is not included in either the development cost of the Headquarters facility or in the rent of the facility. Utilities from such energy plants are provided at market rates to the headquarters facility among other public users.
- Cost savings - Based on the reported current costs of administering the Agency's existing 3.1 Million square foot Headquarters real estate portfolio, the ULI/PDIC concluded that the consolidation would achieve a savings of between \$42 and 60 Million annually.

Observations

ULI/PDIC observations on possible Agency procurement methods for a P3 project of the proposed size and scope are included in Exhibit C. The observations therein reflect opinions and experiences of the panel as to a cost effective process for project implementation.

Project Examples

ULI/PDIC identified several additional project examples are included in Exhibit D.

EXHIBIT A – CASE STUDY EXAMPLE BRIEFING MATERIALS



PDIC ILLUSTRATIVE CASE STUDY

Wednesday, March 2, 2011

- 8:30-9:00 Introductions and Briefing
- Goals of project exercise
 - Ground rules
 - Review today's agenda
- 9:00-10:00 Project Description and Zoning/Entitlements
- Description (size, requirements, site, special needs/security, parking)
 - Zoning issues
 - Entitlements
 - Footprint, floor plate size
 - Design, height assumptions
 - Parking/transportation
 - What will it take to move project forward expeditiously?
- 10:00-11:30 Financial Assumptions
- The goal is to systematically discuss the financial assumptions and identify the **reasonableness** of the assumptions and any potential improvements or gaps at this stage.
- Land assembly and ownership
 - Hard construction cost assumptions. Any comps nationally or within the DC metro that are good proxies?
 - Soft costs. Design, engineering, financing etc.
 - Lease assumptions. Currently assuming a 15 year lease term with renewal option for 15 years. Considerations around the lease assumption:
 - Term of lease
 - Financial assumptions
 - NNN assumptions
 - Implications for developer
 - Reuse considerations
 - Other financial assumptions
 - Utility distribution
 - Site preparation costs
 - Energy assumptions/co-generation possibilities

- Operating costs
 - Income assumptions for developer
 - Rent payments
 - Parking revenues
 - Other sources of income such as cafeteria rental, conference center operations, retail/credit union lease facilities
- 11:30-12:00 What would it take to achieve the best reasonable cost savings and efficient delivery of the project?
- 12-12:30 Lunch break
- 12:30-1:30 Deal structure
 Discuss alternative potential public/private partnership models:
- Land lease
 - Land and building ownership structures
 - Any need/desire to separate ownership of buildings if more than one structure developed
 - Needs of the developer
- 1:30-2:00 Additional considerations/externalities
- Neighborhood and community engagement process
 - Transportation, parking and traffic calming concerns
 - Housing needs
- 2:00 Wrap Up

This case study and the related materials are for the exclusive use of the PDIC members in the discussion on Wednesday, March 1. These materials are not to be distributed beyond the engaged PDIC members. PDIC members are interested in offering a potential service to local and non-local officials and this first test example will be evaluated for helpfulness upon completion.

Assignment Questions to be addressed:

1. Project Description (size, requirements, parking, site)
 - a. ***What development challenges might the developer face in obtaining a site and zoning for this magnitude of development?***
2. Project Cost Estimates, Financial Assumptions, and Cash Flow
 - a. ***Are the proposed building construction costs reasonable and comparable to other public private development projects? How do they compare to completely private sector projects?***
 - b. ***Are the estimated soft costs a reasonable estimate of a developer's soft costs?***
 - c. ***Are the lease constant component assumptions reasonable?***

- d. ***Are there any other cost of financial components that appear unreasonable (including site/utility distribution, land cost, operating expenses)?***
 - e. ***Is it expected that a project of this magnitude would require a cogeneration plant?***
 - f. ***What rent range estimate would be expected for a project such as this, and are the calculated rents (as shown in the cash flow) reasonable?***
3. Additional Observations
- a. ***Given the early stages of this project study, are there any elements of this analysis which appear to be unreasonable?***
 - b. ***Are there any alternative methodologies for structuring a public private development that would be beneficial to consider?***
 - c. ***If ULI Council members have experience in similar projects, from the public or private sides, what recommendations or lessons learned would be useful for the study team to know?***

CONCEPTUAL PUBLIC-PRIVATE DEVELOPMENT

BRIEFING DOCUMENT FOR URBAN LAND INSTITUTE

EXECUTIVE SUMMARY AND PROJECT JUSTIFICATION

The contemplated project is a public-private development for the construction and lease back of a consolidated headquarters for a public sector entity (the Federal Bureau of Investigation Headquarters) in a building which is similar in quality and construction to a major corporate headquarters facility that has a requirement for security such as a large defense contractor.

This entity is currently dispersed in over 20 separate locations in the Washington, DC metropolitan area, occupying 3.1 Million square feet of space, The entity believes that the Headquarters housing is inefficient and extremely costly. Additionally, information sharing and essential collaboration are negatively impacted and physical security is exceptionally poor.

Based on information shown below, it is estimated that the entity will achieve a reduced occupancy of nearly 900,000 square feet in a single consolidated facility. The proposed facility would provide significant improvements in energy efficiency and environmental sustainability, achieve an appropriate level of physical security, maximize information sharing and collaboration between staff. The strategies outlined in this briefing document utilize existing legal authorities, and as a public private development the proposed strategies require minimal public funding.

PROJECT DESCRIPTION

The project is still in formative stages, and therefore the study team has made several high level assumptions about the size, program requirements, location, and the schedule. Below is a broad summary of the assumptions:

Notional Size and Program Requirements:

The conceptual building program is shown in the table below:

Building	GSF	RSF	USF
Main Office Complex	2,310,000		
Conference Center	29,000		
Visitor Building	9,000		
Truck Screening	5,000		
Mail Delivery Facility	38,000		
Total Occupied Space	2,391,000	2,214,741	1,925,844
Parking Structure	1,285,000		
Total Built Space	3,676,000		

The complex would include a large main office complex in a single facility. The facility would be approximately 14 stories tall, with average floor plates of 160,000 GSF. Because of the size, there would be an open-air courtyard in the middle of the facility.

The facility infrastructure and systems would be consistent with a typical private sector class A/ A- office facility. The exterior and interior construction would be cost-effective utilizing materials that will be durable and pleasing but not opulent.

The main office complex is the largest portion of the program, with approximately 2.31 million gross square feet (GSF) to accommodate 11,000 employees. There are typical corporate Headquarters specialty spaces, including a conference center (30,000 GSF), a cafeteria (66,450 usf), a Fitness Center (21,000 usf), a Credit Union (3,000 usf), and a Mail Processing area (5,900 usf).

