



Report to the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate

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September 2013

# FEDERAL REAL PROPERTY

## Greater Transparency and Strategic Focus Needed for High-Value GSA Leases

# GAO Highlights

Highlights of [GAO-13-744](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Overreliance on costly leasing is one reason that federal real property has remained on GAO's high-risk list. GAO's work has shown that building ownership often costs less than leasing, especially for long-term space needs. For leases with a net annual rent above a threshold—\$2.79 million in fiscal year 2012—GSA is required to submit a prospectus, or proposal, to Congress. GAO was asked to review these high-value leases. This report (1) identifies their characteristics and what GSA has done to reduce their cost and (2) assesses the extent to which GSA's capital-planning approach supports informed leasing decisions. GAO reviewed GSA data for all 218 active high-value leases as of November 2012 and selected 12 leases for case studies based on expiration dates, locations, and tenant agencies. GAO reviewed relevant legislation and guidance, interviewed agency officials, and compared GSA actions to leading practices.

## What GAO Recommends

GSA should enhance the transparency of decision making for high-value leases by (1) including more information in the prospectus to Congress, such as the agency's prior and future need for the space, major investments needed, and an appropriate analysis of the cost of leasing versus the cost of ownership; (2) reporting to congressional committees about certain leases without a prospectus; and (3) prioritizing potential ownership solutions for current high-value leases to help create a long-term strategy for targeted ownership investments. GSA concurred with the recommendations.

View [GAO-13-744](#). For more information, contact David Wise at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov).

September 2013

## FEDERAL REAL PROPERTY

### Greater Transparency and Strategic Focus Needed for High-Value GSA Leases

## What GAO Found

The General Services Administration's (GSA) 218 high-value leases GAO reviewed represented only about 3 percent of the total number of GSA leases, yet made up about one-third of its leased portfolio in terms of cost and size. GSA has reduced the costs of its high-value leases in line with the administration's goal to reduce real property costs. GSA's efforts include helping agencies improve space utilization. However, for leases nearing expiration, GSA and tenant agencies have faced challenges in funding space renovations and moving costs. This lack of funds has contributed to delays and some cases in which GSA continues to occupy space after the lease expires.

GSA officials stated that for most high-value leases, federal ownership would be more cost effective over the long term, but GSA did not have the funding available to purchase, renovate, or construct a building. GAO found that GSA's capital-planning approach lacks transparency and a strategic focus that could support more informed decision making in this area. Specifically, GSA does not follow capital-planning practices involving alternatives evaluation, project prioritization, and long-term capital planning:

- GSA's lease prospectuses do not discuss the length of time of the space need or alternative approaches to meeting it—which are key to understanding whether leasing or owning would be more cost-effective. Twenty-seven of the prospectuses (for leases expiring from 2012 through 2027) contained an analysis that showed potential savings of over \$866 million if the spaces were owned rather than leased. GSA and OMB have decided the analysis is no longer necessary in light of the lack of capital funding for acquisitions and construction. GAO's case studies highlighted long-term, mission critical space needs, such as a lease for the Environmental Protection Agency in Seattle for space it has occupied for over 40 years. Another high-value lease is for the State Department's diplomatic security bureau in Virginia. State invested at least \$80 million in security upgrades into a facility that GSA leased for 10 years.
- Further, GAO found that nine ongoing high-value leases did not go through the prospectus process. For example, GSA mistakenly did not prepare a prospectus for a 10-year Los Angeles lease for the U.S. Army Corps of Engineers. GSA did not notify Congress of these leases, further limiting transparency.
- GSA has not systematically prioritized which space needs currently in high-value leases it would be most beneficial to move to federally-owned solutions. GSA has not incorporated space needs that are the highest priority for ownership investment into a long-term capital plan.

This lack of information on the long-term consequences, including costs and risks, of high-value leases could inadvertently contribute to the federal government's overspending on long-term space needs. In contrast, a strategic vision incorporating leading practices for capital decision making could better position the government to save money over time. Increased transparency could promote collaboration with decision makers, which could help GSA address challenges and identify cost savings opportunities as leases expire.

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## Abbreviations

|       |   |
|-------|---|
| CILP  | Capital Investment and Leasing Program        |
| EPA   | Environmental Protection Agency               |
| FAA   | Federal Aviation Administration               |
| GSA   | General Services Administration               |
| HHS   | Department of Health and Human Services       |
| OMB   | Office of Management and Budget               |
| REXUS | Real Estate Across the United States database |

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September 19, 2013

The Honorable Thomas R. Carper  
Chairman  
The Honorable Tom Coburn  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

Overreliance on costly leasing is one of the major reasons that federal real property management remains on GAO's high-risk list.<sup>1</sup> Under certain conditions, such as fulfilling short-term needs for office space, leasing may be a lower-cost option than ownership. However, our work over the years has shown that building ownership often costs less than operating leases, especially for long-term needs for space. In a series of reports since 1995, we found that for 67 of 89 General Services Administration (GSA) leases we examined, the government could have saved almost \$1 billion if it had constructed rather than leased space for federal agencies.<sup>2</sup> As we have examined only a small number of GSA's total leasing actions since 1995, the potential savings from construction rather than leasing is likely to have been even higher. Recently, we found that the federal government owns facilities that are underutilized in locations where it also

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C., February 2013). Other reasons for the designation included unreliable data, excess and deteriorating property, and challenges associated with protecting assets against the threat of terrorism.

<sup>2</sup>In 1995, we found that 55 of 73 operating leases that GSA had entered into cost a total of \$700 million more than construction. In 1999, we reported that for eight of nine major operating lease acquisitions GSA had proposed, construction would have saved the government \$126 million over 30 years. In 2008, we found that for four of seven GSA operating leases we analyzed, construction rather than leasing would have saved an estimated \$83.3 million over 30 years. See GAO, *Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Costly Leasing*, [GAO-08-197](#) (Washington, D.C.: Jan. 24, 2008), GAO, *General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction*, [GAO/IGD-99-49R](#) (Washington, D.C.: Mar. 12, 1999; *General Services Administration: Opportunities For Cost Savings in the Public Buildings Area*, [GAO/T-IGD-95-149](#), (Washington, D.C.: July 13, 1995); and *General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction*, [GAO/IGD-99-49R](#) (Washington, D.C.: Mar. 12, 1999).

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leases space. In some cases, space within these government-owned properties could be occupied by other government agencies.<sup>3</sup>

GSA manages real property for many civilian federal agencies, and has a large portfolio of owned and leased properties that it rents to its federal agency customers.<sup>4</sup> As of fiscal year 2011, the most recent year for which GSA published portfolio information, GSA had a total of 374.6 million rentable square feet in its inventory, of which 192.7 million—slightly more than half—were leased. (GSA typically reports square feet in terms of rentable square feet, which includes the square footage of areas occupied by customers plus a prorated share of common areas such as elevator lobbies, building corridors, and the ground floor entrance lobby.)<sup>5</sup> GSA is authorized to enter into lease agreements for real property for a term not to exceed 20 years to accommodate federal agencies' needs for space.<sup>6</sup> For leases with a net annual rent<sup>7</sup> above a threshold—\$2.79 million in fiscal year 2012—GSA is required to submit a prospectus, or proposal, to the House and Senate authorizing committees for their review and approval.<sup>8</sup> The prospectus is to provide basic information on the proposed lease—including the purpose, location, and cost—to assist Congress in overseeing GSA's management of its real property portfolio. You asked us to review GSA's management of its prospectus-level

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<sup>3</sup>GAO, *Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Better Utilize Space*, [GAO-12-779](#) (Washington, D.C.: July 25, 2012.)

<sup>4</sup>Some agencies have their own independent leasing authority.

<sup>5</sup>GSA adopted the definition of rentable square footage as defined in Building Owners and Managers Association (BOMA)/American National Standards Institute (ANSI) Standard Z65.1-1996. This standard was adopted in accordance with GSA's interest in conforming its practices to nationally recognized industry standards to the extent possible. Rentable square footage generally includes square footage of areas occupied by customers plus a prorated share of floor common areas such as elevator lobbies, building corridors, public restrooms, utility closets, and machine rooms. Rentable square footage also includes a prorated share of building common areas located throughout the building. Examples of building common space include ground floor entrance lobby, enclosed atrium, loading dock, and mail room.

<sup>6</sup>40 U.S.C. § 585(a).

<sup>7</sup>GSA defines net annual rent as total operating rent minus operating expenses paid directly to the lessor in its *PBS Leasing Desk Guide*.

<sup>8</sup>40 U.S.C. § 3307(a), (h). GSA's authorizing committees are the Senate Committee on Environment and Public Works and the House Committee on Transportation and Infrastructure.

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leases, which we have termed “high-value” leases. This report (1) identifies the characteristics of GSA’s high-value leases and what actions, if any, GSA has taken to reduce their cost; and (2) assesses the extent to which GSA’s capital planning approach promotes informed decision making about leasing versus ownership.

To address these objectives, we analyzed data provided by GSA from its Real Estate Across the United States (REXUS) database to determine the number of active leases as of November 30, 2012, including those with a net annual rent at or above the fiscal year 2012 prospectus threshold of \$2.79 million. We determined that 218 of GSA’s leases met these criteria. We defined these 218 leases as our universe of high-value leases. We reviewed the prospectuses of these leases and selected a non-generalizable sample of 12 to examine more closely. For these 12 high-value lease case studies, we also reviewed analyses that accompanied the prospectuses, the lease contracts, and other documentation; conducted site visits; and interviewed local GSA officials, tenant agencies, and lessors. For the 12 case studies, we selected leases that were nearing expiration or had recently been entered into<sup>9</sup> and provided space for 14 different federal tenants. Because about 60 percent of high-value leases are located in GSA’s National Capital Region, we selected six of the leases from that region. We selected the other six from the Northwest/Arctic, Pacific Rim, and Greater Southwest Regions for geographical diversity. While not generalizable to the universe of high-value leases, the information obtained from our case studies provides examples of broader issues faced by GSA in managing its high-value lease portfolio. In addition to our case study work, we reviewed relevant legislation, regulations, Office of Management and Budget (OMB) guidance, our prior work, GSA guidance, and industry reports and studies and interviewed GSA headquarters officials and private sector officials with experience leasing to GSA. We identified leading practices for making capital investment decisions from GAO’s Executive Guide<sup>10</sup> and

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<sup>9</sup>We selected leases that were nearing expiration or had recently been entered into in order to be able to discuss with GSA its decisionmaking process for these leases.

<sup>10</sup> GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: Dec. 1998). In assisting with the development of OMB’s Capital Programming Guide, we identified leading practices in capital decision making used by state and local governments and private sector organizations.

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OMB's Capital Programming Guide,<sup>11</sup> and assessed GSA's efforts to incorporate such leading practices into its decision making on leasing versus ownership. We conducted this performance audit from September 2012 to September 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. For more information on our scope and methodology, see appendix I.

