Public Buildings Reform Board
Public Meeting Agenda
July 16, 2019
1800 F Street NW, Washington, DC 20405

9:00 am  Opening Remarks by Public Buildings Reform Board Members

9:15 am  Congressman Jeff Denham
Former Member of the U.S. House of Representatives
Original Sponsor of Federal Assets Sale and Transfer Act of 2016
(“FASTA”) (Pub. L. 114-287)
Government Affairs Counselor, K&L Gates

Discussion of History of FASTA and anticipated results.

9:45 am  Federal Real Property Database/Methodology for Selecting High Value Properties

Ken Pearson, Managing Director (Dallas, TX)
CBRE
Danny Werfel, Managing Director/Public Sector
Boston Consulting Group
Chris Coneeney
Real Property Policy Division Office of Government-wide Policy Office
U.S. General Services Administration

Discussion of potential methodologies for selecting the properties for review by the Board

10:45 am  Perspective on Valuation and Commercial Real Estate Practices

Christopher Roth, Executive Director and Chief Operating Officer Public Institutions
JLL
Jerry Harvey, Senior Managing Director (Washington, DC)
CBRE
David Kiernan, National Lead Appraiser
Office of Real Property Utilization & Disposal
U.S. General Services Administration

Discussion of valuation practices as they apply to federal property proposed for disposal and relevant private sector perspectives

11:45 am  Questions from Audience and Closing Remarks from Board Members
The Public Buildings Reform Board met in Room 1461, 1800 F Street, N.W., Washington, D.C., at 9:00 a.m.

PRESENT

ANGELA STYLES, Board Member
D. TALMAGE HOCKER, Board Member
MARY PHILLIPS, Board Member
NICK JOE RAHALL, Board Member
DAVID WINSTEAD, Board Member

ALSO PRESENT

HON. CONGRESSMAN JEFF DENHAM, Government Affairs Counselor, K&L Gates
CHRIS CONEENERY, Real Property Policy Division, Office of Government-wide Policy, US GSA
JERROLD HARVEY, CBRE
DAVID KIERNAN, Office of Real Property Utilization & Disposal, US GSA
KEN PEARSON, CBRE

CHRISTOPHER ROTH, JLL

DANNY WERFEL, Boston Consulting Group
MEMBER STYLES: All right good morning everybody. Welcome to our second public meeting of the Public Buildings Reform Board. We're very happy to have everybody here today. We decided to kind of structure this meeting -- we are fortunate to have Congressman Denham here with us, which was really the father of the legislation that established this Board, which is a great way to kick this off today.

But we also decided, based on our first public meeting, that we really wanted to talk more about the methodology for coming up with a list of properties. As many people know, the Federal Real Property Database is massive. Some of the data's good, some of the data's not great. We're going to talk about the best objective approach to get to a list of buildings to really work from first for the high value properties, but certainly then for the other rounds of properties as well.
We thought it was really important to have a discussion about that, to put that on the table in terms of what -- so we're not picking and choosing subjectively specific buildings so that we're really working through this methodically and as objectively as we possibly can. We also wanted to hear from the commercial real estate industry as well, in terms of what should we be thinking about from the private sector side.

What is it that we haven't been doing that we should do here? What is it that the Board can do that is new or creative or flexible? What models could we create with our flexibility in the legislation, particularly with regards to the high value properties, how we make sure we're getting the most value from them.

What is it that we can do that's different, that I think can lead into the future, in terms of how the federal government handles real property? So that's where we are right now, and I'll turn it over to any other Board members
that want to make opening statements.

MEMBER WINSTEAD: Nick? I think Angela did a great job.

(Laughter.)

MEMBER WINSTEAD: I think it covered it all.

MEMBER STYLES: Well, there we go. It's a good start today.

MEMBER WINSTEAD: Yeah, very good start.

MEMBER STYLES: So Congressman Rahall, I will turn it over to you to introduce our first speaker.

MEMBER RAHALL: Okay Angela, thank you. This is our second public meeting. Our lead-off witness could not be with us on the first public meeting, but he is certainly no stranger to the Federal Assets Sale and Transfer Act, because he was the original sponsor of it in the U.S. House of Representatives. I happen to have been a member at that time when he introduced the legislation.
We both served on the relevant committee, the Transportation and Infrastructure Committee, and I was able to witness firsthand the manner in which Jeff Denham was able to reach across the aisle, work with all members in a bipartisan fashion to craft a piece of legislation that has truly and is going to truly be beneficial to the American taxpayer.

As the father of FASTA, as I call it, he is a gentleman that -- as you will find during this hearing -- with whom it is easy to get along with, a gentleman who's very knowledgeable of not only this issue, but the myriad of issues that come before members of Congress. By the way, you're hearing all of this from the only Democrat on this board, and I truly enjoyed working with Jeff Denham. He was not there quite as long as I was -- as you can tell -- but he is a gentleman that I truly am happy to continue to work with in our post-Congressional careers.

The gentlelady to my left happened to have worked for Mr. Denham while she was on
Capitol Hill, and I'd now ask Mary Phillips if she would like to make some comments as well.

MEMBER PHILLIPS: Well, I had the honor to work for Mr. Denham when he chaired the Railroad and Pipeline Subcommittee of the Transportation Committee in the House, and it was really only for a year -- my last year on the Hill -- but it was a great joy to work for Mr. Denham.

He's very enthusiastic and very passionate about certain issues, including this one. And it takes -- sometimes takes a long time to get things done in Congress, and it takes a lot of tenacity, and certainly Mr. Denham had that on this legislation. So thank you so much for being here.

MEMBER RAHALL: So with that, I might add as well that after his original introduction in 2014, it only took two years from Congress --- that's quite a feat -- before this was signed into law in December of 2016, as we all know, by then President Barack Obama. So I present to you
the father of FASTA, the Honorable Jeff Denham, former member of Congress from the state of California.

CONGRESSMAN DENHAM: Thank you, thank you. Well, it's an honor and privilege to be here with you this morning, especially as somebody that is very passionate about selling off the things we don't need, getting rid of excess properties, getting better utilization rates and getting government to really work well.

I got started on this when I was first elected to the State Senate in California, at a time that we had big budget deficits, and rather than having two parties that were talking about taxing or raising revenues, let's look at the things that we just don't need today. Went around the state of California trying to identify buildings, because like the federal government we did not have an inclusive list.

I finally took all the TV reporters of me taking a computer-generated slip that was about this thick and running it all around the
State Capitol, allowing people to look at it and realizing you couldn't tell what the properties were, what their addresses were, what they were valued at. There was no way for the public to be involved and no reason for the agencies to ever identify these properties.

One of the things I talked about a lot was slivers. Slivers was what Cal Trans defined as properties that they may have forgotten about or walked away from decades prior, because these properties were maybe used for a staging area. Or maybe it was a piece of property they had to buy, bought a half of an acre, a quarter of an acre, an acre wasn't used as part of that right-of-way for anything that they were doing.

But it was important to the property owner next to it when the weeds grew up or there was some type of vandalism, and those slivers became something very important to property owners that wanted to expand their backyard, a business that wanted to add a few extra parking places. Those slivers became a big deal. I'm
going to come back to that.

But when I went to the federal
government, this was the committee I wanted to
chair, Economic Development, Public Buildings,
because I saw that there was a big opportunity
with Public Buildings. Some of the same things
that we saw on the state level were happening on
the federal level, except in a much bigger way.
I mean these high volume, high value properties
are ones that should be generating not only
income for the federal government, but
redevelopment in many of our communities.

So some of those big properties that
we identified that we really pushed to get sold,
the Cotton Annex, the Georgetown Power Plant, and
probably the most famous one, the first hearing
that we held when I was first elected was on the
Old Post Office. A couple of very cold hearings
in the Old Post Office.

It was amazing to find out that once
it became a reality, that the federal government
was actually going to do something with the
property, how many different companies came out and bid on it. I mean some of the top hotel companies around the world, some of the boutique companies. I will tell you it was a surprise to hear -- get a phone call from GSA on who actually won the bid on that property.

But certainly it was a very bipartisan effort. Eleanor Holmes Norton and I did the ground-breaking and ribbon-cutting right there with Donald Trump. So it was exciting to see that we could take politics out of something -- at least at the time -- and do what was right for the taxpayers, do a long-term lease on a building that not only was losing millions of dollars annually, but we preserved the historic presence of the Old Post Office and that Clock Tower, one that was supposed to be torn down in the 20's.

And so it was an exciting project to work on, but it really showed how many different companies would come in and look at a lot of these properties if we actually developed a commission or a board that took it outside of the
legislative hands.

So I wrote the Federal Assets Sales and Transfers Act. It was passed, as Nick said, in December, signed under President Obama. Again passed, bipartisan in both houses and signed by a Democrat president. It really showed that you could unlock opportunity to dispose of under-utilized properties or do a long-term lease to be able to pull together properties that could have a better utilization rate.

But to get to where we needed to be, the biggest part of this is what we're still developing, and that is the Federal Real Property Profile. It's our database. It's the database that will identify all of these properties across the country, what are the ones that have the greatest value that we could sell off quickly, because we have a goal of selling off at least five initially, to 500 to 750 million.

Ultimately we'll want to sell at least $8 billion worth of properties in these first tranches of these high value properties across
the country, but this federal database allows us
to do that. The database, we set it up to
identify properties for sale -- especially the
high value properties -- identify opportunities
for redevelopment.

In some of our districts across the
country these properties are sitting vacant right
now are in opportunity zones or some of the areas
that need the jobs, that need the most
redevelopment possible. Identifying properties
that are under-utilized. I mean are they 20
percent utilized, 50 percent utilized? Is there
a plan to get to 100 percent utilization, or
should we be combining spaces to get that
utilization right?

So consolidation and then using the
database in managing leased space, use the
database in identifying funding priorities in
terms of capital investment and revitalizing
these properties that could be made more
efficient. I mean we want to look at properties
and, you know, see if they've got to be upgraded
to be able to support housing more employees.

The database obviously has its challenges. GAO found that out and we know that we've got to continue to improve that. But here's I think the challenge, is turning that database into action. We'd like to see -- we held a roundtable on this last year. We'd like to see groups around the entire country utilizing this database, crowdsourcing, identifying those properties that may be at the bottom of some list somewhere, but it is important to that community.

So back to slivers. Those properties, we want people to identify the properties that they'd like to buy, that they realize that -- you know, most individuals research a property because it's a nuisance in their -- by their business, in their community, by their house, and those properties are properties that we want to include in these first tranches as well.

So we'd like to pull together tiger teams that would allow us to do this crowdsourcing across the entire country, utilize
the database, and help us to rid ourselves of many of these properties that are costing us millions and millions of dollars annually in maintenance and upkeep, or are areas where we can have redevelopment in communities.

So let me end on this. Three issues that were our big goals of this legislation. First of all, we wanted to take the decision out of individual districts and bring these up as tranches. You know, with the political pressure of any district, any property, there could end up being multiple different agencies that may or may not want something to be developed on this property.

We want to make the decision for federal taxpayers. Take all of the different properties out from many different districts. You don't get to pick and choose. This Board does that, and then it comes up in tranches in between both houses for an up or down vote. I think that's a big win. Secondly, this public database -- as we continue to improve that --- is
the second big win of the three.

The third I think is an ongoing challenge. It wasn't identified in this bill but it was something that we talked about a great deal, and that's getting all of the different agencies to act as partners. We wanted to see an incentive, an incentive that agencies would do the right thing and not only present their list, but offer recommendations, be part of the solution, talk about the properties that either need to be fixed up or utilized better, or ones that are sitting vacant that they immediately pushed onto this list.