The technology requirements are also typical of a corporate headquarters, with the exception of the data and telephone requirements. Average number of enclaves per desk will be three. Telephones will be one per desk, with management level personnel having both an unsecure phone and a secure phone.

Approximately 50% of the office building will be SCIFed.

Approximately 25% of the complex will be on redundant power using backup emergency generators.

The facility will meet Level V Interagency Security Criteria, will have a 300 foot setback; it is to be assumed that the site will be entirely fenced and secure. The LEED Gold standard is the goal for energy efficiency.

Parking is divided between a parking structure and surface parking, as shown in the table below:

Parking type	Stories	Spaces
Surface	NA	150
Below Grade Structured	1	50
Above Grade Structured	5	4,300
Total Parking	NA	4,500

The facility would be constructed so that at the end of the term that facility could be converted to an alternative use as single or multi-tenanted office facility.

Site and Location:

The site is estimated to be approximately 55 acres of land, due to the need for security set-back. The site would be somewhere in the Washington DC metro area, near the Beltway, and in proximity to a metro location.

Schedule:

It is estimated that construction could start in 2015 for occupancy in 2018.

PROJECT PLANNING ESTIMATES

Note: The cost information provided herein is of a conceptual nature, primarily based on similar private sector projects and was prepared for the purpose of a preliminary evaluation of project feasibility.

The study team reviewed several similar projects to try to estimate the private sector costs of constructing the facility. Below is a summary of the projected costs in 2011 dollars per rentable square foot (RSF). The "AVERAGE" cost shown in the table below is the one which is currently being used in the economic models. The estimated soft costs are 22.1% of the building construction, sitework, and parking garage costs.

	AVERAGE	Minimum	Maximum
Building Construction Cost	\$ 187	\$ 151	\$ 218
Sitework Costs	\$ 34	\$ 16	\$ 61
Parking Garage Costs	\$ 29	\$ 20	\$ 37
Soft Costs, Financing, Leasing, Contingency, etc.	\$ 55	\$ 41	\$ 76
Adjusted Project Costs (excl. land costs)	\$ 305	\$ 254	\$ 347

The above costs do not include tenant improvements, which are estimated to be approximately \$38/RSF. Below is a summary of the 2010 costs which are used in the study. Any personal property or tenant improvements above the landlord-provided allowance which would be paid by the tenant are excluded from this financial summary and the cash flows at the end of this report. (These costs would be included in the documents to be sent for project approval.)

Cost Estimates 2010 - Private Construction	Cost Summary			Year: 2010			Based on: 2,214,246 RSF	
	Building Cost (Millions)	Building Cost / RSF	Tenant Costs (Millions)	Tenant Cost / RSF	Total (Millions)	Total Cost / RSF		
Initial Cost / Project Assumptions								
Real Property Building Costs	\$ 414	\$ 187	\$ -	\$ -	414	\$ 187		
Tenant Improvements	\$ 84	\$ 38	\$ -	\$ -	84	\$ 38		
Personal Property Costs	\$ -	\$ -	\$ -	\$ -	-	\$ -		
Subtotal - Occupied Space	\$ 498	\$ 225	\$ -	\$ -	498	\$ 225		
Employee Parking Structure	\$ 64	\$ 29	\$ -	\$ -	64	\$ 29		
Subtotal - Built space	\$ 562	\$ 254	\$ -	\$ -	562	\$ 254		
Site Work and Utility Distribution	\$ 75	\$ 34	\$ -	\$ -	75	\$ 34		
Land Costs	\$ 318	\$ 143	\$ -	\$ -	318	\$ 143		
Subtotal - Site and Land Costs	\$ 393	\$ 177	\$ -	\$ -	393	\$ 177		
TOTAL	\$ 955	\$ 431	\$ -	\$ -	955	\$ 431		

The 55 acres of land, based on comparables, was estimated at \$318 million, which may include some off-site improvements.

The costs are inflated by 1.8% per year to arrive at an estimated project cost at mid-point of construction.

RENT ASSUMPTIONS

Due to the myriad of assumptions the private sector would need to make regarding the financing, recapitalization, and IRR expectations, the rent was calculated using a “lease constant” to estimate the NNN lease rate (construction costs times the lease constant divided by the RSF would determine the first year rent). The resulting flat NNN lease rate would be in place for the 15 year lease. The lease in the 16th year would be increased by an escalation rate of 1.8% compounded for 15 years (approximately 30% increase in rent in year 16). The estimated internal rate of return that results from this method over a 10 year period, assuming a facility sale at a reasonable cap rate would be approximately 8-12%.

Lease Constant	Component
Interest Rate:	
10 Year Treasuries (average)	2.55%
Benchmark Adjustment	0.20%
Spread	1.75%
Rate Lock (3 basis points over 3 years)	1.08%
Resulting Interest Rate:	5.58%
Amortization (Years)	20.00
Resulting Loan Constant	8.42%
Contingency	0.33%
Lease Constant	8.75%

The operating expenses in 2010 dollars are estimated to be \$8.73 per RSF (utilities, maintenance) plus \$3.18 per RSF (Taxes, insurance). These costs increase at a projected interest rate of 1.8% per year.

TWO ALTERNATIVE DEVELOPMENT STRUCTURES

The study team modeled two alternative structures that may be possible for development of the headquarters. The facility and land assumptions are identical in both scenarios, but the land is owned by a developer in one scenario and ground leased in the other scenario, as described below:

Strategy A:

Developer owned land and facility with 15 year facility lease (with 15 year option). The developer would own the land fee-simple, and would construct a facility to accommodate the requirements described above. The land cost was further increased by 22.1% to reflect soft costs, financing, etc, described above.

Strategy B:

Developer ground lease from third party; developer owned facility with 15 year lease (with 15 year option).The developer would be charged a ground lease constant of 5% from a third party land owner, escalating at 1.8% per year. The developer would charge the lessee a rate equivalent to an 8% ground rent constant to reflect the risks the developer is assuming in taking on the financial obligations of the ground rent, escalating at 1.8% per year.

In this scenario, the facility would be eventually owned by the lessee (when the ground lease term expires) and therefore an estimate of the reversionary value of the facility was included during the last year of the cash flow estimates.

