



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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JUN 15 1972

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Dear Senators Javits and Buckley  
and Representative Abzug:

Your letter of March 8, 1972, requested that we update the comparison included in our February 14, 1972, report to Representative Abzug of the two alternatives--construction and leasing--for acquiring a postal vehicle maintenance facility (VMF) in New York City on the basis of new information provided by the Sharp Development Corporation, the would-be lessor. In that report we compared the cost of constructing a VMF on a Postal Service-owned site, adjacent to the Morgan Postal Station, with the cost of leasing a similar VMF to be constructed by the Sharp Development Corporation, on land about two blocks from the Postal Service-owned site.

The updating of this comparison is not feasible, however, because the buildings proposed to be constructed by the Postal Service and by the Sharp Development Corporation are different in size, configuration, and vehicle accommodations from those on which the comparison had been based. Therefore, it was agreed with your office that we would present data showing the lease rate below which it would be advantageous for the Postal Service to lease rather than to construct a VMF to meet its current requirements.

We concluded that the Postal Service should lease a VMF that meets its current requirements if the lease rate is less than \$3.52 per square foot a year or \$2,297,000 a year. Further details regarding our computation are contained in the enclosure.

We have not requested the Postal Service or the Sharp Development Corporation to review or comment formally on the information in this report.

We plan to make no further distribution of this report unless copies are specifically requested and then only after

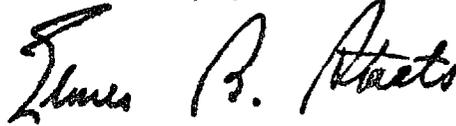
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your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

We trust this information will be of assistance to you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Abzug". The signature is written in a cursive style with a large initial "J".

Comptroller General  
of the United States

Enclosure

The Honorable Jacob K. Javits  
United States Senate

The Honorable James L. Buckley  
United States Senate

The Honorable Bella S. Abzug  
House of Representatives

GENERAL ACCOUNTING OFFICE COMPUTATION OF A  
BREAK-EVEN LEASE RATE FOR THE POSTAL VMF  
IN NEW YORK CITY

VMF BUILDING REQUIREMENTS

Postal Service

By letter dated December 28, 1971, the New York District Corps of Engineers, acting as construction agent for the Postal Service, requested the firm of Ames Associates, Architects and Engineers, McFarland-Johnson-Gibbons Engineers, Inc., to determine the feasibility and cost of constructing a VMF on the existing Postal Service-owned site located between 28th and 29th Streets and 9th and 10th Avenues. The firm was also to design a VMF having two stories below ground and two stories above ground and comprising about 652,000 gross square feet, including about 445,850 square feet of usable space. The foundation was to be designed to support a 20-story, high-rise structure to be built on top of the VMF, containing up to 1,000 low-cost housing units. The estimated cost of constructing the VMF was to include the costs for the foundation, structure, and utilities, with and without the housing units, to establish the added cost to the Postal Service of providing for such units.

The Ames Associates' study was submitted to the Corps of Engineers on March 1, 1972, and stated that:

"The Vehicle Maintenance Facility is to include approximately 445,850 square feet of usable space and is to consist of essentially two stories above grade and two stories below grade. \*\*\* Parking is to be provided for 680 trucks, 175 tractors, 25 trailers, and 30 employee cars. Maintenance is to include 64 service and repair bays, 2 wash racks, steamrack, paint and body shop. Support areas will provide for storage, repair, training and custodial rooms. Administrative spaces will include offices, toilets, swing, locker and lunch rooms."

Ames Associates estimated that it would cost \$32.7 million to construct the VMF without providing for the housing units and \$34.6 million with provision for the housing units.

Sharp Development Corporation

By letter dated April 12, 1972, representatives of the Sharp Development Corporation stated:

"That we are unequivocally prepared to lease a building on the Sharp site that meets the specifications given to us repeatedly by the U.S. Postal Service since 1969 which specifications call for approximately 760,000 square feet of rentable space; and that we will rent that space at \$3.80 per square foot.

"That we are able to offer this rental due to the application of certain techniques by the City of New York, and that this application has been committed by the City directly to the Postal Service officials concerned at a meeting which took place on March 6, 1972.

"That we are furnishing the information to enable the General Accounting Office to understand the complex and continuing chain of events that led to the requirements set for us by the Postal Service for a building that will house 1,500 vehicles, that those vehicles will require approximately 760,000 square feet, and that this establishes a close and fixed relationship between number of vehicles, space required for that particular mix of vehicles, and the footage rates quoted."

The buildings proposed by the Postal Service and the Sharp Development Corporation are substantially different in size, configuration, and vehicle accommodations, and therefore, in our view, a comparative economic analysis of lease or construct alternatives for these buildings is not feasible.

Representatives of the Sharp Development Corporation told us that they had not seen nor been given the opportunity to make a proposal on the basis of the Postal Service's latest requirements for the VMF.

