

Annex A

IMPLEMENTING GUIDELINES FOR LEASE OF PRIVATELY-OWNED REAL ESTATE AND VENUE

1. PURPOSE

The Guidelines on Lease of Privately-Owned Real Estate and Venue (the “Guidelines”) shall set forth the rules and procedures in entering into contracts for lease of privately-owned real estate and venue by government agencies for official use pursuant to Section 53.10 of the Implementing Rules and Regulations of Republic Act 9184.

2. SCOPE AND APPLICATION

The Guidelines shall apply to national government, its branches, constitutional offices, departments, bureaus, offices and agencies, including state universities and colleges, government-owned and/or –controlled corporations, government financial institutions, and local government units.

It shall not apply to lease of government properties for private use.

3. DEFINITION OF TERMS

- 3.1. **Cost-benefit Analysis.** Refers to a tool used to aid decision-making by evaluating the benefits to be attained from an action against the costs for its implementation. For purposes of these Guidelines, the cost-benefit analysis should consider, among others, the costs for the transfer to, furnishing, and/or maintenance of the real estate, and include a market analysis of prevailing lease rates within the vicinity of the selected location.
- 3.2. **Lessee.** Refers to any government agency temporarily occupying a real estate on the basis of a contract executed with the private individual, partnership, cooperative, association, or corporation having absolute ownership over such real estate.
- 3.3. **Lessor.** Refers to any private individual, partnership, cooperative, association, or corporation having absolute ownership over the real estate or venue to be leased.
- 3.4. **Real Estate.** Refers to land and buildings, including office spaces or units.

- 3.5. **Rental Rate.** Refers to the amount paid by the Lessee for the use and/or occupancy of the privately-owned real estate to the Lessor, where payment is usually made on a monthly basis.
- 3.6. **Venue.** Refers to training centers, convention halls, hotels, and similar establishments catering to trainings, seminars, conferences, conventions, symposia and similar gatherings requiring the official participation of government officials and employees. This may include meals and accommodation depending on the requirements of the procuring entity.

4. GUIDING PRINCIPLES

- 4.1. It is more preferred that government agencies lease publicly-owned real estate and venue from other government agencies.
- 4.2. The location of the real estate or venue to be leased should have been meticulously selected by the procuring entity after taking into consideration, among others, the need for prudence and economy in government service and the suitability of the area in relation to the mandate of the office, and its accessibility to its clients. In the lease of venue, other factors such as the nature of the event or the level of security in the proposed location may also be taken into account.
- 4.3. As a general rule, rental rates are considered reasonable when they represent or approximate the value of what the Lessee gets in terms of accommodation, facility, amenities, and convenience from the leased real estate or venue, and the Lessor gets an equitable return of capital or investment.
- 4.4. Rental rates should also be within the prevailing market rates for lease of real estate or venue with the same or similar condition or classification and located within the vicinity.
- 4.5. The procuring entity shall ensure that the objectives and purpose of the lease contract do not constitute an unnecessary, excessive, extravagant, or unconscionable expenditure.

5. PROCEDURAL REQUIREMENTS

- 5.1. The end user unit shall conduct a Cost-Benefit Analysis to assess the feasibility of leasing a privately-owned real estate or venue as against purchasing or leasing from a government-owned real estate or venue.
- 5.2. The recommendation of the end user unit to lease a privately-owned real estate or venue shall also indicate the proposed location/s, the justifications therefor, and the result of the market analysis of the

prevailing rates of lease contracts within the vicinity of the selected location/s.

