U.S. General Services Administration

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"GSA Tenant Agencies:
Challenges and Opportunities in Reducing Costs of Leased Space"

Committee on Transportation & Infrastructure
Subcommittee on Economic Development, Public Buildings,
and Emergency Management
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Introduction

Good morning Chairman Barletta, Ranking Member Carson, and Members of the Subcommittee. My name is Norman Dong, and I serve as the Commissioner of GSA's Public Buildings Service.

GSA's mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people. When it comes to leasing, this means reducing costs and improving space delivery to allow GSA's Federal partner agencies to focus resources on their core mission needs.

I'd like to make three points today. First, GSA is focused on improving utilization throughout our portfolio. Second, within our leasing program, our top priority is reducing costs by improving our long-range planning process and broadening competition. Third, GSA's Fiscal Year 2015 Capital Investment & Leasing Program drives our efforts to support our Federal agency partners in managing government real estate.

Improving utilization of the Government's real estate inventory

GSA currently has an inventory of more than 375 million square feet of space, approximately half of which is distributed among 9,000 leases across the country.

As a part of the Administration's management agenda, GSA prioritizes finding ways to maximize utilization of the existing Federally owned inventory. By dramatically improving utilization of our current inventory, we have saved millions of dollars for our partner Federal agencies and for the American taxpayers.

GSA is helping Federal agencies reduce space requirements by adopting new workspace arrangements and developing mobile work strategies that allow more people to work in less space. Our Client Portfolio Planning process identifies current, ongoing, and potential portfolio optimization opportunities to reduce the government's economic and environmental footprints while fully supporting agency missions. At the same time, our Total Workplace program helps agencies address the up-front costs of consolidation, like the furniture, fixtures, and equipment costs associated with a move.

When existing space is not available, GSA determines the best method to acquire new space, whether through new construction or leasing space from the private sector. GSA leases space for most agencies, including, but not limited to offices, laboratories, warehouses, and clinics. GSA uses a comprehensive, deliberative process that ensures full competition and fair rental rates for the taxpayers, while taking into account such public interests as proximity to central business districts and public transportation and the mission requirements of GSA's partners.

Since GAO identified real property as a high-risk area in 2003, GSA has worked closely with our partner Federal agencies to maximize the utilization of leased space. In our prospectus-level lease program in Fiscal Year 2014 alone, GSA and our partner agencies have proposed a square footage reduction of approximately 13 percent, from a current requirement of 4.3 million square feet to a proposed 3.7 million square feet.

Reducing the Government's leasing costs

As this Committee has pointed out in previous hearings and roundtables, the Federal Government has an unprecedented opportunity to capitalize on markets and achieve long-term savings that save taxpayer money and allow agencies to focus more resources on mission needs.

Within GSA's inventory, more than 59 percent of our leases will expire over the next five years – meaning we'll need to find housing solutions for approximately 104.6 million square feet of government-occupied space. This year, we have 10.7 million square feet of leased space expiring in the National Capital Region alone.

GSA is planning to address these needs and meet this window of opportunity by focusing on consolidation and reducing requirements, improving our long-term planning processes, and broadening competition.

Our approach will no longer accommodate replacing expiring leases at a one-for-one ratio. And where possible, GSA is seeking solutions that will convert leased space to federal ownership. You can see these changes in our lease prospectuses over the past two fiscal years.

For example, we are in the process of seeking a lease for the Department of Justice in Washington, D.C., that will replace four different expiring leases across the District while improving the Department's utilization in this consolidated action from 184 square feet to just 130 square feet of office space per person.

Elsewhere in the District, we're renewing a lease for the Federal Energy Regulatory Commission that will allow us to exercise a favorable purchase option when the next lease term expires in 2025. GSA will have the opportunity to buy the building for $20 million – about $40 per square foot – far less than comparable market rates for commercial buildings in Washington, D.C.

We also must remain committed to maximizing competition to get the best deal for Federal agencies and the American taxpayer. Like our commitment to consolidation, this presents a valuable opportunity to reduce the cost of the government's space needs over the long term. While average rates in many markets remain well below peak levels, we can capitalize on favorable market competition by insisting on greater competition as our leases expire.

For GSA, this means better workload management with more emphasis on long-range planning. We need to start working with our Federal partners to develop their requirements as early as 36 months prior to lease expiration, with a goal of issuing advertisements by 18 months prior to expiration. We'll manage to these benchmarks, giving us more time to run a competitive procurement and avoid the holdovers and extensions that result from poor up-front planning.

At the same time, we must focus on broadening delineated areas and simplifying specialized agency requirements to allow for greater competition and more favorable rates. When we seek leases in narrowly defined delineated areas, or for overly specialized space needs, we often eliminate potential respondents and end up with higher rent.

GSA's FY 2015 priorities for consolidation and investment

While today's hearing centers on our collaborative efforts to reduce costs in government leasing, GSA's first priority remains maximizing utilization of the Federally owned inventory. At 47 years, the average age of the assets in GSA's inventory is approaching the 50-year life expectancy of most commercial office buildings.

In recent years, GSA has not had access to all of the annual revenues collected by the Fund, hampering our ability to meet agency needs.
GSA must center its real estate management strategy on utilizing existing space, helping our partner agencies reduce requirements, and seeking competitive leased solutions. Our Fiscal Year 2015 capital plan continues our efforts to consolidate agencies out of expensive leases and into Federally owned space.

In Detroit, Michigan, for example, GSA proposes to exercise an option to purchase a building we currently lease on Michigan Avenue. Once we purchase the Enterprise Computing Center, we'll renovate the facility and backfill it with tenants moving from four other leases into a single, Federally owned location, saving approximately $11 million in lease payments per year.

GSA's FY 2015 budget request also includes $250 million to continue the consolidation of the Department of Homeland Security at the St. Elizabeths Campus. Last year we opened a state-of-the-art new facility for the U.S. Coast Guard; this year's request allows us to complete the infrastructure needed to fully occupy the Center Building Complex and move additional DHS components to St. Elizabeths.

We are also continuing our focus on large-scale consolidation projects. In Fiscal Year 2014, we received $70 million of the $100 million requested to support these efforts throughout the government. GSA's Fiscal Year 2015 budget requests another $100 million to capitalize on these efforts. As with the FY 2014 consolidation projects, GSA hopes to demonstrate the value of investments that reduce the real estate footprint, save agencies money on their rent, and provide a quick payback.

These capital investments are absolutely central to GSA's – and this Committee's – focus on reducing leasing costs and shrinking the government's real property footprint. We appreciate this Committee's ongoing support for GSA's Capital Investment and Leasing Program; particularly the Committee's approval of 27 GSA prospectuses this month.

Conclusion

Thank you for the opportunity to speak with you today about our ongoing work to help our Federal partner agencies reduce overhead costs and focus limited resources on core mission needs. This effort continues to benefit from GSA's strong partnership with this Committee. The Federal Government's management of real property has improved as a result of your consistent oversight and inquiry. I look forward to continuing this collaborative effort, and I welcome your questions.