#### DETERMINATION OF AN ADVANTAGEOUS LEASE RATE

In our analysis to determine an advantageous lease rate, we considered two alternatives: (1) constructing a VMF on the Postal Service-owned site in accordance with the requirements specified in the Ames Associates study and (2) leasing a VMF to be constructed by the Sharp Development Corporation, also in accordance with the requirements specified in the Ames Associates study, on a site two blocks from the Postal Service-owned site.

We discounted future costs to state them in terms of their present value. To do this we used a discount rate of 7 percent

which represented the annual interest rate of 6-7/8 percent payable on the 25-year Postal Service bonds issued in January 1972 plus the fee paid to underwriters for issuing the bonds. We considered inflation in our computations because the rate charged by a prospective lessor would include a factor for this.

An explanation of the items considered in our analysis and a schedule showing our computation follows.

#### Land

The Postal Service estimated the current market value of the Government-owned site at \$9.6 million. According to Postal Service records, the site was acquired in 1968 at a cost of \$5 million. Postal Service officials informed us that their estimate of current market value was based on estimates of property values in the area of the Morgan Postal Station provided by Corps of Engineers real estate officials and a commercial building contractor in New York City.

#### Building

Ames Associates estimated that the construction cost of the VMF alone would be \$32.7 million and that the cost would rise to \$34.6 million if the foundation was reinforced to permit housing units to be constructed atop the VMF.

In our analysis we used the construction cost of \$32.7 million because any incremental costs incurred as a result of providing for the housing units would be borne by the owner of such units.

To this cost we added the Postal Service's estimates for architect-engineer fees and for contingencies, which brought the total estimated cost of the VMF to \$35 million.

#### Residual value of land and building

Our estimated residual value consists of \$30,787,000 for land and \$39,486,000 for the building. In computing the residual value for land, we used the market value of \$9.6 million for the land and increased it for inflation and real value appreciation, resulting from the effect of the scarcity of land, at the rate of 6 percent a year for 20 years. Postal Service officials advised us that the 6-percent rate was estimated, with the assistance of the Office of Management and Budget and commercial real estate firms.

In computing the residual value of the building, we used the Postal Service's estimate of \$39,486,000, which was arrived at by applying a residual value factor to the total cost of

the building (\$35 million). The residual value factor combines a projected industrial-building cost index growth of 3.5 percent compounded annually and a declining economic value--deterioration and obsolescence--for the building. The building-cost index was based on the national index of a leading engineering and construction company, and the economic evaluation factor was based on the Postal Service's experience with postal facilities.

#### State and local real estate taxes

Property owned by the Federal Government is not subject to State and local real estate taxes but lessors usually pay such taxes. In making cost comparisons to determine whether the Government should construct or lease property, we believe that it is appropriate to recognize as a cost of Government ownership the State and local real estate taxes which are forgone by States and localities when the Government acquires land and constructs buildings.

We did not add State and local real estate taxes to the Government ownership costs in this case, however, because the lease proposal submitted by the Sharp Development Corporation to the Postal Service on February 25, 1972, stated that:

"a) The City of New York has generally agreed to abate taxes on the Sharp site during the lease period were the site to be used by the Postal Service."

#### Other costs

The location of the proposed site for the leased building is about two blocks from the Postal Service-owned site. Because most of the Postal Service vehicles which would be parked at the leased building would operate out of, or travel past, the Morgan Postal Station, we added the Postal Service's estimate of the additional vehicle-operating costs for travel between the two proposed VMF sites to the cost of the lease alternative. The Postal Service estimated this cost at \$203,000 annually.

According to the Postal Service, if the VMF was located on the lease site, 10 more security guards would be required for a three-tour operation, 7 days a week. Postal Service estimated that the cost of the additional security guards would be \$72,900 annually.

Our review of the data supporting Postal Service's estimates of travel costs to Morgan Postal Station and the cost of additional security guards indicates that the estimates were reasonable.

NEW YORK CITY VMF COMPUTATION OF  
BREAK-EVEN LEASE RATES FOR 20-YEAR PERIOD

	<u>Estimated costs</u>	
	<u>Undis-</u> <u>counted</u>	<u>Present</u> <u>value</u>
Construction costs:		
Morgan Postal Station site:		
Land	\$ 9,600,000	\$ 9,600,000
Building	35,000,000	31,641,000
Residual value of land and building	-70,273,000	<u>-15,861,000</u>
Estimated Government ownership costs		\$ <u>25,380,000</u>
Leasing costs:		
Sharp site:		
Break-even lease payments	45,940,000	\$21,252,000
Travel costs to Morgan Postal Station	7,468,000	3,036,000
Additional security guards	2,686,000	<u>1,092,000</u>
Estimated leasing costs		\$ <u>25,380,000</u>
Break-even lease cost:		
Annually (20 years)	\$2,297,000	
Per sq. ft. annually (20 years)	\$3.52	