Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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July 25, 2014

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SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Economic Development, Public Buildings, and Emergency Management
FROM: Staff, Subcommittee on Economic Development, Public Buildings, and Emergency Management
RE: Oversight Hearing on "GSA Tenant Agencies: Challenges and Opportunities in Reducing Costs of Leased Space"

PURPOSE

The Subcommittee on Economic Development, Public Buildings, and Emergency Management will meet on Wednesday, July 30, 2014, at 10:00 a.m., in 2167 Rayburn House Office Building to examine the U.S. General Services Administration's (GSA) leasing program, the real estate strategies of key tenant agencies, and the challenges and opportunities that exist to take advantage of the current real estate market and reduce costs to the taxpayer. Participants will include the GSA and key federal agencies that lease commercial office space through the GSA.

BACKGROUND

GSA's Leased Portfolio

Nationwide, the GSA owns or leases over 9,600 assets, totaling more than 377 million rentable square feet of space. More than 7,400 of those assets are leased, accounting for 195 million rentable square feet -- more than half of the GSA's total space inventory. In the National Capital Region alone, the GSA leases 57.5 million rentable square feet. In addition, the cost of leasing space accounts for more than half of the GSA's Federal Buildings Fund (FBF)[1] annual expenses, totaling more than $5.4 billion annually.

Opportunity for Costs Reductions

On July 15, 2014, the Subcommittee held a roundtable with the GSA and private sector experts that confirmed there is a unique opportunity in the next few years to save taxpayer dollars through taking advantage of the market, improving space utilization, and negotiating

[1] The FBF was established under 40 USC § 592 and pays for all of the expenses for GSA's Public Buildings Service (PBS), including costs associated with construction, acquisition, and maintenance of federal buildings, PBS's salaries and expenses, as well as lease payments for commercial space. Tenant agencies pay GSA a rent for both owned and leased space and, for leased space, GSA in turn pays the private sector landlord.

good lease deals through longer lease terms. Integral to doing this are the GSA's tenant agencies. Much of the preliminary work for preparing for expiring leases, including the development of the program of requirements and assessments of space needs, occurs at the tenant agency level. Currently, this process, particularly for larger prospectus-level leases, must begin no later than two years prior to lease expiration to ensure the process can be completed in time to run a full and open competition.

As highlighted during the roundtable, there is an opportunity to reduce costs through negotiating good terms and leasing rates. In fact, there is a unique opportunity in the near term to produce real savings in GSA leasing. Over the next five years, leases representing 98 million square feet of space in the GSA's inventory will be expiring – 50 percent of the GSA's total leased portfolio.

The large amount of leased space in expiring leases in the near term coupled with the current market rates, creates an opportunity for the GSA and tenant agencies to reduce costs through improving utilization rates, negotiating longer term leases to lock in lower rental rates, and negotiating other concessions that benefit taxpayers.

Longer Term Leases

The cost difference between short-term lease extensions (one to three years) and leases with longer terms (10, 15 years, or longer) is stark. The current weighted cost difference between the GSA's short-term and longer term leases is almost 20 percent. Longer term leases also provide the GSA the ability to negotiate additional concessions or savings. For example, in the recent case of a new lease for the National Science Foundation (NSF) headquarters, the GSA awarded a lease at a rental rate of more than 30 percent below the market rate and included $35 million to the government that can be applied to further reduce rent costs and address costs associated with relocating the NSF. The GSA estimates that the taxpayer will save $65 million over the 15-year term of the lease.

Current Rental Market

Taking advantage of the opportunity presented by the large percentage of leases expiring in the near term would also allow the GSA and tenant agencies to lock in current rental rates. Most of the top markets where the GSA has leases have rates still below their peak rates in 2007 and 2008. For example, New York City rates are 13.8 percent below its peak rates, Washington, D.C. rates are 5.7 percent below, Northern Virginia rates are 5.4 percent below, and Suburban Maryland rates are 15.1 percent below. The real estate market is continuing to grow strong and could very likely return to close to or at its peak rental levels.

Potential Savings for Departments and Taxpayer

The federal agencies testifying at the hearing represent 52 percent of the GSA's leased space, $3.3 billion of annual rent payments for commercial leases, and 61 percent of lease payments from the Federal Buildings Fund.[2] Table 1 summarizes the size and cost of leases expiring for each department in the near term. If lease costs were reduced for these agencies --

[2] Based on data reported in GSA's FY2013 State of the Portfolio Snapshot.

through negotiating better rates on longer term leases and improved utilization -- by just 10 percent, there would be at least $300 million saved annually, and $3 billion saved over 10 years.

