



MURIEL BOWSER
MAYOR

April 29, 2024

The Honorable Lisa McClain
Chairwoman
Subcommittee on Health Care and Financial Services,
Committee on Oversight and Accountability
United States House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman McClain:

As you convene a hearing to discuss the “Health of the Commercial Real Estate Markets and Removing Regulatory Hurdles to Ensure Continued Strength,” I would like to offer insight regarding the downtown commercial real estate markets in Washington, DC, especially given the persistent challenges presented by remote work and the absence of Federal workers from in-person office settings. For many years, our economy during business hours was fueled by office workers who found dining, entertainment, and shopping convenient to their workplace. In 2020, however, the pandemic shuttered the downtown workplace and for three years, we have worked to regain the pre-pandemic level of foot traffic downtown.

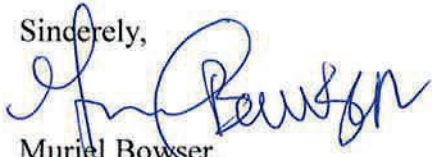
Recognizing that we need other economic stimulus, I am allocating resources in the District's FY 25 budget to breathe new life into our downtown core. We're not just focusing on brick-and-mortar projects; we're also promoting initiatives that will transform the fabric of our downtown, from enhancing public infrastructure to providing vital support for our small businesses. Additionally, we're investing in housing, cultural enrichment programs, and fostering creativity and community through arts and events that showcase the diversity and vibrancy of our city.

While continuing to navigate the evolving landscape of work dynamics, the impact of remote work arrangements and the absence of Federal employees in their traditional office spaces have become increasingly apparent in our downtown area. These trends have significant implications for the vitality and resilience of our commercial real estate sector. It is crucial that we address these challenges proactively to ensure the continued vibrancy and success of our downtown markets. Encouraging the return of Federal workers to their office environments is also paramount to revitalizing our downtown area and stimulating economic activity that benefits residents across all eight wards of the District.

In light of these considerations, I respectfully submit for your consideration the Interim Report to Congress submitted by the Public Buildings Reform Board (PBRB) on March 21, 2024. (See Attachment.) The PBRB was created by Congress to identify opportunities to reduce costs and dispose of underutilized federal properties. This Interim Report cites multiple examples across the country of underutilized property, as well as the high cost per employee, due to remote work of the Federal workforce. For these and other reasons, I request that the Subcommittee on Health Care and Financial Services offer changes to policies that will mitigate the economic impact caused by remote work and the absence of Federal workers in Federal and commercial downtown office spaces on our commercial real estate markets.

I am pleased and thankful for the opportunity to offer the perspective of the District for your consideration. Should you require any further information or assistance, please reach out to me or my Senior Adviser, Beverly Perry, at Beverly.Perry@dc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Muriel Bowser", written over a light blue circular stamp.

Muriel Bowser
Mayor
District of Columbia

Attachment

Cc: Members of the House Committee on Oversight and Accountability



PUBLIC BUILDINGS REFORM BOARD

Interim Report to Congress

March 21, 2024

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Purpose of the Report

The Public Buildings Reform Board (PBRB or Board) was created by the Federal Assets Sale and Transfer Act of 2016 (P.L. 114-287 or “FASTA”) to simply:

“...identify opportunities for the Government to reduce significantly its inventory of civilian real property and reduce costs to the Government.”^[1]

As an independent federal agency focused on recommending disposal of underutilized federal properties, our role is even more important now given the post-COVID telework impacts on federal office utilization and the growing financial liabilities of the federal real property portfolio.

The PBRB submits this report to explain the massive scale of underutilized federal property, the waste and negative effects it has on taxpayers and agency missions, and the outsized opportunity to save money and improve outcomes through property disposals and smarter real estate decisions.

The PBRB, after extensive study, concludes that billions of dollars are being expended on buildings that should be disposed of given the new normal of low occupancy. The solution is relatively simple, but Congressional and Executive Branch leadership are urgently needed to change course.

The purpose of the report is to define the problem and the opportunity and explain the Board’s work to date for achieving significant savings. In this report, the Board will outline:

- The scale and costs of underutilized federal property post-pandemic.
- The benefits of a smaller, higher quality and financially sustainable office portfolio.
- How to transition from the government portfolio as it exists today to what it should be.
- The special case of Washington, D.C.
- The PBRB’s current work.
- What has worked well and what could use improvement with FASTA.
- How the General Services Administration’s (GSA) and the Office of Management and Budget’s (OMB) cooperation are required.

The pandemic’s impact on federal office space usage combined with cost increases for maintenance and construction has made the Board’s work more important than ever. The post-pandemic telework policies of the federal government have resulted in record-low utilization of the existing federal real estate portfolio. As a result, sharp declines in demand for federal office space and rising costs have pushed unnecessary spending to unprecedented levels.

¹ Section 12, “Board Duties”, Federal Assets Sale and Transfer Act of 2016

Reasons for Optimism

The post-COVID environment has delivered a once-in-a-lifetime opportunity for the federal government to realign office space into a smaller, higher quality, and cost-effective portfolio. Currently underutilized properties can be repositioned within communities and add to the tax base or be repurposed to suit community needs. The status quo of nearly empty federal buildings is not financially or politically sustainable, and we believe there are several reasons for optimism:

- The value proposition is large.
- The solution is achievable.
- Agencies are beginning to make longer-term decisions about their workforce policies, which should translate into greater certainty about future real estate needs.
- Budget pressures are growing and will force decisions.
- Local communities are poised to seek solutions to their affordable housing and other community needs and will be willing to work with federal agencies.
- The new GSA Public Building Service (PBS) Commissioner, Elliot Doomes, brings significant experience and perspective to the position.

In recent months, the Board met with the new PBS Commissioner to discuss the challenges the Board has had in recent years with GSA gaining access to critical reports along with data and analyses necessary for successful implementation of the law. While the Board believes it is important to outline some of those challenges later in the report, we are greatly encouraged by the Commissioner's understanding and commitment to achieving FASTA's outcomes and to support the PBRB as Congress intended when it authorized only one full-time staff for the Board.

FASTA is a temporary program created by Congress to incentivize agencies to achieve greater efficiency in the disposal process and to mitigate long-standing disposal-related challenges. FASTA waives numerous disposal laws, provides a better solution to the current crisis of underutilized property, and provides funds for agencies willing to plan and participate. In lieu of a large staff, Congress directed agencies to provide the PBRB with program and administrative support, temporary staff assignments, and access to agency data, analyses, and other property information upon request.

FASTA established the PBRB as an independent body of experts to help federal agencies achieve greater portfolio efficiencies. The Board has significant real estate and government expertise, which allows us to analyze the problem from an outside expert's vantage point and with a realistic understanding of how government works. We reflect both sides of the political spectrum and stress that the current challenges in the real property portfolio are not a partisan issue, but simply one of good government. The PBRB is comprised of:

- Two commercial real estate experts with a deep understanding of the real estate climate across the nation;
- Two former GSA PBS Commissioners with a comprehensive understanding of the federal portfolio and the government's real property authorities and constraints;
- Two former Congressmen who understand Congressional oversight and how the federal government can work to consolidate and improve its federal real property portfolio.