CASH FLOW SUMMARY:

The following two pages are summary cash flow documents that describe how the above assumptions are reflected financially over a 30 year period (beginning in 2011). The cash flow is truncated (as shown with the orange bars) to demonstrate major changes in cash flow over the study period.

ADDITIONAL NOTE:

Cost allowances and all requirements are subject to extensive further review and potential adjustment before any approval and authorization occurs. Given the very conceptual nature of the information contained herein, members of the ULI case study working group are not restricted in any way from participating in or competing for any future acquisition that may ultimately result from their review of this preliminary feasibility study. Participants in the case study working group are deemed to not have any advantage in any subsequent competition based on the small amount of information provided and the brevity of their review.

Strategy A - Lease Construction

Initial Cost Allocation Assumptions (Millions)

	GSA Costs	Landlord Costs	Tenant Costs	Total Federal	GSF	RSF	USF
Public / Private Construction	0%	100%					
Public / Private Land Cost	0%	100%					
Occupied Space	\$ -	\$ 553	\$ -	\$ -	2,390,487	2,214,246	1,925,431
Parking Structure	\$ -	\$ 71	\$ -	\$ -	1,283,400		
Subtotal - Built space	\$ -	\$ 625	\$ -	\$ -	3,673,887		
Site Work and Utility Distribution	\$ -	\$ 84	\$ -	\$ -			
Land Costs (2012)	\$ -	\$ 327	\$ -	\$ -			
Subtotal - Site and Land Costs	\$ -	\$ 411	\$ -	\$ -			
Financing and Developer Costs	\$ -	\$ 229	\$ -	\$ -			
TOTAL	\$ -	\$ 1,264	\$ -	\$ -			

Cash Flow Analysis (Millions)

	FY 1		FY 2		FY 6		FY 7		FY 8		FY 9		FY 10		FY 21		FY 22		FY 23		FY 24		FY 28		FY 29		FY 30				
	30 Yr Total	FY 2011	FY 2012	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2031	FY 2032	FY 2033	FY 2034	FY 2038	FY 2039	FY 2040																
Land Costs / Reversion Value at FY 30																															
Land and Site Work Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Exchange or Ground Lease (Credit)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Reversion Value	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Subtotal GSA Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Tenant Costs																															
	Cost / SF	SF																													
Current Housing Costs		\$ 1,067	\$ 170	\$ 173	\$ 186	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Shell Rental Rate (NNN)	\$ 49.98	2,214,246	\$ 2,961	\$ -	\$ -	\$ -	\$ 111	\$ 111	\$ 111	\$ 111	\$ 111	\$ 111	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145			
Ground Lease Payment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Utilities, Maintenance	\$ 8.73	2,214,246	\$ 639	\$ -	\$ -	\$ -	\$ 22	\$ 22	\$ 22	\$ 22	\$ 23	\$ 28	\$ 28	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 31	\$ 32	\$ 32	\$ 32	\$ 32	\$ 32			
Taxes, Insurance	\$ 3.18	2,214,246	\$ 233	\$ -	\$ -	\$ -	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 10	\$ 10	\$ 10	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 12	\$ 12	\$ 12	\$ 12	\$ 12	\$ 12			
Subtotal FBI Costs		\$ 4,900	\$ 170	\$ 173	\$ 186	\$ 140	\$ 141	\$ 141	\$ 141	\$ 142	\$ 142	\$ 148	\$ 183	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 187	\$ 188	\$ 188	\$ 189	\$ 189	\$ 189	\$ 189			
Total Cost Summary																															
	Initial Costs	NPV (30 Years)		Total Cash																											
Total Cost Summary	\$ -	\$ 2,753	\$ 4,900	\$ 170	\$ 173	\$ 186	\$ 140	\$ 141	\$ 141	\$ 142	\$ 142	\$ 148	\$ 183	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 187	\$ 188	\$ 188	\$ 189	\$ 189	\$ 189	\$ 189			
Occupancy Cost / RSF - Current Facilities		3,087,670	\$ 55.06	\$ 56.05	\$ 60.19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Occupancy Cost / RSF- Consolidated HQ*		2,214,246	\$ -	\$ -	\$ -	\$ 63.23	\$ 63.47	\$ 63.72	\$ 63.96	\$ 67.00	\$ 82.64	\$ 82.95	\$ 83.27	\$ 84.59	\$ 84.94	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29	\$ 85.29			

* Occupancy Costs for Consolidated HQ include: Future TI reserve, FFB payments, Shell Rental Rate, Ground Lease Payment, Utilities, Maintenance, Taxes, Insurance

Strategy B - Lease Construction / Eventual Ownership

Initial Cost Allocation Assumptions (Millions)

	Tenant Land Cost	Landlord Costs	Tenant Costs	Total Tenant Cost	GSF	RSF	USF
Public / Private Construction	0%	100%					
Public / Private Land Cost	100%	0%					
Occupied Space	\$ -	\$ 553	\$ -	\$ -	2,390,487	2,214,246	1,925,431
Parking Structure	\$ -	\$ 71	\$ -	\$ -	1,283,400		
Subtotal - Built space	\$ -	\$ 625	\$ -	\$ -	3,673,887		
Site Work and Utility Distribution	\$ -	\$ 84	\$ -	\$ -			
Land Costs (2012)	\$ 327	\$ -	\$ -	\$ 327			
Subtotal - Site and Land Costs	\$ 327	\$ 84	\$ -	\$ 327			
Financing and Developer Costs	\$ -	\$ 157	\$ -	\$ -			
TOTAL	\$ 327	\$ 865	\$ -	\$ 327			

Cash Flow Analysis (Millions)