But it's still something that we've got to address in making sure that we've got incentives for those agencies to want to be engaged, to want to be involved, to make this a priority for them as it is for the federal government. Thank you for your indulgence this morning. This is a real passion of mine. I think it's a real opportunity to not only change the way that our government runs, but do it in a
very bipartisan fashion.

MEMBER STYLES: Thank you very much for joining us. If you don't mind, you know, we might have a few questions for you.

CONGRESSMAN DENHAM: Sure.

MEMBER STYLES: And I'll kick that off, but I'm curious what -- I mean, there obviously are metrics in the legislation itself in terms of number of properties, value of properties and expectations for cost savings, but what do you consider a success for us? I mean what are the -- what are the factors that will make us successful, and do you have any thoughts on how we can best achieve that, and really just getting this kicked off?

CONGRESSMAN DENHAM: Yeah. I would say initially, the first one is obviously selling off enough properties that we allow this Board to be successful as it moves forward, to have the self-funding available. Secondly, we would like to hit that $8 billion number that would really get a number of these high value properties off
and running.

Long term, I want to see a federal database that helps Congress to make good decisions. Before we start adding properties, before we start trying to build new properties, we should understand what our utilization rates are and are there opportunities to not only consolidate but actually create some synergies between agencies as you consolidate, but really looking at our federal footprint -- and not only here in Washington, D.C. --- which is important to so many federal properties -- but across the entire country.

I think that there have been a lot of forgotten properties, ones that could be revitalized or sold off or long-term leased that would revitalize communities as well as help the federal government out.

MEMBER STYLES: Thank you.

MEMBER WINSTEAD: Congressman, what discussions did the committee have in the hearing process on the experience under BRAC? Obviously,
you know, it had a long history on the military facilities side. Was there much discussion about success there and -- or not success there, I'm just curious.

CONGRESSMAN DENHAM: Yes. BRAC is very emotional for many, many districts that had bases closed down. We had initially talked about a BRAC-type bill and even used it as part of our discussion points for a very short amount of time.

(Laughter.)

CONGRESSMAN DENHAM: So we realized very quickly while BRAC established some good procedures, you know, I think by setting this up as a Board allows us to not only make a better decision but to bring it up as a larger tranche rather than -- I think we can engage Congress to be part of the process rather than surprising them.

MEMBER WINSTEAD: Just a follow-up. Even since the bill was passed two years ago, you know, the federal inventory has continued to
downsize in terms of square footage for federal employee and looking at savings and consolidation. DHS, for example, is now looking at, you know, half of the employees in the Washington area being at St. Elizabeth's, but the rest sort of consolidated.

So that seems like it's sort of underway. It doesn't deal with, you know, looking at specific assets, which this is Board is doing. But it does seem to be a trend in an effort that it really is bringing down the footprint, which I think was obviously one of the objectives.

CONGRESSMAN DENHAM: I would agree. There is a trend that is moving forward, but it is a trend that's far lagging behind the public sector that's been trending this way for quite some time. So I think that we've got a long way to go. We also have to take a look at some of the properties that, as I've toured the country I found a lot of properties that many members would ask me to come to their districts to look at --
things were falling apart or were sitting empty.

So I think part of the goal of this Board is to look at those properties that are costing us millions and millions of dollars that in some cases it might not yield a big profit back to the federal government, but just ridding ourselves of that maintenance and upkeep, where we've got security and landscaping and we're taking care of mold, but nobody's living in these -- you know, nobody's using these buildings.

MEMBER PHILLIPS: I was just curious Congressman about the political considerations and hurdles that were involved in the legislation. The final Act, for instance, excludes from our purview a lot of property, anything regarding the Coast Guard, Ag property, property for conservation, that sort of thing. I'm sure there were some compromises that had to be made --

CONGRESSMAN DENHAM: Well, there certainly is -- any bill goes through a number of different considerations and compromises. You
know, I would like to see the successes of this Board move forward, so that we could look at other areas. But certainly DoD is -- the Department of Defense has, through BRAC, done a lot of the downsizing quite some time ago. The VA is taking on some of that.

I do think that there are other agencies that are moving forward. But I think this is -- the template and where I think other agencies are going to look to to have best practices, and then ultimately may combine those as well.

MEMBER RAHALL: As you know Jeff, one of the geneses for this legislation was the fact that GSA does not have the authority or the muscle to order agencies to vacate or sell or change the way they utilize certain properties. Do you see some point along the road giving GSA more -- Congressionally mandating more authority for GSA to order the agencies to dispose of properties, or is that the goal of this Board?

CONGRESSMAN DENHAM: Both, but
certainly it goes back to that third issue of incentives. I think that agencies need to be motivated to do this. You know, they're trying to do more with less and they're getting pulled in a lot of directions, and if this is the lowest priority then the lowest priority oftentimes will sit on the sidelines.

But we need to make this a high priority, and redevelop these properties across the country to get them back into either a positive inventory or get them moved into a windfall for the federal government, as well as getting rid of our cost of maintaining those properties.

So I think that there are real opportunities that as this Board has a number of successes will continue to expand its area of reach. But the incentive is something that -- and the incentives could be done through the administration as well.

MEMBER RAHALL: Final question, yes or no answer. Would you be our chairman?
(Laughter.)

CONGRESSMAN DENHAM: I would have to
get back to you on that.

(Laughter.)

CONGRESSMAN DENHAM: It takes a good
friend to put you on the spot like that.

MEMBER RAHALL: And the legislation
states that we should have a chairman. There
doesn't seem to be interest at 1600 in nominating
such, even though we have the legal authority to
proceed without a chairman. But you, it appeared
in my mind, to be the only one that could grab
1600's attention and, more importantly, get
confirmed by the Senate.

(Laughter.)

MEMBER STYLES: I have one additional
question. You gave us a great deal of authority,
particularly with regards to the high value
properties in how we make our recommendations,
and there's also encouragement to work with state
and local officials. I'm curious about what you
envision.
I mean the one thing that we see as kind of the zoning issue, if you will, it's -- you know, the value of the property significantly increases when there's certainty about what the state and local government is going to do with regard to a federal property that, you know, right now is obviously not zoned. Do you recall what you envisioned for the Board in terms of making recommendations or working with state and local officials?

CONGRESSMAN DENHAM: Yeah, we certainly wanted to encourage the work with state and local officials, because I think there's an opportunity to increase the value of these properties, as well as help with the cleanup of some of them. I mean these are all unique properties that have their own challenges.

The Georgetown Power Plant had a number of different challenges and it sat for decades, and it took a great deal of pressure before we could move that forward. But it also took working within Georgetown as well as GSA to
get that property moving. I'd like to see that partnership with states and local communities, because they should have a vested interest in cleaning up their community as well.

I think there can be incentives to, you know, help develop something by getting rid of some of the red tape in the process, and having a real partnership with local and state government to help to get rid of that red tape, to move properties quickly.

MEMBER STYLES: Okay. Do you guys have any additional questions?

(No response.)

MEMBER STYLES: All right. Well, thank you very much.

CONGRESSMAN DENHAM: It's an honor to be with you this morning. Thanks for inviting me.

MEMBER STYLES: Thank you.

MEMBER PHILLIPS: Thank you.

MEMBER STYLES: All right. We'll move to our next panel. Thank you.
(Pause.)

MEMBER STYLES: All right. We're going to go ahead and kick off our second panel here. And just for a little background -- so Danny Werfel was invited but he's not here. If he comes in in the middle, we will add him to the panel. He was at our first public meeting and he raised the issue, I think very appropriately, of methodology.

How do you take this, you know, massive database that we just heard about its creation and why it was created, and narrow down the properties in the first instance to get to a list of potentially high value properties that we could just look at for actually recommending for sale through our legislative -- through our statutory process here.

What actually occurred though and why you've got these two people here is that part of our legislation says that GSA and the Public Building Service in particular and OMB are supposed to come up with a list of
recommendations to give to us, which includes not only high value properties but also recommendations for other cost savings measures as well.

And so the Public Building Service -- which by the way are the reason that we have this nice room here today and everything else, so we really do appreciate them helping us out with getting kicked off when we don't really have any staff at this point.

But so the Public Building Service was taking real hours. As you heard, this legislation passed under President Obama in 2016, was taking awhile to get this off and running and kicked off. So the Public Building Service actually hired CBRE to take a look at the database and to come up with a methodology for narrowing down the properties in that database.

Now and that's what we really wanted to talk about here today was that methodology, so we can better understand it, see if there's changes or tweaks that the Board might need to
that methodology. Chris Coneeney is here today because he is the master of the database, and so no analysis is good without good data.

So you know, part of what Chris can speak to as we explore this is where is -- is the database working, where is the data good, where are the kind of missing elements here that are going to cause us some problems in our methodology because the data isn't as good as we would like it to be, or what are --- what additional flexibility should we add in the database, what should we be thinking about as we work through it and work through the properties?

So there are no -- do you guys have other opening comments before this panel? Okay. So what I'd like to do is to kick it off with you, Ken, to explain the process that CBRE has walked through in helping the Public Building Service come up with a list, a methodology, if you will, and helping reach a list of potential recommendations that would then be given to us.

Now it's not -- we do not have the
recommendations from PBS and OMB collectively
back to us yet. So once we have those, those
will be made available to the public as well. So
I'll turn it over to you.

MR. PEARSON: Thank you very much. My
name is Ken Pearson and I'm with CBRE. I'm based
out of Dallas, Texas and I headed up a team
composed of about a dozen people with us and with
Booz Allen to kind of -- really our job was to
take a fresh look at the data from a standing
start, to try and understand the data, first of
all, to figure out what's there and then utilize
that to help frame out, you know, what you can do
with that data to help further the goals faster,
which are really to help identify that initial
tranche of assets, you know, the high value
assets that are going to be sold off in the first
wave, and then having to utilize that data to
help come up with further candidates.

MEMBER STYLES: If I could -- if you
could hold on because we're transcribing it, and
I just want to note that Danny Werfel's here and
thank you so much for coming. Just so you know, we kind of kicked this off with how we got to this panel was because you had mentioned methodology in our first public meeting.

MR. WERFEL: Okay.

MEMBER STYLES: We have a methodology that we're looking at.

MR. WERFEL: Okay.

MEMBER STYLES: And we also have Chris Coneeney here to talk about the data and strengths and weaknesses that you might find in the database. Sorry Ken, I'll turn it back over to you.

MR. PEARSON: So again, we posted from a cold start. It's a very, very large database -- oh, there we go -- and roughly in round numbers the database covers about a million assets worldwide. The database cover assets that aren't subject to FASTA. It covers properties that are international. Those are carved out by the law. It covers DoD properties that are carved out by the law.
The initial tranche of data that we got excluded all of the DoD assets and all of the national security assets. So our -- you know, we put a straw in the milkshake and what we got out was carving that out. So when you -- I'm going to go back and forth here a little bit.

So when you carve out the international properties and the -- or excuse me, the DoD and national security properties, you get around 400,000 assets. It includes some international assets. I think, you know, for everybody -- for people who haven't looked at the database, I think it's important to understand a couple of terms. Assets are -- and I'm glad that Chris is here because he can just kick me under the table if I mess up anything. He's like the Jedi of all of this.

Assets are structures. So think of a structure, whether it's a bridge, a tunnel, a building, a piece of land, whatever it is. It is an individual asset. An installation is a group of assets that are operated together. So think
of the VA hospital, a Job Corps site, or so forth.

So a VA hospital, for example, could be ten buildings, a parking structure and a piece of land, and inside of the database that is one installation. It's the Audie Murphy VA Hospital in San Antonio, for example. A single building can be an installation as well. Federal court houses, federal office buildings, they are single building installations.

So if that's the -- those are the two kind of bedrock terms that kind of run throughout the database. There's other terms that are important as well regarding, you know, property uses in agencies and bureaus. But at a very, very high level, those are the two big terms.

