

**DEPARTMENT OF GENERAL SERVICES**

**COMBINED REAL ESTATE REPORT**

**November 15, 2012**

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**Introduction**

This report is provided in compliance with Section 4-8.01e of Chapter 890, 2011 Acts of the General Assembly, which provides:

*e. Utilization of State Owned and Leased Real Property:*

*1. By November 15 of each year, the Department of General Services (DGS) shall consolidate the reporting requirements of § 2.2-1131.1 and § 2.2-1153 of the Code of Virginia into a single report eliminating the individual reports required by § 2.2-1131.1 and § 2.2-1153 of the Code of Virginia. This report shall be submitted to the Governor and the General Assembly and include (i) information on the implementation and effectiveness of the program established pursuant to subsection A of § 2.2-1131.1, (ii) a listing of real property leases that are in effect for the current year, the agency executing the lease, the amount of space leased, the population of each leased facility, and the annual cost of the lease; and, (iii) a report on DGS's findings and recommendations under the provisions of § 2.2-1153, and recommendations for any actions that may be required by the Governor and the General Assembly to identify and dispose of property not being efficiently and effectively utilized.*

**Summary of Savings and Income during the Period**

Lease Savings	\$2,695,900
Lease Administration Savings	\$181,760
Surplus Real Estate Sales Revenue	\$5,704,010
Surplus Real Estate Under Contract	\$484,000
Surplus Contracts Pending Execution	\$12,650,000
<b>Total Savings/Sales Revenue</b>	<b>\$21,715,670</b>

Lease savings throughout this report are divided between cost savings and cost avoidance. Cost savings is defined as reduced occupancy costs typically attributable to renegotiation of existing rents, reconfiguration of space to reduce rented areas, collocation efficiencies, and relocating

from leased to owned properties when that is the most economical choice. These are savings which reduce the real cost of doing business for the agency.

Cost avoidance is most often attributable to improved economic terms through value added in negotiations. Examples of cost avoidance include the landlord's agreement to pay a larger share of the cost of tenant improvements or the landlord's agreement to pay for furnishing and equipment ordinarily paid by the tenant.

The combined report for 2012 follows:

### **1. Division of Real Estate Services – Program Status**

Virginia Code § 2.2-1131.1 requires an annual report on progress of DGS' efforts to establish performance standards for the acquisition, lease and disposition of real property and for the management and utilization of such property at the individual agency and statewide levels to maximize the use of the Commonwealth's inventory of properties.

- **Space Standards:** The target average square feet per person in leased facilities remains at an average of 198 square feet. The number of square feet per person is a key measure under Virginia Performs. During FY12, the number of square feet per person averaged 180.5 for space leased during the period.
- **Lease Administration:** DRES is responsible for administering 533 leases with combined annual rental obligations of \$54 Million. In addition to ensuring that rental payments are made on time and in the correct amounts, this process allows DRES to identify and correct billing errors related to annual rent escalations and applicable operations and maintenance cost, saving agencies \$181,760 during the past year.
- **Integrated Real Estate Management System (IREMS):** We have purchased, installed and are currently using an integrated property management system. The system has the

ability to track and document progress of active transactions. It provides the database for property inventories and data, and the system ties into DGS' fiscal office to initiate lease payments and billings. During the year, the vendor went out of business and transferred the source code for the system to DGS. In the past, there have been limitations due to the vendors' need to serve a large user population having disparate needs and interests. Controlling the source code allows us to tailor the system solely to the Commonwealth's needs, and we have begun actions to that end.

- **Real Estate Records:** Since April of 2011, we have focused resources on collecting, reviewing and uploading data in order to meet the requirements of Virginia Code § 2.2-1136 as amended by the 2011 Session of the General Assembly. The amendment requires DGS to complete an inventory of all real property owned by state departments, agencies and institutions by January 1, 2012. That inventory was completed on-time, and we are now focusing on strategies to maintain current information on an on-going basis.
- **Agency Strategic Leasing Plans:** In 2008, DRES required certain large agencies to prepare Agency Strategic Leasing Plans. These plans focus on projected space needs to meet anticipated operational requirements. These plans provide significant detail in terms of anticipated staffing, location requirements, facility attributes, and expected program duration. The plans help agencies proactively focus on facility needs, and they provide critical information to enable DRES to develop strategic solutions to meet the needs of multiple agencies. The plans are due for a comprehensive review by DRES and the affected agencies by July 2013.
- **DRES Strategic Planning:** Using the Agency Strategic Leasing Plans and information on the current cost and utilization of office facilities, including current staffing levels, DRES has been able to develop long term plans that forecast leasing activities several years out and identify potential collocation and other opportunities that require longer range planning to realize. The strategic plan was updated in June of 2011.