The Pandemic Further Reduced the Cost-Effectiveness of the Federally Owned Office Portfolio

The current opportunity stems directly from the magnitude of the changes wrought by the pandemic and subsequent changes in workplace utilization. Prior to the pandemic, the federal portfolio needed significant consolidation, modernization, and improvement. To report that the pandemic has greatly intensified existing problems is an understatement. Most significantly, the pandemic has changed office usage, eliminating the need for large amounts of space. In addition, expenses related to deferred maintenance and operating costs have dramatically increased. The combined effect is the short- and long-term costs of the portfolio have increased dramatically while demand has plummeted. Massive, unnecessary spending is the result. As a result, federal real estate costs are higher, and workplace utilization is lower.

Thus, taxpayers overspend to house agencies, while federal employees often work in substandard office conditions that negatively impact mission outcomes, employee recruitment and retention, and sustainability goals.

The current portfolio could not possibly be further away from any administration's goals for efficiency and effectiveness.

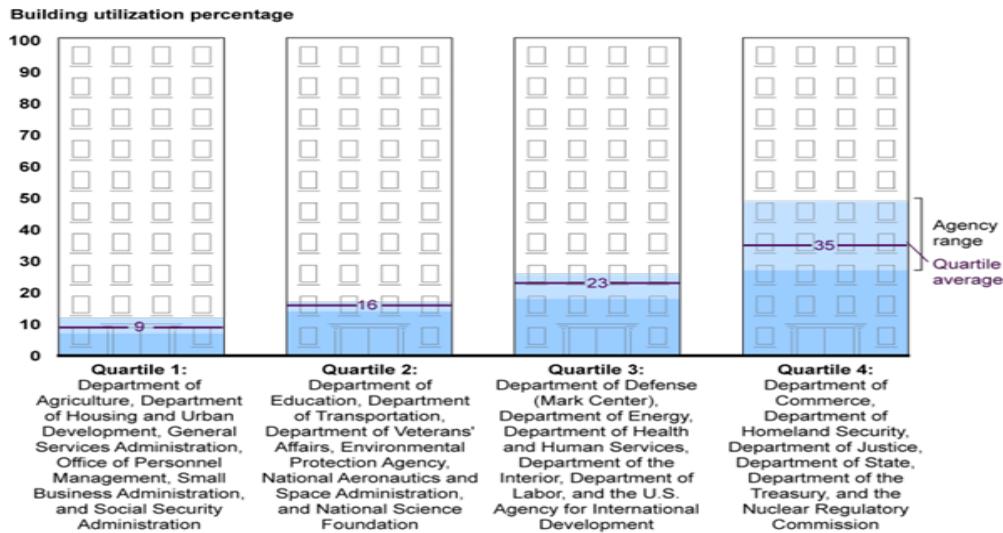
Utilization Data Show the Scale of Excess Owned Office Space

The Board met with the Government Accountability Office (GAO) over its report, issued in July 2023, (GAO-23-106200) that examined 21.5 million square feet of usable federal office space in the headquarters buildings of 24 agencies. During three weeks in January, February, and March of 2023, the GAO found that 39 buildings (housing 17 agencies) used an average of 25% or less of their building's capacity.²

² [Federal Real Property: Preliminary Results Show Federal Buildings Remain Underutilized Due to Longstanding Challenges and Increased Telework | U.S. GAO](#)

Figure 1. GAO’s utilization findings³.

Figure 2: Quartile Weekly Utilization Estimated Averages of Federal Headquarters Buildings across Three-Week Sample (One Week in Each of January, February, and March 2023)



Source: GAO analysis of data from 24 federal agencies. | GAO-23-106200

Note: The percentages are preliminary estimates of building utilization based on ongoing work and are subject to change. Utilization is a ratio of a building's capacity and the extent to which an agency uses that capacity. Utilization differs from attendance because a building's capacity is based on the size of the building, not the number of people assigned to it. All assigned staff could go to a building and it could still be underutilized if the building has more space than it needs. The quartile percentage represents an average but percentage ranges of space utilization vary by federal agency. The Department of Defense provided us data on attendance in a government facility (Mark Center) located in Alexandria, Virginia, which we had identified as its administrative headquarters. The Office of Personnel Management indicated that additional non-agency staff occupy space in its headquarters building, and its numbers include those work spaces and attendance.

Given the low occupancy rates found by the GAO, and the lack of attendance data and input from federal agencies, the PBRB developed an analytical method to identify consolidation opportunities using commercially available, anonymized cell phone data. Cell phone activity of more than 150 minutes between 8:00 am and 6:00 pm at a single building location, and repeated visitation patterns to the same building are used to identify an estimated number of occupants. This kind of data is used extensively in commercial real estate to establish use patterns for commercial retail property. To validate, the PBRB procured cell phone-derived data for examining building occupancy at the headquarters of selected Chief Financial Officers Act agencies for 2019 and for January through September 2023. Like the GAO findings, the PBRB found that median occupancy at federal workspaces in 2023 from January through September was about 30% of 2019 levels. Actual building utilization, which is the amount of square feet used by occupants on a day-to-day basis, however, is much lower than 30% as detailed below in Figure 2.

Even before the pandemic, of the federal properties analyzed, federal occupancy was low, particularly in Washington D.C. To examine the approximate utilization of the total capacity in several large properties in Washington D.C. the Board estimated capacity by dividing a building's total usable square feet by 200 usable square feet (a per person benchmark assumption). The PBRB found that properties

³ [Federal Real Property: Preliminary Results Show Federal Buildings Remain Underutilized Due to Longstanding Challenges and Increased Telework | U.S. GAO](#)

in Washington D.C. were between approximately 2% and 26% capacity, with an average of 12% over the entire sample using the anonymized cell phone data as the headcount for building occupancy.

Figure 2. Approximate utilization for select federal buildings January – September 2023.

Agency	Property Name	Address	Size (GSF)*	Size (USF)**	Estimated Capacity (# seats) @200 USF per seat	2023 Daily Average Occupancy (cell phone)	Approx Utilization @ 200 USF per Occupant
Department of Energy	James V Forrestal	1000 Independence Ave S.W.	1,808,177	967,674	4,838	8 ⁴	0%
Agency for Global Media	Wilbur J. Cohen Building	330 Independence Ave S.W.	1,201,918	686,232	3,431	72	2%
US Department of Agriculture	Agriculture South & Whitten	1400 Independence Ave S.W.	2,764,402	1,487,653	7,438	456	6%
Department of Veterans Affairs	Veteran's Affairs Building	810 Vermont Ave N.W.	684,209	481,558	2,408	172	7%
Environmental Protection Agency	William Jefferson Clinton Federal Building	1200 Pennsylvania Ave N.W.	891,576	478,396	2,392	195	8%
Department of Labor	Frances Perkins Building	200 Constitution Ave N.W.	1,850,910	973,778	4,869	441	9%
Nuclear Regulatory Commission	One White Flint North	11555 Rockville Pike	532,293	275,369	1,377	127	9%
Office of Personnel Management	Theodore Roosevelt Building	1900 E St N.W.	810,834	479,185	2,396	258	11%
Department of Housing and Urban Development	Robert C. Weaver Federal Building	451 7th St S.W.	1,372,280	813,753	4,069	441	11%
Department of Commerce	Herbert Hoover Building	1401 Constitution Ave N.W.	1,891,591	1,043,059	5,215	589	11%
Department of Transportation	East and West Building of the Southeast Federal Center	1200 New Jersey Ave S.E.	1,829,080	1,299,544	6,498	831	13%
Department of Health and Human Services	Hubert Humphrey Building	200 Independence Ave S.W.	1,005,915	434,705	2,174	294	14%
GSA	GSA Headquarters	1800 F St N.W.	813,649	506,367	2,532	359	14%

⁴ The PBRB recognizes this number is likely to be flawed and has reached out to the Dept of Energy to discuss daily attendance. At the time of issuing this report, the PBRB has not had a response to its inquiries.