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## Background

Within the vast portfolio of government owned and leased assets, GSA plays the role of broker and property manager to many civilian agencies of the U.S. government. Although some agencies have independent authority related to real property, many rely on GSA for much of their real property needs. GSA's federally-owned and leased assets include office and warehouse space and courthouses. GSA charges rent to federal tenant agencies occupying federally-owned and -leased space at rates that are approximately the same as commercial rates for comparable space and services. According to GSA's most recent *State of the Portfolio* publication, as of fiscal year 2011, GSA had a total of 374.6 million rentable square feet in its inventory, of which 192.7 million—slightly more than half—were leased.<sup>12</sup> In this *State of the Portfolio*, GSA states that its overarching goal for its portfolio is to maximize the use of its government-owned inventory while reducing the GSA-managed real estate footprint overall. GSA must also follow federal requirements in implementing its leasing program. Federal management regulations specify that when seeking to acquire space for an agency, GSA is to first seek space in government-owned and government-leased buildings. If suitable government-controlled space is unavailable, GSA is to acquire space in an efficient and cost effective manner.<sup>13</sup> GSA's Office of Portfolio Management is responsible for establishing the strategies and policies for GSA's real property portfolio, while GSA's 11 regional offices are

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<sup>11</sup>OMB, *Capital Programming Guide*, Supplement to Office of Management and Budget Circular A-11, Part 7: Planning, Budgeting, and Acquisition of Capital Assets (June 2006).

<sup>12</sup>GSA Public Buildings Service, *FY2011 State of the Portfolio*, (Washington, D.C., 2011.)

<sup>13</sup>GSA must first seek space in government-controlled space, including space controlled by the U.S. Postal Service. 41 C.F.R. §§ 102-73.10, 102-73.20.

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generally responsible for conducting day-to-day real property management activities, including leasing, in each of its regions.

GSA is required by statute to provide a prospectus, or proposal, for real property leases above the prospectus threshold to House and Senate authorizing committees for their review and approval.<sup>14</sup> The prospectus should include basic information about the space to be leased, including the location, an estimate of the maximum cost to the government of the space, and a statement of rent currently being paid by the government for federal agencies to be housed in the space. While these items are required by law to be in the prospectus, GSA is not prohibited from including other information in the lease prospectuses, and at various times has incorporated additional information. For example, prior to the mid 1990s, GSA routinely included an analysis that compared the long-term costs of leasing versus ownership. At times, GSA includes information on space utilization rates (i.e., the number of usable square feet per person). By statute, GSA is also required to provide authorizing committees a prospectus for each proposed capital project over the prospectus threshold, including both new construction and repair and alteration projects. Typically, prospectuses are drafted in the GSA regional offices and reviewed and approved by GSA's Office of Portfolio Management. The prospectuses are then reviewed and approved by OMB prior to being provided to congressional authorizing committees—the Senate Committee on Environment and Public Works and the House Committee on Transportation and Infrastructure.

Federal real property management has been on GAO's high-risk list due to many complex and long-standing problems, including excess and underutilized property, challenges related to protecting federal facilities, and an overreliance on costly leasing.<sup>15</sup> In past work, we have found that GSA relies heavily on costly operating leases to meet new long-term needs because it typically lacks the upfront funding needed to purchase buildings or space. For example, in 2007,<sup>16</sup> we reported that although building ownership options through construction or purchase are

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<sup>14</sup>40 U.S.C. § 3307.

<sup>15</sup>[GAO-03-122](#) and [GAO-13-283](#).

<sup>16</sup>GAO. *Federal Real Property: Progress Made Towards Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, [GAO-07-349](#) (Washington, D.C.: Apr. 13, 2007.)

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generally the least expensive ways to meet agencies' long-term space needs, GSA relied heavily on operating leases to meet new long-term needs because it lacked funds to pursue ownership. Budget scorekeeping rules were established based on the Budget Enforcement Act of 1990. The purpose of these rules is to ensure that the House and Senate Budget Committees, the Congressional Budget Office, and OMB measure the effects of legislation consistently and meet specific legal requirements. They are also used by OMB for determining amounts to be recognized in the budget when an agency signs a contract or enters into a lease. Upfront funding is the best way to ensure recognition of commitments embodied in budgeting decisions and maintain government-wide fiscal control. Under these rules, for a construction or purchase project or a capital lease, the full cost of the project must be recorded in the budget in the year in which the budget authority is to be made available. Operating leases were intended for short-term needs, and thus, under the scorekeeping rules, only the amount needed to cover the first year's lease payments plus cancellation costs needs to be recorded in the budget. For operating leases funded by GSA's Federal Buildings Fund (which is self-insuring), only the budget authority needed to cover the annual payments is required to be scored. GSA does not have to include cancellation costs.<sup>17</sup> Thus, an operating lease may potentially appear "cheaper" in the budget than a construction or purchase project, or a capital lease, even though it may cost more over time. Using an operating lease—or successive operating leases—for a long-term space need may result in resource allocation decisions for which the budgeting process may not have considered the full financial commitment over the full length of time the space need exists. Consequently, costly operating leases may be preferred over less-costly alternatives such as major construction or renovation projects that must compete for full funding.

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<sup>17</sup>OMB Circular A-11, App. B. Budget authority authorizes an agency to enter into financial obligations that will result in immediate or future outlays involving federal government funds. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: Sept. 2005).

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A number of OMB-defined criteria must be met for a lease to be considered an operating lease.<sup>18</sup> Among other things, the lease must “score” as an operating lease rather than a capital lease, meaning that the present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease. Because the scoring seeks to compare a present day fair market value to the value of minimum lease payments made over time, a discount rate must be used in calculating the total cost of the minimum lease payments over the lease term. GSA uses the discount rates determined annually by OMB, rates that vary depending on the length of time being considered in the calculation. For example, if the fair market value of an asset is \$1 million, and the lease has a minimum annual lease payment of \$100,000 with a term of 7 years, then the calculation of the total value of the minimum lease payments over the 7 years (applying OMB’s 2012 7-year discount rate of 0.7 percent) would be about \$680,000. This total value of \$680,000 is 68 percent of the fair market value of \$1 million—which, at less than 90 percent, would result in the lease being scored as an operating lease. However, if the lease term was 20 years, the calculation of the total value of the minimum lease payments of \$100,000 over the 20 years (applying OMB’s 2012 20-year discount rate of 1.7 percent) would be about \$1.7 million. Since \$1.7 million is more than 90 percent of \$1 million, the score would exceed the 90 percent threshold and result in the lease being scored as a capital lease.

If the project scores as a capital lease, the net present value of the total cost of the lease is recorded in the budget in the year the lease is entered into by the federal government. In the above examples, the 7-year operating lease with a minimum annual rent of \$100,000 would result in \$100,000 being scored against GSA’s budget authority for each of the next 7 years. For the capital lease, the net present value of the total lease costs (about \$1.7 million) would be scored against GSA’s fiscal year budget authority in the year lease payments began.

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<sup>18</sup>In addition to the scoring criteria described above, to be considered an operating lease, all of the following criteria must be met: (1) ownership of the asset remains with the lessor during the term of the lease and is not transferred to the government at, or shortly after, the end of the lease period; (2) the lease does not contain a bargain-price purchase option. (3) the lease term does not exceed 75 percent of the estimated economic life of the asset; (4) the asset is a general purpose asset rather than being for a special purpose of the government and is not built to the unique specification of the government as lessee; and (5) there is a private-sector market for the asset. *OMB Circular A-11*. App. B.

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Over the years, we have reported on numerous examples of operating leases that GSA and the U.S. Postal Service entered into even though they were more costly over time than ownership. For example, in 2008, we found that in 10 GSA and U.S. Postal Service leases, decisions to lease space that would be more cost-effective to own were driven by the limited availability of capital for building ownership and other considerations, such as operational efficiency and security.<sup>19</sup> We found that for four of the seven GSA leases GAO analyzed, leasing was more costly over time than construction—by an estimated \$83.3 million over 30 years. At that time, we stated that while the administration had made progress in addressing long-standing real property problems, efforts to address the leasing challenge had been limited. Some alternative approaches had been discussed by various stakeholders, such as the President’s Commission to Study Capital Budgeting and us, including the approach of scoring operating leases the same as capital leases, which would make them comparable in the budget to direct federal ownership, but none had been implemented. In 2008, we recommended that OMB, in conjunction with other stakeholders, develop a strategy to reduce agencies’ reliance on leased space for long-term needs when ownership would be less costly. OMB generally agreed with our report and recommendation and stated that it would be useful to consider how to identify instances where operating leases are most likely to be to the government’s long-term financial detriment. While OMB did not develop the strategy we described, OMB staff said that they have emphasized in guidance issued over the past several years that agencies should reduce space needs, including for leased space, through increases in space efficiency.

Specifically, in June 2010, the President directed agencies to achieve \$3 billion in real property cost savings by the end of fiscal year 2012 through a number of measures, including disposing of excess real property and reducing leasing through consolidations and increased space utilization.<sup>20</sup> In May 2012, OMB issued a memorandum directing agencies to not increase the size of their civilian real estate inventory, stating that increases in an agency’s total square footage of civilian property must be

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<sup>19</sup>[GAO-08-197](#).

<sup>20</sup>*Presidential Memorandum—Disposing of Unneeded Federal Real Estate—Increasing Sale Proceeds, Cutting Operations Costs, and Improving Energy Efficiency*, 75 Fed. Reg. 33987 (June 16, 2010).

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offset through consolidation, co-location, or disposal of space from the inventory of that agency.<sup>21</sup> This policy became known as “freeze the footprint.” In March 2013, OMB issued a memorandum establishing implementation procedures for its “freeze the footprint” policy. This memorandum clarified that agencies were not to increase the total square footage of their domestic office and warehouse inventory compared to a fiscal year 2012 baseline. It also directed agencies to use various strategies to accomplish this goal, including consulting with GSA about how to use technology and space management to consolidate, increase occupancy rates in facilities, and eliminate lease arrangements that are not cost or space effective.<sup>22</sup>

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## High-Value Leases Are about One Third of GSA’s Net Annual Rent Costs, and GSA Has Worked with Agencies to Reduce Their Costs

As of November 2012, GSA’s 218 high-value leases had a total net annual rent of over \$1.5 billion—36 percent of the approximately \$4.2 billion net annual rent of GSA’s leased portfolio. In recent years, GSA has taken steps to reduce the costs of its high-value leased portfolio. For example, GSA has helped agencies reduce their space needs and consolidate space as high-value leases expire. Challenges related to reducing lease costs include a lack of funding to renovate space and delays that can result in costly short-term extensions or “holdover” situations, in which the agency remains in the space past the lease’s expiration date without a new lease agreement.