- 5.3. The Approved Budget for the Contract (ABC) shall be set using the mid point of the range obtained from the results of the market analysis on the prevailing lease rates for real estates or venue within the vicinity of the selected location complying with the criteria and technical specifications of the end user unit. In no case shall the rental rates, including additional expenses, such as association dues in the case of lease of real estate, exceed the ABC.
- 5.4. The Annual Procurement Plan of the procuring entity shall reflect the proposed lease of real estate or venue specifying the approved mode of procurement, the ABC, and the general description of the lease.
- 5.5. Selection of the Lessor following the procedures prescribed in Items 6 and 7 of these Guidelines may be delegated to the appropriate bureau, committee, or support unit duly authorized by the Bids and Awards Committee.
- 5.6. Eligibility documents need not be submitted by prospective Lessors. The procuring entity must nevertheless validate whether the Lessor to be awarded the contract is technically, legally and financially capable through other means.
- 5.7. All lease contracts with ABCs costing more than Fifty Thousand Pesos (Php 50,000.00) shall be posted in the Philippine Government Electronic Procurement System.

6. SPECIFIC GUIDELINES: LEASE OF REAL ESTATE

- 6.1. The draft contract and the technical specifications for the lease shall be prepared taking into consideration the rating factors under Appendix A of these Guidelines.
- 6.2. Thereafter, at least three (3) prospective Lessors shall be invited to submit sealed price quotations.
- 6.3. On a specified date, submitted price quotations shall be opened to determine the Lowest Calculated Bid (LCB). The real estate being offered by the Lessor with the LCB shall be rated in accordance with the technical specifications prepared pursuant to Appendix A, and the reasonableness of its price quotation shall be determined in accordance with the methodology prescribed in Appendix B of these Guidelines
- 6.4. If the LCB is determined to be responsive and reasonable, said bid shall be declared as the Lowest Calculated Responsive Bid (LCRB). If not, then the second LCB shall be evaluated and its reasonableness

determined pursuant to Item 6.3 of these Guidelines. This procedure shall be repeated for the next LCB until the LCRB is determined.

- 6.5. Lease contract shall be awarded to the LCRB. If no LCRB has been determined, then another round of prospective Lessors shall be invited to submit sealed price quotations in accord with Item 6.2 of these Guidelines until an LCRB has been determined and awarded the contract.

7. SPECIFIC GUIDELINES: LEASE OF VENUE

- 7.1. Technical specifications shall be prepared taking into consideration the rating factors under Appendix C of these Guidelines.
- 7.2. Once technical specifications have been finalized, at least three (3) price quotations shall be obtained within the vicinity of the selected location.
- 7.3. The venue being offered by the Lessor with the LCB shall then be rated in accordance with the technical specifications prepared pursuant to Appendix C. Compliance rating with technical specifications may be conducted through ocular inspection, interviews, or other forms of due diligence.
- 7.4. If the LCB is determined to be responsive, said bid shall be declared as the LCRB. If not, then the second LCB shall be evaluated and its responsiveness determined pursuant to Item 7.3 of these Guidelines. This procedure shall be repeated for the next LCB until the LCRB is determined.

8. TERMS AND CONDITIONS OF LEASE CONTRACTS

- 8.1. The procuring entity shall ensure that the lease contract provides the most advantageous terms and conditions to the Government.
- 8.2. Lease contracts may be entered into on a multi-year basis, subject to the application of any set of guidelines that governs multi-year contracts.

9. EFFECTIVITY

These Guidelines shall take effect fifteen (15) days after publication in the Official Gazette or in a newspaper of general nationwide circulation.

Appendix A

TABLE OF RATING FACTORS FOR LEASE OF REAL ESTATE

| | RATING FACTORS | WEIGHT (%) | RATING |
|-------------|---|------------|--------|
| I. | Location and Site Condition | | |
| | 1. Accessibility | (25) | |
| | 2. Topography and Drainage | (20) | |
| | 3. Sidewalk and waiting shed | (15) | |
| | 4. Parking space | (15) | |
| | 5. Economic potential | (10) | |
| | 6. Land classification, utilization, and assessment | (10) | |
| | 7. Other added amenities | (5) | |
| | | 100 | |
| II. | Neighborhood Data | | |
| | 1. Prevailing rental rate | (20) | |
| | 2. Sanitation and health condition | (20) | |
| | 3. Adverse influence | (15) | |
| | 4. Property utilization | (15) | |
| | 5. Police and fire station | (15) | |
| | 6. Cafeterias | (10) | |
| | 7. Banking/postal/telecom | (5) | |
| | | 100 | |
| III. | Real Estate | | |
| | 1. Structural condition | (30) | |
| | 2. Functionality | | |
| | a. Module | (6) | |
| | b. Room arrangement | (6) | |
| | c. Circulation | (6) | |
| | d. Light and ventilation | (6) | |
| | e. Space requirements | (6) | |
| | 3. Facilities | | |
| | a. Water supply and toilet | (6) | |
| | b. Lighting system | (6) | |
| | c. Elevators | (6) | |
| | d. Fire escapes | (6) | |
| | e. Fire fighting equipment | (6) | |
| | 4. Other requirements | | |
| | a. Maintenance | (5) | |
| | b. Attractiveness | (5) | |
| | | 100 | |

