Federal Housing Finance Agency
Office of Inspector General

Fannie Mae Dallas Regional Headquarters Project

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OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
400 7th Street SW, Washington, DC 20219

December 15, 2016

TO: Melvin L. Watt, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Consolidation and Relocation of Fannie Mae Offices in the Dallas Metro Area

Introduction

The Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG) conducted a review of an anonymous hotline complaint alleging, among other things, excessive spending on Fannie Mae's consolidation and relocation of its offices. Our review of the facts involving consolidation and relocation of Fannie Mae's offices in the Dallas metro area found a lack of oversight by FHFA as to the reasonableness of budgeted build-out costs for the project, and we question $24.2 million in budgeted build-out costs for the building leased by Fannie Mae in Plano, Texas (Plano), for its consolidated offices in the Dallas metro area.

In our management alert issued earlier this year reporting on spending in connection with Fannie Mae's consolidation and relocation of its corporate headquarters in Washington, D.C. (D.C.), we questioned whether the anticipated efficiencies of features proposed by Fannie Mae for the build-out of its newly leased space warranted the cost of $235.35/square foot. Because FHFA had rescinded its delegated authority for this project, we recommended that FHFA increase its oversight for the D.C. project and determine whether the anticipated efficiencies of specific proposed features warrant the costs as well as whether the proposed features for leased space in a non-government building are appropriate for an entity in conservatorship.

We recognize that FHFA, as conservator, may delegate authority for certain actions to an entity in conservatorship. Here, FHFA, as conservator, delegated to Fannie Mae the authority to consolidate and relocate its Dallas metro offices. Fannie Mae's presence in the Dallas metro area is significant: its Dallas metro offices are the second largest of the Fannie Mae offices and employ approximately 2,000 full-time employees and contractors. Fannie Mae determined to consolidate these offices and relocate to leased space in a new building in Plano, and its budget for the build-out of this leased space is $234.02/square foot. Although the cost of living in Plano is 31.3% lower than in the D.C. metro area, Fannie Mae's budgeted build-out of its leased space in Plano is virtually identical to its budgeted build-out costs of $235.35/square foot for its D.C. headquarters.

FHFA's delegation of authority does not relieve FHFA of responsibility to obtain adequate information to satisfy itself that Fannie Mae is properly exercising the delegated authority. We found that FHFA lacks any basis on which to determine whether Fannie Mae's current budget for its build-out costs in Plano is reasonable for an entity in conservatorship. The expert consultant retained by FHFA to assist in overseeing both Fannie Mae's build-out of its new headquarters in D.C., and its leased space in Plano, questioned the basis for Fannie Mae's budgeted build-out costs for Plano, but was directed by FHFA to focus its attention on the build-out of its D.C. corporate headquarters.

Absent review by FHFA, we believe that the same significant financial and reputational risks that we identified in connection with Fannie Mae's build-out of its headquarters space in D.C. attach to its build-out of its Plano space.

Background

Since September 2008, Fannie Mae and Freddie Mac (collectively, the Enterprises) have operated under the conservatorship of FHFA. Congress vested FHFA with sweeping powers as conservator of the Enterprises. FHFA has determined to delegate revocable authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management; it has retained approval authority for other management decisions.

In an effort to operate the business of Fannie Mae efficiently, the Fannie Mae Board of Directors (Fannie Mae Board) further delegated broad authorities to Fannie Mae's CEO in January 2013. Specifically, the Fannie Mae Board empowered the CEO to "perform and authorize such acts as in his judgment are necessary, desirable or advisable to manage, conduct and advance the business of Fannie Mae..." Included in this broad delegation to the CEO was the authority to lease real property for corporate use (other than for a new corporate headquarters).