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## Characteristics of High-Value Leases

As of November 2012, GSA’s 218 high-value leases represented only about 3 percent of the total number of GSA leases, yet made up about one-third of GSA’s leased portfolio in terms of cost and size. Together, these 218 leases have a net annual rent of over \$1.5 billion, or 36 percent of the roughly \$4.2 billion total net annual rent of GSA’s leased portfolio. Similarly, the 218 leases include over 54 million rentable square feet, or almost 30 percent of the roughly 188 million rentable square feet in GSA’s leased portfolio. (See fig. 1.)

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<sup>21</sup> OMB, *Memorandum to the Heads of Executive Departments and Agencies: Promoting Efficient Spending to Support Agency Operations* (May 11, 2012).

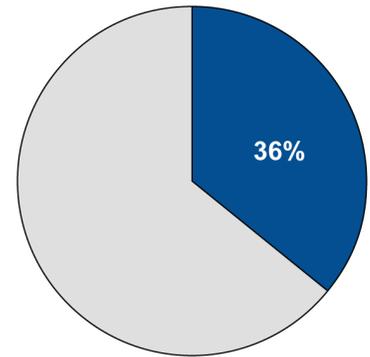
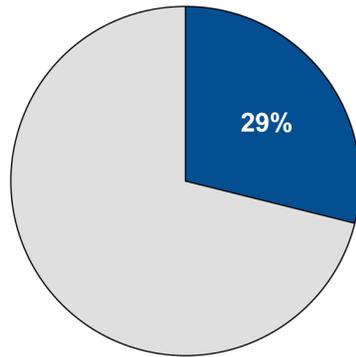
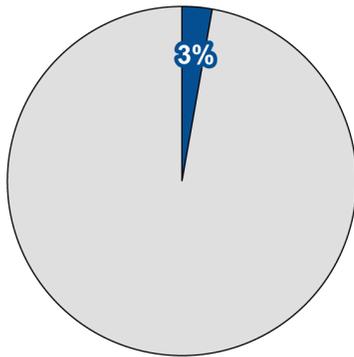
<sup>22</sup> OMB, *Management Procedures Memorandum No. 2013-02* (Mar. 14, 2013).

**Figure 1: Percentage of High-Value Leases in GSA's Leased Real Property Portfolio, by Number, Size, and Cost, as of November 2012**

**Total GSA leases  
(8,342)**

**Total GSA-leased square footage  
(54 million rentable square feet)**

**Total GSA net annual rent  
(\$4.2 billion)**

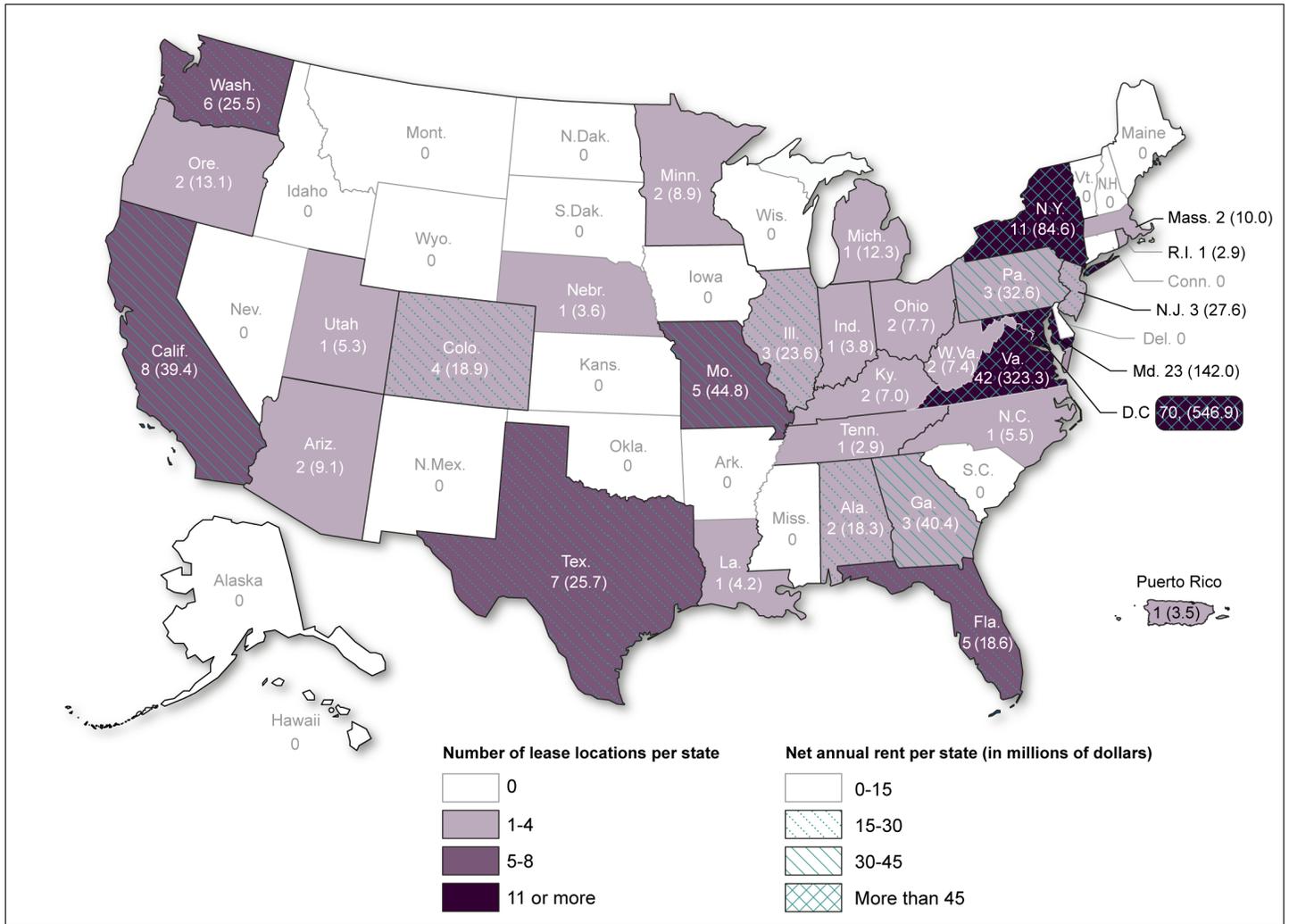


 High-value leases

Source : GAO analysis of GSA data.

The average size of the 218 leases is 249,000 rentable square feet, ranging from about 57,000 rentable square feet for a lease for the Department of Justice in Miami, Florida, to the largest and most expensive of the high-value leases—a Department of Commerce lease in Alexandria, Virginia, that is about 2.4 million rentable square feet and has a net annual rent of \$60 million. The average net annual rent for the high-value leases is about \$7 million. About 60 percent of the high-value leases are located in GSA's National Capital Region—which includes Washington, D.C., and portions of Northern Virginia and suburban Maryland. The rest are spread throughout the United States, with concentrations in other major urban areas such as New York, Seattle, and Dallas. (See fig.2.)

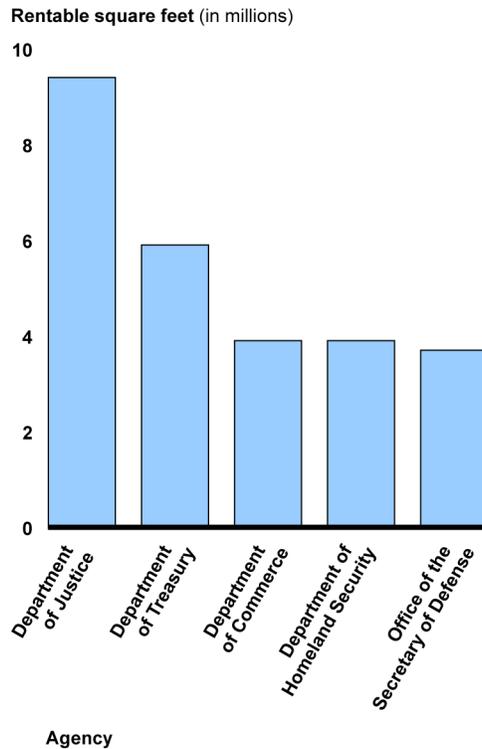
**Figure 2: Location and Rentable Square Feet of the 218 High-Value Leases by State, as of November 2012**



Sources: GAO analysis of GSA data and Map Resources.

High-value leases house a microcosm of the federal tenants for whom GSA provides leased space. The tenants of these leases include 41 federal agencies and departments. The Departments of Justice, Treasury, and Commerce have the largest amount of space among the 218 high-value-leases. For example, the high-value leases include 9.4 million rentable square feet for the Department of Justice, representing 17 percent of the over 54 million rentable square feet in the 218 leases. (See fig. 3).

**Figure 3: GSA's Top 5 High-Value Lease Tenants by Total Rentable Square Feet, as of November 2012**



Source: GAO analysis of GSA data.

Most of the high-value leases have lease terms of at least 10 years. The majority—55 percent—have lease terms of more than 10 years, and 31 percent, or 68 leases, have lease terms of 20 years.<sup>23</sup> While lease expiration dates ranged from 2012 through 2032, over 60 percent of the leases will expire by 2018. For instance, FAA officials told us that they have several high-value leases in their Southwest, Northwest Mountain, and Southern regions—providing space for about 1,500 employees at each location—that expire from 2013 through 2017. Employees at these regional headquarters work for various FAA lines of business, such as Aircraft Certification, Flight Standards, and Air Traffic Organization. According to GSA's leasing program officials, these upcoming lease expirations provide opportunities to help meet administration goals for

<sup>23</sup>Approximately 45 percent of the high-value leases had terms from 1 to 10 years.

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cost savings through reducing costly leases—via space consolidations or moving from leased to owned space—although as discussed later in this report, GSA and tenant agencies may face funding and other challenges in doing so.

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### GSA's Efforts to Reduce Costs of High-Value Leases

GSA has taken steps to reduce the costs of its high-value leased portfolio in recent years in line with administration goals to reduce real property holdings. First, GSA officials stated that, as required by regulation, GSA always looks first to federally owned or existing leased space to fill space needs. GSA officials stated that all of GSA's high-value leases represent space needs that could not be accommodated in existing federally owned space and that they review the federally owned inventory as high-value leases expire to see if there is any new potential to move the federal tenant into an owned situation. For example, a regional GSA official stated that GSA currently has 127,000 rentable square feet of vacant space in a Los Angeles federal building. Among other options, GSA is considering the potential to move the Army Corps of Engineers in Los Angeles from a high-value lease with a net annual rent of \$3.2 million in which the Army Corps is occupying about 118,000 rentable square feet into this federal space when the lease expires in 2016.<sup>24</sup> However, according to GSA officials, GSA often does not have large enough vacant spaces in federally owned buildings to meet agencies' high-value space needs—particularly without major, costly renovations.