	FY 1		FY 2		FY 6		FY 7		FY 8		FY 9		FY 10		FY 21		FY 22		FY 23		FY 24		FY 28		FY 29		FY 30				
	30 Yr Total	FY 2011	FY 2012	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2031	FY 2032	FY 2033	FY 2034	FY 2038	FY 2039	FY 2040																
Land Costs / Reversion Value at FY 30																															
Land and Site Work Costs	\$ 327	\$ -	\$ 327	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Exchange or Ground Lease (Credit)	\$ (486)	\$ -	\$ -	\$ -	\$ -	\$ (17)	\$ (18)	\$ (18)	\$ (22)	\$ (22)	\$ (23)	\$ (23)	\$ (25)	\$ (25)	\$ (26)	\$ (25)	\$ (25)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)			
Reversion Value	\$ (1,028)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Subtotal GSA Costs	\$ (1,187)	\$ -	\$ 327	\$ -	\$ -	\$ (17)	\$ (18)	\$ (18)	\$ (22)	\$ (22)	\$ (23)	\$ (23)	\$ (25)	\$ (25)	\$ (26)	\$ (25)	\$ (25)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)	\$ (26)				
Tenant Costs																															
	Cost / SF	SF																													
Current Housing Costs		\$ 1,256	\$ 170	\$ 173	\$ 186	\$ 189	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Shell Rental Rate (NNN)	\$ 34.20	2,214,246	\$ 1,928	\$ -	\$ -	\$ -	\$ 76	\$ 76	\$ 76	\$ 76	\$ 76	\$ 76	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99			
Ground Lease Payment		\$ 525	\$ -	\$ -	\$ -	\$ -	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 23	\$ 24	\$ 24	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 27	\$ 27	\$ 28	\$ 28	\$ 28	\$ 28				
Utilities, Maintenance	\$ 8.73	2,214,246	\$ 617	\$ -	\$ -	\$ -	\$ 22	\$ 22	\$ 22	\$ 23	\$ 23	\$ 28	\$ 28	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 31	\$ 32	\$ 32	\$ 32	\$ 32	\$ 32	\$ 32			
Taxes, Insurance	\$ 3.18	2,214,246	\$ 225	\$ -	\$ -	\$ -	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 10	\$ 10	\$ 10	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 12	\$ 12	\$ 12	\$ 12	\$ 12	\$ 12	\$ 12			
Subtotal FBI Costs		\$ 4,551	\$ 170	\$ 173	\$ 186	\$ 189	\$ 124	\$ 125	\$ 126	\$ 137	\$ 138	\$ 162	\$ 163	\$ 168	\$ 170	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171	\$ 171			
Total Cost Summary																															
	Initial Costs	NPV (30 Years)		Total Cash																											
Total Cost Summary	\$ 327	\$ 2,413	\$ 3,364	\$ 170	\$ 500	\$ 186	\$ 189	\$ 107	\$ 108	\$ 108	\$ 115	\$ 116	\$ 140	\$ 141	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144	\$ 144			
Occupancy Cost / RSF - Current Facilities		3,087,670	\$ 55.06	\$ 56.05	\$ 60.19	\$ 61.28	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Occupancy Cost / RSF- Consolidated HQ*		2,214,246	\$ -	\$ -	\$ -	\$ -	\$ 56.11	\$ 56.50	\$ 56.90	\$ 61.82	\$ 62.32	\$ 73.32	\$ 73.84	\$ 75.99	\$ 76.56	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13	\$ 77.13			

* Occupancy Costs for Consolidated HQ include: Future TI reserve, FFB payments, Shell Rental Rate, Ground Lease Payment, Utilities, Maintenance, Taxes, Insurance

EXHIBIT B – DETAILED EVALUATION, DISCUSSION AND RECOMMENDATIONS

Project definition considerations

The size and configuration of any consolidation should be studied to ensure that the right amount of space is being considered, both to reap the benefits of consolidation and to ensure against over-building or creating such a large project that it may become obsolete in the future. These considerations include:

- ***Modern working methodologies:***
Workplace design today affords many options that did not exist several years ago. These may further reduce the project size. Telework assumes that employees can work from other remote facilities or from home thereby reducing home office space. This strategy assumes that off-site employees can work in a secure location. Management and coordination of the workforce are also considerations. If telework can be employed, building size and cost could be lower. Employee satisfaction may increase due to increased flexibility, less commuting time and more focus on employee productivity results. In the case study example, it was determined that security reasons prevented the vast majority of the employees from working remotely, and therefore the 900,000 square feet of space savings due to duplication of existing spaces was the maximum savings.
- **Alternatives to single consolidation:**
A single location vs. multiple locations should be studied to determine levels of consolidation benefits. In the case study example it was determined that the organization required a one-site coordination to provide the maximum synergistic benefits.

Working Assumption: Consolidation into one facility would provide maximum realistic savings. Off-site deployment and telework would likely be limited. A project size of approximately 2.4-2.5 gross square feet was then further considered.

Planning and Design

Once the basic project parameters are agreed upon, several planning and design considerations must be weighed. Particularly for a large, single tenant occupancy the challenges of a project which may someday meet private market needs can be complex.

- ***Flexible building design:*** The floor plate for the building should contemplate possible eventual commercial use for maximum flexibility. As government entities expand, reduce, or change, the flexible floor plate will help ensure

that the building is not designed for a single use. With such a large facility – even if broken into different building components – the efficiencies gained may not result in the level of desired increased communications. The top floor of one building/wing may be far from the opposite side of the building. The relative closeness is more like having parts of the entity a few blocks away as opposed to being in different parts of the city. Shared conference spaces, cafeterias and work rooms can assist in improving internal communications and perceived proximity.

- *Modernization and reusability:* The building(s) should be studied from a reusability perspective to easily incorporate future technology changes. By having multiple “wings” or separate buildings phased improvements are more readily made. Separate wings or buildings also allow easier space expansion or contraction. It may be possible to have amenities such as a gym, conference center, credit union, or cafeterias provided by third parties or in a separate set of buildings.
- *Value engineering:* A gap analysis should be prepared in the planning stages of a project, comparing the government’s requirements and needs to that normally provided in a private sector building. Often government facilities are built to specific government standards. As an example a government facility near a Metro station may only require a parking ratio of 1.9 per 1,000 SF of office space. Many private sector leases may demand a higher parking ratio. The planning for additional surface parking or structured parking as well as common market amenities will be helpful if private reutilization of buildings is a serious factor.
- *Security:* Considerable analysis should be given to the cost of land vs. hardening the shell of the building to meet desired security requirements. Perimeter security can be expensive for large sites, and potentially adding extra security to the building shell (progressive collapse, exterior “hardening”, etc.) may be less expensive than building the facilities on a large piece of land with substantial set backs. Depending on the level of security required, it may be possible to put some low-level uses on the set back buffer land if the use can be separated from the main facility. These become very entity-specific and location-specific considerations.
- *Construction phasing and implementation schedule:* A phased construction and move in may provide savings on new site construction as well as lease or disposition timing for sites which are currently leased and being vacated. The timing for construction and occupancy proposed in the case study reflect timeframes for projects of such size and magnitude.