According to its management, Fannie Mae has faced challenges in its workspace utilization, outdated office infrastructures, and expiring leases nationwide. At the end of 2012, Fannie Mae management created a Workplace Strategy Committee (Strategy Committee) to develop a long-term solution to its workspace needs, beginning with the D.C. headquarters. In 2013, Fannie Mae engaged commercial real estate consultants to analyze options provided by management for the future of its D.C. headquarters. The following year, Fannie Mae adopted a workplace strategy, the first step of which was "the consolidation of the five buildings in D.C. into a single location."[1] The stated "guiding principles" of Fannie Mae's workplace strategy were:

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[1] In our prior management alert, we reported that Fannie Mae management recommended to the Fannie Mae Board, in January 2015, that Fannie Mae consolidate its Washington area offices into leased space, owned by Carr Properties, in a building to be constructed on the site of the former Washington Post building, which the Board

- Using a standard template for an open collaborative office environment requiring less office space per employee;
- Utilizing robust technology that permits working from anywhere and fosters safety, soundness, and resiliency;
- Moving from owned to leased facilities, consolidating and right-sizing across the portfolio;
- Locating in dynamic areas that attract and retain employees and provide features that Fannie Mae can use but does not have to build (e.g., auditorium, fitness center, food services); and
- Using floor plans that produce organizational efficiency and are flexible to grow or contract based on staffing demands.

Spring 2015 – Go/Stay Analysis for Offices in Dallas Metro Area

In March 2015, Fannie Mae's Strategy Committee began to evaluate the continued viability of leasing space in three separate buildings in the Dallas metro area. One of the first decisions to be made by that Committee was whether Fannie Mae should: remain in its existing offices and upgrade them at its own expense; consolidate its existing offices into one or two of its existing Dallas metro offices and upgrade those offices at its own expense; or consolidate the offices and relocate into one location elsewhere. This decision was called the "Go" or "Stay" decision. Fannie Mae engaged Cushman & Wakefield—a commercial real estate services firm[2]—to assist in analyzing these three options. Applying its "guiding principles," the Committee determined that deficiencies, limited space, expense, and other tenancies in existing buildings precluded Fannie Mae from upgrading the existing leased offices or consolidating into one or two of the leased upgraded offices. Fannie Mae management concluded that consolidation of its three Dallas metro offices into a new location and "right sizing" the amount of space to be leased would result in significant savings and was preferable. We asked FHFA and Fannie Mae for the data underlying this determination: none was provided. Fannie Mae management advised the Fannie Mae Board of its decision to consolidate the Dallas metro area offices and relocate them to a new location in July 2015.

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approved on January 22, 2015. That same day, FHFA rescinded authority previously delegated to Fannie Mae to decide whether and where to consolidate its metro D.C. offices into one location. Fannie Mae submitted its Board-approved relocation and consolidation proposal to FHFA for its approval. On January 29, 2016, FHFA authorized Fannie Mae to proceed with the relocation project in Washington, D.C., and execute the lease.

[2] Fannie Mae initially contracted with DTZ, a commercial real estate services firm, to perform analysis for the workplace strategy initiatives. On September 2, 2015, Cushman & Wakefield announced its merger with DTZ. Throughout this report, references to Cushman & Wakefield may include work performed by DTZ prior to the merger.

Summer 2015 – Location Analysis for Consolidated Dallas Metro Offices

Once Fannie Mae management determined to consolidate the Fannie Mae offices in the Dallas metro area into a single new facility, it turned to analyzing possible locations for that facility. In assessing different locations, Fannie Mae management considered its workplace strategy "guiding principles" and specific project drivers, including the timing of the expiring leases, improvements or limited disruption to employee commuting patterns, availability of services and resources in the immediate area such as parking, dining, and access to a fitness facility, and a "dynamic environment."

Fannie Mae management targeted the city of Plano in the Far North Dallas submarket, an area labeled the "Platinum Corridor" because of new, high-end corporate office space being constructed there. According to information reviewed by the Strategy Committee in July 2015, Plano contains over 4 million square feet of retail within a 2 mile radius, has a daytime population of 100,000 employees, and is the current or planned headquarters of a number of Fortune 500 corporations.

During the summer of 2015, Fannie Mae sent Requests for Information (RFIs) related to six potential developments in Plano. Based on the responses, Fannie Mae management narrowed down the universe of possible relocation options to three Plano properties.

Fannie Mae management notified the Fannie Mae Board in July 2015 that it conducted a "Stay/Go" analysis, consistent with the process it had used in D.C. Based on the analysis, management informed the Fannie Mae Board that Fannie Mae would consolidate and relocate its three existing leased offices in the Dallas metro area.