So we take that 400,000 property universe, which is all assets and installations are kind of below that, and created a filter based on the law. The law excludes, as you've heard, a number of uses. It excludes conservation uses, it excludes DoD, it excludes
certain agencies like TVA and the Post Office.

So within, within that law, the legal framework, we created -- this is a visualization of all this. We created a filter, and we pushed that 400,000 asset grouping through that filter to determine what assets are actually eligible for the Board to consider under the law. That gets you to around, you know, 110,000 assets, domestic and then within the purview of the law.

MEMBER STYLES: Can I ask a question while you're running them? So to this point, it's just objective and just sheerly relying on the data. There's nothing else that you've done other than just follow the statutory requirements to this point, right?

MR. PEARSON: Correct, because it is an enormous database and just to manipulate it around -- number one, we shouldn't be looking at things that the law doesn't cover because by definition. I wish I could go back on the slide. But the other --

(Pause.)
MR. PEARSON: So when you map it, you get what I sometimes refer to is it looks like you've dumped a bowl full of Skittles out on a table. This is by using bureau, which is the most effective way to look at it from a reporting perspective. It's actually who's using an individual asset.

And what you get, you get everything from border crossings to irrigation ditches. You get a whole bunch of stuff. So how do you kind of create that next layer down the filter to look at things, because the way we looked at it, you know, the Board has a very short time frame to come up with that list of high value assets, to put that up and get it executed on. So you know, what's the -- what's the real --

MEMBER STYLES: On a question before we get to that for Chris, are there any problems in the data to this point in the methodology, right? So if you're excluding things that are excluded by our statute from us looking at, based on this methodology are there any problems with,
you know, how these, you know, were identified, being TVA or UPS or DoD properties?

MR. CONEENEY: In terms of the agency when you make those exclusions no, because we interact directly with now over 55 agencies as big as the Department of Defense, Interior, SBA, down to small commissions. Going to the other aspect -- and again on your prior table where you went from the 400,000 to about 110 -- in addition to excluding an agency's inventory there were certain property uses that were excluded, agricultural, conservation, power projects, etcetera.

Those determinations were made by the land holding agency. So we provided the guidance in the FASTA law. The indication that it was to be excluded based off of it being for agricultural conservation was made by the land holding agency.

GSA was not in a position to challenge. Now it's up for the Board, in interactions with the agency, to assess an
agency's full inventory versus --- and Ken, you can probably back that up from your initial analysis as well --

MEMBER STYLES: The exclusion reason.

MR. CONEENEY: Their exclusion. You look at their -- an agency is --

(Simultaneous speaking.)

MR. PEARSON: It's self-selected.

MR. CONEENEY: Right. So Defense, TVA, you know off the top it's their entire inventory. Once you start looking at some of those other agencies, looking at their entire inventory, then looking at the inventory as a percentage or, you know, which assets that agency indicated we've excluded this for conservation, we've excluded this for agricultural, irrigation, etcetera.

GSA is not in a position to question that. We receive the data, but they have that custody and control. Now as an independent agency, the Public Buildings Reform Board, is that something that you want to engage with that
landholding agency to question should some of these assets be under consideration? That is up for, you know, the Board to consider.

MEMBER PHILLIPS: There are -- there appear to be, in some cases for example, an office building has been excluded because the agency has said it's for an excluded purpose.

MR. CONEENEY: Correct.

MEMBER PHILLIPS: Conservation.

MEMBER STYLES: The entire office building is for conservation?

MEMBER PHILLIPS: Yes. So --

MR. WERFEL: One other potential -- one question about the methodology would be -- if my recollection is correct -- the FRPP was really developed, as mentioned, around this concept of a constructed asset.

So a question I would have is if you have a parcel of land with no constructed asset on it that could potentially have value and be kind of relevant to the overall mission or purpose of the law, that would be a question that
I would have about whether we're potentially
missing some stuff, because there's no
constructed asset but the land has value and
maybe a higher and better purpose outside of the
government's management and control.

MEMBER STYLES: How is that showing up
in the database?

MR. CONEENESY: So when -- and again,
I'll use the terms Ken used earlier, installation
and asset. An installation, as you mentioned, be
it a VA hospital, a research campus, a military
installation -- and I commonly use Joint Base
Andrews as an example, understanding that the
military is excluded from the Board.

Joint Base Andrews is considered one
military installation. Hypothetically, if that
were to be disposed of, generally you might
dispose of it in its entirety, or as Danny said,
you might carve out a parcel of land or even land
with some assets on it for a disposal action. In
terms of reporting to FRPP, each land parcel as
well as all of the constructed buildings and
associated structures, are different records in FRPP.

So the Officer's Club, the administration building, the barracks, the hangar, the runway, the fence line, the power distribution, those are all considered separate assets in our system. So that gets you from one military installation, Joint Base Andrews, to hundreds, maybe thousands of records in FRPP that in total represent Joint Base Andrews military installation.

MEMBER PHILLIPS: Is land reported that is associated with a structure or building?

MR. CONEENEY: Yes. The guidance to the agencies that we do issue annually require them to support -- excuse me, to report both the land as well as constructed assets that sit on the land. The only major exception to that -- and this originated with the executive order in 2004 and it is consistent with FASTA -- are public domain land.

In that instance, if you're talking
about a national park, a national forest, wildlife refuge, the agency is not required to report the land that comprises the park, the forest, the wildlife refuge. They are required to report any constructed assets that would reside within the boundaries of that park or public domain land.

So a visitor center, maybe some recreational, observation tower, etcetera, within that park/forest. That should be recorded. We would just not have the boundary comprising that public domain.

MR. WERFEL: What I'm suggesting is a potential weakness in the FRPP is -- and the way it was implemented, is that you probably do not have sufficient information to really understand what opportunities that are with some of the parcels of land, because the emphasis, the center of gravity of the effort was around the constructed asset.

Is it mission-critical? What's its value? What's its utilization rate? So a lot of
the energy goes there versus a parcel of land.

Now I think an example -- I mentioned this at the last meeting, one property that often comes up when people talk about high value assets owned by the U.S. government is the VA installation in West Los Angeles.

And as we were looking at that -- and this is years ago so I don't know if it's still the case -- there are parts of that property that were technically within the campus that were being lent to Los Angeles County, and they were using it for soccer fields.

It's a good purpose, but I'm just saying like that naturally isn't going to jump out at you at the FRPP, you know, in terms of what the value of that land might be or what its condition or utilization is because it's currently not really central to what VA's doing and not really tied to a constructed asset.

So there might be, as part of the methodology, a slice that you might want to look at to understand where there's parts of
installations or land owned by the U.S.
government with no constructed asset, where there might be something that you might want to look at.

MR. PEARSON: Yeah, and diving a little bit deeper into that, there's one slight -- there's not a land acreage attached to the single building installation, which is a little bit of a blind spot. And then with regard to a multi-asset installation, land is listed as its own separate asset.

So if you have 100 acres under the VA hospital, Danny's point you don't know how much of that 100 acres is being used. There could just be five acres being used or, you know, in one instance, you know, you've got a VA hospital occupying on 100 acres and then there's, you know, there's a 30 acre golf course and ten acres of vacant land. That's not readily apparent through the database.

MR. WERFEL: And that's the part --

MEMBER STYLES: If there's one, if
there's one building on the land --- so say you have four acres and one building, is the four acres reported separately?

MR. CONEENEY: It is supposed to be reported as a separate record within the system. So again, a federal building courthouse in theory, assuming that it is yes, just one building, there should be two records within FRPP, one representing the building that is constructed on the parcel of land.

MEMBER STYLES: Is that accurately done?

MR. CONEENEY: In all cases, no. That's an unfortunate part.

MEMBER STYLES: Okay.

MR. WERFEL: When the FRPP was created, there are four what was called performance measures around the property that's beyond just like its longitude, its latitude and what its purpose is. Those four were mission criticality, utilization, cost and condition. Those all concentrated on all of this guidance
and all of it was around constructed assets, not
around land.

MEMBER STYLES: Not around the land.

MR. WERFEL: So you would not be able
to look at the FRPP and distill those soccer
fields out of the VA facility as having, you
know, a utilization, a low utilization rate from
a government standpoint. It's just -- it's just
a gap in the way the information is collected so
--

MR. PEARSON: Another point to tag
onto that a little bit is the utilization is
self-selected as well, and the mission critical I
think for the --

MR. WERFEL: That's subjective, yeah.

MR. PEARSON: Over 96 percent if I
recall correctly in round numbers of the assets
are identified as utilized and mission-critical.

MEMBER STYLES: 96 percent are
mission-critical?

MR. PEARSON: Yes.

MEMBER STYLES: Okay.
MR. PEARSON: And within those that are selected as under or unutilized, a significant number of those, you know, that's a term of art and it triggers the disposition process. A number of those inside of that grouping have issues to disposition. So you know, when you look inside the data set, you know, there's kind of a cleavage, I'd say significant percentage of those are, have been there for multiple years, and it's because of issues related to disposition, you know. The GSA's working to get environmental issues remediated or there's historic issues.

So those are a little bit older vintage, and then there's a smaller, a very, very small set that are kind of within a year or less and, you know, that are more -- and those are kind of teed up in the chute for the disposition process.

MEMBER STYLES: So how do we approach mission critical then if 96 percent of them are mission critical? How should we approach the
analysis and, you know, does your initial methodology here examine whether it really was mission critical or not?

MR. PEARSON: Not exactly. Let me kind of go back to the BRAC. I can kind of come back to that point. So as I mentioned, we took, we've got the larger group. We've filtered it through the FASTA law to come up with a group of about 110,000 assets. It's still a very large number of assets and a large number of installations. So you kind of have to keep pushing it down through layers of filters.

So one of the next things that we did was to try and come up with, you know, as you get more familiar with the data, there are certain things you can lean into and certain things you can't. So there's not a value per se for each asset. The one thing that is there that's pretty consistent that you can lean into is the replacement value.

MR. CONEENEL: Right. Yeah so, and just to elaborate, when the FRPP was first
developed, again out of the executive order, there was an interagency group and we did discuss how to account for the value of the government's real property inventory. We did look at appraised value, but due to the cost by the landholding agencies to conduct a valid appraisal on every single property was overwhelming.

So we defaulted to replacement value, which is a representation of what it would cost the government to reconstruct that asset. So again, you're excluding your land. You're not going to reconstruct land. But your buildings and your structures, what would it cost you to reconstruct it in its entirety as a representation or as close we get, could get to appraised value, knowing that we were not going to have the resources to --

MEMBER STYLES: And how did they come up with that number? And then is there guidance for them --

MR. CONEENEY: There is guidance that we issue in our data dictionary on an annual
basis. The basic formula is you take your unit. So if you're talking about a building, you take the square feet times a unit cost. So basically a construction cost factor, and then you can apply overhead factors for geographic, seismic and other factors to arrive at what the replacement value is.

MR. WERFEL: And one of the reasons why the replacement value was also chosen over book value or a fair market value, two of the three that were debated, was because replacement value is a component of the formula that's necessary to do a facility condition index assessment. So it was really convenient, because we were -- condition was one of the performance metrics, so we needed the FCI number.

They already needed a value to conduct that formula, so when we went to value, we said well let's just use the replacement value. We already have to collect it anyway or develop it in order to do the FCI. The problem with it, as you can imagine, is it's a completely different
I remember thinking at the time people are going to misinterpret this, because it's going to -- our replacement value for the assets is going to be exponentially higher than the actual fair market value, and sure enough years later when the Obama administration came in and wanted to do something in real property, they were operating on this assumption that that market value, because they went to the FRPP, was like trillions and trillions of dollars.