- *Optimum public approval size:* Often there may be an optimum size for the project, but the size may not be the optimum size for obtaining approvals from local jurisdictions or authorities that regulate the entity that is attempting to consolidate.
- *Zoning and Entitlements:* A large project is often subject to additional scrutiny through zoning entitlements or other levels of approvals. Traffic and congestion concerns, neighborhood impacts and local stakeholder interests come to bear. The best way to manage these issues is to identify as many stakeholders as possible, identify the stakeholder's concerns, and ensure that each can be correctly addressed during implementation. Through coordinating with the leadership of the local government and a lot of government to government interaction, the process can be smoothed.
- *Utilities requirements:* it is important to study multiple ways to provide electrical generation and backup power. If the site is remote or if the use requires a substantial amount of back-up power, a co-generation plant or central utility plant may be needed. In the private sector, these facilities can be provided by third party providers, in an adjacent parcel or on a portion of the government site. In these instances, the development cost of the energy plant is assumed by the third party provider. The capital required for constructing the energy plant is provided either by the government entity or by a private entity that then pays for the construction of the utility plant and charges a market rate fee to cover the operation of the energy plant as repayment of the development including financing costs. As such, the development cost of the energy plant is not included in either the development cost of the headquarters facility or in the rent of the facility. Utilities from such energy plants are provided at market rates to the headquarters user among other users. In cases where the new facility is to be built in an area with multiple utilities sources, and if the new facility does not require 100% redundancy, it may be possible to access publicly available utilities and simply provide back-up for the portions of the facility which are most critical.

Development Cost and Financing Considerations

For private sector facilities, the costs are divided into three basic categories; land, building (including tenant fit-up costs) and financing costs.

Land:

- *Basic costs.* Land costs vary substantially by jurisdiction and by the quality of the land being considered. Land costs should include taxes, impact costs, and zoning entitlement costs which may be required to put the land into productive use. In the Washington metro area these costs differ widely and could range from \$50 per Floor Area Ratio (FAR) square foot to over \$10

million per acre in highly sought-after semi-urban areas. To reduce the variation in these costs, it would be useful to find a parcel of land that doesn't require major changes to transportation systems / interchanges. Often land in less dense communities (and therefore not subject to pricing based on competing for a higher level of commercial use) is lower priced.

- *The amount of land* required can significantly impact the total cost of the project. If the government wishes to maintain extensive set backs, more land will be required. For prime parcels with highway and Metro access, this may also cause a zoning and local jurisdiction issue. Well located parcels are generally intended for intense use and local authorities may have a concern regarding underutilization of a site. Creating a substantially set back campus may also impact community urban design and planning standards. The land-seller will most likely demand a price that is supported by the maximum allowable buildable area for the entire parcel. The balance between additional land, perhaps at a premium price, vs. hardening the buildings themselves will need to be carefully assessed.
- *Site work and utilities* distribution will be required to allow the site to be used for the new facilities. In the Washington, DC area, these costs are expected to be approximately \$34 per ground square foot, but this is highly site-dependent. For a site that has a difficult topography or ground conditions, this cost could be higher. Likewise if a suitable, well-located and easily buildable site is found, these costs could be slightly lower. The land price and the site/utilities costs should be considered together when selecting a piece of land for the consolidation, so that if the site/utilities costs are higher the land price should be lower, and vice versa.
- *Lease Term.* If the government owns or purchases the land and creates a ground lease to allow the private sector developer to build the facilities, the ground lease term would be ideally 50 years or longer. There are some examples of 30 years. The US Army has been typically using a 50 year ground lease with a 25 year option clause that allows the ground lease to be extended if the facilities are not fully amortized. The Department of Veterans Affairs and Department of Energy have used 35-year ground leases.

Building Costs:

The costs outlined below are expressed in 2011 dollars, which happens to be a time when construction costs are not over-heated as they were a few years ago. An inflation factor should be used to escalate these costs at 2.5%/year to the year prior to commencement of construction. This assumes the contractor can be awarded the project at that time and will be able "lock in" construction pricing then.

- *Basic costs.* The core and shell building costs, with appropriate building infrastructure (“Warm lit shell) would run approximately \$150 per gross square feet for a very “vanilla” building, or slightly higher depending on the level of quality expected. For progressive collapse, the cost would increase by about \$10 per gross square feet. The cost of the amenity buildings (cafeteria, gym, etc.) are in addition to these costs, but may not be meaningful depending on the magnitude of these uses compared to the main office use.
- *Tenant improvement costs* are highly variable, and could be approximately \$70-80 per rentable square foot depending on the level of finish expected. If portions of floors are intended to have an additional level of interior security (SCIF), the costs for these portions of the facility could be an additional \$100 per square foot, although if whole floors are outfitted with the same level of security, the costs would be lower.
- *Parking costs* would be approximately \$15,000 per parking space for surface parking. Any underground or structured parking would be substantially more.
- *Soft costs* is a term used to include all costs over and above actual building materials costs. These would include architectural and engineering fees, market, traffic, legal and other consultants, and developer’s profit. These costs are generally in the range of 22% of the hard construction costs.

The Land and Building cost components which comprise the total development cost to the private developer for a project of this size and scope are depicted in the summary schedule below. The cost component estimates as well as the total cost appears to be reasonable and within range of accepted market parameters.

Beltway/Metro Cost Estimates 2011							
Initial Cost / Project Assumptions	Building Cost / Unit	Soft Costs / Unit	Unit	Tenant Cost / Unit	Soft Costs / Unit	Unit	Total Cost / RSF
Real Property Building Costs	\$ 165	22.0%	/ GSF				\$ 224
Tenant Improvements	\$ 48	22.0%	/ RSF	\$ 9	0.0%	/ RSF	\$ 66
Subtotal - Occupied Space	\$ 282		/ RSF	\$ 8		/ RSF	\$ 290
Employee Parking Structure	\$ 17,500	22.0%	per space	\$ 0	0.0%		\$ 42
Subtotal - Built space							\$ 332
On-Site Site Work	\$ 35	18.0%	/ground SF				\$ 45
Subtotal - Site and Utilities Costs							\$ 45
Land Costs	\$ 131	12.0%	/ FAR	\$ -			\$ 163
Subtotal - Site and Land Costs							\$ 208
TOTAL	\$ 532		/ RSF	\$ 8		/ RSF	\$ 540

As noted previously the estimated development costs depicted in the above schedule are within market parameters and thus will remain the same regardless of whether the Federal Agency acquires use and occupancy of the facility by a Facility Lease or acquires

the facility by traditional purchase upon completion of construction. In a P3 strategy, the ultimate rent to be charged in a Facility Lease would be determined by total development cost combined with the financing costs of the facility. This rent should match fair market rent for comparable size and character of the space leased.