August 2015 – Preliminary NPV Analysis

In August 2015, Fannie Mae asked Cushman & Wakefield to prepare an empirically driven economic analysis, using a 15-year net present value (NPV) measure, for three possible Plano relocation options selected by Fannie Mae management.[3] The NPV analysis for the three possible relocation options was based on certain assumptions provided by Fannie Mae to Cushman & Wakefield, including a 15-year lease for 275,000 square feet, initial rent ranging from $27.75/square foot to $32.65/square foot depending on the location, and unstated projected build-out costs. Fannie Mae also asked Cushman & Wakefield to prepare an NPV analysis of the "Stay" options (i.e., remaining in and upgrading the three existing locations and consolidating the three existing locations into one or two existing locations and upgrading them) that Fannie Mae had already rejected. The NPV analyses for the two rejected options were used

[3] Net Present Values are used to measure the relative financial cost of different properties. NPVs consider future cash flows associated with leases, and the timing of the lease payments, over a specified period of time. The cash flows are discounted back to present value using a discount rate that reflects the lease period borrowing cost.

as benchmarks against which to compare the NPV analysis for the three possible relocation options.

Fannie Mae provided certain assumptions to Cushman & Wakefield for its August 2015 NPV analysis. We asked FHFA and Fannie Mae for the materials provided to Cushman & Wakefield for this analysis, and Fannie Mae produced a July 2015 document labeled "Rough Order of Magnitude," which projected rough build-out cost estimates, based on its buildings in the D.C. metro area. While the August 2015 NPV number generated by Cushman & Wakefield for each option was provided to us, neither Fannie Mae nor the Agency produced the projected build-out costs per square foot for each option nor the analysis from which the projected build-out costs per square foot was derived. As the projected build-out costs per square foot and underlying analysis were not produced, we concluded that no such projections or underlying analysis were ever in the Agency's possession.

December 2015 NPV Analyses

After further review and analysis, Fannie Mae management narrowed the universe of possible relocation options to two properties, Granite Park VII and KDC Legacy West. On December 8, 2015, the Strategy Committee reviewed a revised NPV analysis, dated December 5, 2015, prepared by Cushman & Wakefield that compared the updated NPV for Granite Park VII and KDC Legacy West to the August 2015 NPV analysis of the benchmark of remaining in and upgrading the three existing Fannie Mae offices. Fannie Mae provided assumptions for projected build-out costs for each relocation option to Cushman & Wakefield for its revised NPV analysis. While the NPV for the benchmark—remaining in and renovating the existing three locations—was unchanged, the NPV for each of the two possible relocation options increased significantly between August and December 2015.[4] The NPV for Granite Park VII increased by \$28.1 million to \$245.6 million and the NPV for KDC Legacy West increased by \$38.4 million to \$281.0 million.[5]

As of the December 5, 2015, revised NPV analysis, Fannie Mae's projected build-out costs for 295,000 square feet of leased space in Granite Park VII were \$220/square foot, or \$64.9 million.[6] We asked for the data on which the \$220/square foot in projected build-out costs was based and received the same Rough Order of Magnitude document described above. A Cushman &

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[4] Rentable square footage of the project increased by 20,000 during this time period.

[5] The December 5 NPV analysis for Granite Park VII and KDC Legacy West reviewed by the Strategy Committee on December 8 assumed a total of 295,000 square feet of leased space and a lease of approximately 15 years. Fannie Mae provided Cushman & Wakefield with an assumption of projected build-out costs for Granite Park VII, which was \$220/square foot, as well as an assumption of projected build-out costs for KDC Legacy West, which was not disclosed in that NPV analysis and was not provided to us by Fannie Mae or FHFA.

[6] Build-out costs for the December 2015 NPV analyses include projected Capital Expenditures and Tenant Improvement allowance and do not include "Infrastructure and 1st Floor Costs."

Wakefield representative reported to us that Fannie Mae provided its assumption for projected build-out costs verbally.

We sought all written materials reflecting Fannie Mae's market research or analyses of commercial real estate costs in the Dallas metro area and received none. The Fannie Mae executive overseeing both the D.C. and the Plano consolidation and relocation projects represented to us that he was not presented with comparative build-out cost data for office buildings in the Dallas metro area. Questioned further, the executive stated that if Fannie Mae's contractor used comparative costs for the Dallas metro area in preparing its estimated build-out costs, those comparative costs were not shared with him. Absent any written contemporaneous documentation created by Fannie Mae or its contractor to show the basis for its assumption of $220/square foot in projected build-out costs, we determined that FHFA would not have been able to assess the reasonableness of the assumption.