When we told them like maybe we could save like 300 million in the first year or something like that, they're like well that's .0001 percent of the actual value. You guys can do better than that.

So we had to like calibrate and explain that replacement value, because people -- it's not an intuitive thing for a lot of people walking on the street to understand the difference between replacement value and fair market value.
But I agree, it would be really difficult. That's why, not to jump into methodology, but you would use fair market value once you narrow down to a set of assets where you were curious about what the business case would be for this --

MR. PEARSON: And the way I would view replacement value is what the tee shirt says, small, medium, large, extra large. So you know, are you dealing with a toaster or a minivan? It's not surgical precision, but it's a starting point. And so this layer of the filter was really around looking at what kind of properties are going to get to a threshold that could potentially be a high value asset, a million dollars or more?

So we excluded properties in smaller markets. We excluded a lot of specialized uses that aren't likely going to be considered anyway, monuments, bridges, prisons, you know, things that aren't likely going to be subject to being sold, smaller units of acreage, leased assets
smaller than 25,000 square feet of floor plate
basically, and replacement value of less than a
million.

When you push it through that layer of
the filter, that knocks out a lot of the chaff
and you get a lot of the wheat out of it.

Initially, it's a little bit of a shock to see
dropping from 110 to 10. You think well, are you
getting rid of a lot of babies with the bath
water here?

Not really, and kind of what we did is
go through and what that table over there, all it
says basically is even though you see a big drop
in the number of assets and installations, you're
still catching a very large percentage of the
square footage, the replacement value, the head
count and the number of acres within the ones
that are selected.

So at that point, you've got a little
bit more manageable of a data set to start
looking through. You've eliminated some of the
smaller properties. I hate to say it the
distractions, because you've really got to focus
on the ones that are likely to generate more
proceeds initially, or lease savings.

MEMBER PHILLIPS: Do you know Ken
offhand how that breaks down in terms of own
versus lease?

MR. PEARSON: Inside of this? I don't
have that in front of me, but overall the
portfolio is roughly 50-50. Within given
markets, within you know CBSA markets, it varies
a little bit more so. For example, the lease
versus owned percentage in Dallas, it's a much
more heavily leased market than an owned market.

When you go to markets like
Washington, D.C. or Seattle, it's much more
heavily owned. So we did look at that, primarily
at a market-based level to see, you know, within
a given market is there more leased property or
owned property.

MR. WERFEL: My one concern with that
would be the three acre thing. Not that I have a
basis to know if there are any properties smaller
than three acre. But I just want to
double-check. I would like create an epicenter
around high market value, an area like downtown
San Diego or Santa Barbara or whatever, all
around the country, and then I'd want to know are
there any properties that are federally owned in
that space that might be less than three acres,
because it's a random building or something
that's sitting on two and a half acres or
something like that.

Because in those areas, property is
more of a premium and you tend to see smaller
federal footprints exist. But that doesn't --
but those small federal properties might be very
high value because of where they're located. So
I just want to double-check that three acres. I
agree, like in, you know, in most cases the three
acres isn't going to be worth your effort,
because it's not in a high market area.

But you might have -- but imagine a
three acre facility on K Street, a 2.9 acre or
something on a K Street would be worth a lot. I
just want to double-check there aren't any of
those out there. Hawaii would be another
type of example.

MEMBER WINSTEAD: Chris, can I -- Mary
asked the question. The exclusion of
conservation purpose. You mentioned that you
discovered an office building that was classified
as conservation?

MEMBER PHILLIPS: Yes, there was.

MEMBER WINSTEAD: How in the world --
unless it's an office building in the middle of a
national park, how could that -- how could the
agency declare that as conservation purpose? For
example, Beltsville, you know. A lot of land out
in Beltsville. Steny Hoyer's been looking at it
for years, and yet you know an office function
there is not relevant to the mission of the
Agricultural Service.

So I'm just wondering how do we look
at that specific asset and sort of bring it back
in if in fact it's --

MR. CONEENEEY: And those are questions
that have to be posed to the landholding agency.
Again, if you were to go back and look at the
FASTA law, that certain section said "property
for the following purposes are excluded from
consideration." It didn't say if it's an office
building supporting agricultural use,
conservation use, etcetera, you can -- you must
include it.

So that's where -- because the law
didn't provide that level of specificity, we did
not make the conclusion of providing that set of
instructions. We provided the law as it was
written and instructed review your inventory and
make a determination on each asset, again office
building. If the agency is saying this office
building supports conservation or agricultural or
a power project, etcetera, that agency has to
make that determination.

But certainly the Board can, in
reviewing the data of the inventory as a whole
from that agency, ask those questions. Then it
would be up to that landholding agency to defend
this office building is tied to an irrigation project, you know, within the vicinity.

MEMBER WINSTEAD: So let me -- just to -- that's -- I think that's an area we need to look at very carefully. But let me just ask the question, you know. The FDA over the last three years has just gone through a master planning process at White Oak. I don't know when NIST's last one was, but NIST got a huge chunk of land. To Danny's point, three acres at NIST, you know, could be very valuable.

I mean it's not in downtown. It's not in an urban core, but it's sort of near Rockville. So do the agencies, when they provided you the list, throw up the master plan as being a defense of this land is mission critical? Did we get to that fine point of being able to basically ask the agency, you know, what is the master plan and what are the critical facilities there, versus just marginal property that you'd like to hold onto.

MR. CONEENEEY: And when you "the
list," you're talking about when the agencies were making their proposals on property for consolidation, co-location or disposal? Is that what you're --

MEMBER WINSTEAD: No, no, no.

MR. CONNEENY: I apologize. This is more in the exclusion category --

MEMBER WINSTEAD: In the exclusion, okay.

MR. CONNEENY: --where they pointed to the master plan and said, you know, this is land is not surplused. It's not excess to our mission. It's critical to mission because I, you know, it seems to me you could go through a lot of the civilian, the FDA, the NIST and others where they're, you know, it's potentially very valuable land for redevelopment.

And I would, you know, Montgomery County for case in point. Montgomery County would be very responsive to looking at okay, what could we do with the surplus jump, be it 10 acres or 15 acres, at the NIST campus, in terms of
bringing in redevelopment tax-based revenues for, you know. So did the master plan come up as sort of an excuse a lot or not so much?

MEMBER WINSTEAD: No.

MR. PEARSON: I believe they just report --

MR. CONEENEY: They just report the category. They don't have to justify it within the database.

PARTICIPANT: Right.

MEMBER WINSTEAD: Okay, gotcha.

MR. CONEENEY: It is literally -- it's a dropdown. Here are the, I can't remember, 10-12 various categories identified in the law, and if they make the determination it's agricultural, they just choose agricultural.

PARTICIPANT: Okay.

PARTICIPANT: There's no backup.

MEMBER STYLES: What about mission critical? So when go into FASTA eligible, the core properties, did you exclude everything that the agency identified as mission critical?
MR. PEARSON: No, we did not.

MEMBER STYLES: Okay. I'm just trying to make sure.

MR. PEARSON: We looked at all of those. So then those passed through the filter to look at.

MEMBER STYLES: Okay.

MR. PEARSON: All right. A few recommendations, you know, that we identified. Head count is another one of those instances. Head count is what drives your utilization numbers. Head count is self-reported as well and it's self-defined as well. So, and it's not readily -- they're just passively reported numbers. So there's no backup behind the numbers. There's no uniform definition.

So perhaps especially with regard to larger assets, particularly with regard to office assets, you know, there's so many esoteric uses that are going to throw off your numbers. If you run it portfolio-wide, you know, labs and courthouses and things like that, you know,
aren't going to have standard private sector utilization numbers.

But a purely office use without those other uses, you know, you need better head count data to determine utilization numbers, and better definitions around that. Expenses as well. They vary sometimes, and then the other -- the other one is regarding installations and sub-installations.

There's not a uniform ID for installation IDs or naming. So it is somewhat difficult to roll up assets to a given installation, because it's not a unique identifier.

MR. CONEENey: And several observations on the points that you made. In terms of head count, we have struggled with this for years. There is no government-wide methodology for all agencies. Some use personnel systems, some use sticking your card either in a turnstile or into computer equipment that would log you in and be recognized and could be
tracked.

We continue to try and make progress. You also have to look at head count, both from a supply and a demand side. In theory, an employee is generally assigned to a building, we'll take office building because that's the most common. There are other types as well. But they're generally assigned to an office building.

Sometimes it's -- they come in five days a week. Sometimes they telework or travel or so on. That gets you to your demand side, and what are the methodologies to assess even though a building may be designed for, you know, a thousand people, that doesn't mean all thousand people are showing up five days a week. So you have to look at it both from a supply and a demand side.

What we have now, again as difficult as it was to get there, is really looking at the demand side in terms of assignments. We are starting to investigate approaches to get to these, excuse me. The data we have now is more
on the supply side. We're trying to investigate those approaches to look towards the demand side. That would be an opportunity to identify, to increase the efficient use of that space.

In terms of observations on the O&M expenses, what we have encountered and we've made it known, there are two aspects to costs. First is the actual identification of what those costs are. We encourage the agencies to first use actual costs in reporting information to our system.

There may be some instances where they do not have the actual cost for certain categories or segments of their inventory. We then in our guidance instruct them to develop a standardized methodology. But even if you have a standardized way of accounting for the actual cost, because again going back to your reporting at a constructed asset level, you may have a contract for operations or maintenance that covers an entire installation or may even cover a wider geographic area.
So how do you allocate what your known costs are across all of the assets, given that contract? And so there are instances if you're not metering a building for utilities per se, where you have to develop a standardized methodology for allocating those costs across all of the assets given that contract or on sunset side for a particular purpose.

MEMBER STYLES: Is methodology disclosed in the database, or do you have to go back to the agency?

MR. PEARSON: You would have to go back to the agency.

MR. WERFEL: Can I comment?

MR. PEARSON: Yeah.

MR. WERFEL: I just want to quickly comment on how you're counting utilization, bringing up a point that I made at the last meeting. Which is, and this is a little bit of a passion of mine but so that has a little bias. But I think the future here is using technology to create proxies for building utilization and
head count. I mentioned a couple of the like a count card swipe being a D card swipe or a PIN card is a great one.

But there are others. One I'll mention is there are emerging solutions that the government is starting to deploy on cybersecurity that have geocoding on IT assets, hardware like laptops, that allow you once that laptop is turned on to understand where it is in the system. It was built for a cybersecurity purposes, but it has this potentially secondary purpose of knowing where your assets are.

The other one is router pinging, you know. The telecommunications company has data on when routers are being pinged by your -- in a WiFi network. So some buildings, they look at floor by floor because it just demands. If it's a different router, they can actually get the utilization rate for that floor.

There's a few others, I won't bore everyone. But I do think that that's the direction I think the government should go,
because I think you can balance the tension of privacy by doing it in a way that is double blind or whatever, but still getting sense of -- from a technology standpoint. Where are our people? We know that because our cybersecurity footprint tells us that's where the laptops are. Our routers are telling us that's where they're connecting to WiFi, etcetera, etcetera.

MEMBER PHILLIPS: I listened to your podcast with Dan.

MR. WERFEL: No plug here, yeah.

MEMBER PHILLIPS: One of them, and I was blown away when he said that when he was administrator, there was an analysis done, and I think it was D.C. on --

MR. WERFEL: Yeah. This was when this building emptied and they moved to NoMa to construct the very room you're sitting in along with that. They did an analysis of the capacity of that building in NoMa, which was a swing space for them.

MEMBER PHILLIPS: And also that if
other agencies took the same actions in terms of aggressively using shared space and knowing how many people are actually here, that there would be no need for any of these things.

MR. WERFEL: Yeah, yeah.