Because markets are beginning to recover from the recession, we have initiated, with our contracted real estate broker, comprehensive strategic planning to ensure that we are prepared to meet the challenges of rising markets.

In large part, private industry has adopted teleworking and other workplace and work-pattern strategies as a way to increase productivity and mitigate space needs. While DRES has been successful in reducing the square feet per person metric for the Commonwealth, additional strategies should be considered involving increased teleworking and more creative usage of office space. Since these matters involve management styles and policies within the agencies, as well as their HR policies, DRES is not in a position to do more toward this goal than to prepare to act if and when any agencies incorporate these strategies into their overall management strategies.

- **Funding:** The Division became funded through an internal service fund, approved by JLARC, in 2008. The fees were revised in 2010 to effect a 10 percent reduction in fees to the agencies. At the same time, an hourly rate was established in order to allow DRES to charge for service which up to that time had not been reimbursed. We continue to monitor our performance and costs.

## 2. Lease Report

Lease savings during the period amounted to \$2,691,400 plus costs avoidance of \$4,500 for a total savings of \$2,695,900. Since 2005, active portfolio management has produced aggregate cost savings of \$78,467,600 and cost avoidance of \$39,477,500 for combined savings of \$117,945,100.

Lease savings for the period are substantially lower than those of previous years. Savings are largely driven by opportunities found in the inventory of leases coming due, their size, cost and locations and their prospects for co-locations. During the past year such opportunities have been hampered by limited inventory of co-location opportunities. Also, we have had many programs requiring relocations to better (and more costly) facilities, and some programs have expanded due to operational needs. Although savings may have been achieved in these cases, the gross savings are unaffected.

Under Section 4-8.01e of the Appropriation Act, we are to provide a listing of real property leases that are in effect for the current year with the agency executing the lease, the amount of space leased, the population of each leased facility, and the annual cost of the lease. That report, generated by our Integrated Real Property Management System (IREMS), is provided in **Exhibit A**.

### 3. Surplus Property

- Land Use Plans:** Virginia Code §2.2-1153 requires agencies to notify DGS when state-owned real estate under their control is no longer needed. The statute also requires the land-owning agencies to annually submit land use plans to DGS, and DGS is then required to provide a report to the Governor and General Assembly setting forth the Departments findings. **Exhibit B** provides a listing of properties ranked according to those that are surplus, those that are unused or underutilized, and those that we have determined are potentially underutilized.

DRES will prepare to sell those properties on the list that are surplus, and we will further investigate those that are underutilized or potentially underutilized. With the exception of properties declared surplus, it will take substantial time to sort through the data, visit the sites, collect information and finally take actions that will lead to sale or productive reuse of underutilized properties.

- Sales Activities:** During the period, DGS sold seven properties as identified in the following chart, generating income of \$5,704,010.

#### Surplus Properties Sold

Agency	Name	Location	Acres	Income
VDOT	Old Church AHQ	Hanover	2.523	\$409,010
VDOT	Walter's Sub AHQ	Isle of Wight	5.54	\$89,000
VDOT	Potts Creek Storage Lot	Alleghany	.0687	\$5,000
VDACS	Office Building	Accomack	.85	\$23,000
VDOT	Former Area Headquarters Pouncey Tract	Henrico	12.698	\$1,075,000

DGS	Former Tax Office Building	Richmond City	5.11	\$4,000,000
VDOT	Markham Storage Lot	Fauquier	3.692	\$103,000

We currently have five properties under contract with a total value of \$484,000, and contracts are being negotiated for three properties with a combined value of \$12,650,000. Eighteen properties with combined appraised values of \$15,471,000 are currently listed for sale through our broker.

- **Division of Real Estate Services Internal Actions:**

The Division's webpage now provides a listing of surplus properties with GPIN numbers. In addition, we have developed GIS capability, and the surplus properties are displayed on a map integrated into our webpage. The DRES webpage can be accessed at <http://www.dgs.virginia.gov/DRES> .