Agency	Property Name	Address	Size (GSF)*	Size (USF)**	Estimated Capacity (# seats) @200 USF per seat	2023 Daily Average Occupancy (cell phone)	Approx Utilization @ 200 USF per seat
Department of Interior	Stewart Lee Udall Building	1849 C St N.W.	1,331,439	667,708	3,339	480	14%
Department of Education	Lyndon B. Johnson	400 Maryland Ave S.W.	640,332	388,044	1,940	284	15%
National Aeronautics and Space Administration	Mary W. Jackson NASA Headquarters	300 E St S.W.	622,816	545,731	2,729	400	15%
Department of Justice	Robert F. Kennedy Building	950 Pennsylvania Ave	1,257,300	577,396	2,887	430	15%
Small Business Administration	SBA Headquarters	409 3rd St S.W.	420,122	280,062	1,400	209	15%
US Forest Service	Sidney Yates Building	201 14th St S.W.	208,234	124,587	623	97	16%
National Science Foundation	Hoffman Town Center- NSF headquarters	2415 Eisenhower Ave	682,111	586,670	2,933	459	16%
Department of the Treasury	The Treasury Building	1500 Pennsylvania Ave N.W.	500,000	275,369	1,377	306	22%
Department of State	Harry S. Truman Building	2201 C St N.W.	2,571,850	1,510,389	7,552	1,739	23%
United States Agency for International Development	Ronald Reagan Building	1300 Pennsylvania Ave N.W.	3,029,361	1,832,375	9,162	2,402	26%

*GSF means Gross Square Feet and is the area of construction to the outside face of the exterior walls and includes covered areas like an atrium or an entry alcove. This information came from the Federal Real Property Profile database.

** USF in this case means net Useable Square Feet and means a building's total assignable area – both private agency areas as well as shared spaces such as joint-use lobbies, childcare centers, and food service as examples.⁵ This information came from various documents provided by GSA.

Per Person Housing Costs are Extremely High

The extremely low building utilization rates documented by our review mean the increased costs of the federal office inventory are devoted toward a mere fraction of the number of people the buildings were designed to support, as demonstrated above. As a result, the amount of money being spent per person per year is at absurdly high levels.

As an example, the PBRB found that the Frances Perkins Building, Headquarters for the Department of Labor in Washington D.C. is a 1.8 million gross square foot building, with 973,778 usable square feet. The property has approximately \$382 million in deferred maintenance. Based on similar properties in the D.C. market, the PBRB estimates that it costs nearly \$18 million a year to operate and maintain. On top of this yearly operating and maintenance cost, the Department of Labor paid GSA \$40.2 million a year in rent in 2021, so the Board escalated that cost for inflation to \$41.3 million for the year 2023.

⁵ [Space Assignment | GSA](#); and [NBSAP August2023 FINAL_508.pdf \(gsa.gov\)](#)

In 2023, cell phone data indicate that approximately 441 people occupied the Frances Perkins Building on an average day, costing the American taxpayer approximately \$182,346 per employee each year in operating and maintenance expenses and rent paid to GSA, assuming the deferred maintenance was addressed. In comparison, 200 square feet of space in a Class B building in Washington D.C. would cost approximately \$9,600 per employee to lease each year.⁶

This level of expenditure to house such a small number of federal employees cannot be justified and is not sustainable. It also is not unique to the Perkins Building.

Other Problems with Severely Underutilized Properties

In addition to high costs, other problems with low utilization rates include environmental and health impacts. The per person carbon emissions from heating and cooling nearly empty buildings, not to mention energy costs, are indefensible.

Severely underutilized buildings can also pose health risks to their occupants as GSA recently discovered with Legionella outbreaks in many of its buildings when water stagnated in their plumbing systems from underutilization.⁷

Costs to Renovate Owned Properties Far Exceed Sources of Capital

Many GSA-owned federal office buildings are over 50 years of age⁸, and require extensive renovations and reconfiguration before they could receive large numbers of additional employees from buildings being vacated for disposal. The cost of construction has increased by approximately 18% since 2019. This has raised the capital liabilities caused by ongoing deferred maintenance of the portfolio far beyond the sources of funding Congress has historically been willing to provide for building renovations or could be expected to appropriate in the future. Given the ongoing level of investment in the federally owned inventory, as well as current reduced office utilization, consolidating federal employees into only those owned properties that have low capital liabilities and which can achieve high sustainable occupancy is critical.

The financial problem is particularly acute for GSA, which owns most of the federal office space and relies on agency rent payments for its operating costs and capital to renovate and maintain its portfolio. The capital GSA generates is insufficient to meet the annually accruing capital liabilities AND the existing renovation backlog of its aging portfolio. GSA shared data with the PBRB that shows that the 25 buildings with the highest deferred maintenance currently have approximately \$8.6 billion in capital liabilities. This cost is likely conservative because project costs to repair the maintenance defects are often up to two times as high as the value of the actual requirement, according to GSA officials.

⁶ Class B Office space rents for approximately \$48 per square foot in Washington D.C. [Washington Office Price per Sqft and Office Market Trends \(commercialcafe.com\)](https://www.commercialcafe.com/washington-office-price-per-sqft-and-office-market-trends). The Board used 200SF as a benchmark.

⁷ A230072-1 Final Memorandum.pdf (gsaig.gov) <https://www.gsaig.gov/sites/default/files/audit-reports/A230072-1%20Final%20Memorandum.pdf>

⁸ In 2015, the GAO found that GSA's inventory averaged 50 years of age: GAO-15-609 "GSA Needs to Determine It's Progress Toward Long Term Sustainability of Its Portfolio"

Further compounding this problem, Congress routinely withholds about \$1 billion per year of funds that would otherwise be used for capital projects from GSA's annual appropriations. In comparison, the private sector Real Estate Investment Trusts (REITS) have fiduciary responsibilities to fully fund the operating and capital needs of their investor-owned real properties.

The Board notes that Congress provided GSA with unprecedented infusions of capital in both the Bipartisan Infrastructure Legislation and the Inflation Reduction Act. However, most of these funds were allocated to land ports of entry and the remaining funds are insufficient to renovate a significant percentage of office buildings. In short, GSA's capital liabilities far exceed these additional appropriations and its ability to generate future capital. As a result, renovation as a tool to implement consolidations will be very limited and should only be considered as a short-term first step in a longer and more strategic shift in the federal portfolio. Significant disposals will be needed to reduce these capital liabilities to a financially sustainable level.

GSA's Public Buildings Service's Fiscal Challenges Will Deepen

The Board recognizes that GSA's PBS operating income is derived from the rents it receives from federal agencies for space in owned buildings and PBS's fiscal challenges will initially deepen as it reduces wasteful spending on real estate and disposes of underutilized properties. As federal agencies downsize and shift their requirements to smaller footprints, the rent that GSA will collect will shrink. Even as revenues decline, capital requirements will continue to grow, causing even more dramatic portfolio management and capital liability challenges. Vacant leased and owned space will compound this issue, as agencies turn in or abandon space, leaving GSA as a bill-payer with no rent income for those spaces. However, it is not reasonable to expect agencies and taxpayers will continue to pay rent on space they do not need, and GSA will have to realign its portfolio and cost structure to reflect this reality. Ultimately, the long-term financial sustainability for PBS will only be achieved by reducing the GSA owned portfolio to a core group of properties that have high occupancy levels and generate enough revenue to cover their annual operating expenses and capital reinvestment needs.

