

## REQUIREMENTS FOR MARKETABILITY STUDIES

Alternative Financing is subject to close scrutiny of OMB Circular A-11 at a variety of levels to ensure compliance with scoring rules outlined in Part 8 Appendix B. While there are basically six elements that need to be analyzed resulting from the proposals contained in the original business, case, the area that has the least definition surrounds the requirement that “there is a private sector market for the asset.” Accordingly, the most intensive discussions held over the last four years regarding alternative financing proposals, and resultant external independent reviews, has been the issue of marketability.

While the issue seems straight forward enough, both the OMB A-11 requirement and the Department’s definition and understanding provide little in the way of guidance, or a road map to be used in developing the needed analysis to answer that question. The assumption underlying the marketability issue considers the demand existing at or around the period of lease commencement. To satisfy the need to measure potential marketability, we have drawn upon standards employed by private sector valuation organizations as the source to best define the problem and provide the needed solution.

The determination of marketability is to be based upon a *marketability study*. This study will utilize both macro and micro considerations and will concern itself on the potential performance of the proposed facility in a specific market area. The prime assumption is based upon *demand*. Demand will consider existing *supply* in concert with recent *absorption* through leasing or sales activity. The current supply is included in the discussion in order to help determine whether it can fulfill current demand. In order to lend credence to the occupancy of current space in the market, it is necessary to understand the pent up demand for remaining space.

The measurement of space is typically considered against the *vacancy* available in terms of existing facilities and considering the *new construction starts* that are currently nearing completion. In other words, the marketability study must take a near-term forward looking approach to estimating the total vacancy rates at the appropriate rental rates for those properties that will be competing in the near future. With this scenario analyzed, the development of a facility for Government usage through alternative financing must now be considered. The main issue needing to be resolved is to determine what impact the new Government facility will have on the market that exists in a particular geographic location.

The report on marketability is to contain a *demand analysis* that reflects this impact. *Trend analysis* is a subset of demand analysis and should be used to graphically identify the existing/projected trends. Part of this analysis must look at the size and rentals required for the proposed AF facility. The demand analysis phase of the marketability study is to clearly indicate the activity in terms of size and rates, along with the typical level of services that might be expected. The rates should reflect a “with services” and without component.

The demand analysis must focus on the feasibility of whether the local market can support use of the facility and at what rental rates. Additionally, the typical AF building will contain elements that generally will not be found in typically finished local facilities. If the primary demand analysis indicates that there is no need or use for the facility from local interests, the marketability study must be directed to identifying more *regionally* oriented users.

Such an analysis would include a trend analysis of the particular industry identified and the receptiveness of those more regionally-oriented users considering the location that is the subject of the analysis. Regardless of whether the local (micro) market or a larger regional (macro) market is ultimately determined to be satisfactory, the results of the investigation must *document the source*

of the data and discussions held with participants in both markets.

Projected growth or other descriptors of market activity must be buttressed with *supporting demographic data*. This data must indicate the source indicate the source of the underlying economic factors creating the current condition. For the purposes of clarity, the following outline should be used for format purposes in order to lay out the report and the results of the marketability study in a logical sequence.

TITLE: Marketability Study

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Discussion of Methodology

Marketability Study

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- Rent absorption
- Demand
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  - New construction starts

Trend Analysis

Potential Local Market Demand and Use

Potential Regional/National Market Demand and Use

Supporting Demographic and Economic Data  
Documented Research Sources  
Conclusion