Financing and Rent

The private sector's profitability should be studied from two perspectives, the asset value of the building and the stream of income associated with the rent component.

- In general, the building should be worth more when it is finished than the amount that was spent on it.
- Financing would be available for a project of this size and scope. Sources of such financing can be equity, debt, or a combination of both. Debt financing can be accessed through private or public markets.
- Operating Expenses, including taxes and insurance, would range depending on the location/jurisdiction, the efficiency, and the exact configuration of the facility. In the Washington, DC metropolitan area operating expenses can range from \$8-15 per square foot with downtown properties being as high as \$20-22 per square foot.
- *The rent costs* should include several components. As a way of estimating a current rent figure, the following calculus was used. The benchmark treasuries are about 3% today, with a private sector spread of 1.5%. The amortization period typically is 20 years with a modest balloon payment. For a government lease the amortization period could be 25 years. This results in an estimated lease constant of approximately 8%. A longer Facility Lease term will result in a lower lease constant (and lower rental rate). If the Facility Lease is restricted to a 15 year term, the result will be a higher rent. The 20-year term or longer would, of course, be a more appropriate timeframe for loan amortization. However, recognition is made that Federal Agency planning horizons cannot support Facility Lease terms in excess of 15 - 20 years. Further, it is also well understood that long term federal commitments could have significant budgetary implications on that Federal Agency's budget by triggering the same up front funding requirements as direct purchase of construction. The discrepancy between the Facility Lease term of 15 - 20 years and a loan amortization term of 25-years, will require that the building design be fully adaptable for alternative uses, such as private sector office buildings.

Land and Building Design Considerations

The trade-offs between utilizing more land to achieve desired security setbacks vs. the requirements of hardening the shell of the building merit careful analysis. Land is expensive in the greater Washington area, particularly if served by Metro. Alternative analysis might consider:

- Required land area with desired setbacks

- Smaller land area with hardening the shell of the building and adding internal security systems, progressive collapse, etc.
- Locating a site not currently served by metro and extending service to the site

From a design and functionality perspective, a plan that would have several building or several wings within one building should be considered. If one large building were constructed with approximately 160,000 sq.ft. floor plates, the building would be difficult from an internal use perspective, but perhaps more importantly be very difficult to lease from a private market standpoint.

To create a modern building and meet energy (LEED) standards attention should be given to natural lighting and common, shared spaces.

Parking on site could be a serious issue and would need to be carefully evaluated. If a near transit site is chosen, parking can be minimized and might only require 4,500 parking stalls. If a totally market approach to this project were taken, parking at a ratio of 3-4 parking stalls/1,000 sqft of office could be required. This would almost double the required parking and add substantially to cost and required land area.

EXHIBIT C – A POTENTIAL P3 PROCESS

The process for implementing a public private development should reflect a fair and open competition. There is a need to balance the highly specific government use requirements and authorities with a private sector need for timely decision making and expeditious actions. There are two overall methods to consider:

- Single source selection – where both the site and development team are chosen simultaneously
- Two phase selection – where the site selection is done in phase one, and a second phase is used to choose a development team

The advantage of the single source selection process is a perceived shortening of the selection process by only conducting one solicitation. The challenge with this process is that the quality of the site and the quality of the developer may not be similar, and therefore there is a risk that the best interests of the government may not be met through this process. The advantage of the two phase selection process is that the government would focus on the site selection first, be assured that the site (whether currently owned by the government, or needing to be acquired) correctly balances the locational and cost parameters described above. The second solicitation can then focus on identifying the best team – developer, architect, and contractor – with specialized expertise and cost structure in the local jurisdiction and project type.

Lease Procurement Methods

Procurement of a lease using the assumptions described above generally follows one of two methodologies:

- Single Phase: The government specifies a **delineated area** it will consider and requests full lease proposals on competing sites, selects the site and development team in one transaction; or
- Two Phased Selections: The government pre-selects a single site, and either ground leases or purchases the site and then requests full lease proposals from competing developers on the pre-selected site.

Single Phase: Site competition within delineated area.

A detailed Program of Requirements (POR) is prepared by the government which sets forth the space requirements of the agency for whom the project is being developed. Upon completion of the POR, the government issues Solicitation for Offers (SFO) including the following principal components:

- A description of the delineated area in which it will consider locating the agency, e.g. within the beltway in the greater Washington DC area, or within xx miles of the existing Metro system.
- A Detailed Program of Requirements (POR) describing the space requirements for the tenant agency or agencies.

As part of this initial process, the government identifies and describes the criteria to be used by the government in the evaluation of competing proposals. While the government typically elects either a 'best price' or 'best value' approach, the 'best value' approach is appropriate when multiple locations are being considered.

Respondents to the SFO will typically include:

- Developers who own or control a suitable site who will then form a 'development team' with an experienced architectural firm and general contractor.
- Non-developer owners of suitable properties who will then 'partner' with a developer, forming a 'development team' with an experienced architectural firm and general contractor

In advance of receiving proposals, the Government will have assembled a review team generally comprised of government officials and consultants. The review team will have prepared both preliminary evaluation criteria and detailed evaluation criteria. Upon receipt of full lease proposals, the government evaluates all proposals utilizing the preliminary evaluation criteria. In the event the government receives more than 5 proposals, a short list of the 5 highest rated proposals is created. Following designation of the short list, the government will commission an Environmental Assessment (EA) of each short listed site as required by the National Environmental Protection Act (NEPA). Concurrent with preparation of the EA, the government will conduct presentations, interviews, clarifications, and other evaluation procedures with the 5 short-listed development teams.

Evaluation criteria generally include:

- *Site analysis:* location, access to mass transit, adequacy of road network, location of any amenities (retail, etc.)
- *Development team qualifications:* Experience of the developer, architect and general contractor in large project development, ability of the developer to raise necessary capital
- *Building and site design technical analysis:* Suitability of the proposed design for the intended use, achievement of sustainability goals (LEED Gold), comfort, attractiveness and appropriate design, realistic schedule for delivery
- *Management capability.* Ability and experience of developer in management of large, complex, LEED compliant commercial properties.

Following proposal evaluation, the government notifies all bidders of the lease award.

Two Phased, Three Step Selection Process

This process begins with the preparation of a 'macro POR' in which a consultant evaluates the broad needs of the agency for purposes of developing criteria for the site required to serve the agency. These criteria would include site area, zoning,

transportation access, proximity to amenities, etc. Following identification of required site characteristics, the government proceeds in two phases, three steps:

Phase One:

- i) Site selection
- ii) Development team selection (concurrent with i.)