Given the magnitude of the current maintenance deficit, the evident lack of capital to address current and emerging needs, and the imminent downward shift in rent income that GSA will produce, the PBRB assesses that GSA urgently needs to take action to create a more affordable, flexible, and financially sustainable portfolio.

GSA cannot renovate its way out of this problem, but it can realign its portfolio with disposals.

Benefits of a Smaller and Cost-Effective Office Portfolio

Higher Quality Space Improves Mission Outcomes

Higher quality space in good locations can also improve mission outcomes, increase employee recruitment and retention. The Biden Harris administration has acknowledged the need to address the federal workplace in its President's Management Agenda:

“Being a model employer also involves evolving Federal workplaces and work practices to reflect the needs of the workforce today and tomorrow, reflecting trends in the U.S. labor market—a market for talent that has rapidly evolved as a result of innovation, technologies, tools, and lessons learned throughout the pandemic.”⁹

Numerous studies have backed up the assertion that improved workspace increases employees’ perceived health, wellbeing, satisfaction, and productivity.¹⁰ The Board, through its work, has come to understand that the federal government has arrived at a point in time when it is not only housed in aging, unmaintained, and sometimes unsafe, workspaces but it also will need to attract a sizable new workforce as nearly 30% of the current employees become eligible for retirement.¹¹ The PBRB cannot stress enough the opportunities presented by the current environment for federal agencies to plan for enhanced workspaces through consolidations as a key to providing future good governance.

Local Economies Can Benefit from Property Disposals

The Board is cognizant of the economic challenges many cities are facing and the impact workforce policies may be having in particular markets. The widespread adoption of telework in the workforce has depopulated office buildings across the country and greatly reduced the economic activity those employees brought to their former work locations. The federal workforce is no exception to this trend. While workforce policies are outside the scope of the Board, it is our responsibility to consider the impact of potential courses of action for the underutilized federal buildings left behind. Fortunately, except for the National Capital Region (the region of Washington D.C. and its adjacent counties in Virginia and Maryland), federal buildings make up a small percentage of the total office space in each market. As a result, federal real estate decisions have a limited ability to impact local real estate markets.

Disposal of underutilized federal property is likely to improve local economic conditions for the following reasons:

- Underutilized federal buildings themselves, as opposed to the local federal employees, generate little economic activity for the community. Federal property does not pay local taxes. Agency rent payments go into the Federal Buildings Fund and not the local economy.
- Underutilized properties do not compete well for reinvestment and receive little to no investment dollars. Nearly empty buildings create economic dead zones and preclude redevelopment to higher and better uses. On the other hand, disposal and redevelopment by private users generate local property taxes, future economic activity as well as construction jobs.

Steps to Realign the Government’s Portfolio

An Effective Plan Must Operate Within Existing Financial Constraints

To be successful, the government needs a strategy for realignment that can be implemented within its limited access to capital. Therefore, realignment efforts must prioritize projects that leverage the least

⁹ [ap_7_strengthening_fy2023.pdf \(whitehouse.gov\)](#) page 75

¹⁰ Employee Satisfaction With Working Space and Its Association With Well-Being—A Cross-Sectional Study in a Multi-Space Office - PMC (nih.gov)

¹¹ [ap_7_strengthening_fy2023.pdf \(whitehouse.gov\)](#) page 75

amount of capital to maximize the benefits of realignment. The goal should be to create smaller and higher quality solutions for agencies with the least amount of capital expenditure.

For example, owned buildings that are relatively new and have low capital liabilities could be good candidates for housing agencies, while owned buildings with high renovation costs and capital liabilities would not. If capital intensive relocations are selected as a course of action, then the number of consolidations the government can implement, and the resulting savings, will be minimal.

The Board has developed a comprehensive method of examining the value of a property, the costs associated with various options for housing current tenants, and a financial method for understanding the most cost-effective way forward. The Board's pro forma method examines options for disposition to include conducting highest and best use case studies, and projects costs across likely time horizons for new housing options such as leasing, purchasing an existing commercial building, consolidating into an existing federal property, or even remaining in place. The Board has found through its work that comparing costs and income across various scenarios can help develop the most fiscally optimized way ahead for a property and the tenant agencies. The Board will fully articulate its method and provide fully developed analyses in its final report.

Major Renovations Require 40+ Year Commitments

Given the limited availability of funds to renovate or reconfigure owned buildings, the Board assesses that capital investments should be prioritized on the few properties that can meet the following requirements:

- The property must require limited capital reinvestment.
- There should be high certainty of 100% occupancy over the useful life of the asset (i.e. 40+ years), otherwise the investment will not be optimized.
- The proposal must be able to pass an investment pro forma that maximizes the return on investment for the federal government.
- The proposal should be more cost-effective than alternative solutions.
- The proposal should create high value disposal opportunities.

Federal agencies should screen their portfolios based on employee utilization and capital liabilities. Buildings with deferred maintenance requiring outsized capital liabilities should be considered for divestment, particularly if employee utilization rates are low. Agencies should identify consolidation properties which are efficiently sized, and which will require low capital requirements in the future. Given today's real estate environment, leasing and even buying existing commercial properties may prove to be a financially prudent path worth considering. The PBRB is taking into consideration all these factors in its pro forma analysis.

The PBRB's Current Work

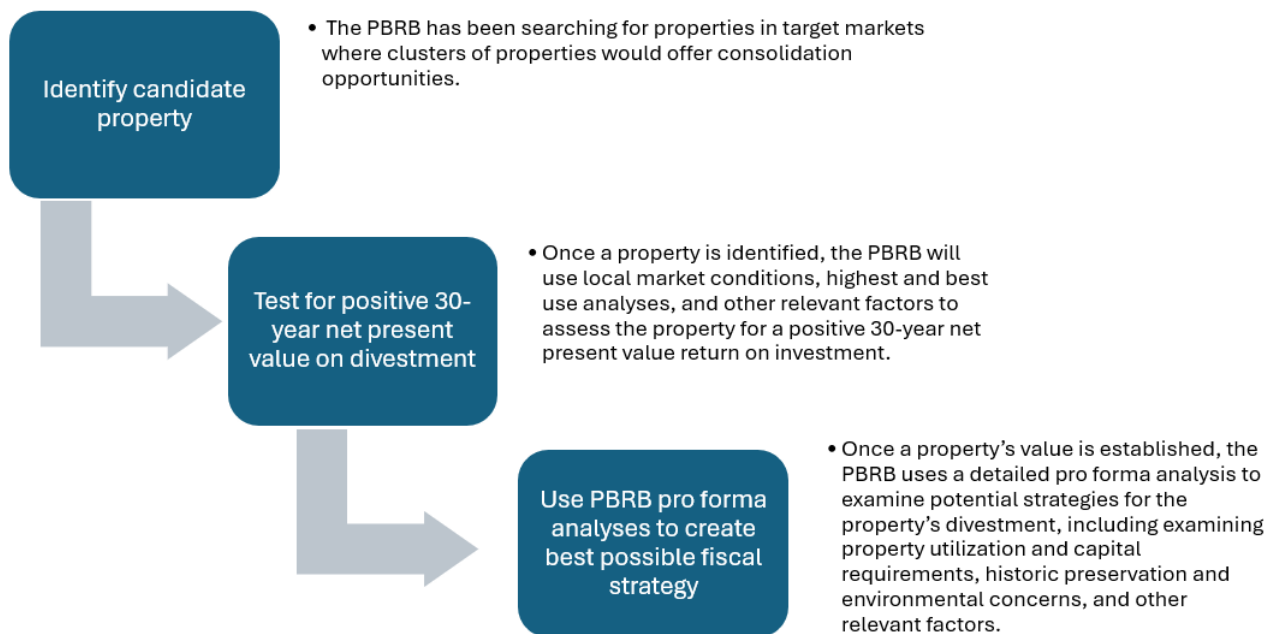
Current Status

The Board is required to submit a Second Round Report to OMB no earlier than December 27, 2024. The Board is currently studying 27 properties total with approximately 13 million usable square feet. The PBRB

seeks properties that will return a positive 30-year net present value in terms of cost savings, energy and emissions savings, and the value of the property with consolidation and sales costs subtracted.

