



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

Washington, DC 20515

**Bill Shuster**  
Chairman

**Peter A. DeFazio**  
Ranking Member

Christopher P. Bertram, Staff Director

Katherine W. Dedrick, Democratic Staff Director

June 19, 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 Northeast Region”

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**PURPOSE**

On Tuesday, June 23, 2015, at 11:00 a.m. at the Jacob K. Javits Federal Office Building, 6<sup>th</sup> Floor, Conference Rooms A/B, 26 Federal Plaza, New York, NY, 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 Northeast Region.” The purpose of the roundtable is to examine the unusual number of leases expiring in the General Services Administration’s (GSA) Northeast Region over the next five years, the status of replacement leases, and opportunities to reduce the amount of space and the costs to the taxpayer. Participants will include GSA and several of GSA’s key tenant agencies with significant numbers of leases expiring in the region.

**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 2 (the Northeast Region), GSA leases 22.9 million rentable square feet, with 5.8 million square feet of leases expiring in the next five years. While the GSA Region 2 is headquartered in New York City, the region includes portions of New Jersey, New York state, Puerto Rico, and the U.S. Virgin Islands.

## *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 of 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. 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. The Committee's overall efforts to consolidate space have resulted in up to \$2.5 billion savings since the beginning of last Congress.

Last year, the Subcommittee held a roundtable on "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 existed to take advantage of the 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 existed to take advantage of the real estate market and reduce costs to the taxpayer. Both the roundtable and the hearing began a broader review of the opportunities created by the large number of expiring leases in the near-term nationwide.

This year, the Subcommittee held a roundtable on February 11<sup>th</sup> that focused specifically on the National Capital Region, GSA's largest region in terms of the amount of space leased. In March, the Subcommittee held a roundtable in Atlanta, Georgia, focusing on GSA's Southeast Region. The roundtable scheduled to take place in New York on June 23<sup>rd</sup> will focus on another large region for GSA space – the Northeast Region.

### *Public Buildings Reform and Savings Act of 2015*

On May 14, 2015, Subcommittee Chairman Barletta, along with Ranking Member Carson, Full Committee Chairman Shuster, and Full Committee Ranking Member DeFazio, introduced H.R. 2322, the Public Buildings Reform and Savings Act of 2015. The legislation includes a five-year Streamlined Leasing Pilot Program intended to provide GSA with additional tools to work through the expiring leases faster and be in a position to negotiate good lease deals.

Specifically, the legislation would establish a pilot program through 2020 that simplifies the leasing process for smaller leases, which account for 87 percent of all GSA leases; authorize GSA to submit consolidated prospectuses for larger leases and other projects to the Committee for approval; and authorize GSA to amortize certain upfront costs, including moving costs, to agencies over the term of the leases.

## ISSUES

### *Opportunity for Cost Reductions*

#### Defining the Opportunity in the Northeast Region:

##### *Current Opportunity:*

- 5.8 million square feet, or 25 percent, of leases are expiring over the next five years in the Northeast Region;
- While the leasing volume has increased in areas like New York City, overall in the Region there has been slower leasing activity, which may allow for good rates to be negotiated.

##### *Benefits of the Opportunity:*

- Opportunity to lower costs by improving space utilization rates and reducing the amount of space leased;
- 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 Northeast Region are still “buyer’s” markets for potential tenants. 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 (one to three years) and leases with longer terms (10, 15 years, or longer) is stark. Over the last three years, the weighted cost difference between longer term leases versus extensions is 20 percent. To provide some perspective – if the cost of most, if not all, of the 25 percent of leases expiring in the Northeast Region in the near term were to achieve these cost reductions, the taxpayer could save more than \$20 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

In addition, 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.

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.

## **CONCLUSION**

With the large amount of space in expiring leases in the Northeast 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 focus on an examination of the current leasing market in that region, strategies for improving space utilization, the status of key agencies and GSA in replacing expiring leases, and how GSA and its tenant agencies will ensure good utilization rates and long-term leases are executed on time.