On December 8, 2015, the Strategy Committee recommended selection of the Granite Park VII location to Fannie Mae's CEO. The Strategy Committee requested and received authorization from the CEO to commence lease negotiations with Granite Properties to lease the entire Granite Park VII building, which increased the total space to be leased from 295,000 square feet to 330,000 square feet. Cushman & Wakefield prepared an updated NPV analysis for lease of the Granite Park VII building, again using assumptions provided by Fannie Mae. Dated December 21, 2015, this analysis projected a total NPV of $246.9 million for Granite Park VII based on the following assumptions: a lease term of almost 15 years, total leased space of 330,000 square feet (increased from 295,000 square feet), and projected build-out costs of $200/square foot. Although the square footage increased by 35,000 square feet, Fannie Mae's projected build-out costs increased only $1.1 million (from $64.9 million to $66.0 million) because its projected build-out costs declined by $20/square foot (from $220 to $200) in 16 days.

December 23, 2015 – Dallas Lease Executed

On December 23, 2015, Fannie Mae's CEO signed a lease with Granite Properties for the Granite Park VII building. That lease included: a term of 15 years, with four 5-year renewal options, for approximately 330,000 square feet at $27/square foot (with annual increases of 1.9% per year up to $35/square foot); and a tenant improvement allowance of $65/square foot. According to materials provided by the Strategy Committee to the CEO in the approval package, the consolidation of the Dallas metro offices and relocation to Granite Park VII was being managed to a $247 million NPV. Baked into the $247 million NPV, which was the NPV provided by Cushman & Wakefield on December 21, 2015, were projected build-out costs of $200/square foot. Fannie Mae management notified the Fannie Mae Board of the executed lease for Granite Park VII on March 30, 2016, in the Board meeting materials.

May 2016 – Projected Build-Out Budget

After the lease was signed, an initial design for Granite Park VII was prepared for Fannie Mae by the same firm that prepared the design for the D.C. corporate headquarters, and a detailed budget for the estimated build-out of this space was drawn up by Hines, which was the Construction Manager/Project Manager (CM/PM) for the nationwide Fannie Mae workplace strategy initiative.[7] That detailed budget for the build-out—dated May 17, 2016, and the first one provided to us—calculated the costs of the build-out at $234.02/square foot, an increase of $34.02/square foot since December 21, 2015.

FHFA's Oversight of Fannie Mae's Build-Out Costs for Granite Park VII

Under HERA, Congress granted FHFA sweeping conservatorship authority over the Enterprises. As conservator, FHFA is charged with the responsibility to "preserve and conserve" the assets of the Enterprises. While FHFA, as conservator, has delegated revocable authority to the Enterprises for general corporate governance and day-to-day matters, it retains responsibility for the decisions made by the Enterprises. For this governance approach to succeed, FHFA must have adequate information to satisfy itself that an Enterprise's directors and management are properly exercising the authority they have been delegated. Otherwise, FHFA cannot execute the conservatorship duties with which it has been charged by Congress.[8]

From the outset, the consolidation and relocation of Fannie Mae's Dallas metro offices has been a matter delegated to Fannie Mae. We sought documents reflecting the basis for Fannie Mae's projected build-out costs used in the August and December 2015 NPV analyses and received only the one page Rough Order of Magnitude document described above. We found that even this information had not been considered by the Agency, as it viewed the matter as delegated.

The Agency's lack of documentation from Fannie Mae to support the basis for Fannie Mae's build-out projections leads us to conclude that FHFA does not know, and did not seek to know, the basis for Fannie Mae's build-out projections.

The last budgets provided to us—from May 2016—for the build-out of the Washington, D.C., headquarters and for the build-out of Granite Park VII in Plano, Texas, showed the build-out costs for D.C. at $235.35/square foot and the build-out costs for Plano at $234.02/square foot. The Fannie Mae executive responsible for both projects suggested that the similarity could be a "fluke." Publicly available data shows that the overall cost of living in Plano is 31.3% lower than in the D.C. metro area.[9] Data maintained by U.S. Bureau of Labor Statistics (BLS) shows

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[7] Hines resigned from the CM/PM job in June 2016, and Fannie Mae then hired Cushman & Wakefield to serve as CM/PM for the duration of the workplace strategy project.

