We are committed to optimizing the value of our portfolio for customer agencies and taxpayers.

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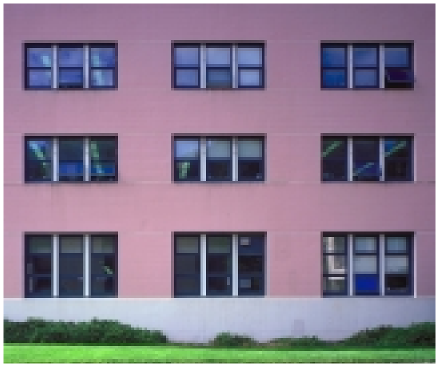

reinvesting in
our portfolio

The Challenge

To achieve our mission of delivering a superior workplace for the federal worker at superior value to the American taxpayer, we must optimize the value of our real estate portfolio. Many of our buildings:

- Are old and worn;
- Have significant repair and modernization needs;
- Don't meet customer agency requirements; and
- Generate insufficient revenue to support their expenses and needs.

At an average age of 46 years, our owned buildings are old by private sector standards. The value of needed repairs and replacements is 30 to 40 percent of the inventory value; and there is significant functional obsolescence in these old buildings.

Of our 8,952 owned and leased assets, only 285 produce our Funds from Operations (FFO). Over 2,600 of our "assets" lost FFO.

For the last ten years, the General Accounting Office has documented that we are falling farther and farther behind in funding the reinvestment requirements of our inventory. We project a short-term need in excess of $5.5 billion and a long-term need of $9 billion. We do not have sufficient funds to maintain, repair, and modernize our buildings to provide our customer agencies with quality space. Reinvestment needs exceed the capability of the Federal Buildings Fund (FBF). We cannot borrow capital, and we aren't likely to receive additional appropriations.

Our Strategy

In fiscal year 2002, faced with insufficient capital to maintain our existing inventory, we launched a comprehensive review of each building's:

- Physical and financial condition;
- Market alternatives.
- Customer requirements; and

This review will result in restructuring our portfolio and changing our criteria for capital reinvestment. Our goal is to improve the quality of workspace for our customers, preserve our legacy buildings, and achieve a portfolio that generates sufficient income to cover its operating and capital reinvestment needs. We are committed to optimizing the value of the portfolio for customer agencies and taxpayers. We must restructure our owned inventory to consist primarily of strong, income-producing properties; as well as, find solutions for assets that are expensive to operate and maintain, produce little or no net income, require significant repair and modernization, and do not adequately serve customer needs. Possible solutions include exchange, sale, donation, renegotiated rents (Return on Investment pricing), section outlease, public-private partnerships, conveyance to tenants, cost containment and short-term hold. PBS will concentrate reinvestment funds on the properties that perform well financially and meet long-term federal space needs.

For more information on PBS's portfolio

Portfolio Principles

To enhance the asset value of our real estate portfolio for the benefit of customer agencies and taxpayers, we adopted the following portfolio principles, which are our "owner's objectives" for successful management of the portfolio:

- Customer needs will drive portfolio composition;
- All assets must have a predominantly federal use;
- Rents will be based on market rates and will reflect asset quality;
- Assets will have a business plan and strategy, updated annually;
- All assets must perform financially; and
- Performing assets will have priority for reinvestment dollars.

Restructuring Initiative

We have measured the financial performance and capital needs of each owned asset and categorized these properties into three categories:

- Performing;
- Under-performing; and
- Non-performing (buildings with a negative cash flow).

At the beginning of fiscal year 2002, we identified 584 non-performing assets. In one year, we have reduced this number to 396 by moving 92 to disposal, improving performance on 56 by taking corrective action, removing 29 misclassified as "non-performing" because of data errors, and assigning 11 to a Workout Task Force in the Office of Portfolio Management to facilitate a solution for retention or disposal.

We continue to look for vacant space recapture projects as well as outleasing and exchange opportunities. In fiscal year 2003, by using even more stringent criteria, we have identified 598 assets on which we will focus our attention.

Results: What the Restructured Portfolio Will Look Like

The Portfolio Strategy is transforming our role from a caretaker of properties to a responsible asset manager, seeking to optimize the value and performance of PBS' portfolio. By focusing our asset management decision-making on customer needs in the context of asset performance and market conditions, the composition of our portfolio will change over time. We envision our owned inventory will consist of the most significant legacy buildings along with larger, higher quality, functionally modern buildings in major metropolitan markets.

restructuring strategy, please visit www.gsa.gov.

Through restructuring and redeployment of assets, the owned inventory will shift to more specialized types of space, such as courthouses and high-security installations. The majority of our standard office space will be in leases.

The portfolio will be more efficient with a higher return and a lower repair liability. As those involved in real estate know, only one thing remains constant—it's all about value!