| | RATING FACTORS | WEIGHT (%) | RATING |
|------------|-------------------------------------|-------------------|---------------|
| IV. | Free Services and Facilities | | |
| | 1. Janitorial and security | (20) | |
| | 2. Air conditioning | (20) | |
| | 3. Repair and maintenance | (20) | |
| | 4. Water and light consumption | (20) | |
| | 5. Secured parking space | (20) | |
| | | 100 | |

| | | | |
|---------------------|-------------------------------------|-----------|--|
| I. | Location and Site Condition | × (.20) = | |
| II. | Neighborhood Data | × (.20) = | |
| III. | Real estate | × (.50) = | |
| IV. | Free Services and Facilities | × (.10) = | |
| FACTOR VALUE | | | |

Note: Weight of each rating factor may be changed as long as total weight per classification is equivalent to 100. Figures in parenthesis are samples. Procuring entity must determine passing rate before inviting bids from Lessors. A bid is determined to be responsive if it is equal to or higher than the passing rate.

Appendix B

DETERMINATION OF REASONABLENESS OF RENTAL RATES

1. The reasonableness of rental rates may be determined using any of the following methods.

- 1.1. *Computation based on Observed Depreciation*

This method uses the following formula and a depreciation rate determined after meticulous ocular inspection of the actual condition of the real estate:

| | | |
|-------------------|---|--|
| Reproduction Cost | = | Estimated Unit Construction Cost × (1 – Depreciation Rate) |
| Formula Rate | = | Reproduction Cost × Monthly Capitalization Rate |
| Rental Rate | = | Formula Rate × Factor Value |
| Monthly Rental | = | Rentable Area × Rental Rate |

- 1.1.1. The following weights may be used in arriving at the observed depreciation rate:

| Status | Depreciation (%) |
|-----------|------------------|
| Good | 20 |
| Fair | 40 |
| Poor | 60 |
| Very poor | 80 |

- 1.1.2. Reproduction Cost refers to the estimated total cost of replacing the real estate with the same utility.
 - 1.1.3. Capitalization Rate refers to the interest rate on the cost or value of the property.
 - 1.1.4. Rentable Area refers to the total area of the real estate in square meters being occupied or to be occupied by the Lessee less the common area like lobby, stairway, elevator hall, common comfort room, machine room for air conditioner, and other areas of common use by the public or upper floor occupants.
 - 1.1.5. Factor Value refers to the rating factor where locations and site conditions, neighborhood data and real estate structural condition, functionality, facilities and other requirements, including free services and facilities offered by the Lessor are considered. The rating factors and its corresponding weights are provided in Appendix A of these Guidelines.

- 1.2. *Computation based on Straight Line Depreciation*

This method uses the following formula:

| | | |
|--------------------|---|--|
| Age of Real Estate | = | Current Year – Year of Construction |
| Depreciation Rate | = | Please See Table of Structural Depreciation |
| Reproduction Cost | = | Estimated Unit Construction Cost × (1 – Depreciation Rate) |
| Formula Rate | = | Reproduction Cost × Monthly Capitalization Rate |
| Rental Rate | = | Formula Rate × Factor Value |
| Monthly Rental | = | Rentable Area × Rental Rate |