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

*A. The Department 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 Department. 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 Department 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 Department by October 1 of each year.*

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

*D. No later than November 30 of each year, the Department shall report to the Governor and the General Assembly on the implementation and effectiveness of this program.*

*§ 2.2-1136. Review of easements; maintenance of real property records.*

*A. The Department shall review all deeds, leases and contractual agreements with utilities to serve state institutions or agencies that require the approval of the Governor, as well as all easements and rights-of-way granted by institutions and agencies to public and private utilities.*

*B. The Department shall be responsible for the maintenance of real property records of all state departments, agencies and institutions, except records of real property acquired by the Department of Transportation for the construction of highways, and may have such boundary, topographic and other maps prepared as may be necessary. In addition, the Department shall develop the criteria for and conduct an inventory of all real property, as defined in § [2.2-1147](#), owned by state departments, agencies and institutions by January 1, 2012, and update the inventory at least annually thereafter. Such inventory shall be reviewed by the Department in developing recommendations pursuant to subsection A of § [2.2-1153](#). All state departments, agencies and institutions shall cooperate with the Department and provide such data and documents as may be required to develop and maintain the records and inventory required by this section.*

§ 2.2-1153. *State agencies and institutions to notify Department of property not used or required; criteria.*

*A. Whenever any department, agency or institution of state government possesses or has under its control state-owned or leased property that is not being used to full capacity or is not required for the programs of the department, agency or institution, it shall so notify the Department. Such notification shall be in a form and manner prescribed by the Department. Each department, agency and institution shall submit to the Department a land use plan for state-owned property it possesses or has under its control showing present and planned uses of such property. Such plan shall be approved by the cognizant board or governing body of the department, agency or institution holding title to or otherwise controlling the state-owned property or the agency head in the absence of a board or governing body, with a recommendation on whether any property should be declared surplus by the department, agency or institution. Development of such land use plans shall be based on guidelines promulgated by the Department. The guidelines shall provide that each land use plan shall be updated and copies provided to the Department by September 1 of each year. The Department may exempt properties that are held and used for conservation purposes from the requirements of this section. The Department shall review the land use plans, the records and inventory required pursuant to subsection B of § [2.2-1136](#) and such other information as may be necessary and determine whether the property or any portion thereof should be declared surplus to the needs of the Commonwealth. By October 1 of each year, the Department shall provide a report to the Chairmen of the House Appropriations and Senate Finance Committees setting forth the Department's findings, the sale or marketing of properties identified pursuant to this section, and recommending any actions that may be required by the Governor and the General Assembly to identify and dispose of property not being efficiently and effectively utilized. The Department shall provide a listing of surplus properties on the Department's website. The description of surplus property shall include parcel identification consistent with national spatial data standards in addition to a street address.*

*Until permanent disposition of the property determined to be surplus is effected, the property shall continue to be maintained by the department, agency or institution possessing or controlling it, unless upon the recommendation of the Department, the Governor authorizes the transfer of the property to the possession or control of the Department. In this event, the department, agency or institution formerly possessing or controlling the property shall have no further interest in it.*

*B. The Department shall establish criteria for ascertaining whether property under the control of a department, agency or institution should be classified as "surplus" to its current or proposed needs. Such criteria shall provide that the cognizant board or governing body, if any, of the department, agency or institution holding the title to or otherwise controlling the state-owned property, or the agency head in the absence of a board or governing body, shall approve the designation of the property as surplus.*

*C. Notwithstanding the provisions of subsection A:*

1. *The property known as College Woods, which includes Lake Matoaka and is possessed and controlled by a college founded in 1693, regardless of whether such property has been declared surplus pursuant to this section, shall not be transferred or disposed of without the approval of the board of visitors of such college by a two-thirds vote of all board members at a regularly scheduled board meeting. The General Assembly shall also approve the disposal or transfer.*

2. *Surplus real property valued at less than \$5 million that is possessed and controlled by a public institution of higher education may be sold by such institution, provided that (i) at least 45 days prior to executing a contract for the sale of such property, the institution gives written notification to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees; and (ii) the Governor may postpone the sale at any time up to 10 days prior to the proposed date of sale. Such sale may be effected by public auction, sealed bids, or by marketing through one or more Virginia licensed real estate brokers after satisfying the public notice provisions of subsection A of § [2.2-1156](#). The terms of all negotiations resulting in such sale shall be public information. The public institution of higher education may retain the proceeds from the sale of such property if the property was acquired by nongeneral funds. If the institution originally acquired the property through a mix of general and nongeneral funds, 50 percent of the proceeds shall be distributed to the institution and 50 percent shall be distributed to the State Park Conservation Resources Fund established under subsection A of § [10.1-202](#). The authority of a public institution of higher education to sell surplus real property described under this subdivision or to retain any proceeds from the sale of such property shall be subject to the institution meeting the conditions prescribed in subsection B of § [23-38.88](#) and § [23-38.112](#) (regardless of whether or not the institution has been granted any authority under Subchapter 3 (§ [23-38.91](#) et seq.) of Chapter 4.10 of Title 23).*