



**Committee on Transportation and Infrastructure
U.S. House of Representatives**

Washington, DC 20515

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March 13, 2015

BACKGROUND MEMO

TO: Members, Subcommittee on Economic Development, Public Buildings and
Emergency Management
FROM: Staff, Subcommittee on Economic Development, Public Buildings and
Emergency Management
RE: Roundtable Policy Discussion on “Opportunities for Taxpayer Savings: Federally
Leased Office Space in GSA’s Southeast Region”

PURPOSE

On Monday, March 16, 2015, at 10:00 a.m., at the Martin Luther King, Jr. Federal Building located at 77 Forsyth Street, Atlanta, GA 30303, Members of the Subcommittee on Economic Development, Public Buildings and Emergency Management will participate in a roundtable discussion on “Opportunities for Taxpayer Savings: Federally Leased Office Space in GSA’s Southeast Region.” The purpose of the roundtable is to examine the unusual number of leases expiring in GSA’s Southeast Region over the next five years, the status of replacement leases, and opportunities to reduce the amount of leased space and the costs to the taxpayer. Participants will include the General Services Administration (GSA), the Social Security Administration (SSA), the Internal Revenue Service (IRS), Centers for Disease Control and Prevention (CDC), the Federal Bureau of Investigation (FBI), and a private sector expert.

BACKGROUND

GSA’s Leased Portfolio

Nationwide, GSA owns or leases over 8,700 assets, totaling 377 million rentable square feet of space. More than 7,100 of those assets are leased, accounting for 193 million rentable square feet -- more than half of GSA’s total space inventory. In GSA’s Region 4 (the Southeast Region), GSA leases 23.8 million rentable square feet, with 11.9 million square feet of leases expiring in the next five years. The Southeast Region is headquartered in Atlanta, Georgia, and includes Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and

Tennessee. Expiring leases for SSA, IRS, CDC, and FBI, collectively, represent 36 percent of the square footage of leases expiring in the Southeast Region.

Efforts to Reduce Space Costs

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, any over \$2.85 million annually, must be authorized by the House Committee on Transportation and Infrastructure and the Senate Environment and Public Works Committee. Last Congress, through efforts to get GSA's tenant agencies to improve their space utilization, the Committee authorized leases that will result in up to \$2 billion in savings to the taxpayer over the terms of those leases.

Last year, the Subcommittee held a roundtable entitled, "GSA Leasing Program: Examining Ways to Streamline and Reduce Costs." The purpose of that roundtable was to begin an examination of GSA's leasing program and the opportunities that exist to take advantage of the current real estate market and reduce costs to the taxpayer. Subsequent to that roundtable, the Subcommittee held a hearing with a number of GSA's larger agency tenants that examined 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. Both the roundtable and the hearing began a broader review of the opportunities to cut costs nationwide due to the large number of expiring leases.

This year, the Subcommittee held a roundtable on February 11th that focused specifically on the National Capital Region, GSA's largest region in terms of the amount of space leased. The roundtable scheduled in Atlanta, Georgia, on March 16th will focus on another large region for GSA space – the Southeast Region.

ISSUES

Opportunity for Cost Reductions

Defining the opportunity in the Southeast Region:

Current Opportunity:

- 11.9 million square feet, or 50 percent, of leases are expiring over the next five years in the Southeast Region.
- The Southeast leasing market is still a "buyer's" market, but may not be for long.

Benefits of the Opportunity:

- There is opportunity to lower costs by improving space utilization rates and reducing the amount of space leased.
- There is opportunity to negotiate good long-term lease deals; lock in lower rates for the long term; and offset costs associated with moving and build-out of space.

While the focus has been on reducing costs through improving utilization rates, there is also an opportunity to reduce costs through negotiating good terms and leasing rates in the leasing process, taking advantage of the real estate market today. In fact, there is a unique opportunity in the near term to produce real savings in GSA leases, given the large number of leases expiring and the fact that key markets in the Southeast Region are still “buyer’s” markets for potential tenants.¹ The current environment allows GSA and its 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 the taxpayer.

Short-term Lease Deals Cost a Premium

Over the past three years the number of short-term lease extensions in GSA’s inventory has increased. The cost between short-term lease extensions (1-3 years) and leases with longer terms (10, 15 years, or longer) is stark. The weighted cost difference between longer term leases versus extensions over the last three years is 20%. To provide some perspective – if the cost of most, if not all, of the 50 percent of leases expiring in the Southeast Region in the near term were to achieve these cost reductions, the taxpayer could save more than \$60 million annually, not counting any reductions due to shrinking the space requirements. Very often, holdovers or short-term extensions can be avoided if appropriations are available for the tenant agency and proper planning is completed early on, in anticipation of lease expirations.

Factors that have contributed to the increase in short-term leases include -- budget uncertainty, implementation of or resistance to the Administration’s Freeze the Footprint policy requiring agencies to rethink how to use, consolidate, and realign their space, poor real estate planning, and resistance to potential relocations to non-traditional submarkets.

Many Recent GSA Leases are Short-term Leases

Many “long term” leases GSA has signed, nation-wide, in recent years are actually “short term” leases of five years or less. For example, GSA signed leases of 10 years that are structured to include a five year “firm term” and a five year “soft term,” during which GSA can terminate the lease. The market treats those leases as five-year leases only and prices them accordingly, reducing the amount of savings and benefits of a longer-term lease.

Long-term Lease Deals Lower Costs

Longer term leases not only best position GSA to take advantage of the market leasing rates, but also provide 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 in the National Capital Region, GSA awarded a lease at a rental rate of more than 30 percent below the market rate, including \$35 million to the government that can be applied to further reduce rent costs and address costs associated with relocating the NSF. GSA estimates that the taxpayer will save \$65 million over the 15-year term of the lease.

¹ JLL, *Office Insight*, Atlanta Q4 2014.

Taking advantage of the opportunity presented by the large percentage of leases expiring in the near-term would also allow GSA and tenant agencies to lock in current rental rates. Most of the top markets where GSA has leases have rates still below their peak rates in 2007 and 2008. In the Southeast Region, many areas still have rental rates at the bottom of the markets; however, those markets are rising again, swinging back toward higher leasing costs.²

CONCLUSION

With the large amount of space in expiring leases in the Southeast Region, the roundtable will focus on the opportunity this presents to reduce costs and negotiate good lease deals for the taxpayer. The roundtable will also examine the current leasing market in the Southeast Region, strategies for improving space utilization, the status of efforts by key agencies and GSA to replace expiring leases, and how GSA and its tenant agencies will ensure that good utilization rates and long-term leases are executed on time.

PARTICIPANTS

Mr. Dale Anderson
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Public Buildings Service
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² Id.

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