[8] The Housing and Economic Recovery Act of 2008 (HERA), Pub. L. No. 110-289, created FHFA and vests FHFA, as conservator, with: all rights and powers of any stockholder, officer, or director of the Enterprises; the authority to operate the Enterprises and conduct all of the Enterprises' business activities; and the power to take actions necessary to put the Enterprises in a sound and solvent condition, and as may be appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property. 12 U.S.C. §§ 4617(b)(2)(A)(i), 4617(b)(2)(B)(i), 4617(b)(2)(D)(i)-(ii), 4617(b)(2)(J)(i)-(ii).

[9] We accessed this cost of living information through Bankrate (online at www.bankrate.com/calculators/savings/moving-cost-of-living-calculator.aspx), which reports data issued by the

that wages for individuals employed in construction-related trades in the Dallas metro area, which includes Plano, are significantly less than the wages paid for the same trades in the D.C. metro area.[10] By way of example, construction managers in the Dallas metro area earn 16.0% less than in the D.C. area; electricians earn 21.5% less; plumbers, pipefitters, and steamfitters earn 24.4% less; and construction laborers earn 19.6% less. Given the significantly lower costs of living and lower wages for construction-related trades in Plano than in D.C., we question why the budgeted costs to build-out Granite Park VII in Plano were not significantly less than the costs to build-out Fannie Mae's corporate headquarters in D.C. As the Agency never inquired into the reasonableness of Fannie Mae's budgeted build-out costs for Granite Park VII, it lacks sufficient information to resolve this question.

In a September 2016 submission to FHFA, Fannie Mae reported that its CM/PM developed a benchmark of $200/square foot for build-out costs of similar office space. The benchmark was based on the CM/PM's experience with the actual build-out costs for comparable, completed anchor-tenant facilities. Fannie Mae, in that same submission, provided a high-level explanation of the drivers for the budgeted $234.02/square foot for the build-out of Granite Park VII. Among the drivers asserted by Fannie Mae was the increased cost resulting from its plans for a high employee density per square foot building.

According to materials provided by Fannie Mae management to the Fannie Mae Board, Fannie Mae intends to follow the same general design principles for Granite Park VII as for its D.C. headquarters. While Fannie Mae's budgeted build-out costs for Granite Park VII of $234.02/square foot are virtually identical to its budgeted build-out costs of $235.35/square foot for its D.C. headquarters, the overall cost of living in Plano is 31.3% lower than in the D.C. metro area, which should, presumably, result in lower budgeted build-out costs for Granite Park VII. If the budgeted build-out costs for Granite Park VII were discounted by 31.3%, the build-out costs would be reduced by $73.25/square foot, totaling $160.77/square foot. For those reasons, we question $24.2 million in budgeted build-out costs for Granite Park VII ($73.25/square foot multiplied by 330,000 square feet of leased space).

We found no evidence that FHFA has assessed the reasonableness of these budgeted build-out costs for Granite Park VII, and a senior Agency official informed us none was being performed. Another Agency official reported to us that Fannie Mae asserted that construction spending in North Texas was up 30% in the last year, relative to a national average of 2%, and the Plano construction market is "hot." However, the same official advised us that he did not receive any documents to support Fannie Mae's assertion and did not believe that anyone else at FHFA had received such documents either. In a management alert issued earlier this year, we reviewed FHFA's oversight of Fannie Mae's D.C. workspace consolidation project and found that the project's build-out costs increased from approximately $164.32/square foot, when FHFA

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non-profit Council for Community and Economic Research (ACCRA). The U.S. Census Bureau, which does not maintain a cost of living index, refers users to the cost of living index prepared by ACCRA as a resource.

[10] Unlike the U.S. Census Bureau, BLS reports wage data by geographic region, not by specific city.

approved the project in January 2015, to $235.35/square foot in May 2016, and the FHFA employee responsible for FHFA's ongoing oversight of that project lacked familiarity with it. Our management alert, issued June 16, 2016, recommended that FHFA:

1. Ensure that it has adequate internal staff, outside contractors, or both, who have the professional expertise and experience in commercial construction to oversee the build-out plans and associated budget(s), as Fannie Mae continues to revise and refine them.

2. Direct Fannie Mae to provide regular updates and formal budgetary reports to the Division of Conservatorship for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in the new DC location.

