



# COMMONWEALTH of VIRGINIA

## Department of General Services

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### MEMORANDUM

**TO:** The Honorable Timothy M. Kaine, Governor  
The Honorable Lacey E. Putney, Chairman, House Appropriations  
Committee  
The Honorable Charles J. Colgan, Chairman, Senate Finance Committee  
Members of the Virginia General Assembly

**FROM:** Richard F. Sliwoski, P.E., Director 

**SUBJECT:** 2008 Progress Report of Real Estate Services  
As Required by Virginia Code § 2.2-1131.1

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Virginia Code § 2.2-1131.1 was enacted by the 2004 Session of the General Assembly. The statute anticipates the development of enhanced performance standards involving the state's use of real estate assets, and it provides for an annual report on progress in that area. Specifically the section provides:

*§ 2.2-1131.1. Establishment of performance standards for the use of property.*

*A. The Division shall establish performance standards for the acquisition, lease and disposition of property and for the management and utilization of such property at the individual agency and statewide levels to maximize the use of property for which it is held. For the purposes of this section "property" means the same as that term is defined in § [2.2-1147](#).*

*B. The head of each state agency or institution shall ensure that property assets held by the agency on behalf of the Commonwealth are managed in accordance with the standards set by the Division. State public institutions of higher education that have delegated authority to manage aspects of their real property usage and have signed a memorandum of understanding with the Secretary of Administration related to such*

*delegated authority shall be deemed in compliance with the standards set by the Division as long as they abide by the terms of the memorandum of understanding. Standards established in accordance with the memorandum of understanding shall be reported to the Division by October 1 of each year.*

*C. The Division may take appropriate actions, including assuring compliance with the standards set by the Division and entering into leasing arrangements or other contracts, to ensure that asset usage by each state agency is proper and cost effective.*

*D. By December 1, 2004, the Division shall submit a report to the Governor and the General Assembly on the performance standards established pursuant to subsection A. Thereafter, the Division shall prepare, no later than November 30 of each year, reports to the Governor and the General Assembly on the implementation and effectiveness of this program.*

#### **BACKGROUND:**

The Division of Real Estate Services was created within the Department of General Services (DGS) in January of 2005. The mission of the Division is to establish a comprehensive portfolio management program in order to take advantage of economies of scale and market leverage in leasing and contracts, reduce redundancy, promote better space utilization and more productive use of staff, and produce more consistent, cost effective and higher quality facilities.

During 2007 and 2008 (October to October) DRES handled approximately 530 separate transactions, including leases, amendments, option, purchases, sales, easements and transfers. Because the data in this report covers 2007 and 2008 performance, DGS respectfully requests that this single report be accepted as the November 30, 2007 and November 20, 2008 reports required pursuant to § 2.2-1131.1.

#### **ACTIVITIES NOVEMBER 2006 THROUGH NOVEMBER 2008**

The Division has made significant progress in reaching its goals:

- **Cost savings and avoidance:** Through October of 2008, active portfolio management of leased office space statewide has resulted in aggregate cost savings or cost avoidance of approximately \$42.8 million. Savings will be realized over the entire terms of the various leases, averaging some \$6.3 million annually. The leases have a total contract value of \$221.5 million comprising over 1.6 million square feet of space.

During 2007-2008, cost savings have amounted to \$3,212,200 with another \$4,941,500 in cost avoidance for a total savings of \$8,153,700.



- **Surplus Real Estate:** During 2007 and 2008, DRES has sold or contracted to sell properties with total income of over \$18.5 million. We are currently marketing additional properties with values over \$24.7 million.
- **Space Standards:** In 2005, the space standard for leased office facilities was set at 210 square feet per person. We are currently operating under a standard of 198 square foot per person on average, and based on practice we believe that number can be lowered somewhat. With careful planning, the lesser space is not at all detrimental to productivity, as is revealed in the following email text we received in 2007:

"I visited Norfolk DCSE District Office last week and it was the first time I had been there since the renovations. The employees are very happy with their new work stations, the carpet and the paint.