The Board is initially screening buildings for disposal based on their occupancy levels, capital liabilities and a 30-year net present value analysis with a positive return on investment. Once a property demonstrates an initial positive return on investment, the PBRB uses a detailed pro forma to further understand the most fiscally efficient strategy for that property. The PBRB's pro forma analysis incorporates the cost of alternative housing solutions, the disposal value, capital costs, historic preservation requirements and effects on value and reuse, and other relevant factors. A positive outcome from the PBRB analysis will demonstrate the feasibility and desirability of divestment in a particular property.

Figure 3. PBRB's method for identifying candidate properties.



The PBRB has completed two rounds of submissions, described below. The first set of recommendations was called the “High Value Asset Recommendations” and was submitted in December 2019. The subsequent set of recommendations was called the “First Round Recommendations” and was submitted in December 2020. The final round of recommendations that the Board is working on is known as the Second Round Recommendations.

A summary of work to date follows.

High Value Asset Round –

- FASTA waived McKinney Vento homeless screening process and all other public benefit disposal requirements for this round.
- The Historic Preservation Act process was NOT waived.
- Recommendation finalized in 2019.
- Cost effective leasing solutions played a significant role in the projected positive financial outcome of the round. The sale of the Auburn Complex in Auburn, WA provides an example where a leasing solution was faster, reduced costs for federal agencies, provided needed flexibility for staffing level changes while providing a modern and maintained property. Also, capital outlays for leasing solutions tend to be significantly lower than for modernizing existing federal space, offering a sound alternative for agencies needing to adjust their workspace.
- Ten of 12 properties sold - \$193,000,000 in proceeds.
- Two of the 12 sales are still outstanding – producing an estimated \$300,000,000 in additional proceeds.

First Round Recommendations –

- FASTA waived all public benefit disposal requirements EXCEPT the McKinney Vento Act and the Historic Preservation Act.
- OMB imposed a requirement that PBRB recommendations must be delivered already funded and not awaiting appropriations. This requirement was outside of FASTA mandates and greatly diminished the submission possibility. In other words, all properties on the submission were to be tied to existing appropriations from the FASTA-created Asset Proceeds and Space Management Fund. At the time, the appropriated funds totaled around \$30 million. After screening 400,000 properties in the federal portfolio, the PBRB found 414 properties in its initial screen. After significant further analysis, the PBRB submitted 15 properties largely due to OMB’s funding constraint.
- OMB also required that the PBRB assume GSA’s role in delivering substantiation documentation for each recommended property, such as timelines for disposition based on when a property would be declared excess, a budget for the disposition, stakeholder outreach and notification. This mandate was also outside FASTA’s requirements and resulted in duplication of GSA’s role in the actual sale of surplus properties.
- Outcome: GSA advised OMB on the suitability of PBRB’s recommendations, substantiating documentation, and rationale for disposition. GSA argued that the PBRB’s recommendations to transfer properties to local communities could be handled under the Property Act’s Public Benefit Conveyance

rules. Ultimately, OMB rejected the Board's recommendation to dispose of properties worth \$275 million (in net present value) in 30-year cost savings and disposition proceeds.

Second Round Recommendations –

- FASTA waives all public benefit disposal requirements EXCEPT the McKinney Vento Act and the Historic Preservation Act.
- The PBRB analysis is in progress, recommendations due no earlier than December 27, 2024.
- Approximately \$32,000,000 in previously appropriated funds from the Asset Proceeds and Space Management Fund are available for use.
- There is an additional \$193,000,000 in the Asset Proceeds and Space Management Fund from PBRB recommendations and sales. However, these funds cannot be utilized without specific Congressional appropriation.

A note on funding: To become a FASTA property, and thus be eligible to access monies from the Asset Proceeds and Space Management Fund, a property must be recommended for disposition by the PBRB *and* approved by OMB. In practice, OMB requests GSA concurrence before approval and effectively requires all three agencies to agree to produce a successful recommendation that will be eligible for funds from the account. Once all three agencies agree on the disposition of a property, GSA takes sole control over the disposition process. PBRB has no authority over the sale process nor the funds.

The Special Case of Washington, D.C. – High Risk / High Opportunity

Washington D.C. offers a unique challenge and opportunity to consolidate federal agencies into smaller, but higher quality facilities, eliminate billions of dollars in capital liabilities, reduce annual real estate costs, mitigate the growing commercial real estate crisis, and unlock large federal enclaves for economic redevelopment.

D.C. Mayor Muriel Bowser has repeatedly called upon the Federal government to dispose of underutilized property to eliminate the economic dead zones they create, expand the local tax base, and create new value and economic growth through redevelopment.¹²

The Board believes the conditions are ideal for a win/win situation where taxpayers, agency employees, and the District of Columbia would all benefit from significant federal disposals.

The Board is assessing several properties in Washington D.C., believing there are significant changes that could be made in the large federal portfolio that would both produce a more cost-effective federal office portfolio and help the City of Washington D.C. avoid the worst effects of its deepening economic crisis. PBRB is working with GSA, Congress, the District of Columbia, National Capital Planning Commission, Federal City Council, the Urban Land Institute, and other critical parties to match grossly underutilized federal properties with more cost-effective alternatives that maximize economic

¹² [Converting unused office space: DC Mayor Bowser's proposition to the federal government | DC News Now](#)

development outcomes, and revenues, and achieve more flexible and satisfactory workspaces for federal agencies.

Key elements of the Washington D.C. analysis include:

- The Federal government is the region's largest employer.
- The Federal government controls almost 90 million square feet of property in the National Capital Region (50% owned and 50% leased).
- The Federal Government moves the market.
- Federal employee office utilization is much lower than the private sector.
- D.C. the highest Commercial Mortgage Backed Securities default risks in the country¹³, meaning the commercial real property market offers significant leasing and potential purchasing opportunities.
- Nearly empty, mid-century federal buildings encumber valuable locations with extraordinary long-term redevelopment opportunities for public, cultural, residential, and commercial purposes.

The PBRB examined attendance at the headquarters of selected Chief Financial Officers Act agencies for 2019 and for 2023. Like the GAO findings, the PBRB found that from January through September of 2023, median attendance at federal workspaces was estimated to be at around 30% of 2019 levels. The PBRB is not assessing all agency headquarters but is examining those agencies in large buildings that surround the National Mall with significant deferred maintenance and large capital expenditure requirements for further analysis. The Board recognizes that any divestment must be carefully considered and planned for by local and regional experts. Current market conditions in Washington D.C. are being severely affected by post-pandemic office occupancy patterns and depressed office property valuations, making solutions for any consolidations and divestment more challenging. However, the successful redevelopment of the Southeast Federal Center and The Wharf are examples of what is possible over time when the Federal government unencumbers significant properties in locations with inherent redevelopment value.