MEMBER PHILLIPS: I thought it was fascinating.

MR. WERFEL: Yeah it is. So they found that effect when they did that in 2000 and I guess it was '13, time frame '12, '13, '14 time frame and this building was under construction. They found that for the most part, the facility in NoMa was 50 percent utilized at the peak. Its peak was Tuesday afternoon. Everything else was at 50 percent every other day.

That was in retrospect not all that surprising given telework, given the mobility of the workforce in the 21st century in a sense.

MEMBER WINSTEAD: So Danny what -- is it cybersecurity? I mean it's just fascinating, because there are a lot of start up real estate IT firms, you know. They're ten times five years
ago. They're 5,000. These companies have their
-- but on the government, the federal government
side you mentioned privacy and you mentioned, you
know, the equipment coding that you have.

MR. WERFEL: Yeah.

MEMBER WINSTEAD: So has -- are we
over that hurdle of privacy?

MR. WERFEL: I mean no. I don't think
they've really tackled it. I just think that it
-- when I've raised it --

MEMBER WINSTEAD: So currently,
unfortunately it could be a long time before --

MR. WERFEL: Well, when I've raised it
as an example, and maybe I have to improve the
way I present it, but the example I sometimes
present it, I shared it last time is if you go --
get home and you Google the National Gallery of
Art, it will pop up. The picture of the National
Gallery of Art will immediately pop up with a bar
chart, with the foot traffic by hour, two
o'clock, three o'clock, four o'clock.

And we were -- I mean as our project,
we were really curious about that and we actually
called Google and tried to figure out where that
data was coming from. It's all based on our
research. It's coming from similar -- it's like
waves, crowdsourcing, where are people moving in
the system and that's where they're getting that
information, you know.

But there are potential security
issues with, you know, depending on what type of
asset you're talking about, saying like this
building is at its busiest at three o'clock. You
could imagine how that information could be
potentially misused and it could be something the
government looks back on and says we shouldn't
have done it that way.

So I think there's solutions for all
this, but I'm just suggesting that there's some
policy tensions that would need to be sorted out
that would have to be kept fairly close hold or
confidential if it was to move forward.

MR. PEARSON: So in terms of come back
to the methodology a little bit, wherever we have
time.

MEMBER STYLES: Okay. We have about ten more minutes.

MR. PEARSON: Okay. Well, that's not great.

MEMBER STYLES: Well, we have more time than that but we're good.

MR. PEARSON: Oh okay. So at the early stages, I think the proposal by definition about law has to be more focused on disposal and consolidation. That's probably pretty obvious to you all and brought us up to speed, because you've got to number one satisfy that high value asset requirement, and number two generate some money to get to those other activities like consolidation, which ultimately is where the real cost savings are going to be generated.

I think the way I would characterize it is, you know, you're going to sell a lot of these assets not so much -- in the context of the federal budget, it's not going to generate a routing error. But it's going to generate funds
to be able to do some of the activities like consolidation and some of these more modern strategies, you know, that will really drive long term cost savings.

I know the next panel is going to speak on this topic a good bit, in fact observing evaluation, you know. It is a very, very real issue, especially more so on land assets and assets that are being repositioned, you know. If you're taking an asset from office use and selling it as an office, there's not as big a zoning issue there. The City's going to want the tax revenue.

But if you're taking 100 acres of land, the City's going to have a much more keen interest in the value of that than, you know, selling an office building.

Agency participation, I think you mentioned that before, is going to be critical. You know, there's really only two ways to get assets, and that's really driving through the data as much as you can.
It is what it is. It's good in areas and not good in some areas, and ultimately agency participation as well. It's going to have to be kind of a two-pronged approach and then, you know, I think the person I did point to, you know, public input as well. So as the Board gets its lights up underneath it and gets running, that public input will be a third one, but right now, it's going to be more data and agency-driven.

So you know, agency outreach, you know, and finding collaborative agencies to work with I think are going to be critical early on. FRPP improvements, we've already kind of talked about that on that on the data utilization. On the utilization, you know, one of the things that might be helpful overall is kind of picking the largest assets that might otherwise be FASTA capable, and getting better data on.

So you know, for example I think we had said, you know, choose the 400 largest office and warehouse buildings or whatever the number
is, and start doing a deeper dive on that data around expense and utilization.

  Don't try to boil the whole ocean at once, you know. You don't need better utilization and expense data on an ag extension office in Pocatello, but you know, a 500,000 square foot building or 500,000 square foot warehouse, getting that information would be very, very valuable.

    Having the assets in the -- one of the things, frankly what was surprising was, you know, when we found, looked very closely at those filters, there's not a time of high value assets that are sitting around vacant. So those conversations with the agency become all the more important. If you've got, you know, any kind of a building with employees in it, it's going to involve a conversation with the agency around what happens to those employees if you were to sell it or consolidate it, and it requires funding.

    So by definition of those two things
alone, you know, your time line's going to get increased. So focusing on excess land, a lot of the land like Danny was talking about and talking with the agencies are all going to be critical. Occupancy we talked about. I just basically said, you know, if there are any employees there in a building, that has to be dealt with before you can talk about selling it. That takes time and money.

MR. WERFEL: A couple of comments just on methodology to add to this. So I referenced this in the last session. I would attack this in kind of tiers, and like I would create a Tier 1 around the highest per capita value real estate in the country, and triangulate what federal assets are there that are within scope.

And so then I would take Tier 1. I would do a deep dive on Tier 1. So it could be Miami, San Diego, New York City, Washington, D.C., etcetera whatever, and I would come up with some cutoff. And then in looking at that, I wouldn't look at it necessarily through the lens
of what's not mission critical and like or what's underutilized.

I would look at that. But I would look at what is the potential opportunity in the coming years for a change in location, even if it's within that National Capital, in the region, in this case D.C.

So for example, if you touch only to that and if there's a federal agency that's renting space or that is occupying space on K Street or in downtown and I would -- and I there would say what would be, for example, the cost difference between them moving out to Tyson's.

I would just want to know because that might be worth it in particular, and I haven't, like I haven't probably violated too much because there have, you know, I'm not ruining everyone's commute completely. I've kept them fairly local, because it's not really geographically important that they're downtown versus Tyson's versus Rockville, and there might be a material difference in the cost of that.
And then as referencing the GSA, one of the things that was learned when they moved to NoMa was that people carried less paper with them. It's just not as expensive to move administrative buildings as it once was, because we're already carrying our whole office with us every day, our laptop, our iPhone. We're much less paper.

So the business case has to be, I think, updated in people's minds in terms of moving. So I would not limit just to are we displacing these people completely. It may be consolidation. It may be moving them from one part of the City to another in order to like -- they're at the waterfront. Really if we moved them three blocks in, it could take 2-1/2 million dollars a year in rent, and they can still do their mission two and a half blocks in.

They might not like that they've lost the water view. I don't know that there are any examples of that, but I use that as an analogy to say that's how I would start to triangulate. But
I would start with the most expensive real estate that we have per capita just in general as a benchmark, and then figure out what federal properties are in there and then start cutting.

Some of them will be like there's no move. Like it's a historic building, it would be too expensive or if it's just, it's just not happening. But I would assume that there will be occupancies in there that can potentially be subject to change.

MEMBER WINSTEAD: Danny, just to your point, you know. You may recall that back when NoMa was not, there was nothing there, Eleanor Norton, you know, came forth and said you know, GSA's going to lease space in the CBD by definition, and we got all this property over by Union Station that's vacant. You know, she actually -- back then the market was a $10 square foot differential. Five years later, NoMa's built up.

But I mean to your point, you know, the rate and the definition. I mean GSA has CBD
procurements, it has Metropolitan Air procurements. But I think your point's very well taken, that looking out ahead, you know, that's not what we've got to do in the short term. But it's something --

MR. WERFEL: There's another real interesting point, and it came up in the podcast actually, which is the world's changing and government missions change in a way that what once required a regional footprint in today's world, based on programmatic realities, might no longer require the same regional footprint or as much of a regional footprint because, you know, 15 or 20 years ago we had walk-in centers and we were touching citizens in the local area and needed a certain footprint.

But now everything's done online, and so that could mean either you don't need as much of a regional footprint or you can shrink your regional footprint. So there's this concept that Dan, that former GSA administrator and I were talking about. There's like geographic
neutrality in terms of what you're doing may be on the rise as the way in which we all do business changes.

That should be kind of a part of the methodology, and this kind of rechecking our subjectivity on mission criticality is how important is that geographic location to the mission. So it may be that it's not at all, and you can move -- and maybe that it is, but you can still move three blocks inland and save a lot of money in the business case for it.

It may be that it is, but you can be elsewhere in the urban or suburban area and still get to your job then because while you're no longer walking distance to headquarters, you are a 25 minute Metro ride to headquarters and that's good enough. Or it may be that you don't need to be there. Or you may not need to be in D.C., and therefore you move to a locality that's much cheaper.

So that concept of understanding how our missions change and the decisions we make on
where we situate our agencies should be part of
the methodology.

MEMBER STYLES: You guys have any more
questions? Do you guys have anything else for
us?

MR. CONEENEY: Just one other
observation, which I think will be useful in
analyzing the data. When we talk about
categories of space, and this goes back to when
the FRPP was first established, in part to
reduce the burden on the agencies reporting the
data, they do not send in the entire what I would
call housing plan.

So for instance a courthouse as a
prime example. There is a mix of courtroom
space, prisoner cells, administrative office
space. So one building may comprise multiple
categories of space. But when you report to
FRPP, you report what is the predominant amount
of space.

So what in FRPP is office -- is based
off of when you look at all the space categories,
office had the greatest amount. That doesn't
mean an 100,000 square foot office in FRPP is
truly 100,000 square feet of office. There may
be some other type of, you know, labs, storage,
etcetera within that building footprint. So I'd
want to make that observation on, in analyzing.

To Danny's point as well, what we have
also discovered is in supporting changing mission
organizations, sometimes the predominant use will
change. So you'll shift from something a year
ago was called office, but due to support,
changing mission needs and trying to first
utilize the space that you have, they may
reconfigure the space so that the office shrinks
a bit and something else becomes a predominant
category of space.

So you may see from one year to the
next within the same building asset, because
structures usually are built for that particular
purpose and won't change over time. But
buildings have more of that flexibility to
accommodate --
MR. PEARSON: Particularly multi-tenant.

MR. CONEENEY: Yes.

MEMBER STYLES: How many years of data do we have now? And so if you go to the database right now, how current is the data?

MR. CONEENEY: So the most current data, and we do this at the end of each fiscal year, so as of September 29th of each year. So the most current data is from fiscal year 2018. But we do have data going all the way back to 2005.

MEMBER STYLES: So you could pull data back from a different year?

MR. CONEENEY: If you wanted to get trends.

MEMBER STYLES: But right now --

MR. CONEENEY: But the most current would be 2018.

MEMBER STYLES: Okay.

MR. CONEENEY: The 2019 will -- it will be as of this coming September, but again
due to lag for year-end transaction, billing, etcetera, the data will come in about the middle of December.

MEMBER PHILLIPS: Just one last question. Do you have any recommendations for how to look at warehouse utilization, because some work has been done as a result of FASTA and the federal real management property format about utilization rates.

But when it comes to warehouses, there has been at least a preliminary conclusion that because the demand rises and falls, that you know sometimes they're more heavily utilized than not, and different types of warehouse systems are used, but there isn't a good way of measuring utilization.

MR. CONEENNEY: I think it's going to be very heavily concentrated for agency use and it's going to involve a lot of conversation. It's harder to measure utilization when there's a fluid use like that. Some of the warehouse uses, you know, going back. I really do think one of
the most helpful things would be to pick those
largest warehouses and offices and start driving
some better data into that very small subset,
because it is such a large square footage and a
large value component.

