

National Federal Leasing Update

Fall 2017

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RETAINING THE EXISTING FEDERAL TENANT



The General Services Administration's (GSA) recent track record of lease awards has building owners and investors wondering if being the incumbent landlord with an expiring GSA lease is still an advantageous position. In the past year, several major tenants have announced their relocations, including CIS, TSA, USDA and DOJ. Furthermore, an additional 3.5M+ square feet is anticipated to relocate within 2 years in the National Capital Region. The primary reasons behind the relocations are 3-fold – consolidations, space reductions and new lease pricing.

The costs an incumbent can now expect to incur to retain a tenant can be prohibitive. To be responsive to a GSA lease requirement, the incumbent must typically provide a full Tenant Improvement and Building Specific Amortized Capital allowance. In addition, an incumbent may be asked to provide fully built-out swing space, moving costs, and IT infrastructure. These additional burdens on incumbents make market-competitive deals a real challenge. However, for most security driven tenants, such as State and DoD, that are not significantly impacted by consolidation and space reduction directives, the incumbent is still in a favorable position.

The most important thing for an Incumbent Landlord is to understand their tenant and what their future needs are. Incumbents need to be working with the Government well in advance of a tenant agency's lease expiration to be in a strong position to obtain a renewal in place.

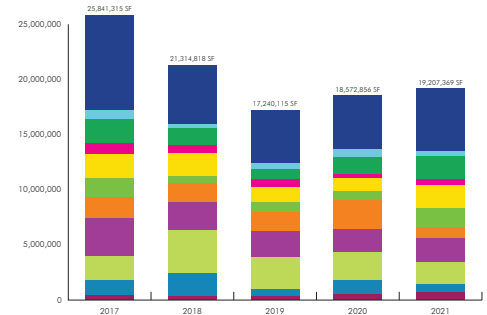
THE TRUMP EFFECT

Presidential transitions always slow the pace of GSA leasing. The effects of a presidential transition year often begin as the election approaches, and major decisions, including new and continuing real estate leases are put on hold as a courtesy to the incoming administration. Once the new president is elected, the change in leadership both at GSA and its tenant agencies further slows the pace of leasing as the bureaucracy waits for new leadership to be in place and be briefed on both real estate strategy and individual transactions.

In the case of the Trump Administration, the slow pace of senior level appointments along with significant changes in government policy and spending priorities continued the slow pace of leasing activity throughout 2017.

If past is prologue, as we look to 2018, with the new senior GSA leadership team now in place and the new administration's policies coming into focus, the real estate community can expect to see increased lease executions and a return to a more typical pace in lease transactions. Included in the increased lease activity should be long term leases for many of the space needs that were the subject of short term extensions in 2016 and 2017 due to the impending presidential transition.

GSA EXPIRING INVENTORY



NCR Reorganization

On October 1st, the National Capital Region commenced its internal reorganization of portfolio management and client delivery divisions. Contracting Officers' workloads will shift and reassignments may slow the commencement of new procurements.

CIS / TSA Relocations

Relocating from Washington, DC, USCIS consolidated several offices into 575,000 SF in Prince Georges County, MD. TSA executed a lease to consolidate its Virginia offices into 625,000 SF of space in Springfield, VA.

Trend to Watch - FEMA

FEMA is beta testing a new technology that could provide a way for its employees (and potentially those of other agencies in the future) to work from home thus potentially reducing its footprint. The testing is being applied in their call centers first instead of regional offices.

<p>LEASING INVENTORY 190.3 MSF</p>	<p>NUMBER OF LEASES 8,137</p>	<p>AVERAGE LEASE SIZE 23,367 SF</p>	<p>AVERAGE TERM 7.90 YEARS</p>	<p>LEASES WITH SOFT TERM 81%</p>	<p>LEASES IN HOLDOVER 119</p>	<p>EXPIRING IN 2018 22.9 MSF</p>
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*Arrows indicate year over year change.

RECENT LEASE AWARDS

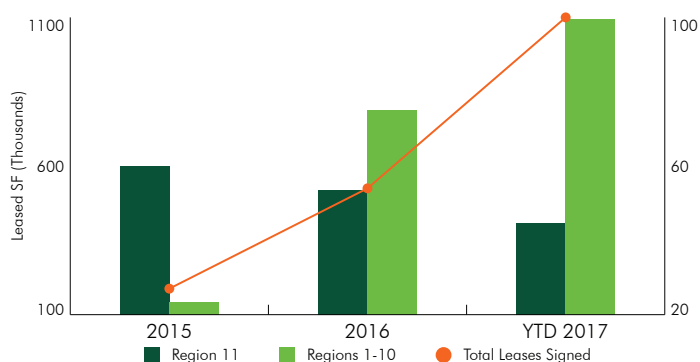
Tenant Name	Location	Size
U.S. Citizenship and Immigration Services (CIS)	Dallas, TX	260,000
U.S. Citizenship and Immigration Services (CIS)	Washington, DC	575,000
Transportation Security Administration (TSA)	Washington, DC	625,000
Internal Revenue Service (IRS)	Austin, TX	219,000
Bureau of Overseas Buildings Operations (OBO)	Arlington, VA	350,000
U.S. Department of Agriculture (USDA)	Alexandria, VA	131,000
National Archives and Records Administration (NARA)	Lee's Summit, MO	800,000
Social Security Administration (SSA)	Dallas, TX	135,000
U.S. International Trade Commission (ITC)	Washington, DC	205,000
Federal Communications Commission (FCC)	Washington, DC	473,000
Environmental Protection Agency (EPA)	Denver, CO	176,000
Federal Emergency Management Agency (FEMA)	Atlanta, GA	113,000
Executive Office for Immigration Review (EOIR) / U.S. Immigration and Customs Enforcement (ICE)	San Francisco, CA	93,000
National Institutes of Health (NIH)	Bethesda, MD	420,000
U.S. Army Corps of Engineers (USACE)	Vicksburg, MS	180,000

EXPANDING ROLE OF AAAP

The Automated Advanced Acquisition Program (AAAP) is an online leasing platform that allows building owners to submit vacant space or existing GSA-leased space in buildings to the General Service Administration (GSA) for leasing requirements. The program uses fixed, specific deal inputs (Lease Term, Tenant Improvement Allowance, and Building Specific Amortized Capital) to create a competitive landscape. Offerors submit their best offer terms on a 5, 10, and/or 15-year basis into the portal. When GSA has a lease requirement, it determines the delineated area and generates a report ranking the qualifying offers by price. GSA then awards the requirement to the lowest priced offeror.

AAAP started in the National Capital Region (NCR) in 1990 as a creative way for GSA to handle smaller procurements in the region. Over the past 27 years, it has been refined and has evolved into an effective method for GSA to run competitive and renewal leasing procurements for standard office space in a condensed timeframe. The program's success in the NCR and the increasing number of GSA lease procurements nationally, led GSA to expand the program to all 11 regions in 2015. In its first year, GSA used the national AAAP program

to sign seven (7) leases for 143,441 SF with a total lease value of \$54.6M. Year to date in 2017, one hundred (100) leases have been signed, outside of the NCR, through AAAP totaling 1.1M SF worth \$344M. We anticipate this national trend to continue, presenting building owners and investors with another avenue to pursue GSA lease procurements.



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