



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

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**Washington, DC 20515**

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**Ranking Member**

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February 6, 2015

**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 “Opportunities for Taxpayer Savings: Federally  
Leased Office Space in the National Capital Region”

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**PURPOSE**

On Wednesday, February 11, 2015, at 11:00 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 “Opportunities for Taxpayer Savings: Federally Leased Office Space in the National Capital Region.” The purpose of the roundtable is to examine the unusual number of leases expiring in the National Capital Region (NCR) over the next five years, the status of replacement leases, and opportunities to reduce the amount of space and the costs to the taxpayer. Participants will include the General Services Administration (GSA), the Department of Justice (DOJ), the Department of Homeland Security (DHS), the Department of Health and Human Services (HHS) and private sector experts.

**BACKGROUND**

*GSA’s Leased Portfolio*

Nationwide, GSA owns or leases over 8,700 assets, totaling 377 million rentable square feet of space. More than 7,100 of those assets are leased, accounting for 193 million rentable square feet -- more than half of GSA’s total space inventory. In the National Capital Region alone, GSA leases 56 million rentable square feet, with 32 million square feet of leases expiring in the next five year. Expiring leases for DOJ, DHS, and HHS, collectively, represent 44 percent of the square footage of leases expiring in the NCR.

## *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 of over \$2.85 million annually must be authorized by the House Committee on Transportation and Infrastructure and the Senate Environment and Public Works Committee. Last Congress, through efforts to get GSA's tenant agencies to improve their space utilization, the Committee authorized leases that will result in up to \$2 billion in savings to the taxpayer over the terms of those leases.

Last year, the Subcommittee held a roundtable on "GSA Leasing Program: Examining Ways to Streamline and Reduce Costs." The purpose of that roundtable was to begin an examination of GSA's leasing program and the opportunities that exist to take advantage of the current real estate market and reduce costs to the taxpayer. Subsequent to that roundtable, the Subcommittee held a hearing with a number of GSA's larger agency tenants that examined the real estate strategies of key tenant agencies and the challenges and opportunities that exist to take advantage of the current real estate market and reduce costs to the taxpayer. Both the roundtable and the hearing began a broader review of the opportunities created by the large number of expiring leases in the near-term nationwide. The roundtable scheduled for February 11<sup>th</sup> will continue that examination but focus specifically on the National Capital Region, GSA's largest region in terms of the amount of space leased.

## **ISSUES**

### *Opportunity for Cost Reductions*

#### Defining the cost-reducing opportunities in the National Capital Region:

##### *Current Cost-reducing Opportunities:*

- 32 million square feet, or 57 percent, of leases are expiring over the next five years in the NCR.
- The NCR leasing market is still a "buyer's" market, but may not be for long.

##### *Ways to Benefit from the Cost-reducing Opportunities:*

- Lower costs by improving space utilization rates and reducing the amount of space leased.
- Negotiate good long-term lease deals; lock in lower rates for the long term; and offset costs associated with moving and build-out of space.

While the focus has been on reducing costs through improving utilization rates, there is also an opportunity to 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 leases, given the large number of leases expiring and the fact that the NCR is still a "buyer's" market for potential tenants.<sup>1</sup> The

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<sup>1</sup> JLL, Washington, D.C. Market Overview, January 29, 2015

current environment allows GSA and its tenant agencies 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.

#### Short-term Lease Deals Cost a Premium

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 longer term leases versus extensions over the last three years is 20 percent. To provide some perspective – if the cost of most, if not all, of the 57 percent of leases expiring in the National Capital Region in the near term were to achieve these cost reductions, the taxpayer could save more than \$200 million annually, not counting any reductions due to shrinking the space requirements. Very often holdovers or short-term extensions can be avoided if appropriations are available for the tenant agency and proper planning is completed early on, in anticipation of lease expirations.

Factors that have contributed to the increase in short-term leases include -- budget uncertainty, implementation of or resistance to the Administration's Freeze the Footprint policy requiring agencies to rethink how to use, consolidate, and realign their space, poor real estate planning, and resistance to potential relocations to non-traditional submarkets.

#### Many Recent GSA Leases are Short-term Leases

In addition, many "long term" leases GSA has signed, nation-wide, in recent years are actually "short term" leases of five years or less. For example, GSA signed leases of 10 years that are structured to include a five year "firm term" and a five year "soft term," during which GSA can terminate the lease. The market treats those leases as 5-year leases only and prices them accordingly, reducing the amount of savings and benefits of a longer-term lease.

#### Long-term Lease Deals Lower Costs

Not only do longer term leases best position GSA to take advantage of the market leasing rates, they 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 including \$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. D.C. rates are 5.7 percent below its peak, Northern Virginia rates are 5.4 percent below, and Suburban Maryland rates are 15.1 percent below. However, within only a few years, the reverse

may be true as the trend in the leasing market is moving upward and swinging back towards higher leasing costs.<sup>2</sup>

### **CONCLUSION**

With the large amount of space in expiring leases in the National Capital Region, the roundtable will focus on the opportunity this presents to reduce costs and negotiate good lease deals for the taxpayer. The roundtable will also focus on an examination of the current leasing market in the NCR, strategies for improving space utilization, the status of key departments and GSA in replacing expiring leases, and how GSA and its tenant agencies will ensure good utilization rates and long-term leases are executed on time.

### **PARTICIPANTS**

Mr. Darren J. Blue  
Regional Commissioner, Public Building Service  
National Capital Region  
U.S. General Services Administration

Mr. Michael H. Allen  
Deputy Assistant Attorney General for Policy, Management and Planning  
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Mr. Jeffery Orner  
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<sup>2</sup> Id.