My sense of the warehouse side is, you
know, some of them are very modern and very
heavily used. Some of them are very, very old
and you know, could probably involve
conversations about transitioning into more
modern, efficient space. But it’s very difficult
from even in the private sector from a purely
data centric perspective to look at that and say
this is something that you can consolidate.

MR. CONEENEY: And then to follow on
to that point, I would throw out two different
types of examples of warehouses. When you think
of a warehouse used by the National Archives,
that is used for very long term storage. Compare
that to a Defense Logistics Agency as an example,
where they’re supporting a mission and moving
goods and supplies. So it gets to that fluidity,
that you really need to understand within both what could be considered a warehouse, what is that warehouse supporting and understand more of a long term versus a fluid approach.

So sub-segment your warehouses to understand that better, and to follow onto your point in terms of understanding the data and digging down deeper, back when FRPP was first established, we whittled it down to about 23 core data elements. We're now probably upwards of about 80.

But within each agency's internal systems, they have hundreds of data elements. So that's where FRPP is still giving you what are the core data elements from a governmental perspective, and there are additional pieces of information by engaging with the agency that may help with that analysis. After you take that first broad brush and try and narrow it down for additional focus.

MR. PEARSON: I will say again technology I think in the private sector,
especially high-performing organizations who have adopted sophisticated demand forecasting, and that supply chains are using hand-held and end user devices that are registering products moving in and out of warehouses so they have a real time understanding of what capacity is.

By the way, that's not incredibly expensive technology, those types of tracking devices I've come to learn. So I know the government, depending on if it has a supply chain as a cost driver, is really typically interested in understanding this concept of demand forecasting.

So I think there's going forward, as part of that overall investment, the opportunity to invest in technologies. But I don't necessarily now have some where legacy warehouses with old inventory, where it's really a manual review that is going to be on -- anytime you're doing anything manual, it's kind of inherently unreliable.

MEMBER STYLES: Any final questions?
I can't tell you how productive. This has really been so helpful to us. I thank you all for coming and participating and putting up with our, you know, questions. So we really do appreciate it.

(Pause.)

MEMBER STYLES: So why don't we -- you want to take a 15 minute break for the next panel? Yeah, we'll start up the next panel at 10:45.

(Whereupon, the above-entitled matter went off the record at 10:30 a.m. and resumed at 10:54 a.m.)

MEMBER STYLES: All right. We're going to get started with our second panel here. Our thinking from the Board perspective, as I explained in the beginning, is that we wanted to get a better understanding of how we can increase the value of some of these properties, and we wanted to better understand some of the practices in the commercial real estate world that we should take into consideration, that may not be
being taken into consideration now because of
constraints or otherwise.

We're really trying to think outside
the box in how we approach these properties. So
we're very fortunate to have Chris Roth from JLL,
Jerry Harvey from CBRE and David Kiernan from
here at GSA. So I think, Chris, I'm going to
turn it over to you to kick this off.

MR. ROTH: Thank you.

MEMBER STYLES: All right, thank you.

MR. ROTH: I'll just dive right in.

In our public sector practice, we've seen a wave
of similar commercial-like and forward thinking
disposition development initiative. We've seen
it in the states. Think of Tennessee, Illinois
and Louisiana, and also from higher ed or state
schools.

I'm not saying these are perfect
models, but I think they're pretty relevant.
Nothing that they're doing is at the scale of
what you all are attempting. I think you're
poised to go to market like these entities
through the changes that brought about to Title 40, such as retaining proceeds for real property without appropriation, expanding uses for the GSA disposal fund and removing a lot of the conveyance provisions.

All great moves, a lot of the states and universities we work with don't have those restrictions and they're getting things done. The fact that we're speaking about value maximization was exciting to me when I saw the title. I think it indicates that the Board is advancing faster, right? We're now on to how do we get more value, not just simply what do we sell?

I can only hope that commercial entities are called back at some point to discuss the human capital and the horsepower needed to get deals done.

So how can the Board and GSA drive value for commercial practices? In my remarks, I wanted to try to stay away from what you often hear from the commercial side, which is market
supply and demand, cap rates, cost of capital and comparable sales. These two gentlemen can comment a lot about valuation.

I wanted to speak kind of qualitatively about some of the things you could do, that you can control that drive quantitative consequences, and I bucket them in four places. One was market reach, how to get out there. The second was entitlements. The third was deal structure and the fourth was kind of best value and that procurement method.

So starting with market reach. I thought it was interesting that Congressman Denham brought up the Georgetown West Heating Plant. In 2011, which sort of tells you that these things can take a long time to get approved, GSA did a market analysis. We identified target audiences of potential buyers. Marketing strategies were developed, industry days, tours, all the things that you would expect in a commercial disposition. So it appeared very commercial to the private sector.
There were highest and best uses done, there were studies of environmental, historic preservation constraints, et cetera.

When I talk about rate, this is a great example because the GSA had numbers. They had 6,200 visitors to a website. They had 34 site tours that were eight months to over 210 people, widespread national interest, media coverage in print and on the web, and in the end a lot of bidders and an award.

So, very successful. The beauty of that is it was run a lot like a commercial procurement, credit to the GSA. On January 11th of this year, you know the District Mayor's Agent for Historic Preservation approved the architectural plans. So it's still moving. So not only did it get done, it's going to improve the community. I just think that's a great example and a way to look at things that are done like the commercial sector.

Reach is one of those things that when you think about high value properties, it may --
you think, well, everybody's going to know about
this, right? It's a big deal. But if you get to
the, what did Congress Denham call them, slivers
or some of the middle level properties, not
everybody's real excited about those.

I think you're going to need as a
board to generate some interest, to go out there
and push, through a lot of GSA's current
practices, interest and coverage.

Second is entitlements, and I think
these two gentlemen could probably talk more
about the valuation of entitlements than I can.
But what I wanted to make sure the Board
understood was that the more as a seller, the GSA
can -- not necessarily secure the entitlements.
If they can, that's great, but just assure that
entitlements are going to happen.

There's communication with a
municipality or a local jurisdiction. That's
moving that value needle more towards the seller
and a little bit less towards the buyer. GSA
always does a tremendous amount of due diligence.
That's the kind of low cost, low value work, that you have to -- that you have to spend money to make money, and it gets more expensive as you get into entitlements, as you all can imagine.

When you start talking about subsurface investigation, indemnifications that might be available or indemnifications like provisions that might be available to buyers with respect to environmental issues, that's kind of the expensive due diligence. Then of course there's land use, overlay zones, incentives, opportunity zones, impact fees.

Getting a handle on those things and I think as a Board or for the GSA getting a start on those things, before just blasting something out to market, can move a little bit more value toward the seller, all of you. I think that's just an important concept to keep in mind.

Every asset's a little unique as to where you draw that line. You're not going to spend a ton of money on a low value asset. But when you look at each individual asset, you do
want to -- you will want to make a determination
of how much money you want to spend to create
value.

The last one is structure. I've heard
this in the public a lot. I don't know how much
of this is allowed or permitted for the Board or
for GSA, but with the states and the institutions
I mentioned earlier, if you're agnostic to the
structure, and when I say structure I mean
there's an outright sale. There's ground leases
without participation, ground leases with
participation, sale leasebacks, lease leasebacks.

As you move out that spectrum,
certainly you're taking on more risk. If you
listen to the market first, you may get a few
different structures that come back and we often
get, have seen competing structures. And there's
one good example there. When I mentioned higher
ed, you all are probably thinking of dormitories
and classrooms.

Well, higher ed owns a lot of downtown
office buildings, and LSU and the state of
Louisiana own Cherry Hospital, 1,100,000 square feet two blocks from the Superdome. They ended up moving that to a foundation and running a commercial-like sale, and we're in the midst of it now so I won't talk too much to the detail. But it was a commercial sale. It's a ground lease. There was no formal leaseback, but there were rights to go back to LSU and Tulane and try to get tenancy, and that all seems to be moving forward right now for the master development agreement.

So there's some real forward-thinking things out there with sale leasebacks or ground lease and open procurements, as opposed to looking at, excuse me, just the asset.

Speaking of ground rent, I guess I can leave this for you as well, but the different tiers of do you want all the money up front, do you want it over time, fixed. That can have a lot to do with value, looking at net present values.

My last item is best value. I think
that, you know, I understand the often principle. You know often in a lot of cases drives the highest value. I also know that sealed bid seems to work a little bit better. For complex assets or for assets where you've got some entitlements, I think that the GSA is going to want a little bit of discretion in selecting the buyer, the awardee.

And in that, it may depend on pre-procurement. If the Board had solved the public policy challenges, if it's been made public, if the environmental issues are buttoned down, and some of those entitlements you all have taken under and there's some assurance about those entitlements.

Seeing how different offerors come in with respect to those entitlements can create a lot of value for you. It can generate competition. We've had situations where in an opportunity zone, there are buyers or developers that are able to capitalize on those tax credits much more efficiently than others.
Even though, you know, the use of the property may look similar, the value can vary quite widely. So just to recap reach, it can become more critical as it's not a high profile asset. The greater the certainty of entitlement that you can assure can certainly drive value. Try to be agnostic to the structure and listen to the market, sound it out and then evaluate those bidders on a value, on a best value kind of perspective, depending on how much risk you can take, and I'll stop there.

MEMBER STYLES: Yeah. I just have a question on our first tranche of properties, high value properties. We really only have the option to sell. I mean and that's, and that's you know, when you say you want to look at the different options, obviously you know we want to make sure we understand those and don't put one on the high value property list to sell that might be better, you know, in a later list with not just selling but other flexibilities attached to it.

Do you have any thoughts on how to --
I mean we have less than four months at this point, and it's just a really short time frame. So do you have thoughts on how to approach that in a short time frame? Now there will be time to market and we could put recommendations on the market and they're not enough.

But I mean, our recommendations on high value properties go to OMB for OMB approval, and then once approved, it's really about a year. You could extend it to two years to sell. So that's going to affect everything you just said I think, at least in the first tranche.

MR. ROTH: You're right. The deep dive that was mentioned before could, you know, could start yesterday on a few of those assets and I think it should. I know it's hard for you as a Board to do, make a decision like that that quickly. But if you're forced to, you want to do the deep dive and while you're doing that, I think you can cover all those due diligence items.

So to get as many facts out there
about what as is, where is means. I think that's critical. After identifying the assets, maybe through marketing I know that it can just be a sale. But I think you should, you know, to the extent possible keep minds open about what the sale structure could ultimately look like. Could it change during marketing?

MEMBER STYLES: That's a good legal question.

MR. ROTH: Right.

MEMBER STYLES: Whether we could pull it back, or you know, what we do with that.

MR. ROTH: Pull it back or modify or --

MEMBER STYLES: Okay.

MEMBER HOCKER: How much do you think you penalize yourself by doing an as is deal as opposed to, you know, standing behind some of the reps and warranties separately?

MR. HARVEY: Yeah. So I'm on the valuation side of CBRE, not the transaction side.

MEMBER HOCKER: Yeah.
MR. HARVEY: And that's a huge issue in my opinion. Obviously, all your assets are different. Some are I assume in urban areas and some are not. You know, if you have a desirable property in D.C. on a prominent street at a decent site, you know, there are a variety of uses that can be permitted based on the Comprehensive Plan, which they've already set up, and even though it's challenging to get through entitlements and zoning, there's light at the end of the tunnel with that.

We kind of see where that's going, you know, for the most part what the City would like to see there, and then you could work through the other issues. On some of the more remote properties that aren't very liquid, there's not a lot of capital chasing them and the entitlements may be much more problematic in the highest and best use of the property.

