



COMMONWEALTH of VIRGINIA

Office of the Governor

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Governor's Real Estate Initiative

September 22, 2004

To: Heads of State Agencies and Institutions

From: Sandra D. Bowen, Secretary of Administration

You are well aware of the Governor's initiative to establish a real estate portfolio management system to augment efficiency, improve performance, and reduce costs. We are currently developing the strategic actions and planning necessary to implement the directives of Executive Order 75.

NEW POLICIES AND PROCEDURES

Certain actions must be undertaken immediately to move the initiative forward. The following are new and revamped policies and procedures, effective immediately. Please be certain to pass this information along to appropriate staff in your agency.

- **New & Renewal Leases:** Effective business negotiations require one lead point person. The Commonwealth's negotiation leverage is eroded from within if we have multiple people contacting and discussing business terms with a prospective landlord. A scattered approach is unwise and costly because we end up negotiating against ourselves.

Therefore, DGS through the Commonwealth's contractor, C.B. Richard Ellis of Virginia (CBRE), will conduct all future discussions and negotiations with landlords for new or renewal leases.

While we are primarily focusing on leases for office space, that is not the entire focus of this initiative (e.g., office/warehouse and warehouse space is within the scope). Please advise your staff not to enter into lease discussions or discuss your interests or intentions involving space rental

with any existing or potential landlord. If you are currently involved in such discussions, please immediately bring the matter to our attention. Our objectives are to ensure that your agency's space needs are met, best value is achieved, and lease terms fit the Commonwealth's overall portfolio strategy.

- **Lease Terms**: In the past, the Commonwealth often entered into long-term leases, frequently for ten years or more. It is grossly inefficient to continue for another ten years the separate, individual leases across Virginia, many in the same buildings, office parks, or vicinities with widely varying rates, terms and conditions. To do so will limit our options and frustrate our ability to provide a comprehensive portfolio management system for the Commonwealth.

Rather, new office leases and renewal terms that are being developed should provide flexibility and give the Commonwealth early termination options, especially in the key regions of Northern Virginia, the Richmond Metropolitan Area, Hampton Roads and Roanoke. We need flexibility to better align our facilities in the near future to improve the efficiency, consistency and quality of the results.

Working with your agency, DGS and CBRE will negotiate terms that accomplish these goals. Each lease will be reviewed on a case-by-case basis. If leases have been submitted that do not provide the needed flexibility, we will assist in negotiating new terms. In these situations, we will need your help to assure agency staff understands the requirements of this initiative and are in a position to provide their full cooperation and assistance.

- **Apparent But Unofficial Authority**: *The authority to commit the Commonwealth's resources in connection with real estate transactions rests with the Office of the Secretary of Administration and is administered through the Department of General Services. This is not new policy.*

Potential landlords and contractors who might be engaged to complete or improve facilities for state agencies may believe an agency representative has the authority to approve these transactions when, in fact, they do not. In such cases, contractors and landlords may think they are authorized to buy materials, make changes, and take other actions based on what is communicated by an agency representative. We are currently extricating the Commonwealth from a number of such situations, often putting an agency in the uncomfortable position of being liable to pay for materials or commitments they will not receive and should not have obligated the Commonwealth to in the first place.

- **Space Standards (Leased And Owned)**: CBRE's Phase I study revealed that while the Commonwealth's space standard has been about 250 useable square feet (SF) per person, the federal government averages 200 SF per employee. Other states now have policies of 150-200 SF per person and private industry typically allocates less than 200 SF per person. The study also identified wide variation in space utilization across agencies, regions, and individual offices. Some offices are extremely cramped and struggling to meet service commitments while other offices, sometimes close by, are very 'comfortable' with unused or inefficiently used space. We must become more efficient and equitable in our space standards.

Effective immediately, the Commonwealth's space standards have been revised. The new standard is 210 useable square feet per person (FTE) for office space. Additional space may be allowed for non-customary space needs and in the case of older buildings. DGS will work with you and your staff to ensure that adequate space is allocated to support your operations.

- **Tenant Brokers**: It is now very obvious that with clear direction, focused targets, and active state management, experienced real estate brokers can add positive net value and improved terms to the Commonwealth's real estate transactions. We know that landlords and their agents respond differently to private real estate brokers than they do to Commonwealth employees. These real estate professionals generally know the latest, real-time information in respective markets, which often changes daily and by city block. It is unrealistic to expect state employees who may only occasionally interface with the real estate market to be up to date with the latest information, necessary expertise, and relationships to effectively secure the best terms for the Commonwealth.

The current leasing policy has been revised regarding tenant brokers and brokers commissions. Henceforth, C.B. Richard Ellis of Virginia will represent the Commonwealth with local brokers in all of the prime state markets. We will offer their services in lease negotiations or, if necessary or desirable, engage the services of other brokers selected through DGS and CBRE. For efficiency and consistency, as has been the rule all along, other tenant brokers may only be engaged with the specific approval of DGS.

COMMUNICATIONS

The lead contacts for various real estate questions are as follows:

- Questions concerning the **status, renewal or disposition of specific leases** in process or brokerage services may be directed to Mr. Tom Vozenilek of CB Richard Ellis of Virginia at 804-267-7237, or Mr. Tom Gelozin, Acting Director, Real Estate Services, Department of General Services, at 804-225-3874.
- For **routine real estate issues**, the DGS real estate analyst assigned to your agency should be contacted.
- **Policy questions** concerning the Commonwealth's overall portfolio optimization strategy should be directed to the Secretary of Administration's office at 804-786-1201.

PARTNERSHIP IS THE KEY TO SUCCESS

In our studies of industry-wide best practices, we found that other states and major corporations have adapted or are transitioning to strategies similar to Virginia's real estate initiative. In each case, we find that success hinges on coordination and cooperation between the operating divisions and the real estate office.

One way we are implementing this transition in Virginia is to utilize an Agency Head Roundtable to assure that customer needs are understood and addressed. The Roundtable has already met and is engaged in a number of issues that are fundamental to the success of the initiative.

We all need to approach the Commonwealth's transition to real estate portfolio management as partners. We look forward to your active assistance and cooperation in this challenging endeavor.

cc: The Honorable William H. Leighty, Chief of Staff
Mr. James T. Roberts, DGS
Mr. Tom Vozenilek, CBRE of Virginia