Phase Two:

- iii) Lease proposal selection

In step one, the site is bought or leased. Together with preparation of a detailed POR, the government issues a SFO seeking suitable sites (or negotiates directly with the owner of a site without a competitive solicitation). Concurrent with seeking control of a pre-selected site, the government issues a separate SFO seeking interested development teams. The development team evaluation criteria are the same as employed under the 'delineated area' procurement. Upon receipt of developer team qualification proposals, the government selects a single site and a 'short list' of the top 5 development teams. Upon selection of a site, the government commences preparation of an Environmental Assessment (EA) and issues a lease proposal SFO to the 5 development teams seeking proposals for a long term lease in a building to be built meeting the specifications set forth in the detailed POR. With the exception of 'location' and 'development team' which have already been evaluated, the criteria for evaluating the lease proposals are identical to the 'delineated area' procurement (building/site design and management capability).

The lease proposal SFO will include the following principal components:

- Detailed POR describing the space requirements.
- Identification and description of the evaluation criteria as in 'delineated area' procurement. In this case, 'best price' may be appropriate because a single, preselected site is being considered.
- The terms under which the developer is to control the site pre-selected by the government.

Process Observations

In the federal study example, the assumed requirement of a 300 foot setback and preference for a location proximate to mass transit mean that very few sites in the National Capital Area would qualify for consideration. Unless the acreage within the 300' setback can be employed for some other use (i.e. retail, residential or other government use), the market value of the land may likely exceed a reasonable (and financeable) land cost for the proposed project. For these reasons, we believe the 'delineated area' procurement is problematic.

The unique site requirements and need to pay an amount for the site that exceeds market value indicate the government should first procure a single site and subsequently seek competitive proposals for the lease.

The site cost issue could also be resolved in the lease procurement under the pre-selected site process. For example, consider the case in which the government selects a site with a cost of \$120M (55 acres X 2FAR X \$25/FARSF). Competing developers would be requested to offer a lease proposal including an amount the developer would pay to purchase or lease the land. In the event the selected proposal includes a land offer of \$60M (2.4M GSF X \$25), the government would fund the difference (\$60M) and retain ownership and the right to dispose of the land within the 300' set back, subject to agreement with the building owner.

EXHIBIT D – PROJECT EXAMPLES

U.S. DEPARTMENT OF TRANSPORTATION HQ

Project: U.S. Department of Transportation HQ
Location: Southeast Federal Center, Washington, D.C.
Land Mass: 11 acres

Process: Lease construction procurement approach
Lease Award: JBG Companies
Lease Authorization Amount: \$55 million annually, \$40.74/rsf

Size: 1.35 million RSF, 5,600 occupants

Timing:

1997 – GSA completes feasibility study, develops lease prospectus
1998 – OMB review, Congress passes appropriation bill
Nov. 1999 – Lease solicitation issued for Phase I
Dec. 1999 - 12 initial offers for Phase I
Mar., 2000 – 5 bidders chosen to go to Phase II
Sept., 2000 – Final proposals received
Feb., 2002 – Lease award
2007 – Building Occupancy



Financing Sources: Private

ARGONNE NATIONAL LABORATORY

Project: Argonne National Laboratory, Theory and Computing Sciences Research Building

Location: Argonne, Illinois, on the campus of Argonne National Laboratory (DOE)

Developer(s):

Architect(s):

General Contractor(s):

Current Status: Completed

Ground Lease Signed: December 7, 2007

Occupancy: July 2009

Total Square Feet: 250,000

Construction Type: New Construction

Major Use: Office

Office / Lab SF: 250,000

Estimated Project Cost:

Financing Sources: Private

Description:

In order to address emerging research in mathematics and computer sciences, the Department of Energy undertook an innovative approach in the development of a high tech, world-class, research facility known Theory and Computing Sciences Research Building on the campus of the Argonne National Laboratory. Argonne National Laboratory, one of the U.S. Department of Energy's (DOE's) oldest and largest national laboratories for science and engineering research. The campus is located on 1,500 acres about 25 miles southwest of Chicago, Illinois. Argonne is managed by UChicago Argonne, LLC (O&M Contractor), for the U.S. Department of Energy's Office of Science.

The innovative approach was premised on a public private development, wherein pursuant to DOE's Atomic Energy Act, DOE entered into a ground lease of real property on the Argonne campus to a special purpose entity (SPE). The ground lease to the SPE was on an arms-length, fair market rent basis. Under the terms of the ground lease, the SPE secured financing from the Illinois Finance Authority and organized the solicitation and selection of a developer for construction of the facility which was to be undertaken pursuant to local codes and requirements. Simultaneously with entering into the ground lease with DOE, the SPE entered into a long-term lease of the space within the to-be-constructed facility with the O&M Contractor. Because the O&M Contractor's

costs were ultimately reimbursed by DOE under the O&M Contract, the long-term lease had to be structured as an operating lease. The operating lease was reviewed and concurred in by the Office of Management and Budget pursuant to OMB Circular A-11, Appendix B. Finally, the SPE also secured a facility management firm to manage the facility upon its completion.

Two weeks after the SPE executed the DOE ground lease on December 7, 2007, the SPE undertook construction of the facility using a design-build approach. Construction of the facility proceeded on budget and in July 2009, the 250,000 sq. ft. facility was accepted by the SPE and put into service. The facility did win regional construction Award of Merit recognizing the excellence in its design and construction award.

The transaction was structured so that the only commitment undertaken by the DOE was the ground lease. The DOE had no underlying commitment nor did it make any guarantees of payment in the facility lease. Upon expiration of the ground lease, DOE can either mandate the SPE to remove the facility, enter into another ground lease, or allowing the facility to remain as property of the United States.

The Theory and Computing Sciences Research Building continues to be used as a world class research facility and fulfill its objectives within Argonne's mission to deliver innovative research and technologies.