Difficult to determine. It is probably going to have to a bigger hit. I would say in estimating market value for these
properties, appraisers always look at price and
best use, which is four things. Is it physically
possible, legally permissible, financially
feasible and what use will provide the maximum
productivity or the maximum return to the
property.

With your time frame, it may be
difficult to ascertain these things. The biggest
headache is going to be -- the biggest roadblock
will be on the legally permissible, which is
really something that can be addressed.
Physicals a lot of times can't. If you have a
historic building with narrow -- with tight
columns, low ceiling heights, lack of parking in
an urban area, you know, you're kind of stuck
with that.

And then if it's historic, you know,
you can't really tear it down and get the highest
and best use of the ground, you know. Possibly
you can do some type of hospitality facility on
some of those or some type of multi-family. But
your traditional office user, for example, would
have a hard time adapting to that physical. But on the legally permissible, it would seem to me that there must be some mechanism that can be employed to at least have some idea of what the roadblocks are, what the entitlements need to be to maximize the value on the property.

So I think that really is a critical issue. If you get your hands around that, that alone will provide more bidders. It will provide a larger pool of buyers and lower the risk of the property, which should hopefully provide a higher return to the seller.

MR. ROTH: I would agree. I think I heard the concept of tiering.

MR. HARVEY: Yeah.

MR. ROTH: I heard the concept of tiering in the prior panel, and then I know there are the high value assets, self-funding the Board and so on. In that 10,000 assets, there are a lot of slivers. That's a new word for me today. But there are a lot of slivers. The group of assets below the high value, I think there are
more or them and they're actually -- you know
collectively that's a portfolio of high value.

That's where this entitlement thing
will -- that's where it will pay off in my mind.
The high value things in urban areas.

MR. KIERNAN: Federal properties are
always -- they're in transition. We're exempt
for all local zoning. As soon as you flip the
title, all of the sudden it becomes under the
jurisdiction of the local municipality, state or
whatever. I mean, I think it's very good
question. Are properties entitled worth more
than properties that are not entitled?
Absolutely they are.

The question is how do you get there,
does this Board or could this Board get those
entitlements? Typically in the entitlement
permitting process, you know, we may see
bargaining going back and forth between the
developer and the community, percentage of
affordable housing. You know, offsite
improvements, traffic control signals two miles
down the street.

Does this Board have the funding to do that bargaining? Is the Board in a better position to do the bargaining with the municipality or is it the developer, the private sector developer who should be doing it? So that's really kind of a question to you. But the simple answer, with entitlements absolutely.

MEMBER HOCKER: You know, we have some buildings that we potentially could have air rights above those. So today we don't -- you could have air rights. But if we went through the process and had it entitled and knew that we could add, you know, 60 stories, 30 stories, whatever it was, whatever city, that could make a major difference in the value, and I was just curious.

It feels like we would probably be better off waiting for the value and go through the entitlement, but maybe not. Selling something that's unentitled with the hope is probably not real valuable.
MR. ROTH: Or the value falls to the buyer.

MEMBER HOCKER: Exactly.

MR. ROTH: And the jurisdiction may not want to talk to anyone until -- I have a feeling the jurisdiction's willing to talk to the federal government, but they may not be willing to talk to six developers until they know somebody controls the asset. If you have the opportunity to be in there, whether it's air rights and those are across the street and in the asset itself --

MEMBER WINSTEAD: I do think the air rights question is certainly very different.

MEMBER HOCKER: It is.

MEMBER WINSTEAD: Because it's -- well, it is transferrable rights. So the developer really has the control there. They've got to negotiate that. But I had a question I guess for both Chip -- I mean Jeff and Chris. When a client approaches you all, not necessarily GSA but a state agency or a school board, do you
have basically model structures that you can say
based on our client experience for the last five
years in these markets, this is the structure of
the deal that yields the greatest benefit to that
government entity?

MR. ROTH: We usually listen a lot
first by going back and understanding how much
risk the seller's willing to take or the state is
willing to take. Do they want -- well, can they
take variable ground rent over time? Can they
participate in any of the development?

Most of the metrics are along those
lines, the term of a leaseback. Everything is
really dependent on how much risk are you going
to take? Because you can add value with each
piece of risk, whether it's a lease or variable
payments or other ways of participation, or
whether you want a share of windfall in the event
of a sale?

MR. HARVEY: Or hitting certain
milestones --

(Simultaneous speaking.)
MR. ROTH: Or milestones, in the milestone payments.

MR. HARVEY: And that way that minimizes the risk to both, because you're getting payment at certain points when you reach certain milestones.

MR. ROTH: It's a good point. Some states will often --

MR. HARVEY: You could select the developers for the process or the buyer through the process you feel is best able to bring into those points, and then maybe work out a sharing agreement where you're getting proceeds for the developer's efforts in the entitlement process, their experts in that if you have the right attorneys, and then you know, figure out a model where you would split the proceeds and reward them for obtaining those requirements, but not putting all their capital into the whole deal initially at a bargain basement price. So that may be something to consider.

MEMBER STYLES: Well, what would be
the criteria for selecting a method to do that
work? I mean what, how do you decide that that
milestone payment process would work?

MR. ROTH: Land assets came up in the
earlier discussion.

MR. HARVEY: I would think the ones
that had the longest process of potential
approval.

MR. ROTH: Right.

MR. HARVEY: And possibly the highest
risk in maximizing the highest investments on the
site from a legal perspective. So I don't want
to single out jurisdictions, but certain states
and certain jurisdictions are much more difficult
in terms of getting your entitlements, and your
zoning and entitlements and approvals negotiated
proffers or whatever it is.

So those would probably, you know,
have a longer process and the milestones would
hopefully -- there would hopefully be a greater
return for you if they're able to work through
that process.
MEMBER STYLES: So the title transfer to the developer in the beginning of that, or title transfer -- I think it will be relevant to how our statute works. So the title transfer's in the beginning, and then there's some kind of right to, you know, we'll buy it back from you if this doesn't work out or what is --

MR. ROTH: That I haven't seen.

(Laughter.)

MR. ROTH: No, I think usually there's a negotiation of some sort of a -- well, if there's negotiation of a purchase or sale then the title's going to transfer. If there's negotiation of the lease or a master development agreement, then maybe not until the end of that master development agreement.

MEMBER STYLES: So just the payment stream as the value increases essentially; is that --

MR. ROTH: Correct, correct.

MEMBER STYLES: Okay, okay.

MR. HARVEY: Well let's say an example
may be if you've got a site that could be
developed, well, that other sites in the
neighborhood have been developed with --- based
on your analysis of these other properties in the
neighborhood and the Comprehensive Plan, I can
get 500 apartment units on that.

But right now with the current zoning,
it's nowhere near that. So you'd have certain
milestones on what, you know, where you are --

MEMBER STYLES: When you get approval
for 500, you're going to pay us X.

MR. HARVEY: Right, and you wouldn't
get the full value of that 500 because you're
participating with someone who's helping you get
it. You'd have to structure that. There are
other methods that --

MR. KIERNAN: Well in options, you're
talking about options, you're talking about
ground leases. You know, I don't know the powers
of the Board, but you may run into scoring issues
and stuff, and those types of structures --

MEMBER STYLES: Yeah, but the concept
of coming into the future, I wonder when, you
know, this is something we'll have to look into
for the high value properties, if we would have
that flexibility, and maybe you just universally
add it to all of them. Like, so in our
recommendation, we could create flexibility to
allow, you know, GSA to structure it that way for
the ones that it makes sense to do that with.

MR. KIERNAN: I guess if you're
willing to share on the upside, you're also
willing to share on the downside. If they don't
get the number of units or the number of square
feet that you may structure into your deal.

MEMBER STYLES: But means we only give

X --

(Simultaneous speaking.)

MR. ROTH: It certainly aligns
incentives, you know, between the developer,
who's going to be more incentivized than you are
and the Board, you know, willing to help as much
as possible. But those are definitely -- with
respect entitlements are ways to create value
that are in almost every transaction.

MEMBER STYLES: And we've got -- and
in the time frames, it's very hard for us to do
that. So if you take a hypothetical piece of
property, let's say three acres and it's in a
metropolitan area and let's say, you know, we
want to go to the City, we realize that if that's
known for a certain number of units for
residential, then it's going to be a lot higher
value for the sale.

And, you know, we could say well we
recommended an acre of that be given to the City
for a park, and the City's already agreed that
they're going to put it at this level, right?
But there's just so many time constraints on us
for the flexibility on the high value properties
that I was looking for an alternative to get to
the same place. But it sounds like those
milestone payments could be that alternative.

MR. ROTH: The offerors could propose
milestone payments of some sort, and that goes a
little bit to best value. Who's willing to give
what at what levels? That could be a way to
capture additional value beyond that base.

MEMBER WINSTEAD: So Chris, you made
the comment about in your experience and Jeff,
that the sealed bid approach is, you know, with
your client base has yielded the greatest value
as a process. Is that --

MR. ROTH: I mean, confidentiality is
important. Sealed bid is, for most assets that
we deal with, are better than an auction or an
open auction or auction on the steps. It seems
to work better and it isn't run by the standard
procurement methods of the GSA. They can run the
sealed bid that way. The more you can reach out
and discuss, the better off you are.

And again, I yield to the Board's
authority on discussions and things like that.
But sealed bid gives you up and to that time some
more room to be able to discuss values and
alternatives.

I wouldn't agree with you fully. I
think the best method would be a much more open
high, you know, and best value kind of assessment
of risks in different structures. That takes a
long time. So given what you all face in terms
of timing, certainly for high value --

MEMBER STYLES: We have another five
and a half years for that.

(Laughter.)

MR. ROTH: Yeah. For the rest, I
think you need to start to look at that. It's
not the barbells; it's not the slivers and the
high value. It's that throughout. There's a lot
of meat on the bone in the middle, and that
middle is here.

MEMBER STYLES: So I stopped you guys
in the middle. Did you have presentations that
you wanted to continue with or --

MR. HARVEY: No, I didn't. I was just
--

MR. KIERNAN: It's really, I guess my
thoughts on this after doing these federal
properties for a long time, you know, all of
these properties as we've talked about and I
think as we recognize, they're in transition.

The local communities do have a lot of control over value through the zoning and entitlement process. We all recognize that. And many of these federal properties don't -- I won't say many; I don't want to make generalizations, but they have a difficult time transitioning into private sector use.

There aren't many users of old biohazard land. There aren't many users of military manufacturing facilities or ammunition facilities. So a lot of those things -- what we do when we get to the valuation process is really define the property and define the property rights we transfer.

If the Board is restricting the rights by historical covenants imposed upon it by the state SHPO officer, environmental impairments that you're limiting reuse to industrial versus residential, all those things have to be carefully and concisely stoked into the appraisal.
So it's good to have feasibility and marketability done before we step into that valuation arena.

MEMBER PHILLIPS: Since our initial recommendations involve properties where they need to close in a year, what can we -- what of the critical information can we do, assess ahead of time so we can help determine whether something should be on the list or not?

MR. KIERNAN: Yeah. I think that's another great question. Really, it comes into feasibility and marketability. Does this property in this particular market have great demand, great reuse? That's going to be one of your first trip points.

And then the feasibility. What is it going to take, what's the entitlement process? What's this? How is the market going to perceive having to deal with that community in that particular location in that market? You know, some developers or reusers of a property, they've seen -- they're more comfortable going through
the entitlement process themselves than they are having the federal government to do it.

(Off microphone comment.)

MR. KIERNAN: Huh?

MR. HARVEY: I don't believe they would want the federal government doing it.

MR. KIERNAN: No, and they say --

(Simultaneous speaking.)

MR. KIERNAN: Many times, like I say, there's a bargain process that goes through when you're getting your entitlements. I don't know that the Board would want to impair the title of the property with whatever bargain you make with the local community.