Another way in which GSA has worked in recent years to reduce costs of high-value leases is through efforts to help agencies reduce the amount of space they occupy. Among other things, GSA has worked with OMB and agencies to reduce the amount of space per employee (the space utilization rate) in recently submitted lease prospectuses—including at times, revising draft prospectuses to decrease the space utilization rate and thereby the overall amount of space requested. For example, OMB officials stated that they noticed that a recent draft prospectus for a law enforcement agency's field office—an environment in which many staff

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<sup>24</sup>According to GSA's data, this lease has a total of 145,653 rentable square feet; however, according to GSA, the Army Corps of Engineers reduced its space to approximately 118,000 rentable square feet after giving GSA 120 days notice, leaving GSA with vacant space for which GSA must pay rent until it finds a different federal tenant to move into the space. At the time of our review, GSA officials said that GSA was building out the space in order to rent it to the U.S. Trustees.

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are away from their desks much of the time—had the same proposed utilization rate as a space request from an administrative agency in Washington, D.C., where most employees work at their desks. OMB and GSA worked with the law enforcement agency to come to an agreement on a reduced utilization rate before submitting the prospectus to the congressional authorizing committees.

Furthermore, GSA officials stated that GSA and tenant agencies have worked in recent years to reduce the square footage of new leases even when a larger amount of space had already been approved through the prospectus process. For example, in 2008, GSA submitted a prospectus for a new FAA lease to consolidate FAA's Northwest Mountain Region headquarters in the Seattle suburb of Renton, Washington, from multiple leases into one lease of up to 519,000 rentable square feet. The prospectus was approved by Senate and House authorizing committees in 2008 and 2009, respectively, prior to the 2010 presidential memorandum and 2013 OMB memorandum focusing on reducing space needs. According to GSA and FAA officials, the subsequent push to reduce space needs led GSA and FAA to reduce the lease proposal by about 40 percent. According to agency officials, for the most part, FAA plans to adapt its needs to this smaller space by improving space utilization through greater use of open office space and increased teleworking, although it will also maintain some additional small warehouse leases it had initially hoped to consolidate. GSA worked closely with FAA to help FAA plan for improved space utilization—including having FAA staff tour GSA's regional and local offices in the area, both of which have been redesigned with open floor plans that can accommodate more staff per square foot. (See fig. 4.)

**Figure 4: GSA and FAA Are Working to Reduce Leased Space Needs for FAA in Renton, Washington**



GSA's current high-value lease for FAA in Renton, WA



A building next door that GSA rents for FAA space needs that it hopes to consolidate in the next lease



FAA's current office configuration in the Renton building, with high cubicle walls and private offices along the windows



GSA's redesigned regional office in Auburn, WA, with an open floor plan that reduces private office space and improves space utilization, which GSA uses as a model for agencies such as FAA that are trying to reduce space needs

Source: GAO.

According to GSA officials, another way that GSA has worked to reduce lease costs is through improved customer real-property portfolio planning. According to GSA's fiscal year 2011 annual performance report, customer portfolio plans have been completed for three of GSA's top 20 customers, including the Department of Health and Human Services (HHS), and GSA expects to have an additional 9 completed by the end of fiscal year 2014. The customer portfolio plans attempt to optimize real property portfolios by agency, including cost savings and space reductions. For example, the

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September 2012 HHS customer portfolio plan describes GSA's efforts to optimize its suburban Maryland portfolio for HHS, which includes a combination of high-value and smaller leases. According to the plan, GSA negotiated for more than 1.2 million rentable square feet in suburban Maryland with an estimated annual lease cost reduction for National Institutes of Health (an Operating Division within HHS) of \$4.4 million. The plan also describes planned consolidations into, and improvements to, a high-value suburban Maryland lease that would improve HHS's utilization rate and increase the number of staff in the space by about 50 percent—and that has estimated savings of over \$10 million in annual rent through lease terminations. Future opportunities described in the customer portfolio plan include efforts to implement these types of consolidations and cost savings in other properties in HHS's portfolio.

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## Challenges Related to Reducing Lease Costs

GSA also faces challenges related to reducing lease costs by shrinking the leased footprint through changes in space allocated to individuals—i.e., through reducing the number of square feet per person. Most of these challenges stem from broad funding issues faced by agencies government-wide, as agencies with shrinking budgets struggle to determine how to fund costs associated with moving or retrofitting space in order to improve space efficiency. In most cases, as the expiration date for an existing lease approaches, GSA issues a call for competitive bids for a new lease, for which the existing lessor can compete along with other lessors. Because a goal of the competitive process is for GSA to get the best deal for the new lease, agencies must commit to moving after their current lease expires if GSA determines that a different location will be less expensive over the term of the new lease. Agencies therefore must budget for potential moving costs in their annual budgets. Moving costs may include funds for the physical move, telecommunication network services and other technology needs, security features, new

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furniture and cubicle divisions, relocation management, and special consulting services.<sup>25</sup>

Even if an agency remains in the same location, reducing space by increasing space efficiency is likely to incur costs from technological and material build outs, such as new technology, furniture and cubicle walls. These costs must be paid up front from the agency's annual budget rather than being rolled into the monthly lease costs. According to GSA officials, in the past few years, agency uncertainty about future needs and a lack of funding to pay for moving costs or costs associated with reducing the square feet per person in the same location have at times made it difficult for GSA to get a commitment from an agency for a future space requirement. According to GSA officials, GSA typically begins planning for the next space need for a high-value lease 3 to 5 years ahead of the expiration date. They noted that this should provide GSA sufficient time in which to work with the tenant agency to understand its future space needs, draft the prospectus, have the prospectus reviewed and approved by OMB and congressional authorizing committees, and enter into a new lease. However, in recent years, agencies' delays due to a lack of funding to commit to a new space requirement sometimes led to the need for short-term extensions or—if the landlord is unwilling to meet GSA's negotiations—"holdovers."

According to GSA, holdovers are risky for the government because the government continues to occupy space to which it has no contractual rights. According to several private sector officials we spoke to, holdovers are problematic for the lessor because often a lessor's financing agreement for the building's mortgage depends upon having a signed lease, and the uncertainty of having a lease in holdover status can make it difficult or impossible to secure needed financing for the building. Several real estate experts we spoke with stated that if a private tenant goes into holdover status, the tenant must pay a substantial rent increase—such as a 200 percent increase in the rental rate during the

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<sup>25</sup>According to GSA's policy, GSA must take relocation costs into account when considering whether to do a succeeding lease in the same space or a new lease in a different space. When comparing offers, GSA amortizes relocation costs over the full term of the lease in order to determine whether, after taking relocation costs into account, an offer in a new space would result in savings to the government over an offer to continue in the existing space. According to GSA officials, if the new space is chosen, the agency must pay for the move costs up front in the year they are incurred—and so must budget for them prior to committing for new space requirements to GSA.

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period of time the lease is in holdover status—as a penalty. Typically, the federal government does not pay such a penalty. In several specific cases we inquired about, GSA was continuing to pay the rent as stated in the expired lease without penalties. We found that 14, or 6 percent, of the 218 high-value leases were in holdover status as of November 2012.<sup>26</sup>

GSA attempts to avoid holdovers by getting short-term extensions in place when it cannot move forward with a new long-term lease. However, at times, GSA and the lessor cannot reach agreement on a short-term extension, and the lease enters into holdover status. The three leases among our 12 case studies that were in holdover status illustrate some of the interrelated challenges that can lead to holdovers. While all of the tenant agencies in these three cases plan to remain in the same location and GSA is paying the same rental rate as it did during the lease term, various combinations of factors—many of them external to GSA—precipitated and exacerbate the holdovers. For example, in one case, the lease initially entered holdover because GSA was awaiting congressional approval of a prospectus, but remained in holdover because of protracted negotiations with the landlord over lease term and price. In another case, it appears that GSA's attempt to execute separate leases for agencies that had once been in a combined lease was a factor in the holdover, while difficult negotiations with the lessor over the terms of the new lease lengthened the period of time the lease remained in holdover status. GSA officials stated that the current environment of reduced funding government-wide, and expectations that agencies will work to reduce space needs without necessarily having the funding to reconfigure their space, has resulted in a situation with no easy solutions. In this challenging environment, GSA, in its role as the manager of real property for many civilian agencies, has the opportunity to set forth a vision and strategy for federal real property that encompasses the needs of multiple federal agencies and balances real property priorities across the civilian federal government—a vision that could help mitigate these complex challenges over the long-term. The next section of this report explores GSA's long-term capital planning approach for its high-value leased portfolio, which could be used to communicate such a vision to federal decision makers.

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<sup>26</sup>Holdovers do not just occur with high-value leases. According to GSA data, as of November 2012, 190 of a total of 8,884 leases were in holdover status—about 2 percent of all leases.

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## GSA's Capital-Planning Approach Does Not Promote Informed Decision Making about Leasing versus Ownership

Although GSA officials stated that for most high-value leases, constructing federally-owned space would be more cost effective over time than continuing to lease, GSA's capital planning approach lacks a strategic focus that addresses its reliance on high-value leases. We identified three leading practices that characterize sound capital investment decision making and pertain to GSA's high-value leased portfolio:<sup>27</sup> (1) alternatives evaluation, (2) project prioritization, and (3) creating a long-term capital plan. We found that GSA's lease prospectuses lack transparency on key information that would help decision makers understand the extent to which these high-value leases are the best alternatives to meet agencies' long-term space needs. GSA also has not systematically prioritized which high-value leases have the most cost-saving potential if they were instead pursued as capital projects. Furthermore, GSA has not incorporated those high-value leases that should be the highest priority for ownership into a long-term capital plan.

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## According to GSA Officials, Most High-Value Leases Are for Space Needs that Should Be In Federally-Owned Property

According to our work on leading practices in capital decision making, vision and leadership are crucial to the success of leading organizations' capital-planning efforts.<sup>28</sup> Many headquarters and regional GSA officials, including assistant commissioners in GSA's leasing program, stated that the optimal way to manage GSA's high-value lease portfolio in line with its long-term portfolio goals would be to transfer many of the housing needs that are currently in high-value leases into federally owned property. This transfer could be accomplished either by shifting personnel into existing

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<sup>27</sup>GAO, *Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities*, [GAO-12-646](#) (Washington, D.C.: July 12, 2012). In this report, we identified four leading practices for using information to make capital investment decisions, primarily from GAO's *Executive Guide* and OMB's *Capital Programming Guide*. However, the first leading practice, a comprehensive needs assessment, pertains to an agency's owned portfolio and we therefore are not including it in our analysis of GSA's high-value leases. Also see OMB, *Capital Programming Guide*, Supplement to Office of Management and Budget *Circular A-11*, Part 7: Planning, Budgeting, and Acquisition of Capital Assets (June 2006) and GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: December 1998). In our *Federal Buildings Fund* report, we also drew from leading capital investment practices identified by the National Research Council. (National Research Council of the National Academies, *Predicting Outcomes from Investments in Maintenance and Repair for Federal Facilities* (Washington, D.C.: 2011).