YUMA PROVING GROUNDS – GENERAL MOTORS

Project: Yuma Proving Ground Enhanced Use Lease

Location: Yuma, Arizona

Developer(s):

Architect(s):

General Contractor(s):



Current Status: Completed

Ground Lease Signed:

Occupancy:

Total Square Feet:

Construction Type: New Construction

Major Use: Office

Office / Lab SF:

Estimated Project Cost:

Financing Sources: Private

Description:

Rising real estate values in Mesa, AZ significantly increased the value of the existing General Motors' (GM) Desert Proving Ground Facility, with the existing testing facility failing to represent a highest and best use for the asset. GM intended to sell the existing facility and relocate operations to a low-cost alternative property as soon as a suitable alternative site could be secured. The use of a long-term ground lease on an Army installation in Yuma, AZ presented an option, but GM required a better understanding of the Army's Enhanced Use Lease (EUL) process and its opportunities and challenges. Once committed to pursuing the EUL, GM required assistance in the development of a competitive proposal for the Army source selection process.

Representatives from GM Worldwide Real Estate (WRE) and Worldwide Facilities business units developed an understanding and comfort level with the Army EUL process. GM and their advisors had discussions with the U.S. Army Corps of Engineers to clarify both GM and Army requirements and expectations for the project, and participated in an Industry Forum to evaluate potential partner entities. GM produced a proposal to develop and operate a hot weather proving ground complex at Yuma Proving Grounds under a long-term ground lease.

The Army awarded the EUL to GM and GM was granted exclusive rights to develop a business plan with the Army. General Motors leadership is currently contemplating potential terms for a long-term ground lease with the Army at Yuma Proving Grounds.

FORT SAM HOUSTON ENHANCED USE LEASE

Project: Fort Sam Houston Enhanced Use Lease

Location: San Antonio, Texas

Leased Area:

Three old historic buildings that were formerly part of the Brooks Army Medical Center. The buildings were dilapidated and had been vacant for many years. The Army did not have funds to restore the buildings and they could not be torn down. The primary purpose of this Enhanced Use Lease was to take the buildings off the Army's books. The lease also includes supporting land.

Development to Date:

Two of the three buildings have been completely renovated into first class office space and are fully leased. The third building is vacant pending finding a tenant. The developer, Orion Construction Services, Inc. and Weston Solutions, has constructed a new building on the site that is 80% leased.

Tenants:

The two restored buildings are fully occupied by Army tenants. The new building is occupied by an Army tenant and a government contractor.

History:

The Enhanced Use Lease was advertised for commercial development without any guarantee or preconceived intention the buildings would become occupied by government tenants. The lease was signed prior to September 11, 2001 and the developer was marketing to local government and private sector tenants. At that time, Fort Sam Houston was an open base that did not require going through security check points. However, after 9/11, the base was closed and security checks were required. As a result, there were Army agencies that were in leased space off the Installation who wanted to move within the secured perimeter. The Army approved the request to move and the leases were scored as operating leases by OMB. The Army later created two new agencies that were assigned to San Antonio and moved a third agency to the area. These agencies advertised for space and Orion successfully competed with other building owners and developers for the leases.

THE GATE, ABERDEEN PROVING GROUND ENHANCED USE LEASE

PROJECT: THE GATE, ABERDEEN PROVING GROUND ENHANCED USE LEASE

Location: Aberdeen, Maryland

Site:

416 acres, raw land with 200 acres of wetlands. The land is needed by Aberdeen Proving Ground to provide buffer to the Army Research Laboratory.

Lessee:

St. John Properties, Inc.

Proposed Development:

2 to 3 million square feet of office and flex buildings, approximately 50,000 square feet of retail and a hotel and conference center.

Lease Structure:

Master Lease for the 416 acres that allows entry for environmental work, engineering, and construction of infrastructure. Individual site leases for each parcel taken down for construction of buildings.

Terms:

Each single site lease has a 50 year term with a 25 year renewal option at the lessee's option.

Base Rent:

Begins at \$1.35 per FAR foot base rate (\$15 FAR fee price with 9% return to Army) the base rate escalates at 2% per year and the site specific leases escalate at 10% every 5 years.

Development Progress:

700,000 square feet constructed or under construction. Tenants are government contractors.

SAINT ELIZABETH'S – Example of Federal Appropriations

Project: U.S. Coast Guard Headquarters Building, Phase I

Location: 2701 Martin Luther King Jr. Avenue, SE

Developer(s): GSA

Architect(s): WDG/HOK Architecture PLLC/Perkins+Will

General Contractor(s): Clark Construction Group LLC

Current Status: Under Construction

Groundbreaking 01/2010

Targeted Delivery 03/2013

Total Square Feet: 1,175,000

Construction Type: New Construction + Adaptive Reuse



Major Use: Office

Office SF: 1,175,000

Retail SF:

Parking Spaces: 1,973

Parking SF:

LEED Level: Gold

Green Elements: Green elements include: reuse of existing historic structures; rainwater collection and reuse; energy efficient design with power from on site COGEN facility; high performance exterior skin of new construction; special attention to indoor environmental quality; and green roof systems will be used where possible and practical. Approximately 80% of new roof areas will be green.

Estimated Project Cost: \$783,450,000

Financing Sources: Public & ARRA

Description: This project proposes the redevelopment of the 176-acre West Campus of St. Elizabeths, including 51 buildings of an historic nature, for lease to federal tenants. Initial preparation for redevelopment consists of four broad categories: 1) stabilization of existing buildings and landscape; 2) ongoing operations and maintenance (O&M) of those buildings and the landscape; 3) planning, pre-development and design of both infrastructure and existing buildings; and 4) infrastructure work. GSA has received funding to construct Phase I of three phases at the St. Elizabeth's West Campus, which includes a new headquarters for the U.S. Coast Guard (USCG), the rehabilitation of six adaptive reuse buildings, a Central Utility Plant and a parking structure. Phase IA, the USCG HQ, will be a 1,175,000 sq. ft. building for 3,860 employees and Phase IB will consist of 193,650 sq. ft. of amenity space in six adaptive reuse buildings and a total of 983 parking spaces. The infrastructure costs are expected to be about \$238 million of the \$783 million total cost.

EXHIBIT E— PDIC FORUM PARTICIPANTS

Ballard Spahr – David Winstead
Bostonia Partners / USACE – Robert Penn
COPT – Wayne Lingafelter
CTL Capital – Tom Zarrilli
DBBA – Carl Krebs
FBI – Patrick Findlay
Gensler – Janet Pogue
Hines – Matthew Hurson
Johns Hopkins University – Michael Anikeef
Jones Lang LaSalle – Kurt Haglund
McKenna – Steve Sorette
The Apgar Company – Mahlon Apgar IV
TNG Traffic Group, Inc. – Wes Guckert
USPS – Stephen Roth
VA / BRAC commission – Hon. Anthony Principi (represented by Tony Kushnir)
ULI – Maureen McAvey (Facilitator)