

time several hundred million dollars worth of public buildings, and also leasing buildings all over the country for Government use. Would you consider this to be a fair return on the railroad's investment, or would you say it is a low or high return? How would you class a 5-percent return on the investment they now hold and 6 percent on the amount of money they want to borrow? Is this a reasonable rate for the Government?

Mr. KNOTT. This is difficult to determine. This is one reason that we made the recommendation. As it unfolds, we might very well agree with them.

Let me say this in explanation of why we find it difficult to agree at this time. It is not entirely clear from our investigation whether the entire building will be used as a visitor center and whether the terminal will be at the lower level or whether the terminal will be a separate building. It is also not exactly clear as to where and what access will be provided on the north side for the parking. These are details that can be developed and may not vastly affect the rental value in any case. I think it would in terms of how much space in the original building is used.

To get back to your question as to whether the formula is one which we would endorse, I may say our biggest difficulty with the formula is that it contemplates that the interest rate of 6 percent will be over the entire period of the lease, which I believe is 20 years, whereas GSA's approach to it would be that the interest would be on the unamortized balance of the investment for each succeeding year.

Mr. GRAY. We wanted to try to get for the Congress, and particularly this committee, as close an estimate as possible as to what this was going to cost on an annual rental basis.

Mr. Mulligan, president of the Washington Terminal Co., who will appear later, set this down and said that if this money could be borrowed for less, that saving would be passed on to the Government. I was merely using 6 percent as a reference. Knowing what you are having to pay generally on leases all over the country, I thought maybe you could give us a comparison as to whether 6 percent is a reasonable amount of return for the investment.

Mr. KNOTT. We had attempted to make an appraisal but, as I say, because of the uncertainties of some of these unknowns we were not able to complete, and this is why we suggested a more flexible formula which would base the rental ultimately—you see there are contracts to be worked out and there needs to be some flexibility in executive authority that carries this out to take care of unknowns and unforeseen events, with some limitation, of course.

Mr. GRAY. Let me, if I may, Mr. Knott, phrase my question a little differently.

If you are considering leasing a building worth, let's say, \$20,000, some place for Government use, do you not generally figure say 10-percent gross on the investment? In other words, you pay maybe \$200 a month for that type of facility. What I am trying to get in the record is what is a fair gross figure for rental. What is the figure—9 percent, 10 percent, 11 percent?

Mr. KNOTT. Nine percent is what we try for. This is our general guideline.

Mr. GRAY. Nine percent?

Mr. KNOTT. Nine percent, yes.