

Opening Statement of Ronald Kendall, NFDA Emeritus Chairman

Hearing on Reducing the Federal Real Estate Portfolio

April 8, 2025

Madam Chairwoman, Madam Ranking Member, and other honorable members of Congress, staff and guests, I am Ron Kendall, Emeritus Executive Chairman of the National Federal Development Association. The NFDA is the trade association for private sector real estate owners and developers who lease space to the Federal Government. My relevance to this Subcommittee's inquiry today is two-fold:

First, 24 years ago, while serving as the Chief Asset Officer of the Public Buildings Service, I led a team of analysts and served as principal architect of the PBS Portfolio Restructuring Strategy, which --at the time---constituted a "radical" proposal that prefigured some of what the present Administration is doing in terms of attempting to sell off a significant segment of the GSA federally-owned property inventory. That strategy built off of three key findings: 1) that the PBS owned building portfolio had significant accrued physical depreciation; 2) that it had no reasonable expectation of receiving appropriations sufficient to cure the aggregate value of its repair and replacement backlog; and 3) that the owned portfolio exhibited the following notable characteristic: that of 1,753 owned buildings, 241 of them (approximately 15%) produced 95% of the PBS national FFO or Funds From Operations. In other words, financial performance was NOT uniform across the portfolio. While the 241 building total is less than 15% of the total asset count, it represents 55% of the total owned portfolio in terms of size as

measured by square footage. The Restructuring Strategy, distilled to its essence, was this: concentrate scarce re-investment dollars to the “core” portfolio, and spend as little as possible on the balance. Further: as buildings in the non-core set reach a point where continued occupancy is jeopardized, by lack of reinvestment, dispose of those buildings. One final point about the Strategy: while seemingly focused on the profitability of the Federal Buildings Fund, the strategy is also an overall good-government solution for the American taxpayer, because the most profitable PBS buildings are those with high occupancy levels, in high-rent markets where, in the alternative, the government would have to pay high rents to private sector landlords. So, the Strategy actually maximizes “lease -cost avoidance.”

Some of the actions this Administration is taking with respect to proposed asset dispositions, judging by the list of 443 “non-core” buildings that was briefly posted on line, suggest to me that the agency is not following a strategy designed to save the taxpayer money—in terms of lease cost avoidance—or designed to maximize proceeds from asset sales.

I mentioned that my relevance here is two-fold. The other aspect is in terms of leasing. Over a 26 year tenure with GSA, I have been a Lease Contracting Officer, a Regional Leasing Chief, and toward the end of my time with the agency, the Director of National Lease Policy. So I’ve been both a practitioner as well as a manager and a policy maker. My concern with this Administration’s actions to cancel leases in soft term ---“en masse” ---is that it is being done without regard for end-user agency need for the space. In other words, the mission integrity of GSA’s client agencies seems to be an afterthought, or perhaps, not considered at all.

A second concern is that GSA has been encouraging employees to leave, and forcibly removing others. The “Fork-in-the-Road” offers have been made to all GSA employees. Prudence would dictate that GSA should want to retain employees with certain skill and experience sets, that are still needed or needed in greater numbers, such as Lease Contracting Officers (LCOs). If GSA foresees a stronger reliance on leasing, (as they move to sell off large swaths of the owned portfolio) then it behooves the agency to have a strong cadre of LCOs. To become a Lease Contracting Officer, one needs a certain amount of transactional experience and a host of formal training classes: in real estate law, present value theory, and the Federal Acquisition Regulations. It takes approximately 3 years to bring someone up to full performance level as an LCO. One cannot simply hire someone off the street and make them an LCO, even if they are a real estate professional with strong knowledge of discounted cash flow, capitalization theory, appraisal theory, and so on. Not having competent LCO’s running lease transactions creates risks not only for the Government in getting best value in lease transactions, but also for my association members: they want to deal with government actors who know how to accomplish things.

So, concluding: the near-categorical termination of soft-term leases, and the loss of experienced lease contracting officers (to name just one critical job category) are developments of concern.

I am happy to answer any questions the subcommittee has. Thank you.