The Board has developed a methodology for analyzing these properties that considers potential agency consolidations, with the employee base remaining in the same jurisdiction. In some cases, the PBRB has found that agencies have cultural expectations that they should retain a property as a flagship even though only a fraction of employees work in the building every week, the property requires significant capital investment to bring it to code, and even though a billion-dollar savings could be accrued were it to consolidate into another shared federal building or lease.

Finally, the Board is working with commercial real estate experts to understand the current commercial market potentials and notes that leasing, or even purchasing, a new building may offer cost savings along with opportunities for workspaces that would present health and safety improvements, and carbon footprint reductions over retention of certain depleted and deficient, capital-intensive properties in the federal portfolio.

¹³ [DC Replaces San Francisco With the Highest Share of Office Properties at Default Risk | GlobeSt](#)

An overreliance on renovations of obsolete federal buildings to effect consolidations will ensure the worst of all possible outcomes: federally owned buildings with high vacancies, poor quality, high annual costs and capital liabilities, and a city with large economic dead zones, limited redevelopment opportunities, and a collapsing commercial office market.

To assist us with our analysis of this significant set of properties, the PBRB plans to conduct outreach with city and regional officials, development and commercial real estate officials, and homeless and affordable housing advocates and stakeholders in this upcoming year.

PBRB Observations: What Worked Well and What Needs Improvement with the FASTA Process

The process established by FASTA can meet the current context that demands consolidations. But to optimize success, and achieve real savings, greater leadership from the administration and Congress is required.

What has Worked

- FASTA waived all public benefit preferences and the McKinney Vento Act homeless screening process for the successful High Value Round recommendations which led to some faster dispositions.
- The High Value Round demonstrated that the PBRB, GSA and OMB can work to identify and pursue significant dispositions. Key to the success:
 - OMB made High Value Round data calls and urged agencies to recommend disposals.
 - GSA demonstrated its ability to meaningfully engage when it proactively recommended approximately 43 properties to the PBRB for High Value Round disposals.
 - GSA was able to produce both substantiating documentation for the High Value Round dispositions to satisfy OMB, and to produce a funding plan for each recommendation that used funds from a variety of sources in a manner that satisfied OMB.

What Needs Improvement

- It took two years for PBRB board members to be appointed - to date, a chairperson has been nominated but has yet to be confirmed by the Senate.
- GSA lacks adequate modern internal processes for risk assessment and decision making. The PBRB has observed that GSA's internal processes drive the returns for property transactions significantly lower. The Chet Holifield Federal Building in Laguna Niguel, CA is an example (Appendix A). Despite having \$32 million in funds, and having the latitude provided by FASTA to hire community development and historic preservation experts and consultants to find optimized solutions for the local community and the federal government, GSA missed an opportunity to develop a healthy and productive relationship with the City of Laguna Niguel and the historic preservation community there.
- GSA's marketing and management of property sales is viewed by many real estate professionals as severely outdated, and GSA is reluctant to change its public auction format. For example, GSA did not follow the PBRB's recommendation for a broker-supported portfolio sale during

the High Value Round, instead resorting to its standard and ineffective process of posting properties on the government auction site which resulted in no bids from the market.

- GSA and OMB have recently failed to execute their respective roles and authorities under FASTA as directed by Congress:
 - GSA does not request full appropriation of disposal receipts and has not participated in meaningful assessments of how to allocate scarce funding to achieve the disposition goals established in FASTA for the first or second round.
 - OMB instituted a requirement that all recommendations arrive fully funded. GSA denies that it manages the Asset Proceeds Fund, and therefore missed coordinating the FY25 Budget request cycle for the Asset Proceeds and Space Management Fund with the PBRB to ensure recommendations would be fully funded.
- GSA has only recommended one property to PBRB to date for Second Round recommendations, which was a property that it had already publicly announced it was going to sell.
- To have adequate property data on hand to make decisions, FASTA requires OMB to put a federal agency data call each year. OMB has not met that requirement for two years.
- GSA has not provided PBRB with recent GSA portfolio analyses.
- Federal data on properties remains poor. Attendance data, comprehensive and up to date capital liability data, and agency requirement information are required for an adequate analysis.

The Need for Leadership

A key limiting factor for successfully realigning the real estate footprint is leadership. Such wasteful real estate practices would not endure for so long in a private sector company. In fact, many examples abound of major companies taking swift action to dispose of properties and cancel building projects in response to the changing office space needs in the wake of the pandemic. The current private sector office market is in a historical period of distress, and swift action is being taken to protect investor values and seek alternative uses for underutilized properties. The federal taxpayer deserves the same approach to federal real estate management.

However, realigning government real estate requires numerous, high-level decisions from leaders across the government, who have limited incentives to prioritize those decisions and commit resources to make improvements. Leadership from Congress and the White House is critical to direct those decision-makers to prioritize this issue and act in the best interests of the taxpayers.

The Biden-Harris administration recognizes the need to reduce costs and transform federal workspaces into a right-sized footprint across the country:

Investment to optimize the real property portfolio for a more agile workforce working in a more hybrid and distributed manner will limit rent expenditures in out years and improve the portfolio's mission effectiveness.¹⁴

The PBRB encourages the Congress and administration to insist that OMB and GSA take the critical actions outlined below to achieve its goals.

¹⁴ [ap 7 strengthening_fy2023.pdf \(whitehouse.gov\) page 83](#)

Recommendations and Next Steps

The PBRB needs more time and additional disposal rounds to address the dramatic increase in excess and underutilized properties. The Board is currently analyzing approximately 13 million rentable square feet of space and believes that, given more time, it can more thoroughly report to Congress on these opportunities. The federal office utilization is still playing out, requiring revised housing plans, with more disposal actions needed over the coming years. We support legislation that has been introduced to extend the PBRB, the existing board terms, and make other improvements to the FASTA law.

The intent of FASTA was for the PBRB to produce actionable recommendations for disposition of properties. For that to happen, the following must occur:

- The PBRB requires full access to all analyses and data, as stipulated in FASTA. This means that GSA should share the year-long asset segmentation report it conducted in 2023, as well as its National Capital Region portfolio review that it is concluding at the time of this report. The PBRB should also have access to federal agency employee return to work plans, occupancy data, and other asset utilization-related policies available through the Federal Real Property Council.
- OMB should retract its requirement that any PBRB recommendations must have funding already available at the time of the recommendation.
- GSA must work with the Board to examine funding possibilities and consolidation opportunities in the out years that will satisfy OMB funding requirements. Not all funding must come from the Asset Proceeds and Space Management Fund. This was the case in the largely successful High Value Round where a variety of funding sources, including GSA funds, rent waivers, tenant agency budgets, and lessor funding were used to accelerate relocations and property disposals. The law specifically envisioned any available funds, not just the Asset Proceeds and Space Management Fund, should be utilized to expedite disposals.
- GSA must examine its portfolio objectively on utilization data, unmediated by the wishes of agency desires to retain underutilized properties due to legacy footprints and provide the Board with properties known to have significant deferred maintenance and low employee attendance.
- GSA must partner with the Board on needed conversations with various stakeholders in Washington D.C. concerning which federal buildings need to be disposed of, and what redevelopment opportunities and revenues could result.
- OMB, through its role at the Federal Real Property Council, must demonstrate leadership across federal agencies, conduct true data analyses, and work with both GSA and the PBRB to find large properties that require divestment in the current environment.
- The PBRB should be able to participate in the Federal Real Property Council fully, and OMB, as the leader, should encourage agencies to more rapidly examine their portfolios and engage with the Board on consolidation opportunities.