The Agency accepted our recommendations and has begun to implement them. It established an internal oversight committee (Internal Committee), composed of four senior FHFA officials with financial management and commercial construction experience, and charged that Internal Committee with responsibility to oversee the build-out of Fannie Mae's leased space in Washington, D.C., as well as its build-out of Granite Park VII in Plano, Texas. It retained an expert, Jacobs Engineering Group, Inc. (Jacobs), pursuant to an RFI that sought "expert assistance to supplement agency staff overseeing design and construction aspects" of the D.C. and Plano office build outs. FHFA acknowledged in the RFI that its oversight role includes ensuring that both the D.C. and Plano build-outs "proceed efficiently and deliver cost-effective, appropriate space." In particular, Jacobs was engaged to perform the following tasks, among others:

- Validate the underlying assumptions and overall conclusions of the value engineering proposals, such as the tradeoff between the increased costs of a more efficient HVAC system against the resulting energy savings from such a system, for both projects;

- Assist in the development of appropriate mechanisms for effectively monitoring both projects, perhaps through the implementation of a project dashboard; and

- Employ industry and government benchmarks for both projects and compare the actual and projected costs of project design and execution against the benchmarks.

Jacobs attends monthly meetings with FHFA and Fannie Mae and has been assisting the Agency with its oversight by proposing modifications to Fannie Mae's monthly "dashboard" reports so that FHFA would be in a better position to monitor Fannie Mae's ongoing expenditures on the projects. According to a member of the Internal Committee, Jacobs is in the early stages of performing a reasonableness analysis of Fannie Mae's proposed build-out of the D.C. leased space and intends to compare the estimated costs for Fannie Mae's build-out of this space to the costs incurred by other financial institutions to build-out their headquarters.

According to the same member of the Internal Committee, Jacobs, like us, observed that Fannie Mae's budgeted build-out costs per square foot for Granite Park VII were very similar to its budgeted build-out costs per square foot for its corporate headquarters in Washington, D.C., which it questioned in light of the lower cost of living in Dallas. This Internal Committee member advised us and Fannie Mae claimed, in its September 2016 submission, that the demand for construction labor in the Plano area exceeded supply, which drove up the build-out costs. Fannie Mae's September 2016 submission identified several additional drivers for its budgeted build-out costs, including additional infrastructure required for the high employee density.

While Jacobs was retained to assess Fannie Mae's proposed and actual expenditures on both the D.C. and Plano build-outs and assist the Agency in comparing Fannie Mae's "designs, activities and costs to industry and government benchmarks" for both projects, we learned that Jacobs' work has been heavily focused on the D.C. build-out. To date, Jacobs has not been asked to validate the underlying assumptions and overall conclusions of the value engineering proposals for Granite Park VII or to conduct any "benchmarking" for the Granite Park VII build-out. When asked whether it would be a heavy lift to conduct a benchmarking analysis for Plano similar to the one undertaken for D.C., a member of the Internal Committee advised us that the benchmarking exercise for Plano would be no more difficult than for D.C. and possibly could be easier.

Members of the Internal Committee reported to us that the Internal Committee has not reviewed whether Fannie Mae's plans for its build-out of Granite Park VII, and its proposed budget, are appropriate for an entity in conservatorship. Because the Plano consolidation and relocation project was delegated, a member of the Internal Committee confirmed to us that it was unaware of the projected build-out costs in the NPV analyses or the data underlying these projections.

Based on the information learned during this review, it appears that FHFA's knowledge of Fannie Mae's plans to build-out Granite Park VII and projected costs is limited to information it obtains from review of the monthly dashboard reports prepared by Fannie Mae. While we have no doubt that these monthly dashboard reports will keep the Internal Committee and Jacobs apprised of Fannie Mae's budgeted build-out costs and actual spending, the reports do not provide FHFA with sufficient information for it to assess whether Fannie Mae's plans to build-out Granite Park VII are consistent with the conservator's goals or appropriate for an entity in conservatorship.

