GSA

SEP 04 2015

GSA National Capital Region

The Honorable Eleanor Holmes Norton
House of Representatives
Washington, DC 20515

Dear Representative Norton:

Thank you for your letter dated July 17, 2015, regarding the U.S. General Services Administration's (GSA) leasing activity in the Washington, DC, metropolitan area. I enjoyed speaking with you about these issues during the roundtable you hosted on April 16, 2015. Your work and oversight, together with your fellow members of the Committee on Transportation and Infrastructure, have driven GSA to better planning, smarter investments, and more cost-effective outcomes across the country. I have enclosed answers to your questions about GSA's leases across the region, and I welcome a continued dialogue with you and your office.

As you know, an important part of GSA's mission is delivering the best value in real estate to Government and the American people. To that end, GSA is working to help the Federal Government meet the President's instruction to reduce agency footprints and cut overhead costs. GSA is collaborating with our partner Federal agencies to relocate from commercially leased space into federal space, to consolidate multiple leases into single requirements and to broaden the delineated area in our competitive lease procurements wherever possible. GSA has proposed significant investments in projects that consolidate agencies from expensive leases into federally owned space. The U.S. Department of Homeland Security Headquarters at St. Elizabeths in Washington, DC, is a prime example of such a project.

As we improve utilization of the Government's real estate inventory, we are also reducing the costs of leasing so we can lock in long-term savings for taxpayers. As you have identified, this strategy requires GSA to plan for lease expirations further in advance, eliminate holdovers, seek longer firm lease terms, and only execute short-term extensions where the Government has identified and is implementing a long-term consolidation strategy.

I am keenly aware of GSA's significant role in communities and in the commercial real estate market across the National Capital Region. One of GSA's priorities is to ensure we work closely to support community priorities and maximize GSA's potential as a catalyst for local economies. Given the size of GSA's lease inventory in the National Capital Region, GSA's work to meet upcoming expirations presents a significant opportunity to support the communities in which we and our Federal partner agencies locate Government operations.

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If you have any questions or concerns, please do not hesitate to contact me at (202) 708-5891 or Ms. Lisa A. Austin, Associate Administrator, Office of Congressional and Intergovernmental Affairs at (202) 501-0523.

Sincerely,

Victoria Kotarke

for Darren J. Blue
Regional Commissioner

Enclosures (3)

Appendix A: Questions and Answers
Appendix B: Leased Buildings
Appendix C: Broker Reports

APPENDIX A: QUESTIONS AND ANSWERS

A. Existing Leases

1. **Provide a written report detailing existing leases where the Government occupies an entire commercial office building or where the Government is a principal tenant in a commercial office building in the Washington, DC, metropolitan area with two or fewer years remaining prior to lease expiration.**

    a. **Evaluate potential financial, economic, programmatic, and policy impacts associated with the early renewal and extension of selected leases.**

    b. **Include evaluation of financial and fiscal benefits that early renewals and extensions could make available to the Federal Government in the form of favorable rental rates or additional tenant improvements.**

    c. **Address extent to which such early renewals and extensions would stabilize the commercial real estate market and the financial markets that serve these markets.**

GSA's National Capital Region currently has 144 leases that expire by September 30, 2017, in which the Government either occupies an entire commercial office building or is a principal tenant. GSA has begun implementing plans for each of these expirations. Of these 144 leases, 26 are located in buildings in which GSA is the sole tenant. The remaining 118 leases are located in 27 commercial office buildings in which GSA is the principal tenant.[1] Appendix B includes a list of these leases.

GSA is committed to getting best value for the Government and the American taxpayers, and competing expiring leases is a significant piece of driving down real property costs. To this end, we are collaborating with our partner Federal agencies to reduce their overall square footage, relocate from commercially leased space into federally owned space, consolidate multiple leases into single requirements, and increase competition and drive down rental rates.

GSA is already executing plans made in previous years to resolve the 144 expiring leases described in Appendix B. GSA plans to extend 11 of the 144 leases, and will execute replacing leases for 71, renewals for 17, and succeeding leases for 20. GSA will terminate the remaining 25 leases upon expiration. GSA has a greater opportunity with future lease expirations to apply the various tools described above; in fact, GSA has developed plans using these tools for nearly 100 percent of all leases expiring in fiscal years 2016, 2017, and 2018.

[1] For these purposes, GSA has defined a principal tenant as one that occupies 50 percent or more of a commercial office building.

It is difficult for GSA to quantify the extent to which early renewals or extensions will stabilize commercial real estate markets. Such market impacts vary depending on GSA's market share and the financial situation of individual lessors. While the office market in the National Capital Region (NCR) appears to be softening, the local economy seems more stable than the rest of the country. Also, even though GSA has a significant share of the NCR market, which assists in stabilizing the market, its total impact is still dependent on the individual financial situation of the current lessors. GSA will not be able to quantify such impacts until we engage offerors and understand the lessors' motivations and financial situations in the financial restructuring of specific GSA leases.

At the same time, GSA recognizes the impacts of Federal facilities on the communities that house the Federal Government. GSA's primary focus is to maximize value for the Federal agency in the leased space and for the American taxpayer. However, we understand that executing short-term extensions may create uncertainty for landlords and hinder their ability to finance their buildings. GSA is working to reduce short-term extensions here in the NCR and across the country through more strategic program management, better long-term planning prior to lease expirations, and smarter use of such tools as the Automated Advanced Acquisition Program and GSA's broker contracts. These strategies will allow GSA to address agency needs with long-term agreements that save taxpayer dollars, reduce market uncertainty for landlords, and bring stability to commercial real estate markets.