<sup>28</sup>GAO, *Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C., December 1998).

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federally owned space—a shift that could, however, often require major renovations—or by purchasing or constructing new space. GSA officials stated that some high-value leases represent short-term or unstable space needs—such as a 5-year lease providing space for an agency that plans to move into a federally-owned space when renovations are completed. In such cases, leasing is the most appropriate solution. However, officials concurred that most of the high-value leases consist of long-term, relatively stable, mission-central needs for federal agencies—space needs that in many cases are likely to exist for longer than 20 years—and that in these cases, ownership is the most cost-effective solution over time. However, GSA officials stated that limited availability of existing federal space and funding for its capital program have given GSA no choice but to continue to lease space for these government needs—including some space needs that have existed for the past 40 years or more and have been met by leasing through multiple competitive procurements.

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### Lack of Transparency in Lease Prospectuses Limits Alternatives Analysis

Although many of the high-value leases are candidates for ownership, GSA does not include any analysis of such alternatives in its lease prospectuses. According to capital-planning principles, alternatives evaluation should be done for all major capital assets, including leases. The lease prospectuses also lack other information that could help decision makers consider the wisdom of continuing to lease and better inform their decision making. In addition, we found that nine high-value leases did not go through the prospectus process.

### Prospectuses Lack Transparency on Alternative Approaches to Meeting Space Needs

OMB's Circular A-94 requires that all leases of capital assets must be justified as preferable to direct government purchase and ownership; for major acquisitions, this should be done through an analysis of the costs over time of leasing versus owning the asset. The purpose of this requirement is to promote efficient resource allocation through well-informed decision-making by the federal government. Because the prospectus is to be reviewed and approved by both OMB and congressional authorizing committees prior to GSA's entering into the lease, it is a key document for communicating GSA's decision-making process. GSA is not required by law to include the results of these analyses in the prospectus; however, according to GSA officials, GSA includes the results of an alternatives analysis in its prospectuses for capital construction and renovation projects but does not do so in its

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prospectuses for leases. In the 1980s and early 1990s, GSA did include such an analysis in its lease prospectuses.<sup>29</sup> However, in the mid-1990s, according to GSA officials, these analyses were discontinued for lease prospectuses in the context of the limited availability of funding for most construction or purchase alternatives to leasing.

OMB staff stated that they advised GSA officials to stop including the results of a lease versus purchase analysis in lease prospectuses because OMB had determined that the scoring analysis—in which, for an operating lease, it is shown that the present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease—was sufficient information to demonstrate that leasing was the most cost effective option over the term of the lease. GSA officials stated that there was also a sense that in an environment of scarce capital resources for purchase or construction, there was no benefit in performing a lease versus purchase analysis—which often showed that ownership would be more cost effective than leasing over 30 years—since GSA did not expect to receive funding for capital construction or acquisition. GSA officials stated that in light of a significant decline in funding for new federal construction, even if a lease versus purchase analysis showed that ownership was less expensive, the lack of availability of funding for construction meant that GSA considered this a non-viable alternative.

The decision to halt a formal lease versus purchase alternatives analysis for high-value leases has limited the transparency of the prospectus process. First, the lack of a lease versus purchase analysis in the prospectus means that government decision makers do not have information on the extent to which the proposed lease is more costly than owning over the long-term. When GSA did perform the 30-year-net-present-value analysis for lease prospectuses, there were times when the analysis showed that leasing was the most cost effective option. For example, in our case studies for this review, 30-year present value analyses were completed for two 20-year FAA leases, which became

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<sup>29</sup>GSA had been performing a 30-year net present value analysis, which measures the multiyear cash flows in present-dollar terms, so the value of a dollar received today can be compared against the value of a dollar received in the future. Such an analysis allows managers to compare the cost of a multiyear lease, with payments spread over a number of years, with ownership, which requires up-front obligation of funds.

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effective in 1989 and 1992.<sup>30</sup> In one instance, the analysis estimated it was more cost effective to lease (a \$3.3 million savings in Washington state). The other analysis estimated that it was more cost effective to own (a \$2.1 million savings in Texas). Of the 218 leases in our review, 27 had prospectuses that included a 30-year-net present value analysis of leasing versus owning. Overall, across these 27 prospectuses, we found that over 30 years, the government would spend an estimated additional \$866 million by leasing instead of owning, or approximately 18 percent of the total expected cost. While these prospectuses were all developed from 1986 through 1993, when GSA was regularly including such analyses in the prospectuses, due in part to some gaps of several years between the prospectus and the date the related lease became effective, the related leases have expiration dates ranging from 2012 to 2027. Without such information on more recently proposed high-value leases, GSA and federal decision makers, including Congress, lack information on the long-term cost consequences of decisions to lease rather than own that were proposed after GSA stopped including such an analysis in prospectuses.

Second, while the scoring analysis may allow the government to ensure that lease payments over the lease term are less than the fair market value of the asset, and thus that ownership of the asset stays with the lessor over the course of the lease, it does not help decision makers evaluate whether leasing is the preferred solution to an agency's space need. The scoring analysis is based on the lease term, not on the projected length of the government's space need. GSA officials stated that, given its limited access to capital funds, GSA works to ensure that all of its leases score as operating leases, because, as explained previously, for operating leases, only the amount needed to cover the minimum rent payment for 1 year must be scored against GSA's fiscal year budget authority. For a lease to score as an operating lease, the present value of cumulative minimum lease payments over the lease term must be no more than 90 percent of the fair market value of the asset.<sup>31</sup> According to GSA officials, there are cases in which GSA has negotiated a shorter

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<sup>30</sup>According to GSA officials, while each individual lease agreement has a maximum term of 20 years, at times renewal options or extensions can lead to the total time of occupancy related to the lease exceeding 20 years.

<sup>31</sup>To perform this scoring analysis, GSA uses established criteria to determine the fair market value of the asset at the inception of the lease and then compares this amount to annual lease payments multiplied by the number of years in the lease term.

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term—such as 5 or 10 years—for a high-value lease for operational flexibility, such as when GSA is working on renovating federal space that it plans to move the personnel occupying the lease into when the renovations are complete. However, GSA officials stated that at times, GSA has had to negotiate shorter lease terms primarily because that will ensure that the lease will score as an operating lease—regardless of how long the agency expects to need the space. As a result, while the lease term established represents the legal responsibility of the government to pay for the lease, it may not reflect the length of the need for the space or therefore the true cost of long-term leasing. Furthermore, some GSA and private sector officials stated that, at times, limiting the length of a lease term to ensure that the lease will score as an operating lease can be costly. For example, because lessors prefer the certainty of a long-term lease, they may be willing to negotiate lower annual payments for longer terms. In another example, in cases when the commercial real estate market is struggling, GSA may not be able to take advantage of economic conditions by locking in a low annual rent for as long as possible.

In addition to the limitations of the scoring analysis for analyzing whether leasing is the best alternative, prospectuses are developed as a “snapshot” in time, covering one lease term, and do not indicate the extent to which the agency has had a history in the current location or the expected duration of the agency’s space need. As a result, decision makers have no context with which to make fully informed decisions regarding the most cost effective way for the space need to be addressed. According to GSA officials, when there is a short-term need for a high-value lease, GSA may know how long the agency will need the space, and in those cases, may have included this information in the prospectus. However, GSA officials stated that in many cases neither GSA nor the agency knows how long the agency will need the space, as changes to an agency’s mission and technology over time can affect space needs. Nevertheless, in our review, we found that 9 of our 12 case study leases included space for long-term or mission critical space needs for tenant agencies. Some of the tenant agencies in these leases have been housed in successive operating leases far longer than GSA’s maximum 20-year lease term—situations that would lend themselves to an analysis of the extent to which it would be more cost effective for the government to own rather than lease. For example:

- One high-value lease we examined provides space for the Environmental Protection Agency’s (EPA) 10th Region headquarters in Seattle, Washington. EPA was the first tenant in the building when it was constructed over 40 years ago. At the time of our review, GSA

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was negotiating a new 10-year lease in the same space. However, the prospectus provides no indication of how long EPA has been in the building or EPA's expected future need for the space. The new lease, if completed, will therefore result in 50 years of continuous occupation of this leased space in downtown Seattle—with no analysis of the cost implications of doing so and no recent consideration of the alternative of constructing owned space. According to GSA officials, there is no federally-owned vacant space in Seattle that would meet EPA's needs.

- Another high-value lease we examined provides space for HHS in Rockville, Maryland. According to GSA officials, the building was built for HHS in 1970 and has been continuously occupied by HHS for over 40 years. A new 15-year lease for the same building begins in July 2015 and will expire in 2030—at which point HHS will have occupied the same building for close to 60 years. The new lease results in a space reduction at that location of about 28 percent. In this case, the lessor's most recent proposal, which GSA selected for the new lease through a competitive bid process, included a complete renovation of the existing building. GSA officials stated that the financing of renovations in a leased building is the lessor's responsibility. According to several private sector officials, one advantage of GSA's leasing rather than owning is that the private sector can often finance major renovations for which the public sector would have difficulty securing funding. In the case of the HHS building, the renovation is currently ongoing with plans to be completed in 2016. According to the lessor, in this case, the major renovations were financed based on the strength and security of the lessor having a long-term government lease. The challenge of funding renovations of federally owned space is something we have discussed in previous work.<sup>32</sup> However, GSA officials noted that generally, a lessor's investments into building renovations—including financing costs—are passed on to the leaseholder through the cost of the monthly lease payments over time—and the financing costs are likely to be higher than the costs to the government of borrowing money from the Treasury. Considerations of such trade-offs could be factored into an analysis of whether the government should own or lease such high-value space needs, but the prospectus for this lease did not consider alternatives to continuing to lease this long-term space need.

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<sup>32</sup>GAO. *Federal Real Property: Improved Data Needed to Strategically Manage Historic Buildings, Address Multiple Challenges*, [GAO-13-35](#) (Washington, D.C.: Dec. 11, 2012).