Because FHFA currently lacks any benchmarking data for Plano and because Fannie Mae has offered a number of different high-level explanations to support its budgeted $234.02/square foot in build-out costs for Granite Park VII, we believe that FHFA lacks adequate information to satisfy itself that Fannie Mae has properly exercised its delegated authority. Indeed, the expert that it retained has questioned the basis for the budgeted build-out costs for Granite Park VII in view of the significant difference in the cost of living between Plano, Texas, and Washington, D.C. For FHFA to execute the conservatorship duties with which it has been charged by Congress, it has a responsibility to conduct its own comparability analysis, determine whether the build-out costs for Granite Park VII are higher than the benchmark in the Plano market, and assess whether the difference is appropriate for an entity in conservatorship.

Conclusion

Fannie Mae has been in conservatorship since September 2008 and there is no current plan for it to emerge from conservatorship. As conservator of Fannie Mae, FHFA is charged with the responsibility to "preserve and conserve" its assets. While FHFA, as conservator, may delegate authority for a specific function to Fannie Mae, it cannot delegate responsibility for the decisions made by Fannie Mae. Although matters properly delegated to Fannie Mae, such as the consolidation and relocation to Granite Park VII, may be subject to less oversight than non-delegated matters, some oversight by FHFA of delegated matters is required for FHFA to satisfy itself that Fannie Mae is properly exercising its delegated authority.

Based on the information learned during our review, FHFA lacks any information on the basis for Fannie Mae's projected build-out costs underlying the NPV analyses or the reasons why the build-out costs per square foot for Granite Park VII increased significantly over a five-month period. Currently, the budgeted build-out costs for Granite Park VII of $234.02/square foot are virtually identical to the $235.35/square foot budgeted for the build-out of Fannie Mae's D.C. headquarters, even though publicly available data shows that the cost of living and salaries for construction-related trades are significantly lower in Plano than in D.C. The Agency lacks the information to explain the basis for this substantial similarity. Given that the overall cost of living in Plano is 31.3% lower than in the D.C. metro area, and FHFA has not conducted a reasonableness analysis of Granite Park VII's build-out costs, a reasonable approach would be to discount the build-out costs for Granite Park VII by 31.3%, or $73.25/square foot, which would result in build-out costs of $160.77/square foot. For those reasons, we question $24.2 million in budgeted build-out costs for Granite Park VII ($73.25 multiplied by 330,000 square feet of leased space).

While FHFA has established an Internal Committee and charged it with oversight of both projects and retained an expert consultant, it has not tasked this consultant with developing a benchmark for Plano and assessing the reasonableness of the Granite Park VII budgeted build-out costs against that benchmark. As well, the Agency has not considered the appropriateness of these costs for an entity in conservatorship. Indeed, it has brushed aside the questions raised by its expert consultant about the reasonableness of the Granite Park VII build-out costs and directed its expert to focus its attention on the D.C. build-out.

As we explained in our prior management alert, Fannie Mae is required, pursuant to the terms of the Third Amendment to the Senior Preferred Stock Purchase Agreement, to sweep into the U.S. Treasury its net worth less the amount of its capital reserve each quarter. Our observation that Fannie Mae arguably has little incentive to cabin its costs for the build-out of its D.C. headquarters applies with equal force here: any positive net worth that Fannie Mae does not spend on itself will be swept into the Treasury as a dividend. The same significant financial and reputational risks that we identified in connection with the budgeted costs associated with Fannie Mae's relocation of its D.C. headquarters apply with equal force to its relocation of area offices to Granite Park VII in Plano.

FHFA has already assembled the tools needed to satisfy itself whether Fannie Mae's proposed plans to build-out Granite Park VII and budgeted costs are appropriate for an entity in conservatorship. A member of its Internal Committee has advised us that benchmarking the Granite Park VII project would not be a heavy lift; indeed, such benchmarking is specifically contemplated in Jacobs' statement of work. To date, however, FHFA has not reviewed Fannie Mae's proposed plans and budgeted build-out costs and lacks assurance that Fannie Mae has adequately executed its delegated authority.

FHFA Comments and OIG Response

We provided FHFA an opportunity to respond to a draft of this Management Alert. FHFA provided technical comments on the draft. In its management response, which is reprinted in its entirety in the Appendix, FHFA maintains that the OIG's conclusions are premature because Fannie Mae has not spent any funds on construction or fixtures to date.

We disagree. As conservator of Fannie Mae, FHFA is responsible for obtaining adequate information to satisfy itself that Fannie Mae is properly exercising authority delegated to it. While Fannie Mae may not, as of this date, have paid any contractor for work on the build-out, construction of Granite Park VII is well underway, as evidenced by recent photographs.