They are utilizing less square footage, but have more space because of the work stations.

If we can replicate this type of renovation in some offices and move to different more accommodating buildings with this type of work station arrangement for other offices, I think we are going to be well satisfied and better off.

Well done on Norfolk. "

- **Lease Administration:** Beginning in January of 2008, DRES began taking over administration of leases that were previously administered by the various agencies. As of October, 2008, we have assumed responsibility for administering 435 leases for 41 agencies. The leases have a combined gross rental of over \$55.5 million. This process change has permitted the comprehensive review of lease payments identifying and correcting numerous errors.
- **Integrated Real Estate Management System:** We have purchased, installed and are currently using an integrated property management system. The system provides the database for property inventories, tracks and documents progress of transactions being undertaken, and ties into DGS' fiscal office to initiate lease payments and billings. We have high quality data on the leases administered by the Division and we are now expanding to include the other executive agency leases and owned property.
- **Policies and Procedures:** DRES issued revised leasing guidelines in July of 2008, and we are about to issue revised guidelines for placement of cell towers and antennas on state-owned property. By the first part of 2009, we expect to issue new fee acquisition guidelines, and we have begun work on guidelines governing disposal of real property.
- **Strategic planning:** DRES has worked with the most active agencies to develop real estate strategic plans. These plans focus on facility needs and provide



significant detail in terms of anticipated staffing, location requirements, required facility attributes, and expected duration. The plans will help agencies focus on their needs proactively, and they will provide critical information to DRES that enables development of more strategic solutions.

- **Funding:** A major issue for the Division has been the need to develop an internal service funding model that will fully support DRES's ongoing operations. That goal was realized in June of 2008 when JLARC approved a fee schedule to be used by DRES to charge agencies for services. The fee schedule provides only such funds as are necessary to fulfill DRES' mission-driven budget.
- **Staffing:** Successful implementation of the real estate initiative depends largely on the staff we employ. Although a tiny agency with only 17 FTE, DRES has added and staffed important programs to meet its challenges. During 2007 and 2008, DRES filled vacant Transaction Manager positions in order to provide more focused attention to the agencies we serve. We also filled other positions with experienced staff to manage the lease administration function, and we obtained a very experienced person to manage the Division's Integrated Real Estate Management System.

DRES has embarked on training programs for DRES staff in order to raise the overall knowledge base and provide cross-training. DRES plans to intensify the training regimen during the coming year to focus on providing staff with a high level of competency in the many functions and sub-functions of real estate transactions. In addition to maintaining skills and knowledge in basic real estate practices, the planned training includes building skills in performing economic analyses, in space planning, and in bricks and mortar project management.

- **Lease vs. Buy/Build Decisions:** DRES is committed to ensuring that we do not enter capital leases when other more economical alternatives exist. Indeed, the Appropriation Act requires analyses of lease decisions to ensure that capital leases are properly approved and reported in the Commonwealth's books, but there is nothing that allows a buy or build decision as an alternative to entering capital leases. Best practice would involve making informed decisions about the Commonwealth's real estate investments and being in the position to take the most cost effective actions. We have therefore recommended inclusion of language in the appropriation act that would support buy/build strategies and quick actions.

### **CONCLUSION:**

The Division of Real Estate Services is meeting its mission. DRES is pleased with the resulting savings that have been realized even though the Division is relatively new and the mission is necessarily focused on long term savings. There is a good deal more work to be done in order to maintain timely actions and assuage concerns of client agencies, but DRES will meet those challenges.

Additional savings can be realized through maintaining the current course along with developing new strategies. DRES has recently demonstrated in the Richmond market that the ability to buy or build rather than lease, when market conditions are favorable, is an important cost saving tool. Although DRES intends to aggressively pursue perfecting the current strategies, DRES would want to add the ability to buy or build when the market so indicates in order to meet future demands