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Prospectuses Lack  
Transparency on Costly Agency  
Investments Needed for Leased  
Space

In addition to the lack of an analysis of the long-term costs of leasing versus owning, lease prospectuses also lack transparency regarding the costs of tenant agency investments needed to meet mission-critical needs. These investments constitute a risk to the government, and risk is one of the factors managers in leading organizations consider when approving investment proposals. High-value leases often house mission-critical activities for tenant agencies, such as the national headquarters for the Department of Transportation in Washington, D.C., and the command center for Department of State's (State) diplomatic security operations in Rosslyn, Virginia. As such, tenant agencies at times have particular mission-related needs for the space that can add to the complexity and cost of the lease. GSA officials stated that when GSA submits a prospectus, GSA may not know which building the agency will occupy, since that is generally determined through a competitive process. However, GSA and the agency are likely to have general information on the complexity and likely costs of an agency's mission-related needs for the space, and the lack of such information in the prospectus reduces the transparency of the process. Moreover, according to GSA officials, tenant improvements depreciate over time and agency requirements can change. Nevertheless, when an agency makes a significant investment into a leased facility or GSA leases a space for an agency primarily due to a mission-related need for a very specific geographical location, there is a risk that when the lease expires, the agency may have to move and re-invest time and money into replicating the investment in a different facility or that the lessor may ask for a higher rent in the next lease knowing that any competitor will have to incorporate the costs of replicating the investment into its offer<sup>33</sup> or that there may be no competitors within a very narrow geographic range. Examples in our case studies of such situations include the following:

- One high-value lease of about 350,000 rentable square feet houses State's Bureau of Diplomatic Security in Rosslyn, Virginia.<sup>34</sup> State considers the Rosslyn location essential because of its proximity to State's headquarters in Washington, D.C., and to other State leases

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<sup>33</sup>When GSA runs a competitive-bidding process for a lease that currently exists in a leased space, the existing landlord's offer must include the costs of the new lease, while any competing landlords must incorporate the costs of replicating any build out and other facility investments that will have to be replicated into the new space into their rental rate offer.

<sup>34</sup>This lease was authorized in legislation and so was not accompanied by a prospectus.

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in Rosslyn. The building was constructed to State's security specifications, including a hardened lobby and exterior and extra security features in the parking garage. In addition, according to State officials, State invested an additional \$80 to \$100 million in secure technology and conference rooms with technologically advanced security features. However, GSA signed this as a 10 year lease, mostly, according to GSA officials, so that it would score as an operating lease. In this case, a 10 year lease scored at 83 percent of the fair market value—and, according to GSA officials, was the longest term GSA could get for the lease without risking that the lease would score as a capital lease. As the 10-year lease's expiration came up in 2012, GSA initially opened the competition for this requirement to a wider geographical area than Rosslyn. However, due to State's concerns about potentially having to move farther away from State's headquarters—which State sees as compromising to its mission—plus the difficulty and expense of replicating all of the security-related technology invested in this building, State asked that the competition be canceled. In June 2013, GSA renewed this lease for 5 years, with an option to purchase the building at a market rate after the 3rd year. According to State officials, the 5-year extension with purchase option will provide the government time to find and evaluate government-owned solutions to this long-term requirement. GSA officials agreed that the government should consider ownership when a large investment is required to move or replicate the current space.

- In another example, a high-value lease for two smaller agency headquarters—the Federal Maritime Commission and the National Archives and Records Administration, in Washington, D.C., took up much of an entirely federally-leased building across the street from the Government Printing Office. As the January 2013 expiration date for this lease approached, GSA decided that going forward, each agency would have its own lease, each of which would be below the prospectus threshold. However, both agencies ended up staying in the same building. According to GSA officials, because the National Archives and Records Administration communicates remotely via laser links with the Government Printing Office in order to complete a mission-required activity of daily printing of *The Federal Register*, it needed to remain within a half mile of the Government Printing Office. When the lease came up for expiration, GSA did a competitive bidding process within a very narrowly defined geographical area that resulted in no satisfactory offers from anyone other than the current landlord—resulting in difficult renegotiations with the landlord to remain in the same building at a rate GSA considered acceptable.

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Prospectuses Lack  
Transparency on Extent to  
Which GSA Is Leasing Entire  
Buildings

Another element that represents a risk for the government and may be relevant in considering which of the high-value leases would be the most cost-effective to target for ownership but that is not explored in the prospectus process is the extent to which GSA is leasing entire buildings. We found that almost half of GSA's high-value leases are either for an entire building or almost an entire building, or are in buildings where GSA has other leases so that GSA is effectively leasing the entire building. Specifically, 48 percent of these leases are in buildings that are 90 percent or more federally leased, and almost 60 percent are in buildings that are at least 75 percent federally leased. For example, GSA currently leases an entire building of about 300,000 rentable square feet in Ft. Worth, Texas, for two agencies—FAA occupies the majority of the space and the FBI occupies the rest. Both agencies have occupied this space for the past 20 years. As the expiration date for this lease approached, FAA indicated a requirement for increased square footage in order to consolidate staff into this lease from other nearby leased locations. As a result, GSA, through a competitive bidding process, has selected a developer to build a facility to meet FAA's needs that GSA has agreed to lease for 20 years and that FAA plans to fully occupy.

According to GSA officials, the prospectuses typically provide information only on the space needs for the particular lease (or in some case, leases) being proposed in the prospectus, and do not include information on any other leases that may be ongoing in the same building, or on the percentage of the entire building that GSA is leasing. Without this disclosure, decision makers have no way to fully assess the investment GSA is proposing. For example, for one of our case study leases in Washington, D.C., the prospectus proposed a replacement lease for up to 294,000 rentable square feet for several agencies currently located in a number of leases in one building—without mentioning that another GSA lease was also in that same building. The prospectus also did not include the information that together these two leases covered about 65 percent of the entire building, which is in a prime location in Washington, D.C., near the White House. According to our analysis of GSA data, in 6 other cases, high-value leases are in a building with either one or two other GSA leases so that altogether GSA's leases encompass over 90 percent of the building's occupancy. The lack of this contextual information in the prospectus further reduces the transparency with which GSA presents its leasing portfolio to government decision makers.

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Some High-Value Leases Did Not Go Through the Prospectus Process, Further Limiting Transparency

Most of the 218 high-value leases had a prospectus or separate legislative authority indicating congressional committees' approval of the lease. However, for 9 of these leases—involving a total net annual rent of about \$50.2 million—GSA officials could not provide documentation showing congressional committees' approval or legislative authority.<sup>35</sup> According to GSA officials, in three of these cases, GSA mistakenly did not provide a prospectus to Congress. For example, one of our case study leases, a 146,000 square foot lease in Los Angeles that houses the U.S. Army Corps of Engineers, has a 10-year term (from May 3, 2006 through May 2, 2016) with a net annual rent of \$3.2 million, thus over the fiscal year 2012 prospectus threshold of \$2.79 million. However, GSA did not submit a prospectus for this project prior to the beginning of the lease term or otherwise notify or obtain approval from the congressional authorizing committees. According to GSA officials, GSA's regional office in San Francisco, California, did not take the proper steps in analyzing lease costs to determine whether a prospectus was needed for the project. Since 2006, GSA headquarters has substantially revised and standardized its guidance on prospectus-level leases, a revision that GSA officials in three regions told us was helpful in preventing such mistakes.

In four cases, the lease started below the prospectus threshold, but over time new space was added in supplemental lease agreements that put the lease over the prospectus threshold. GSA officials stated that this occurred due to subsequent expansion to meet unforeseen agency needs. For example, this occurred with three of the Washington, D.C., metro area high-value leases. When this occurs, GSA officials stated that generally, GSA does not go back to Congress with a prospectus for approval until the lease approaches expiration. At that point, if the continuing space need is over the prospectus threshold, GSA will provide a prospectus to Congress. The result of these situations is a further limitation on the transparency of the prospectus process in providing

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<sup>35</sup>One of these leases, with a net annual rent of \$25.8 million, accounts for over half of this net annual rent. According to a GSA official, no prospectus was formulated for this lease when it commenced in the early 1990s, but GSA had briefed Congress before entering into this lease. The lease enabled the redevelopment of the property, the main Post Office near Union Station in Washington, D.C. The lease runs from 1992 to 2022. Moreover, according to GSA, one of these leases was not a prospectus-level lease because in year 16 of the 20 year lease, the rent is significantly reduced for 42 months. In computing whether the net annual rent of a lease exceeds the prospectus threshold, GSA computes a levelized rent over the period of the lease term. In this case, the reduced rent late in the lease term meant that the net annual rent over the 20 years did not exceed the prospectus threshold.

decision makers information on the full scope of GSA’s high-value leased portfolio—information that could be used to analyze the extent to which leasing is the best alternative in these cases. Not submitting a prospectus for congressional approval hinders the ability of the appropriate congressional committees to fulfill their oversight responsibilities for all prospectus-level leases. According to GSA officials, although violations of process and policy are relatively rare, GSA plans to enhance its internal controls to reduce instances of prospectus-level leases not going through the proper process in the future. Table 1 provides a summary of the high-value leases we identified that did not have a prospectus or other legislative approval.

**Table 1: GSA High-Value Leases without a Prospectus, as of November 2012**

Dollars in millions

| Tenant agency/location   | Lease term | Net annual rent (2012) | Rentable square feet | GSA’s stated reason for lack of prospectus  |
|--|------------|------------------------|----------------------|---|
| Architect of the Capitol, Department of Labor, and GSA<br>Washington, DC | 1992-2022  | \$25.80                | 992,546              | Congressional briefing before lease award   |
| Department of Homeland Security/CBP<br>Long Beach, CA                    | 2001-2021  | \$3.21                 | 143,732              | GSA omission  |
| Drug Enforcement Administration<br>St. Louis, MO                         | 2002-2022  | \$3.42                 | 87,824               | Lease’s net annual rent was below the prospectus threshold when the lease was signed, but because of increases in space incorporated through supplemental lease agreements, it eventually exceeded the prospectus threshold |
| Department of Homeland Security<br>Arlington, VA                         | 2006-2016  | \$2.86                 | 89,451               | Lease’s net annual rent was below the prospectus threshold when the lease was signed, but because of increases in space incorporated through supplemental lease agreements, it eventually exceeded the prospectus threshold |
| U.S. Army Corps of Engineers<br>Los Angeles, CA                          | 2006-2016  | \$3.23                 | 145,653              | GSA omission  |
| Department of Homeland Security/ICE<br>Atlanta, GA                       | 2007-2022  | \$2.98                 | 90,688               | GSA omission  |

Dollars in millions

| Tenant agency/location                                  | Lease term | Net annual rent (2012)     | Rentable square feet | GSA's stated reason for lack of prospectus  |
|---|------------|----------------------------|----------------------|---|
| Not shown<br>Arlington, VA                              | 2008-2018  | \$2.83                     | 79,070               | Lease's net annual rent was below the prospectus threshold when the lease was signed, but because of increases in space incorporated through supplemental lease agreements, it eventually exceeded the prospectus threshold |
| Department of the Treasury<br>Washington, DC            | 2010-2014  | \$3.02                     | 81,088               | Lease's net annual rent was below the prospectus threshold when the lease was signed, but because of increases in space incorporated through supplemental lease agreements, it eventually exceeded the prospectus threshold |
| Department of the Treasury<br>Franklin, TN <sup>a</sup> | 2012-2032  | \$2.85                     | 135,373              | The rent was significantly reduced in later years of the lease, so the "levelized" net annual rent never exceeded prospectus level  |
| <b>Total</b>  |            | <b>\$50.20<sup>b</sup></b> | <b>1,845,425</b>     |   |

Source: GAO analysis of GSA data.