MEMBER STYLES: Because the developer could buy the whole property and then --

MR. KIERNAN: He may strike a better deal. All developers think they can work better than the federal government can. That's a fact.

(Laughter.)

MR. HARVEY: But I think the tie-in on what we're saying is identify the ones that are
really easiest in terms of entitlements or in
terms of, you know, what you think, what we think
the highest and best use is of the property.
Some if you go to Texas jurisdictions, in certain
states like Texas for example, you know, they
don't having zoning in certain jurisdictions.

So there's a lot you can do. But they still have other milestones. But if you can identify which assets we could push through easier, when there wouldn't be as big a delta between an as is value and an entitled value.
That would clearly be -- if you're looking to move things quickly, that would be an approach to take and at least identify those, focus on those. You'll probably have more capital attracted to it, more --

And developers don't like risk either, even though they do risk projects and, you know, they're pricing the capital that they're getting in that way. You know, they would rather go in and have something ready to go or closer to it.

So if you can identify the assets that
have less entitlement risk, less community risk, you know. A lot of -- a lot of ground now, for instance in this area, has turned into data center properties because that's just growing rapidly. Counties love that for their tax bases.

PARTICIPANT: Could you speak up a little bit?

MR. HARVEY: Counties love that for their tax base. The data centers, for example, don't hire a lot of people. You don't require a lot of roads. You don't require a lot of schools. You just need power, okay. So if you have properties like that, the entitlement process may be quite simple.

If you're dealing with a historic property with functional issues that I mentioned earlier like columns and parking, that will be a little bit more of a challenge because you have to go through a variety of different community organizations, political appointees to be able to get those things done.

MR. ROTH: You brought up just speed
to market. The quicker that the properties are identified, the more due diligence that you can pull together quickly. I thought of one other example with the federal government engaging with municipalities, and that is for FBI regional headquarters, right, the leasing program used to do for their lease construction you do -- you brought secure free options.

Well in order to do that, the federal government did go in and met with, you know, the mayor of Phoenix, the mayor of Portland and engaged them about what they intended to build there. I don't think it's off limits for the GSA or someone to go in, especially if it's in a second or you know, in a metropolis and they're going to build -- somebody's going to build a significant building on our piece of land or tear a GSA building down.

I think it goes back to one of my very first points, some assurance to the development community that you all are interested in driving -- everybody knows you're interested in driving
up the value you receive. But you're also
interested in supporting this developer's
consummation of a real deal like in Georgetown
and a real closing and approval down the road.

So on the high value assets, don't
completely discount the ability to -- and don't
think about just the National Capital Region.
Whatever city you may be in, they'll want to hear
from the federal government.

MR. KIERNAN: I would agree with you
Chris, great point. A clear path to entitlement
in most urban areas or big urban cities have that
clear path developed. They have a clear
structure of how you get to your claims. But
actually putting the entitlement on is, like I
say, that's one the value you have is that I
don't know who should -- I think that developers
would be more comfortable doing that.

So you're absolutely right. At the
places, geographic areas that have the clear path
of development, take some of the risk out of the
equation for the developers and that will be
priced in to the offers made.

MEMBER STYLES: Go ahead.

MEMBER RAHALL: Excuse me. How valuable is the three year leaseback tool we were recently given by Congress to add to our toolbox?

MR. KIERNAN: You know, that's a great question and there's no clear answer to it. The issue is --

MEMBER RAHALL: Let me ask you perhaps a more clear question, your potential sites.

(Simultaneous speaking.)

MR. KIERNAN: You know certainly any time you put funding into the deal, it makes more valuable. The question, you know, it's always the devil's in the details. So the question becomes that rent that you're putting into the building, is that a market-based rent, or is it something below market-based?

And we don't know. Those are the details that matter, you know. For example, so the market is $20 a square foot, yet your federal tenant is only paying $15 a square foot. So
you're putting in a below market rate for some
three years. That may be fine. It may work. If
it's a percentage of a building, maybe not the
whole building, but that will be priced into the
equation.

The opposite could be true. You could
be putting a $25 rent into a building that has a
market of only $20 a square foot, so you're above
market rent. So that's going to increase it. So
it's really -- it's always in the details.

MR. HARVEY: Just as a follow-up to
that, that's a very attractive vehicle to be able
to have a developer or a buyer go in where a
property isn't in its highest and best use.
They'd have some income to help carry that to the
extent of that cost of capital risk, and have
that time to be able to bring it to those
milestones, which as we were saying, maybe you
could participate in.

Air rights would be a good example,
either by selling them to whatever property is
allowed to receive them or, you know, potentially
redeveloping the property. So I would think that
that would be -- and the leaseback, I don't see
that hurting your position much at all, because
that's really -- it's going to be what, maybe a
three-year leaseback, a five-year leaseback.

(Simultaneous speaking.)

MR. HARVEY: --- it's not a huge
component of the value, because it's short term
so --

MR. ROTH: I would break it into two
pieces. One, is there some carryback there?

MR. HARVEY: Yeah. There's some, but
it's not --

MR. ROTH: It's really a timing tool
though.

MR. HARVEY: That's right.

MR. ROTH: It's the fact that you can
put it on the market with, you know, agencies
living in it and then so I think the big value is
that it's a timing tool for all of you to use.

MR. HARVEY: And that I think would --
that would also be able to reach a larger
prospective pool of buyers.

MR. ROTH: It could increase competition.

MR. HARVEY: Right, because you have that ability to carry along -- the developer would have the ability to carry it along and secure the property. So that would be something to think about.

MEMBER WINSTEAD: So Chris and Jeff, could you all -- you all have, you're with the larger firms in the country. Could it be possible to, back to my point about model transaction, could you basically take out obviously all facts and economics, but provide examples of various public client deals to the Board? I mean, basically pull together subsidiary, you know, sort of the structure of certain deals just as examples to us that you think -- it would be helpful, I think.

MR. ROTH: Yeah, I don't think it's a problem. I think --

MEMBER WINSTEAD: I mean I think
Talmage knows how to structure a deal but --

          (Laughter.)

MR. ROTH: But states and higher education are going to be -- I mean they're leading the way on a lot of public-private ventures.

MEMBER WINSTEAD: Right, I know that, right, right.

MR. ROTH: And the structures are -- they vary. There are quite a few different ones.

MEMBER WINSTEAD: That would be helpful.

MEMBER STYLES: Yeah. Some examples would be really helpful, yes.

MR. ROTH: Okay, sure.

MEMBER HOCKER: As I'm sitting here, I'm trying to think about what type of property we're going to sell, and I believe the average age of our portfolio is 50 years, and so logic tells me that a lot of these properties are going to be demoed or there's going to have to be a retrofit, and if there's a retrofit they're
probably going to want to go in and get some community help, governmental assistance of some sort.

And all of this feels like a due diligence process. It's not your average shopping center where JLL or HFF, you know, brings their OM out and you've got a bid in 60 days and then you close in 30. I mean, this feels like it's going to be a long process, and one of which you guys are going to want a lot of flexibility to do a negotiated deal for a myriad of reasons, or it's just going to be a long, diligence process. Am I correct in my assumptions?

(Simultaneous speaking.)

MR. HARVEY: The higher assets. The higher dollar assets, yes.

MR. ROTH: A lot of these are going to end up looking like land sales, demo and land sales.

MR. HARVEY: Yeah.

MR. ROTH: And for my first glance at
the portfolio, a lot of it is -- I'm glad to see
they're screening it out. But a lot of the
really small property, the big numbers are
impressive in terms of number of assets. But 80
percent of that is of little to no value.

MEMBER HOCKER: Dirt value.

MR. ROTH: It's dirt value or
adjacency value and that's about it. But there
will be pretty heavy due diligence processes and
like I said earlier, the more flexibility you
have in what kind of offers you can receive, so
don't be too prescriptive in terms of structure,
the higher value you're going to take out of it.

MEMBER STYLES: Do you have any other
questions? Thank you.

(Chorus of thank you.)

(Simultaneous speaking.)

MEMBER STYLES: We'll let you guys,
you know, walk away and we'll close up.

So I just want to thank GSA and the
Public Building Service again, really you know,
for the space and all the work that they have
done so far. I do want to make sure people know that, you know, we are open for business. We have two more public meetings coming up. We are open for comments, public comments from people as well.

This has been very productive and we are going to continue, you know, having the public meetings. We've announced two of them. We're going to have one in California and one in Denver coming up actually next week. So we're looking forward to that as well. But we appreciate people participating, you know.

Any questions that people have, you know. We're open for questions right now, recognizing that this meeting is actually transcribed. So you know, I'll put you on the record if you have any questions, and then we'll let the Board members with any closing remarks. So does anybody have questions for us? Yes.

PARTICIPANT: I just have a comment. I mean this is a humongous lift in a very short turnaround time and obviously to get those done,
we need as much time as possible. Is there some ability within a restrictive procurement action to be able to get these buildings advertised as quickly as possible, and then let the developers kind of crowdsource, weigh in, do the due diligence for you and then provide some kind of funding capability so that you can make decisions?

Because the sooner you can get that information out there for how you've labeled your properties, the sooner you can start to get some deals constructed.

MEMBER STYLES: We've been discussing that, about what is the best way for us to get information out to you while we're waiting on approval frankly, and that's what the time frame's going to be here, is that we have -- we're going to send them to OMB and what can we do? Because once we make our set of recommendations and what we think this should be, we may have OMB come back to us and negotiate with us.
But that doesn't necessarily mean we can't have, because this shifts over to GSA and to the Public Building Service once we make the list, that they can't start moving forward. Or that we can't -- I mean there's some properties that we have on our list right now and we're going to go out and start doing the due diligence on these properties. So you probably will be hearing in the marketplace.

The hardest piece for us is, you know, what can make just outright public before we get approval from OMB and what is the effect of that? I mean obviously there can be some pretty negative effects of that. So we will be, you know, looking at the properties well before the list becomes public, so do you guys have thoughts on that?

MEMBER PHILLIPS: Just we're also very sensitive to creating political issues that we don't necessarily need to create by releasing potential candidates early. So we just have to be cautious about that.
MEMBER STYLES: Yeah. I mean we're going to site visits and we're already getting calls from the Hill, so you know. Other questions? Yes.

PARTICIPANT: I've got a comment for the last panel, just observations. Now in terms of marketing, a little due diligence up front I guess those go a long way. I know some properties that GSA has sold here they gave the public or the potential buyers what the properties could be, you know.

They aren't entitled right now, it could be mixed-use, residential, office, you know, shopping center, you know, depending on what area it's in. So in terms of marketing, you could kind of give the private sector maybe a vision as to what could be done. And just be like, it's for -- it was entitled. That could certainly impact various returns for commercial.

MEMBER STYLES: Anybody else? All right. You guys have closing remarks? No?

MEMBER WINSTEAD: Well, you know, I
think this is very valuable. I think really looking, that methodology panel in terms of the assets and both the commentary about -- your comment about getting the buck early, so that the private sector can generate. I think we're all focused on that. I really think, you know, we have good advisors. We have the say of GSA on the process.

But we're very cognizant that it's got to get out, we've got to do it quickly so --

MEMBER STYLES: All right. I think that finishes us up. Thank you everybody for coming today. We really appreciate it.

(Whereupon, the above-entitled matter went off the record at 11:40 a.m.)
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CERTIFICATE

This is to certify that the foregoing transcript

In the matter of: Public Buildings Reform Board

Before: US GSA

Date: 07-16-19

Place: Washington, DC

was duly recorded and accurately transcribed under
my direction; further, that said transcript is a
true and accurate record of the proceedings.

[Signature]
Court Reporter