Without these immediate actions, the PBRB will only be able to make recommendations as far as its access and data will allow for the Second Round Recommendations. The PBRB intends to fully disclose,

in a subsequent issuance to Congress, a comprehensive financial discussion that describes the possibilities for the disposal of significant assets in the markets listed above.

Conclusion

In our report, the PBRB has defined the immediate opportunity to:

- right size the federal real property footprint;
- create modern working office spaces for current and future federal employees which are safe and well maintained;
- support local municipalities' urban planning goals;
- drive planning and decision making that will support federal sustainability goals; and
- reduce the budgetary burden of the national real property portfolio.

The Board's imperative could not be clearer.

The Board is currently screening properties for those assets with low utilization rates and high deferred maintenance costs. Once properties are found, the Board examines the property for value, and conducts an extensive financial analysis that can help point toward a consolidation effort that will maximize disposition proceeds while achieving local and federal agency goals. Moving federal employees into currently owned property is not a de facto solution in all cases. Leasing and even purchasing existing commercial properties offer avenues of consideration that will lead to optimal outcomes.

The PBRB believes that immediate action could generate billions in savings. Federal agencies have a significant opportunity to work toward achieving savings and modernizing workspaces, backed by a fund that will total nearly \$500 million from previous dispositions under FASTA. The PBRB continues to reach out and seek partnership with agencies, GSA, and OMB to seize current opportunities, and will continue to offer its analytical services to agencies toward common goals. A second-round report, due no earlier than December 2024, will further present our analysis, and highlight compelling evidence that nearly any action will be vastly better than the status quo for the federal real property portfolio.

Appendix A: Chet Holifield Federal Building, Laguna Niguel, CA

Chet Holifield Federal Building Background

The Chet Holifield Federal Building (CHFB) is located on 92 acres in the heart of Laguna Niguel, in southern California. Site improvements include a 1 million square foot, seven-story building; 4,777 parking spaces; services support and security buildings; recreational and landscaped areas; and non-contiguous utility parcels including a water reservoir building, cooling tower, thermal energy storage tank, and 3,840-cell photovoltaic system.^[12] Approximately 3,000 government employees currently work at the site, all of whom are to be relocated prior to December 31, 2024.





The property was in the process of being nominated to be listed in the National Register of Historic Places at the time the PBRB recommended it for disposition.¹⁵ It requires significant seismic upgrades and has been classified as “exceptionally high risk” by GSA.¹⁶ The 2019 estimated cost to repair the CHFB ranged from \$526,140,000 to \$916,518,000. The building also has asbestos-containing materials in the floors and walls. No prospectus-level investments have been made since the 1980’s and the building’s infrastructure is beyond its useful life. Deficiencies have been documented in all major mechanical and electrical systems including life-safety, fire protection, and fire sprinkler systems. Plans were initiated in 2017 to move tenants due to the costs of upgrades to aging facilities, and the main tenants are the IRS, Immigration Services, and Customs and Border Protection.¹⁷

Between 2020 and 2021, GSA prepared an Environmental Impact Statement (EIS) that outlined the movement of federal employees and did not adequately address the potential redevelopment of the entire site. The City of Laguna Niguel commented that the EIS did not address the sale and redevelopment of the site, which it was particularly concerned about given the deteriorating status of the property, the large footprint, and the vague government intent. GSA also conducted a four-series

¹⁵ From: <https://www.gsa.gov/about-us/regions/region-9pacific-rim/buildings-and-facilities/california/chet-holifield-federal-building>

¹⁶ From: <https://www.cityoflagunaniguel.org/1544/Chet-Holifield-Federal-Building-aka-Zigg>

¹⁷ From: https://www.gsa.gov/cdnstatic/Chet_Holified_FB_Moving_Forward_-_FAQs.pdf; <https://www.gsa.gov/about-us/regions/region-9pacific-rim/buildings-and-facilities/california/chet-holifield-federal-building>

design charette from October to December 2021 that explored potential design options for the future of the property. The charrette materials had been posted on GSA's website but are now removed. The Board has requested the materials several times from GSA, but not received them. Nonetheless, the Board understands from the City that the charrette added to the public confusion about GSA's intent for the property.

The period after the OMB approval of the disposition in January 2020 until the auction in March 2023 was characterized by mixed signals and confusion across parties, including GSA, and from the City's perspective. The historic designation would have necessitated that the property be sold with an historic preservation encumbrance. Any developer purchasing the property would have had to invest significantly in the property to upgrade the current building to meet fire and safety codes, and the property design did not significantly lend itself to an identifiable use of high value as it was originally designed as a manufacturing facility. GSA initiated the historic preservation consulting process in 2020 with the intent of encumbering the property with a historic preservation covenant despite comments provided by PBRB and the City recommending against that course of action.

The City of Laguna Niguel commented that:

Assuming the inclusion of a GSA-imposed historic preservation easement as a condition of property sale, any City considerations regarding the ultimate disposition of the balance of the property, including potential rezoning, must first satisfactorily address this primary issue of preservation and reuse of the existing structure. Similarly, any actions that require the preservation of the building independent from the development and thorough vetting of a detailed full-building reuse plan are contrary to principles of comprehensive planning and thereby pose a significant risk of further harm to the City, its business owners, and residents.¹⁸

Like the City, the PBRB wrote to GSA its concern about the encumbrance of the property with a preservation covenant, given the difficulty the property presented in redevelopment.

GSA promoted the property auction on its auction website and offered the property for tour with a requirement of a significant deposit. However, commercial real estate experts in the region that the PBRB interviewed about the auction, were either unaware of the sale or if they were aware, cited the historic preservation encumbrance and the lack of clear zoning as problems that prevented them from entering the bidding. In the end, GSA received no bids for its opening auction price of \$70 million and this relates to a property that GSA estimated would generate between \$200,000,000 - \$300,000,000.

A. GSA's failed auction is an example of the many issues that can combine to drive federal properties' values downward and create hostility in communities.

GSA initiated the auction of the CHFB encumbered with a historic preservation requirement that both the PBRB and the City of Laguna Niguel contested given the significant costs to stabilize and the

¹⁸ From: <https://www.cityoflagunaniguel.org/1544/Chet-Holifield-Federal-Building-aka-Zigg>

functional obsolescence of the large manufacturing structure converted to office with no clear use. The City noted:

Encumbering the CHFB property with a preservation easement effectively negates several redevelopment options identified in the GSA's virtual workshops. However, making a "no adverse effect" finding was not the GSA's only option. The GSA could have proposed a finding of "adverse effect." When adverse effects on historic properties cannot be avoided, some typical mitigation measures include:

- Limit the magnitude of the undertaking;
- Modify the undertaking through redesign, and reorientation of construction on the project site;
- Develop interpretative media to inform the public of the historical significance of the property; and/or
- Document through drawings, photographs, histories, and oral histories.¹⁹

The PBRB has solicited input from commercial real estate firms about their views of the auction process. These comments have been provided to GSA, and the Board has recommended that GSA improve marketing, use a broker to seek buyers and create a better relationship with the city of Laguna Niguel to enhance the profile of the offer. Specific issues noted with the auction were:

i. The terms of the auction required a substantial deposit.