<sup>a</sup>This lease met our criteria as a high-value lease because its fiscal year 2012 net annual rent exceeded the fiscal year 2012 prospectus threshold of \$2.79 million. However, unlike our methodology for identifying high-value leases, GSA's calculations to determine whether a lease exceeds the prospectus threshold involve levelizing the rent over the term of the lease. According to GSA officials, in this case, the levelized net annual rent (a computation of the net annual rent each year if the lease were to be paid in equal annual payments throughout the lease term) is below the prospectus threshold.

<sup>b</sup>Net annual rent does not total due to rounding.

## GSA Has Not Prioritized Lease Projects for Ownership

Without evaluating alternatives to continuing to lease its high-value leases, GSA does not have information that it could use to prioritize potential capital projects for those space needs currently in high-value leases for which it would most benefit the federal government to own rather than lease. According to our and OMB's analysis of leading capital planning practices, leading organizations have processes in which proposed capital investments are compared to one another to create a portfolio of major assets ranked in priority order. In our July 2012 report on GSA's Federal Buildings Fund,<sup>36</sup> we found that GSA's project prioritization process for its capital program partially met leading practices but that it lacked transparency in that we were unable to determine how

<sup>36</sup>GAO-12-646.

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GSA used its criteria to prioritize major projects. We recommended that GSA document in its annual budget request to OMB how it uses its prioritization criteria to generate its annual and 5-year lists of prioritized projects to ensure that Congress understands the rationale behind the prioritized project lists and that GSA is maximizing return on Federal Buildings Fund investments. According to GSA officials, GSA is currently working to develop a document that will accompany its new capital plan and clarify its prioritization process for decision makers.

GSA officials told us that, with regard to high-value leases, GSA addresses its portfolio on an asset-by-asset basis. While it has not performed a systematic analysis to determine which space needs represented by high-value leases would be most beneficial to move to federal ownership—or prioritized these space needs for ownership accordingly—in some cases, GSA has turned leased space into federally-owned space. For example, GSA determined it would be more cost-effective to purchase rather than continue leasing the Columbia Plaza Building, which is occupied by State in Washington, D.C. A purchase option had been included in the 1992 lease at the request of Congress, and when exercised, it allowed GSA to purchase the building for about \$100 million, well below the 2006 appraised value of \$190 million. In 2009, Congress made funds available from the Federal Buildings Fund for the purchase. GSA officials stated that pursuing this purchase was clearly beneficial to the federal government, since the high-priority tenant was already in residence and committed to a long-term occupancy, leasing elsewhere would be costly, and the building would immediately become an income-generating asset. These types of considerations could be appropriate criteria for GSA to use in considering which of the agency space needs currently occupying high-value leases should be prioritized for a federally-owned solution. However, without a portfolio approach in which high-value leases are systematically evaluated to determine which space needs should be the highest priority for transferring to federal ownership, GSA has no documentation to help it or government decision-makers determine how best to invest limited capital funds.

Two elements further limit the vision and comprehensiveness of GSA's strategic capital planning process—GSA's lack of consideration in its capital-planning process of the extent to which the existing high-value leases should be targeted for ownership and the lack of criteria to analyze and prioritize these projects among the other projects GSA considers for capital funding. Without a transparent prioritization of all major projects that would be more cost effective to own than to lease over the long term, GSA's analysis of its portfolio is incomplete and is lacking core

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information to help decision makers work with GSA to manage its portfolio in a cost effective manner.

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### GSA Has Not Incorporated High-Value Leasing into a Long-term Capital Plan

Both OMB and GAO guidance emphasize the importance of developing a long-term capital plan to guide the implementation of organizational goals and state that making informed capital investment decisions requires full information about an agency's current and long-term needs, alternative courses of action, and how potential projects compare among each other.<sup>37</sup> Without having taken these steps for high-value leases, GSA has not incorporated the high-value leases that should be the highest priority for ownership into a long-term capital plan. Since 1991, we have reported that GSA would benefit from a comprehensive capital plan, stating that a capital plan could provide information on the potential benefits and cost savings of competing capital projects and provide a better context for making capital investment decisions.<sup>38</sup> Recently, in our 2012 report on GSA's Federal Buildings Fund, we found that GSA's long-term capital plan minimally conformed to leading practices in that it did not incorporate the following: a baseline needs assessment including where there might be gaps in what GSA's real property portfolio provides; an explanation of why projects selected are the best alternative; and alternatives to meeting project goals.<sup>39</sup>

Instead, among other things, in July 2012, we found that GSA did not rank all of its proposed projects together—instead ranking courthouse and land port-of-entry projects in their own list—making it difficult to compare GSA's prioritization of projects across its portfolio. We found that a comprehensive long-term capital plan could further GSA's ability to make informed choices about long-term investment decisions and recommended that GSA (1) document in its budget submission how it prioritizes capital investments and (2) develop and annually submit a 5-year long-term capital plan to OMB and Congress. GSA agreed with our

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<sup>37</sup>OMB, *Capital Programming Guide*, Supplement to Office of Management and Budget Circular A-11, Part 7: Planning, Budgeting, and Acquisition of Capital Assets (July 2012), and GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: December 1998).

<sup>38</sup>GAO, *Real Property Management Issues Facing GSA and Congress*, [GAO/T-GGD-92-4](#) (Washington, D.C.: Oct. 30, 1991).

<sup>39</sup>[GAO-12-646](#).

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recommendations. As of May 2013, GSA officials stated that GSA was undertaking a major revision of its capital plan to implement these recommendations.

Just as GSA's current capital plan does not prioritize all of its proposed capital projects in the same list or clearly explain why projects selected are the best alternative, GSA does not have a documented analysis of which, if any, of its high-value leases should be targeted for ownership and how such ownership might compare cost-wise to other capital projects it has included in its capital plan or budget request. The leasing-related strategic documents that GSA provided to us focus on optimizing the portfolio at the agency level through GSA's recent customer portfolio planning effort. While this effort may improve GSA's leased portfolio, it does not allow decision makers to compare the financial implications of GSA's high-value leases portfolio-wide—across agencies and against capital projects. This lack of information on the long-term consequences of high-value leases could inadvertently contribute to the federal government's overspending on agencies' long-term space needs—even as the federal government tries to trim costs through reducing its leased footprint. In contrast, a strategic vision for these leases that incorporates leading practices of capital decision making could better position the federal government to save money over time. Such a vision could take into account agencies' current efforts to reduce space needs. For example, in considering the potential to move an agency division currently occupying leased space into federally owned space, GSA could incorporate into its analysis the extent to which additional leases, particularly smaller leases for the same agency in the same area, could be brought into newly constructed facilities if space needs continued to contract over time. Increased transparency could also promote collaboration with decision makers and better position GSA and tenant agencies to address funding and other challenges that are impeding progress in GSA's efforts to reduce the federal real property footprint through improved space utilization as leases expire. According to GSA officials, GSA would welcome the opportunity to convert some of its high-value leases to federal ownership, stating that its reliance on costly operating leases has increased in recent years as a result of constraints on the Federal Buildings Fund and the budget scoring of leases.

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## Conclusions

By focusing on cost savings through limiting the federal real property footprint, GSA's efforts to proactively work with federal agencies to consolidate high-value and smaller leases as they expire, to move some high-value leases into government-owned space, and to help agencies

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increase space efficiency through such efforts as more open floor plans and increased telework have had some positive results. GSA's work to optimize federal agency real property portfolios through better planning is also a step in a right direction. So far, these efforts are done for the most part on a lease-by-lease or agency-by-agency basis. Our work on leading practices in capital decision making has emphasized that vision and leadership are crucial to the success of leading organizations. GSA, in its role as manager of real property for many civilian federal agencies, has the potential to set a vision and strategy for federal real property that addresses needs and priorities across federal agencies. However, with regard to high-value leases, which include space needs for over 40 federal agencies and departments and represent about one-third of GSA's total net annual rent for leased facilities, GSA lacks a strategic focus for determining which should be converted to ownership.

Indeed, as agencies work to shrink their footprint through increased space efficiency and telework, it could be an ideal time to make carefully targeted investments into owned facilities that would help move the federal government out of long-term, high-value leases and into efficient, federally owned space with lower long-term costs. However, the lack of transparency in GSA's lease prospectuses means that Congress may not fully understand the length of an agency's space needs and the costs of continuing to handle these long-term needs through leasing rather than ownership. In addition, if the transparency of the prospectuses is improved, Congress would still be considering each leasing action separately; to strategically manage these leases, it is important to consider them in the context of GSA's entire real property portfolio, whether at the regional level for space planning or the national level for considering where to invest scarce federal funds. GSA lacks analysis of the effect of these long-term leases on its portfolio and on the tenant agency in line with capital-planning principles—and it therefore cannot share this information with Congress, for example, by incorporating proposals for those space needs currently housed in high-value leases for which it would be most beneficial to transfer to an ownership solution into the capital plan we recommended that GSA develop in 2012.

Moreover, cases in which high-value leases lack a prospectus further reduce the transparency of GSA's full portfolio. Although these leases have been in effect for several years, it is nonetheless important that information on them be submitted to the appropriate committees to maintain GSA's accountability to Congress in this area and allow the committees to exercise their oversight responsibility. Such information would provide GSA, OMB, and congressional decision makers with

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critical, transparent information on how to strategically manage GSA's real property portfolio.

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## Recommendations

To enhance transparency and allow for more informed decision making related to the appropriate role of leasing in GSA's real property portfolio, we recommend that the Administrator of GSA take the following three actions:

- Include in the lease prospectus a description of the length of time that an agency estimates it will need the space, an historical account of how long the agency has been in the particular building it is occupying at the time of the prospectus, and any major investments the agency will have to make to the leased space to meet its mission. For those spaces for which the agency has a long-term projected need, also include an appropriate form of cost-to-lease versus cost-to-own analysis.
- Report to the appropriate congressional committees any leases above the prospectus-threshold that did not follow the congressional prospectus process.
- Develop and use criteria to rank and prioritize potential long-term ownership solutions to current high-value leases among other capital investments. Use this ranking to create a long-term, cross-agency strategy that facilitates consideration of targeted investments in ownership. This strategy could be incorporated initially as a separate but related part of the capital plan we previously recommended that GSA develop in 2012, or integrated into the capital plan itself.

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## Agency Comments and Our Evaluation

We provided a draft of this report for review and comment to GSA and OMB. We also provided a draft of this report for review and comment to several other agencies we spoke with during the engagement because they are tenants of GSA leases, including EPA, HHS, the U.S. Department of Agriculture (USDA), Department of Defense (DOD), Department of Justice (DOJ), and Department of Transportation (DOT). GSA concurred with our recommendations and provided technical clarifications, which we incorporated as appropriate. GSA's comments are discussed in more detail below. GSA's letter is reprinted in appendix

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II.<sup>40</sup> OMB did not comment on the draft report or recommendations but provided technical clarifications, which we incorporated where appropriate. EPA, HHS, USDA, DOD, DOJ, and DOT did not provide comments on the draft report.

