



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

Bill Shuster
Chairman

Washington, DC 20515

Nick J. Rahall, III
Ranking Member

July 15, 2014

Christopher P. Bertram, Staff Director

James H. Zoia, Democrat Staff Director

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 “GSA Leasing Program: Examining Ways to
Streamline and Reduce Costs”

PURPOSE

On Tuesday, July 15, 2014, at 9:30 a.m., in 2253 Rayburn House Office Building, Members of the Subcommittee on Economic Development, Public Buildings and Emergency Management will participate in a roundtable discussion on “GSA Leasing Program: Examining Ways to Streamline and Reduce Costs.” The purpose of the roundtable is to examine GSA’s leasing program and the opportunities that exist to take advantage of the current real estate market and reduce costs to the taxpayer. Participants will include the General Services Administration (GSA) and members of the private sector.

BACKGROUND

GSA’s Leased Portfolio

Nationwide, GSA owns or leases over 9,600 assets, totaling more than 377 million rentable square feet of space. More than 7,400 of those assets are leased, accounting for 195 million rentable square feet -- more than half of GSA’s total space inventory. In the National Capital Region alone, GSA leases 57.5 million rentable square feet. In addition, the cost of leasing accounts for more than half of GSA’s Federal Buildings Fund (FBF)¹ annual expenses, totaling more than \$5.4 billion annually.

¹ The FBF was established under 40 USC § 592 and pays for all of the expenses for GSA’s Public Buildings Service, including costs associated with construction, acquisition, and maintenance of federal buildings, PBS’s salaries and expenses, as well as lease payments for commercial space. Tenant agencies pay GSA a rent for both owned and leased space and, for leased space, GSA in turn pays the private sector landlord.

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 over \$2.85 million annually must be authorized by the House Committee on Transportation and Infrastructure and the Senate Environment and Public Works Committee. In this Congress, through efforts to get GSA's tenant agencies to improve their space utilization, the Committee has authorized leases that will result in over \$850 million in savings to the taxpayer over the terms of those leases.

Opportunity for Additional Costs Reductions

While focus has been on reducing costs through improving utilization rates, there is an opportunity to also 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 leasing. Over the next five years leases representing 98 million square feet of space in GSA's inventory will be expiring – 50 percent of GSA's total leased portfolio. In the National Capital Region, 57 percent of GSA's total leased portfolio will have leases expiring in the next five years.

The large amount of leased space in expiring leases in the near term creates an opportunity for GSA 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. One of the key areas is ensuring that where there are long-term space needs, longer term leases are acquired. 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 (1-3 years) and leases with longer terms (10, 15 years, or longer) is stark. The weighted cost difference between renewal, longer term leases versus extensions over the last three years is more than \$5.58 per rentable square foot. To provide some perspective – that difference would translate into at least a \$3 million annual savings for a lease of 500,000 rentable square feet of space.

Longer term leases 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, GSA awarded a lease at a rental rate of more than 30 percent below the market rate and included \$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. For example, New York City rates are 13.8 percent below its peak rates, D.C. rates are 5.7 percent below, Northern Virginia rates are 5.4 percent below and Suburban Maryland rates are

15.1 percent below. The real estate market is continuing to grow strong and very likely will possibly return to close to or at its peak rental levels.

Conclusion

With the large amount of space in expiring leases, the roundtable will focus on the opportunity this presents to reduce costs and negotiate good lease deals for the taxpayer. The roundtable will also include discussion on any challenges to taking full advantage of this opportunity and what solutions there may be to address those challenges.

Attendee Biographies

Norman Dong, Commissioner

Public Buildings Service

- Mr. Dong serves as the Commissioner of the Public Buildings Service (PBS) for the U.S. General Services Administration (GSA). The Public Buildings Service manages nationwide asset management, design, construction, leasing, building management and disposal of approximately 378 million square feet of government-owned and leased space. Additionally, Mr. Dong oversees an annual budget of approximately \$10 billion and a workforce of almost 6,000.
- Prior to joining GSA, Mr. Dong was Acting Controller at Office of Management and Budget (OMB), and has also worked at the state and local levels of government. In the District of Columbia, he held several positions, including Deputy Mayor for Operations and City Administrator under Mayor Anthony A. Williams. And in Connecticut, he served as special assistant for finance and accounting in the Office of the State Comptroller.
- He holds a Bachelor's degree from Yale University and a Master's degree from the Harvard University John F. Kennedy School of Government.

Anita Molino, Managing Partner and President

Bostonia Partners

- Ms. Molino is a co-founder and Managing Partner of Bostonia Partners, with over 30 years of experience in finance.
- She has significant experience in capital markets focusing on real estate, energy, domestic project finance, and securitization markets. She has served as Financial Advisor and Investment Banker to several State, Municipal, and U.S. Government agencies on a variety of privatizations and public-private partnerships, and has been involved with over \$3.5 billion of highly structured project financings.
- Ms. Molino received her undergraduate degree in Electrical Engineering from Copenhagen University, Denmark and her master's degree in Industrial Technology from Northeastern University in Boston, Massachusetts.

Lynn deCastro, Principal

Prudential Real Estate Investors

- Ms. deCastro is a Principal of Prudential Real Estate Investors. She is responsible for the asset management of PRISA II's hotel portfolio and the office assets located in the Eastern portion of the U.S.
- She has 26 years of experience with Prudential, including portfolio planning, asset management, client reporting, property sales, and financial analysis.
- Ms. deCastro received a B.S. in Accounting from Kean College of New Jersey in 1986.

Amy B. Rifkind, Partner

Arnold & Porter LLP

- Ms. Rifkind is a Partner with Arnold & Porter LLP. She practices in the area of commercial real estate, with a particular focus on public-private partnerships and real estate development. She has experience in all aspects of commercial real estate transactions including construction, term loan, mezzanine, and securitized debt financings, and regularly handles purchases, dispositions, ground leases, build-to-suits and joint ventures.
- She has extensive experience in federal transactions and public-private partnerships, including representing the developer of the 500,000 square foot Social Security Administration building in Baltimore and the 575,000 square foot National Cancer Institute building in Rockville, MD.
- Ms. Rifkind holds a Bachelor's degree from Yale University and a Law degree from Yale Law School.