GSA required a \$300,000 deposit to tour the property, an unusual amount for this type of sale according to commercial practitioners. It is more common to ask for advance registrations and liability waivers, but deposits are usually only required at the time of bidding. Furthermore, the high deposit amount upfront limits the potential groups to tour, and potentially form joint ventures and teams, and narrows the bidding pool before firms can evaluate the opportunity.

ii. Publicity was lacking.

Very few usual buyers seemed to know about the sale. A better approach would have been to include a "finder's fee" to engage the brokerage market or to use a formal marketing process with a reputable commercial advisory firm that could develop a marketing strategy that included capital incentives. Brokerage firms can work with sellers to use a sealed bid or auction format if a Request for Proposals process does not align with the seller's objectives. This would require that GSA establish a broker contract for its disposition team, an action that PBRB has encouraged GSA to consider.

iii. Lack of transparency and information for prospective buyers.

The more complex a transaction, the more investor information is required. Those spoken with said that they need more transparency than the GSA online auction provides. The Board notes that in 2020 Stanford economists Robert Wilson and Paul Milgrom won the Nobel Prize for their inventions of new auction formats, specifically for the Federal Communications Commission. Part of their work was to describe the effectiveness of information sharing in increasing the value of a multi-part auction to both

¹⁹ From: [Chet Holifield Federal Building | the City of Laguna Niguel Website](#)

the purchasers and the sellers. GSA might well take into consideration whether its auction process suffices for the auction of complex property like the Chet Holifield. Furthermore, given the size of the property and development potential, in addition to the estimated sale value, working alongside the City to present as much information as feasible on what could be developed at this location could reduce development risks and facilitate improved pricing for GSA in an auction process.

iv. Historic preservation approach was a key impediment.

GSA determined that the first approach would be to attempt to encumber the site with a covenant that required the preservation of the entire structure. Those interviewed explained that it was not clear from the offering how much of the building needed to remain historic even though the sale was contingent upon having an historic covenant. The PBRB Executive Director objected to the “No Adverse Action” course of action in 2020, explaining that using a covenant would lower the value of the property unnecessarily. GSA has explained that they “always offer a property with no adverse action” at first to avoid litigation. The Board believes that this approach has created a great deal of uncertainty and animosity with the city of Laguna Niguel, residents and stakeholders, and confusion in the development community.

v. Zoning unclear

Because the city was uncertain what GSA’s intent was, the future of the property remained unnecessarily vague to the market. The density of the property was unknown; hence the revenue potential of the property was also unknown. This uncertainty has created too much risk for potential developers to be able to assess the value and costs of the property for an auction bid. By the time the auction was initiated in the winter of 2023, it was clear in the Invitation for Bid document, and from conversations potential bidders had with the city staff, that there was no clear vision for the site or partnership between the government entities.

vi. Conversion to office space too costly:

The building is not suitable for modern office uses without massive investments to improve structural and health and safety issues, improve climate control, and modernize the interiors which were originally designed for manufacturing. This building was occupied by the federal government for office use only, which the building was never intended for, and which speaks to the lack of potential uses for the structure from the outset of the government’s acquisition decades earlier.

The issues outlined above combined to create a failed sales process for an extremely valuable property. The PBRB met with officials from the city of Laguna Niguel who expressed their disappointment in the process and in GSA’s actions. The property currently is progressing through a second round of consultations with historic preservation stakeholders, where the details of an ‘adverse effect’ historic treatment are being worked on. This agreement will allow a developer to demolish the building in lieu of various historic preservation actions. While the Board notes that this will likely increase the value of the property, the Board still believes that the hostility created with the city of Laguna Niguel and the uncertainty of the zoning process will continue to create downward pressure on value.

The Board also notes that GSA has been prepared to sell this property since 2020. In the four years since OMB's approval for disposition, the property value has declined by approximately 20%, or tens of millions of dollars, according to professional valuations performed for the Board. The Board has not received a clear explanation from GSA as to why it has taken four years to prepare for an auction, and GSA continues to lack a firm project timeline for its ultimate disposition. GSA officials have expressed the primary goal to be the reduction of liabilities, not generating the highest sales value. Further, GSA officials have offered no clear articulation of their risk assessment for marketing the property, and no project timelines or decision/risk analyses have been offered as explanations.

The Board notes that GSA apparently does not create a comprehensive plan for its dispositions that involve risk analyses that include market conditions and timings, community development considerations beyond mandated federal environmental and historic preservation requirements, nor does it seem to seek methods for sales that develop the full market value of a property or actively partner with the local jurisdictions to ensure a successful reuse. GSA prefers to auction a small parking lot worth thousands in the same way that it auctions a large and complex property worth hundreds of millions, in spite of the fact that the federal government has the history and understanding that auctions should be tailored to the context.

Recommendations for complex federal property dispositions

The Public Buildings Reform Board continues to note the vast disparity between commercial real estate practices and those of GSA. While GSA must conform to laws and policies that do not apply to commercial real estate sales, there are processes worth noting that the Board has and will continue to encourage GSA to consider in its disposition process.

- Perform a Broker Opinion of Value for the Highest and Best Use, which also includes an overview of current market conditions, to present a current and forward-looking value of the property, inform a marketing strategy for the sale, and identify potential risks for various sale methods and timing.
- Conduct pre-marketing due diligence studies such as surveys, utility studies, or environmental studies to refine site conditions or characteristics. The current Environmental Impact Study process can be unclear and not tailored to commercial developers seeking to understand the property.
- Hold market-sounding meetings with stakeholders and active developers in the market. These discussions can assist with confirming or clarifying investor opportunities and expectations, as well as identifying additional pre-disposal activities that may increase the marketability of the property and/or net proceeds, such as entitlement support, remediation, or additional studies, and determine feasible actions prior to a formal solicitation. These conversations can also aid in identifying specific feedback on transaction structures and barriers to be mitigated pre-procurement or sale.
- Create professionally designed marketing materials, including solicitation materials and property video(s) with an aerial drone, and publicize through dedicated project websites and targeted media sources including announcements in Real Estate Alerts, as well as coordinate earned media opportunities to further promote the sale and development in local and national publications.

- Facilitate, arrange, and manage tours of property with potential investors, including developing tour scripts, full team dry run with ownership and Capital Markets experts (sales, debt, leasing, etc.), flexible tour scheduling led by senior leadership, and on-site visuals to showcase future tenant improvements and possible development scenarios. reduce barriers to these tours as they are marketing events.
- Conduct personal presentations to top prospects, both in-person and via virtual meetings.
- Develop a comprehensive solicitation package (e.g., Request for Proposals, Invitations for Bids) for marketing to create an ultra-competitive environment between active capital sources; include initial debt guidance for bidders where appropriate.
- Coordinate the generation of the solicitation package with the impacted jurisdiction to ensure the accuracy of the information and to help promote the opportunity.
- Evaluate proposed solicitation or sealed bid responses for feasibility and best value to the government, including financing capacity, development costs, ground rent/sale assumptions, financing assumptions, operating revenue and expense projections, developer fees, and profit, and return on investment.
- Conduct interviews with identified respondents and push incremental pricing via competitive process dynamics, including facilitating a Best and Final Offer (BAFO) from respondents.
- Create a nationwide broker contract for GSA's disposition teams to use to assist with these more complex transactions.
- Contract with an auction advisor, such as one used by the Federal Communications Commission, to advise on the best way to structure auctions for complex real estate transactions.