GSA agreed with the report's recommendations and stated that it will take action to implement them. GSA stated that it remains committed to sharing all available client and market information with Congress in the prospectus process. However, GSA raised the concern that some information may not be included in prospectuses due to requirements of GSA's competitive real estate procurement process and today's uncertain budget environment. We agree that GSA must adhere to the requirements of its competitive procurement process in carrying out the prospectus process. However, in most cases, the additional information we recommended be incorporated into prospectuses either has been included in prospectuses in the past—such as a lease versus purchase analysis—or is general information. Moreover, the information we recommended be included, even if it was modified to some degree to ensure adherence to GSA's competitive procurement process, would provide valuable information to Congress that could help inform its decisionmaking in this area. Regarding the uncertain budget environment, we reiterate that as agencies work to cut costs through increased space efficiency and telework, it could be an ideal time to make carefully targeted investments into owned facilities that would help move the federal government out of long-term, high-value leases and into efficient, federally owned space with lower long-term costs. Improved transparency in GSA's lease prospectuses could help Congress fully understand the length of an agency's space needs and the costs of continuing to handle these long-term needs through leasing rather than ownership.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Director of the Office of Management and Budget; the Administrators of General Services and Environmental Protection; and the Secretaries of Agriculture, Defense,

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<sup>40</sup> GSA's letter also included an enclosure that contained the agency's technical comments. The enclosure is not reprinted in Appendix II.

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Health and Human Services, Justice, Transportation, and State. In addition, the report will be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions, please contact me at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "David J. Wise". The signature is written in a cursive, flowing style.

David J. Wise  
Director, Physical Infrastructure Issues

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to (1) identify the characteristics of the General Services Administration's (GSA) high-value leases and what actions, if any, GSA has taken to reduce their cost, and (2) assess the extent to which GSA's capital-planning approach promotes informed decision making about leasing versus ownership.

To identify the characteristics of GSA's high-value leases, we analyzed data provided by GSA from GSA's Real Estate Across the United States (REXUS) database to determine the number of active leases as of November 30, 2012, including those with a net annual rent at or above the fiscal year 2012 prospectus threshold of \$2.79 million. We determined that 218 of GSA's leases met the criteria of being at or over this prospectus threshold, and we defined these as high-value leases for purposes of this report. We used data from GSA's central data system provided in building, space, lease, and rent files in our analysis to select and characterize the population of high-value leases. To determine whether these data were of sufficient reliability for our analysis, we reviewed the program documentation associated with the files and discussed various data elements with GSA staff responsible for the data. We also conducted our own electronic testing to check the consistency of the data and to reconcile the accuracy of certain lease numbers. We did not attempt to evaluate or test all of the aspects of the GSA data files, but instead focused on the high-value leases. As a result of our review and discussions, we determined that the data in the files provided by GSA were of sufficient reliability to be used in our analysis and for the purposes of this report.

We analyzed data on each of these assets to describe characteristics of these leases, including the amount of leased space, net annual rent, rentable square footage, lease term, and tenant. We also analyzed GSA data to determine the total number, square footage, and cost of all of its leases. We also reviewed the prospectuses or other legislative authority for the 218 high-value leases. For the 9 of the 218 high-value leases that did not have a prospectus, we obtained additional clarification from GSA officials. In addition, we reviewed GSA documents such as *The State of the FY2011 Portfolio* to obtain general information on the agency's real property portfolio.

To inform both objectives, we selected a non-generalizable sample of 12 high-value leases from the list of 218 we had identified to examine more closely as case studies. In selecting the 12 case study leases, we focused on leases that were near expiration or had recently been entered into in order to facilitate discussions with GSA on its decision-making

process for these leases. We also focused on leases that were in holdover status, represented a variety of tenant agencies, and had a variety of net annual rents from close to the prospectus threshold of \$2.79 million to significantly above the prospectus threshold. Because the majority of high-value leases are located in GSA's National Capital Region (representing Washington, D.C., and parts of Northern Virginia and suburban Maryland), we selected six of the leases from that region. We selected the other six leases from the Northwest/Arctic, Pacific Rim, and Greater Southwest Regions because these regions were geographically diverse and had a relatively large portfolio of high-value leases. These 12 selected leases represented space for 14 different federal tenants, with rentable square feet ranging from over 99,000 to almost 802,000. Their net annual rent ranged from about \$2.9 million to almost \$20 million. For these leases, we reviewed numerous documents, including the lease contract and supplemental lease agreements, prospectus, House and Senate authorizing committees' resolutions approving the prospectus, scoring analysis, and space plan. We also interviewed officials most knowledgeable about these leases from GSA regional and local offices and from the tenant agencies. In addition, we reached out to the lessors and, to the extent that they were willing, interviewed them about their experience working with GSA on the lease. We toured several of these buildings to inform our discussion of these leases. Our findings from these case studies cannot be generalized to the universe of 218 high-value leases we identified or to GSA's leased portfolio. However, they illustrate examples of broader challenges and opportunities GSA faces in managing its high-value lease portfolio. In addition, we reviewed relevant legislation, GSA guidance, our prior work, and industry reports and studies related to federal leasing of real property. We interviewed GSA headquarters officials and regional officials in the National Capital, Northwest/Arctic, Pacific Rim, and Greater Southwest Regions. Together, these regions have more than 70 percent of the 218 high-value leases we identified. We also interviewed OMB staff, GSA Inspector General Office officials, and numerous private sector officials with experience in working with GSA on high-value leases.

To assess the extent to which GSA's capital planning approach promotes informed decision making about leasing versus ownership, in addition to the above steps, we analyzed our and OMB's work on leading practices in capital planning. We identified leading practices for using information to

make capital investment decisions from GAO's *Executive Guide*<sup>1</sup> and OMB's *Capital Programming Guide*.<sup>2</sup> We also drew from the National Research Council's research in this area. In addition, we reviewed our recent work on capital planning in the context of GSA's Federal Buildings Fund.<sup>3</sup> We assessed whether GSA's guidance practices conformed to the criteria established in these guides in the areas of alternatives evaluation, project prioritization, and long-term capital planning. We reviewed GSA documents, including its *Leasing Desk Guide*, budget requests for the 4 fiscal years, most recent capital plan (fiscal year 2011), most recent call to regions regarding prospectus level leases—the Capital Investment and Leasing Program (CILP plan), criteria for ranking proposed capital projects, and GSA data and information on holdovers in 2012 and lease losses for fiscal years 2005 through 2011. We also interviewed GSA officials in the Office of Portfolio Management to understand GSA's perspective on capital planning in the context of its high-value leased portfolio.

We conducted this performance audit from September 2012 to September 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>1</sup>GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: December 1998).

<sup>2</sup>OMB, *Capital Programming Guide*, Supplement to Office of Management and Budget Circular A-11, Part 7: Planning, Budgeting, and Acquisition of Capital Assets (June 2006).

<sup>3</sup>[GAO-12-646](#).

# Appendix II: Comments from the General Services Administration



The Administrator

September 9, 2013

The Honorable Gene L. Dodaro  
Comptroller General of the United States  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Dodaro:

The U.S. General Services Administration (GSA) appreciates the opportunity to review and comment on the draft report entitled "Greater Transparency and Strategic Focus Needed for High-Value GSA Leases," (GAO-13-744). The Government Accountability Office (GAO) recommends that the GSA Administrator enhance the transparency of decision making for high-value leases by:

- (1) Including more information in the lease prospectus to Congress, such as the agency's future need for the space, major investments needed, and an appropriate analysis of the cost of leasing versus the cost of ownership;
- (2) Reporting to the appropriate congressional committees any leases above the prospectus-threshold that did not follow the congressional prospectus process; and
- (3) Prioritizing potential ownership solutions for current high-value leases to help create a long-term strategy for targeted ownership investments.

GSA agrees with the above recommendations, and will take action to implement the recommendations, as detailed in our comments below. We remain committed to sharing all available client and market information with Congress in the prospectus process and beyond. GAO correctly points out that additional information would have been useful for Congress in evaluating certain leases. However, that is a product not of intentional withholding of information, but rather requirements of GSA's competitive real estate procurement process and today's uncertain budget environment.

U.S. General Services Administration  
1800 F Street, NW  
Washington, DC 20405  
Telephone: (202) 501-0800  
Fax: (202) 219-1243

Technical comments that update and clarify statements in the draft report are enclosed. If you have any additional questions or concerns, please do not hesitate to contact me or Ms. Dorothy Robyn, Commissioner, Public Buildings Service. Ms. Robyn can be reached at (202) 501-1100. Staff inquiries may be directed to Martha Benson, Assistant Commissioner for Real Property Asset Management. Ms. Benson can be reached at (202) 208-7176.

Sincerely,



Dan Tangherlini  
Administrator

Enclosure

cc: David Wise, Director, Physical Infrastructure Issues

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

David J. Wise, (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, David Sausville (Assistant Director), Carol Henn, Joshua Ormond, Kelly Rubin, Larry Thomas, Jim Ungvarsky, Pamela Vines, Crystal Wesco, Alwynne Wilbur, and Jade Winfree made key contributions to this report.

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# Related GAO Products

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*High-Risk Series: An Update.* [GAO-13-283](#). Washington, D.C. February 2013.

*Federal Real Property: Improved Data Needed to Strategically Manage Historic Buildings, Address Multiple Challenges.* [GAO-13-35](#). Washington, D.C.: December 11, 2012.

*Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Better Utilize Space.* [GAO-12-779](#). Washington, D.C.: July 25, 2012.

*Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities.* [GAO-12-646](#). Washington, D.C.: July 12, 2012.

*Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property.* [GAO-12-645](#). Washington, D.C.: June 20, 2012.

*Federal Real Property: Overreliance on Leasing Contributed to High-Risk Designation.* [GAO-11-879T](#). Washington, D.C.: August 4, 2011.

*Federal Real Property: Progress Made on Planning and Data, but Unneeded Owned and Leased Facilities Remain.* [GAO-11-520T](#). Washington, D.C.: April 6, 2011.

*Federal Real Property: Strategy Needed to Address Agencies' Longstanding Reliance on Costly Leasing.* [GAO-08-197](#). Washington, D.C.: January 24, 2008.

*Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform.* [GAO-07-349](#). Washington, D.C.: April 13, 2007.

*Executive Guide: Leading Practices in Capital Decision-Making.* [GAO/AIMD-99-32](#). Washington, D.C.: December 1998.

*Real Property Management Issues Facing GSA and Congress.* [GAO/T-GGD-92-4](#). Washington, D.C.: October 30, 1991.

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