Table 1.

Agency[3]	Expiring Next 5 Years (Rentable Sq. ft)	Percentage of total leased space	Expiring Next 5 Years (Annual Cost)	Prospectus Level (Sq. ft.)	Prospectus Level (Annual Cost)
DHS	32.2 million[4]	71%	$1 billion	8.9 million	$393 million
DOJ	15.5 million[5]	49%	$545 million	5.9 million	$257 million
SSA	10.6 million[6]	52%	$309 million[7]	N/A	N/A
HHS	8.4 million[8]	68%	$213 million	2.7 million	$102 million
DoD	5.2 million[9]	62%	$167 million[10]	N/A	N/A
Totals:	*71.9 million*		*$2.2 billion*		

Opportunity for Cost Savings through Improved Space Utilization

Both the Committee and the Administration have been working to reduce the costs of leased space by improving the space utilization rates of agencies and reducing their space footprint. Large leases over $2.85 million annually must be authorized by the House Committee on Transportation and Infrastructure and the Senate Committee on Environment and Public Works. During this Congress, through efforts to get the GSA's tenant agencies to improve their space utilization, the Committee has authorized leases that will potentially result in over $1 billion in savings to the taxpayer over the terms of those leases.

On March 14, 2013, the Office of Management and Budget (OMB) issued a Management Procedures Memorandum prohibiting agencies from increasing the total square footage of their domestic office and warehouse inventory compared to their fiscal year 2012 baseline -- in effect requiring agencies to freeze their federal real property footprint. In addition, the memorandum requires federal agencies to offset any proposed new growth in space with corresponding reductions in existing total office or warehouse space.

Agencies were required to submit annual plans to the OMB on progress they have made towards reducing their space to fiscal year 2012 levels or lower. In June of 2014, those annual updates were submitted. The plans included both owned and leased office and warehouse space. Table 2 summarizes the office and warehouse space for each department as of the end of fiscal year 2013, their target baseline for the purposes of the OMB's Freeze the Footprint directive and the department's stated target utilization rate.

[3] Data for the State Department not available by date of Memorandum.
[4] Through FY2019
[5] Through FY2020
[6] Through FY2019
[7] Estimate based on 52 percent of total annual rent paid to GSA by SSA reported in GSA's FY2013 State of the Portfolio Snapshot.
[8] Through FY2018
[9] Through FY2017; does not include U.S. Army Corps of Engineers.
[10] Estimate based on 62 percent of total annual rent paid to GSA by DoD reported in GSA's FY2013 State of the Portfolio Snapshot.

Table 2.

Agency	**Total Space[11] (Leased/Owned) (Usable Sq. Ft.)**	**Freeze the Footprint Baseline (FY2012)**	**Target Utilization Rate ("All-in" usable square feet per person)**
DHS	48.5 million	48.4 million	200 (target 150 for office)
DOJ	48.4 million	48.4 million	240 (target 130 for office)
SSA	26 million[12]	26.4 million	150 (average)
HHS	19.9 million	19.7 million	170
State	6.8 million	7.1 million	Below 200
DoD	295 million[13]	306 million	Utilization Rates are determined by branch and category of space.

ISSUES

There are a number of challenges to reducing the size and costs of federal office space and taking advantage of the unique opportunity presented by the large number of expiring leases, low financing costs, and the current down market. Some common challenges include:

- Tenant agency reluctance to relocate, relinquish space, or improve utilization rates;
- Upfront agency relocation and replication costs (e.g. tenant improvements, information technology, furniture, and move costs);
- A complicated and time consuming GSA leasing process;
- Slow tenant agency and GSA decision making processes;
- Work capacity – at every phase of the lease replacement process (e.g. tracking expirations in a timely manner, Program of Requirements (POR) development, lease procurement, negotiation, and execution);
- Communication and coordination between tenant agencies and the GSA; and
- Delegated GSA leasing authority.

CONCLUSION

With the large amount of space in expiring leases, the hearing will focus on the opportunity this presents to reduce costs and negotiate good lease deals for the taxpayer. The hearing will explore tenant agency plans to reduce their leased inventory, lower their costs, and to identify challenges that may exist to achieving this goal.

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[11] Total space includes that space counted for purposes of the Office of Management and Budget's Freeze the Footprint Directive (office and warehouse space).
[12] Reported in usable square feet.
[13] DoD's space calculated as part of Freeze the Footprint does not include military bases and installation.

WITNESS LIST

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