1.2.1. Depreciation rate shall be determined using the following Table of Structural Depreciation provided by the DPWH:

| AGE | ESTIMATED LIFE OF REAL ESTATE | | | |
|-----|----------------------------------|--------------------------|--------------------------------|-----------------------------------|
| | WOODEN FRAME (40 years) | SEMI-CONCRETE (60 years) | REINFORCED CONCRETE (75 years) | STRUCTURAL REINFORCED (100 years) |
| | Percentage (%) of estimated life | | | |
| 1 | 3 | 2.5 | 2 | 1.5 |
| 2 | 6 | 4.5 | 3.8 | 2.8 |
| 3 | 8.9 | 6.9 | 5.6 | 4.2 |
| 4 | 11.7 | 9 | 7.4 | 5.5 |
| 5 | 14.5 | 11.1 | 9.1 | 6.7 |
| 6 | 17.2 | 13.1 | 10.7 | 8.1 |
| 7 | 19.8 | 15.1 | 12.3 | 9.3 |
| 8 | 22.4 | 17 | 13.9 | 10.5 |
| 9 | 25 | 18 | 15.5 | 11.8 |
| 10 | 27.5 | 20.7 | 17.9 | 13 |
| 11 | 29.9 | 22.5 | 18.5 | 14.2 |
| 12 | 32.2 | 24.5 | 20 | 15.3 |
| 13 | 34.5 | 26.6 | 21.4 | 16.4 |
| 14 | 36.8 | 27.7 | 22.8 | 17.5 |
| 15 | 39 | 29.3 | 24.3 | 18.6 |
| 20 | 49.1 | 37 | 30.8 | 24.8 |
| 25 | 57.7 | 43.8 | 36.8 | 29 |
| 30 | 65 | 50 | 42.4 | 33.6 |
| 35 | 70 | 55.6 | 47.5 | 38 |
| 40 | 75 | 60.6 | 52.2 | 42.1 |
| 45 | | 65 | 56.5 | 46 |
| 50 | | 68.9 | 60.5 | 49.6 |
| 55 | | 72.3 | 64.1 | 53.1 |
| 60 | | 75 | 67.3 | 56.3 |
| 65 | | | 70.3 | 59.3 |
| 70 | | | 73 | 62 |
| 75 | | | 75 | 64.5 |
| 80 | | | | 67 |
| 85 | | | | 69.3 |
| 90 | | | | 71.4 |
| 95 | | | | 73.3 |
| 100 | | | | 75 |

1.2.2. Estimated Unit Construction Cost refers to the estimated prevailing cost of construction per square meter of the real estate being appraised. The respective Estimated Unit Construction Cost of types of real estate for each region may be obtained from the Bureau of Maintenance of the DPWH.

1.2.3. Reproduction Cost, Capitalization Rate, Rentable Area and Factor Value shall have the same meaning as those referred Items 1.1.2 to 1.1.5.

1.3. *Comparative Market Price Analysis*

This method is based on the conduct of comparative market analysis on the prevailing lease rates for real estates within the vicinity of the selected location complying with the criteria and technical specifications of the procuring entity. In the lease of vacant lot or other land spaces, the procuring entity shall likewise consider the zonal valuation issued by the city or municipality having jurisdiction over the property.

2. If the price quotation of the prospective Lessor does not exceed the computed monthly rental or is within the prevailing market rates, the rental rate offered may be regarded as reasonable, and its quotation may then be considered for award.
3. Sample Computations for Observed Depreciation and Straight Line Depreciation:

A 5-storey office building made of reinforced concrete structure with mechanical equipment, i.e., elevator, air conditioning system, etc.

| | |
|---|-----------------------------------|
| Date of Construction | 1987 |
| Estimated Unit Construction Cost | P25,000/sq.m |
| Depreciation | 20% (Good condition) |
| Capitalization Rate | 20% (Variable based on bank rate) |
| Factor Value | 90% (Based on rating) |

