THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW   Washington, DC 20005

GREGORY T. LONG
Executive Director

February 11, 2008

MEMORANDUM FOR BOARD MEMBERS SAUL, FINK, WHITING, SANCHEZ & DUFFY

FROM: GREG LONG
Executive Director

SUBJECT: Sublease of Second Floor at 1250 H St.

In 2007, the Agency paid $2.2 million in lease expenses for three floors in the 1250 H St., NW headquarters building. Costs specific to the second floor last year were $609,000. The total headcount for the Agency has decreased over the last several years from over 100 positions in 2003 to 85 currently. This has resulted in many open offices and, as noted in the May, 2007 GAO report, a higher office space per-person ratio than the General Services Administration (GSA) recommends.

As we seek to limit our expenses consistent with our duty to act in the interests of participants and beneficiaries, we have examined the feasibility and cost-effectiveness of subleasing the second floor of the Agency's headquarters building for the remaining term of our lease, which expires on December 31, 2012, or approximately 5 years from now. I have concluded that, while it would be possible to consolidate Agency operations on two floors and then sublease the second floor, it would be neither cost effective, nor would it further efficient Agency operations, to do so.

We engaged Staubach and Associates, a leading real estate strategy and consulting firm which specializes in finding solutions for office space users, to examine options for subleasing the second floor space. Staubach has advised the Agency on its leasing and space requirements for many years, including negotiating the lease of the current premises in 1992. Staubach has extensive knowledge of the Washington, DC commercial office space market, as well as useful knowledge about specific buildings with available space and lease arrangements made by other tenants with needs similar to the Agency. We note that Staubach represents only prospective tenants and not landlords, and therefore does not have any conflicts of interest in making its recommendations.

In conducting this analysis, we examined the Agency's current and projected space needs, in an effort to determine if the existing Agency staff offices and other necessary Agency functions could be accommodated on the third and fourth floors.

We determined that with significant office configuration changes, that current staff could be accommodated in the existing office space on those two floors. However, the space available for currently vacant positions would be less than ideal and we would have virtually no room for future growth. Considering that we expect continued growth in TSP participants and assets, and anticipate several new services and program enhancements, severely limiting our capacity for growth in personnel is unwise.

In order to consolidate on two floors, we would need to give up our training facility on the second floor, reconstruct several secretarial stations and storage areas into interior window-less offices, and shrink the size of our library area and lunch/break room. The training room is used frequently, both for training of government representatives and Agency-wide meetings/functions. While these activities could occur elsewhere in rented space, it would create scheduling problems and is both inconvenient and costly. The changes required to consolidate space would also hinder my efforts to improve employee morale.

Staubach examined a number of available options, and concluded that there would be very limited financial benefit to the Agency associated with subleasing the second floor space. The primary reason for this would be the limited rent that we could expect to realize for that space, which they estimated at approximately $30 per square foot (including all utilities and other charges). This compares to our current rental charge of $48.25 per square foot for the space. The relatively low rent we could expect from a sublease is due to a number of factors, including the relatively short remaining term on the lease, the less desirable floor location (lower floors in a building are less desirable), the inconvenient layout of the space for new tenants (the training room, the reception area, and the mailroom, while functional for the Agency, all detract from space that might be desired for offices or other functions), and the need for substantial modifications to make the space usable (such as creating a method of access to the men's room) in a way that meets updated building codes. Another factor is the uncertainty about how long the space might be vacant before it could be rented. They estimated this could be up to 1 year.

In addition, Staubach estimated that it would cost approximately $23 per square foot to make the third and fourth floor space usable for our current and expected functions. One factor driving these remodeling costs higher is the requirement that any new construction would need to meet more stringent building codes. As noted above, I do not believe that that this additional cost can be justified, given the limited time remaining on our current lease.

Staubach did recommend that we consider a number of additional options, including beginning a search no later than the end of 2010 for new space that would better fit our needs when the current lease expires, as well as considering renegotiating our existing lease sooner in exchange for concessions in rebuilding our current space to better fit our needs. We will continue our work with Staubach to explore both of these options further.