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The Serious Commercial Real Estate Credit Crunch and GSA: Leasing and Building During an Economic Crisis

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2167 RAYBURN HOUSE OFFICE BUILDING

I welcome today's witnesses to the subcommittee hearing on the tightening credit market for leasing and construction. As we are aware, the current credit market crunch originated in the subprime mortgage crisis and combined with exotic investment instruments and nonexistent or poor regulation that conflated with a bevy of other factors to spread like a virus and bring down major aspects of our economic system. What resulted was an all consuming global economic crisis that has trapped even those like the commercial leasing and construction sectors, which had nothing to do with precipitating the crisis. Today, we will build on the hearing the subcommittee held in July 2008, that examined the economic factors affecting federal leasing and construction in the commercial marketplace. We examine the commercial sector market because General Service Administration (GSA) is perhaps the largest customer for office space in the real estate market in the United States. Moreover, the agency now has one billion dollars to construct the first of three buildings in the Department of Homeland Security complex, the largest development in GSA's history.

GSA's ties to the commercial market are clear from its role in leasing alone. GSA leases slightly more space than it owns, approximately 176 million square feet of leased office space, housing over 700,000 federal workers compared with 175.5 million square feet of owned space, providing office space for 640,000 federal workers. The federal inventory ranges from 2,500 square foot border crossing stations to million square foot courthouse complexes in major metropolitan areas. GSA has a large stake in maintaining its strong real estate market position, particularly in the leasing market, in light of the continuing shift to federal agency leased space.

At this hearing, we seek to learn how the GSA, building owners, and developers, who are accustomed to unimpeded access to credit, position themselves in today's puzzling market. Even though the competitive system for federal leasing and construction awards guarantees that only the most credit-worthy need compete, we are concerned that the recent clamp down on credit has already effected even the most credit-worthy competitors. Inevitably, GSA also will be affected.

Last year as the subprime mortgage crisis worsened I began talking with experienced developers and building owners and found that their strong credit standing with lenders and the lengthy time frames and lead time for construction or leasing had left them pretty much untouched. However, their reports to us had changed completely by last summer when we had our first hearing on credit in the commercial sector. Today, more than a year after the housing crisis became full blown, even the largest banks, whose customers significantly include the commercial real estate sector, are showing record profit losses. Uncertainty and mounting losses have caused continuous shrinkage in all parts of the credit markets. Federal leases and construction contracts might have been said to be “worth their weight in gold,” but, if credit becomes too difficult or too costly, the private sector will pass the increased costs onto the federal government, raising costs to taxpayers. GSA’s reliance on the commercial office space market and on the commercial construction sector to house federal agencies ties the agency directly to commercial market conditions. As the federal government’s major construction and leasing agency, GSA, cannot escape the reality that it is in the same boat with private real estate and construction sectors.

The agency must begin to use its prime position in the commercial market place to better leverage its buying power and to capture its out-sized potential for reduced costs to taxpayers. In today’s atmosphere of soaring budget deficits and rising costs for all concerned GSA also must work collaboratively with the private sector to reduce the cost of acquiring commercial office space considering the economic crisis. It is also possible that by working with our private sector partners to achieve the vision and know-how necessary to reduce costs across the board this subcommittee, GSA, and its corporate sector partners could help stimulate the local and national economies while addressing the needs of the federal government.

Today we are interested to hear from GSA and financial and economic experts on the commercial markets and office development. We thank all of them for their testimony.