**PARTICIPANTS**

Mr. Frank Santella  
Regional Commissioner  
Public Buildings Service  
U.S. General Services Administration

Mr. Jeffery Orner  
Chief Readiness Support Officer  
U.S. Department of Homeland Security

Mr. Fred Maurin  
Regional Commissioner, New York  
Social Security Administration

Mr. Thomas W. Huba  
Acting Associate Director  
Real Property Management  
Internal Revenue Service

## **PARTICIPANT BIOGRAPHIES**

### **Mr. Frank Santella, Regional Commissioner**

Public Buildings Service, U.S. General Services Administration

- Mr. Santella serves as the Public Buildings Service Regional Commissioner for the Northeast and Caribbean Region, covering 22.8 million square feet in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands.
- Mr. Santella has 25 years of experience in GSA's Public Building Service, including as Assistant Commissioner for Facilities Management.
- Mr. Nimmich served in the U.S. Navy, has completed management studies at Cornell's School of Industrial and Labor Relations, and has completed the Senior Executive Fellowship Program at Harvard's Kennedy School of Government.

### **Mr. Jeffery Orner, Chief Readiness Support Officer**

U.S. Department of Homeland Security

- Mr. Orner was appointed to his current position as Chief Readiness Support Officer in 2012 (then titled the Chief Administrative Officer). His office is responsible for logistics, asset life-cycle management, environmental, energy and facilities functions across the DHS enterprise, as well as providing DHS HQ operational support.
- In 2012, Mr. Orner was elected to be the Chairman of the Whole of Government Logistics Council. The Council is focused on improving the efficiency and effectiveness of logistics in response to major domestic and international events, and in support of day-to-day operations.
- From 2005 to 2011, Mr. Orner served as the Coast Guard's Deputy Assistant Commandant for Engineering and Logistics and Chief Administrative Officer. Prior to that, he had a 20 year career at the Naval Sea Systems Command (NAVSEA), the Navy's largest Systems Command. He had a series of diverse assignments in shipbuilding, systems acquisition, maintenance and logistics, culminating in an SES position as NAVSEA's senior logistician.
- Mr. Orner is a graduate of Wittenberg University in Springfield, Ohio, with an M.S. from the Kogod School of Business at the American University in Washington, DC.

### **Mr. Fred Maurin, Regional Commissioner, New York**

Social Security Administration

- As Regional Commissioner, Mr. Maurin has direct authority over the Social Security Administration's operations in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands. This encompasses an annual administrative budget of approximately \$400 million for more than 3900 employees in 113 field offices, four teleservice centers, four Social Security Card Centers, and the Northeastern Program Service Center.

- Mr. Maurin began his career with the Social Security Administration in 1972 as a Claims Representative, advancing to supervisory and management positions in the New York Region, including Operations Supervisor, Assistant District Manager, District Manager, and Area Director. As Area Director for New Jersey, he supervised the operations of 28 Field Offices and more than 700 employees. Prior to that, he served as Area Director in New York City and the Lower Hudson Valley where he directed 18 Field Offices. Mr. Maurin served as Acting Regional Commissioner for the Philadelphia Region from October 2011 to May 2012, with direct authority over the Social Security Administration’s operations in Delaware, Maryland, Pennsylvania, Virginia, West Virginia, and the District of Columbia, as well as the Mid-Atlantic Program Service Center.
- During 2010, Mr. Maurin served as a congressional aide in the Washington, D.C., office of Congressman Charles B. Rangel of New York.

**Mr. Thomas W. Huba, Acting Associate Director, Real Property Management**

Internal Revenue Service

- Mr. Huba currently serves as the Acting Associate Director of the IRS Real Property Management program.
- Mr. Huba joined the IRS in 2005 as a Realty Specialist for the Delegated Leasing program, where he negotiated over 300,000 square feet of office space leases in his first year. In 2007, Mr. Huba became the Real Estate Portfolio Management Chief for the IRS, managing over 17 million square feet of space in approximately 500 buildings.
- Prior to joining IRS, Mr. Huba was the Director of Support Services for a large information technology company where he oversaw many programs including real estate and facilities services.