South Building Elevation

Northeast Building Elevation

Based on our review of materials produced to us by FHFA and Fannie Mae, we found that the Agency has exercised very little oversight of Fannie Mae's build-out of Granite Park VII. Without oversight, there is a significant risk that Fannie Mae's build-out of its offices in Plano will cost virtually the same amount per square foot as its headquarters in Washington, D.C.

Appendix: FHFA Comments to OIG Report

Federal Housing Finance Agency

MEMORANDUM

TO: Stacey Nahrwold, Senior Attorney Advisor

FROM: Bob Ryan, Acting Deputy Director, Division of Conservatorship BR

SUBJECT: Management Alert: *Consolidation and Relocation of Fannie Mae Offices in the Dallas Metro Area*

DATE: December 12, 2016

This memorandum transmits the management response of the Federal Housing Finance Agency (FHFA) to the FHFA-OIG draft management alert, *Consolidation and Relocation of Fannie Mae Offices in the Dallas Metro Area* (the Alert).

Generally, FHFA is undertaking appropriate monitoring of the build out of Fannie Mae's new Dallas office space, which is expected to provide a significant reduction in square footage from the current leased space, have fewer offices, add resiliency operations, and have a much higher density design than the space Fannie Mae currently occupies. FHFA has reviewed the Alert and takes issue with the following aspects of it:

1. FHFA strongly disagrees, as it has previously with respect to similar assertions about either Enterprise, with the OIG's assertion on page 12 of the Alert that "Fannie Mae arguably has little incentive to cabin its costs… [because] any positive net worth that Fannie Mae does not spend on itself will be swept into the Treasury as a dividend." This assertion is based on a faulty assumption that the Enterprises lack motivation to control their expenses (or to maximize their income) because the terms of the Senior Preferred Stock Purchase agreements require all profits be swept to the taxpayers. FHFA has observed nothing that would support this, or any similar, assumption and despite our requests the OIG has provided no substantiation for the assertion. To the contrary, the members of the Boards and management teams of both Enterprises (almost all of whom

were appointed to their positions after the Enterprises were placed into conservatorship) have demonstrated consistent commitments to their legal conservatorship obligations to "conserve and preserve" the assets of the Enterprises, as well as to their commitments under the law and under the Charters to both "operate in a safe and sound manner" and to "foster liquid, efficient, competitive, and resilient housing finance markets." These legal obligations, as well as personal commitments obtained from them when they were appointed, subsequent regular reminders from FHFA as conservator and others of the expectation of returns to the taxpayers and the undesirability of another draw on the Treasury commitment, exposure to continuous public scrutiny, and numerous other factors, result in much more incentives to fiscal responsibility for the Enterprises than the incentives applicable to virtually any other corporate enterprise. In light of the level of scrutiny that the Enterprises' managements receive from participants in the housing and financial markets, the public, Congress, Treasury, their boards of Directors and from FHFA in our roles as both regulator and conservator, we believe that it does not serve any of these interests for the OIG to repeat this unsubstantiated assertion.

2. The Alert understates the breadth of the monitoring and governance framework that FHFA put in place to monitor Fannie Mae's leased spaces in Washington, D.C. and Dallas, as agreed to in FHFA's response to the OIG's June 13, 2016 Management Alert. This framework includes FHFA's active engagement with Fannie Mae management on the details of these projects, which includes questioning costs, and its retention of a third party expert consultant to ensure that FHFA has accurate industry benchmarks to compare the actual and projected costs of the projects. The Alert implies that FHFA and its retained expert consultant raised questions on Dallas project costs but then disregarded these questions, while in fact FHFA and its consultant are prioritizing the order of their work to put the analysis of the more significant build-out of the Washington, D.C., corporate headquarters before the analysis of the Dallas project. FHFA's oversight of the Dallas project and its costs is currently ongoing, and the costs discussed in the Alert are initial budget estimates that Fannie Mae is working to refine and reduce, not final costs. As of October 31, 2016, Fannie Mae has not spent any funds on construction or furniture/fixtures and tenant improvement-related construction is not scheduled to commence until May 2017. Given that the Alert is being issued while this process is ongoing, we believe that its conclusions are premature.

CC: Larry Stauffer, Acting Chief Operating Officer
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