B. Leases in Holdover Status

1. **Review any leases that are currently in holdover status in the Washington, DC, metropolitan area, and determine whether the lease should be canceled, renewed, or extended to satisfy those space requirements in the most efficient manner.**

    a. **Provide a written evaluation of the benefits of renewals, extensions, and new leases that could be available to the Federal Government with regard to leases in holdover status.**

    b. **Report on whether renewals, extensions, and new leases would stabilize the commercial real estate market and the financial markets that serve these markets.**

As you know, GSA is improving its long-term planning processes and reducing holdovers in the NCR and across the country. GSA's regional leasing team reduced holdovers by 78 percent between FY 2012 and FY 2014. In addition, GSA has reduced the average length of holdover in the NCR to just 4 months.

NCR currently has 19 leases that are in holdover, and has identified a long-term solution for each of the 19 leases:

- GSA already has awarded 10-year replacement leases for seven of the locations in holdover;
- GSA is in the process of executing replacement leases for another four locations;
- GSA is terminating three of the leases; and
- GSA has identified long-term housing strategies for the remaining five leases (*e.g.*, consolidations into federally owned space or existing leases).

Generally, holdovers create challenges for individual landlords. A Government tenant in holdover can significantly and negatively affect the marketability of a property for prospective buyers. Additionally, holdovers can disrupt a landlord's refinancing.

In each case, holdovers create significantly more uncertainty than renewals, extensions, and new leases. However, short-term extensions often defer uncertainties rather than creating stability. For that reason, GSA is focusing on eliminating holdovers through better long-range planning and smarter workload management, and will only rely on short-term extensions in advance of a planned consolidation or other long-term housing solution for a Federal agency need.

C. Other Outstanding Issues

1. When will the next batch of prospectuses be sent to Congress?

Since receiving your July 17, 2015, letter, GSA submitted two additional lease prospectuses to Congress on July 27, 2015. GSA intends to submit additional lease prospectuses to Congress in the coming weeks.

2. How often does GSA receive unsolicited offers from potential lessors?

GSA receives unsolicited offers from potential lessors infrequently. However, when it does, CICA and GSAR generally require that GSA must seek competition for every housing requirement or justify the use of other than full and open competitive procedures.

3. How often have short-term extensions resulted in a move rather than the agency staying in place?

In the recent past, short-term lease extension trends favored remaining in place. However, given recent market conditions, the Administration's initiatives to freeze and reduce federal agency footprints, and GSA's longer advance planning horizon, GSA is working to eliminate short-term lease extensions wherever possible. In future fiscal years, GSA will only execute short-term extensions to support projects that consolidate leases into federally owned space, complete capital construction projects, reconfigure existing space to accommodate new requirements, or that result in termination of a lease.

4. Provide specific figures on Class A&B Availability and Average Rate Reports for the D.C., suburban Maryland, and northern Virginia submarkets. Include number of buildings, existing rentable building area, direct square footage vacant and available, and the average rental rate.

GSA does not maintain reports on Class A and B availability or average rates, but relies on Bullseye Reports and data provided under the National Broker Contract. Several of these brokers have consented to share recent reports that are responsive to this question.[2] GSA has enclosed these reports.

5. Please provide background on the Total Workplace FIT program and information on how often agencies take advantage of the FIT program.

GSA uses the FIT Program to acquire selected furniture and IT materials available on the Federal Acquisition Service (FAS) schedules using the FAS Acquisition Services Fund, defraying initial costs for personal property items to the customer agency by amortizing those costs into the rental payments to GSA. The Total Workplace FIT is one of GSA's strategies to reduce upfront expenses that present a barrier to agency consolidation efforts.

The repayment period is 5 years for furniture and three years for IT equipment. GSA has refined the types of products available through the FIT program since its inception in July 2013, to ensure that the personal property being purchased enables partner Federal agencies to use space efficiently. Furniture and IT products made available through the FIT Program promote transformative workplace standards that result in a more efficient utilization rate, an approach that balances open space with enclosed offices, consideration of collaborative workspaces, and access to natural light.

To date, 11 Federal agencies have participated in the FIT program nationwide. In the NCR, GSA used FIT funding to complete such projects as the U.S. Department of Interior - Fish and Wildlife Service lease at Skyline Tower, the National Labor Relations Board lease at Half Street, the Broadcasting Board of Governors space in the Cohen Federal Building, Phase III of the U.S. Department of Commerce's Hoover Building, and the lease for the Department of Health and Human Services on Fishers Lane.

[2] See Appendix C, containing submarket data from three brokers.

6. Please provide reasoning as to why GSA does not amortize move costs.

GSA may seek lessor proposals that amortize agency move costs over the term of the lease. While the terms of a lease may address upfront move costs and amortize such costs in rental payments, GSA's general strategy in negotiating with potential landlords is to seek rent abatement and incentives that reduce costs to Federal tenant agencies and to the American taxpayer.

Including move costs as part of a request to lessors may result in higher overall costs, as lessors might seek to pass on administrative costs and interest on funds to the Government and spread such costs out over the lease term. Making those costs a stated lease requirement in some lease procurement actions may also create disincentives for lessors to include move costs on an unsolicited basis to improve the relative competitiveness of a proposal. However, GSA will continue to explore all possible strategies to reduce upfront costs that present barriers to Federal agency consolidation efforts.