COMPUTATION BASED ON OBSERVED DEPRECIATION

$$\begin{aligned}
 \text{Reproduction Cost} &= \text{Estimated Unit Construction Cost} \times (1 - \text{Depreciation Rate}) \\
 &= \text{P25,000/sq.m.} (1 - 0.20) \\
 &= \text{P20,000/sq.m.}
 \end{aligned}$$

$$\begin{aligned}
 \text{Formula Rate} &= \text{Reproduction Cost} \times \text{Monthly Capitalization Rate} \\
 &= 20,000 (0.20/12) = 20,000 (0.0167) \\
 &= \text{P334/sq.m./mo.}
 \end{aligned}$$

Rental Rate = Formula Rate \times Factor Value
P334 (0.90)
300.60/sq.m./mo. *say* 300/sq.m.

Rentable Area = 200.00 sq.m.

Monthly Rental = Rentable Area \times Rental Rate
= 200/sq.m. \times P300/sq.m./mo.
= P60,000.00/mo.

COMPUTATION BASED ON STRAIGHT LINE DEPRECIATION

Age of Real estate = Current Year – Year of Construction
= 2007 – 1987
= 20 years

Depreciation Rate = *See* Appendix B for the Table of Structural Depreciation

Reproduction Cost = Estimated Unit Construction Cost \times (1 – Depreciation Rate)
= P25,000/sq.m. (1 – 0.248)
= P18,800/sq.m.

Formula Rate = Reproduction Cost \times Monthly Capitalization Rate
= P18,800 (0.20/12) = 18,800 (0.0167)
= P313.96/sq.m./mo.

Rental Rate = Formula Rate \times Factor Value
= P313.96 (0.90)
= P282.56/sq.m./mo. *say* P285.00/sq.m.

Rentable Area = 200.00 sq.m.

Monthly Rental = Rentable Area \times Rental Rate
= 200 sq.m. \times P285.00/sq.m.
= P57,000.00/mo.

Appendix C

TABLE OF RATING FACTORS FOR LEASE OF VENUE

| | RATING FACTORS | WEIGHT (%) | RATING |
|-------------|--|------------|--------|
| I. | Availability | 100 | |
| | | | |
| II | Location and Site Condition | | |
| | 1. Accessibility | (50) | |
| | 2. Parking space | (50) | |
| | | 100 | |
| | | | |
| III. | Neighborhood Data | | |
| | 1. Sanitation and health condition | (25) | |
| | 2. Police and fire station | (25) | |
| | 3. Restaurant | (25) | |
| | 4. Banking and Postal | (25) | |
| | | 100 | |
| IV. | Venue | | |
| | a. Structural condition | (20) | |
| | b. Functionality | | |
| | a. Conference Rooms | (10) | |
| | b. Room arrangement (e.g., single, double, etc.) | (5) | |
| | c. Light, ventilation, and air conditioning | (5) | |
| | d. Space requirements | (5) | |
| | c. Facilities | | |
| | a. Water supply and toilet | (4) | |
| | b. Lighting system | (5) | |
| | c. Elevators | (4) | |
| | d. Fire escapes | (4) | |
| | e. Fire fighting equipment | (4) | |
| | f. Internet and Telecommunications | (4) | |
| | g. Audio visual equipment | (5) | |
| | d. Other requirements | | |
| | a. Maintenance | (5) | |
| | b. Attractiveness | (5) | |
| | c. Security | (5) | |
| | e. Catering Services | (5) | |
| | f. Client's satisfactory rating | (5) | |
| | | 100 | |
| | | | |

| | RATING FACTORS | WEIGHT (%) | RATING |
|---------------------|------------------------------------|-------------------|---------------|
| I. | Availability | X (.5) = | |
| II. | Location and Site Condition | X (.1) = | |
| III. | Neighborhood Data | X (.05) = | |
| IV. | Venue | X (.35) = | |
| FACTOR VALUE | | | |

Note: Weight of each rating factor may be changed as long as total weight per classification is equivalent to 100. Figures in parenthesis are samples. Procuring entity must determine passing rate before inviting bids from Lessors. A bid is determined to be responsive if it is equal to or higher than the passing rate.