United States Government Accountability Office
Report to Congressional Requesters

September 2015

FEDERAL REAL PROPERTY

Performance Goals and Targets Needed to Help Stem GSA's Reliance on Lease Extensions and Holdovers

GAO-15-741

GAO Highlights

Highlights of GAO-15-741, a report to congressional requesters

September 2015

FEDERAL REAL PROPERTY

Performance Goals and Targets Needed to Help Stem GSA's Reliance on Lease Extensions and Holdovers

Why GAO Did This Study

Overreliance on costly leasing is one reason that federal real property has remained on GAO's High-Risk List. More than half of the leases in GSA's portfolio will expire in the next 5 years. When leases expire before a long-term solution can be finalized, GSA may pursue short-term extensions, or if GSA and a private lessor cannot come to agreement prior to expiration, the lease may go into holdover status—where a federal tenant occupies space without a contractual agreement. Extensions and holdovers may limit GSA's ability to obtain favorable contract terms. GAO was asked to review GSA's lease expirations and holdovers.

This report examines (1) the extent to which GSA's lease holdovers and extensions occur and the potential effects and (2) why some expiring leases are extended or go into holdover and what actions GSA has taken to address this issue. GAO reviewed regulations, GSA's guidance, and plans; analyzed GSA's leasing data from fiscal years 2012 through 2014; and interviewed GSA officials, federal agency officials, and lessors responsible for these leases.

What GAO Recommends

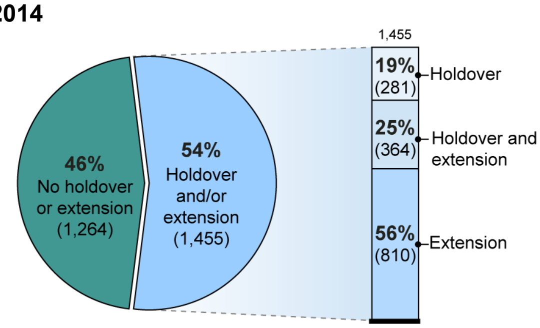
GAO recommends that GSA identify performance goals and targets for measures related to the use of holdovers and extensions for expiring leases that take into account the frequency with which holdovers and extensions occur and GSA's expected outcomes for expiring leases. GSA agreed with the recommendation.

View GAO-15-741. For more information, contact David J. Wise at (202) 512-2834 or wised@gao.gov.

What GAO Found

Lease holdovers and extensions were common in the General Services Administration's (GSA) lease portfolio from fiscal years 2012 through 2014, with a variety of effects. While leases in holdover or extension represented 27 percent of the overall portfolio, of the long-term leases set to expire over this time period, approximately 54 percent experienced a holdover or extension, or both—totaling 1,455 leases. Of these 1,455 leases, over half experienced only an extension, about 20 percent experienced only a holdover, and the remaining leases experienced both a holdover and an extension (see fig.). In addition, 1,603 leases in GSA's portfolio were in holdover or extension at the beginning of fiscal year 2012. Holdovers and extensions occurred throughout all of GSA's 11 regions and across the government, resulting in a number of potential effects. For example, while the cost impact is difficult to estimate, the short-term nature of holdovers and extensions creates uncertainty for GSA, tenant agencies, and lessors, which can make it challenging for GSA and federal tenant agencies to plan and budget for space needs and difficult for lessors to secure financing.

General Services Administration's Long-term Lease Expirations, Fiscal Years 2012–2014



Source: GAO analysis of General Services Administration (GSA) data. | GAO-15-741

Holdovers and extensions occur for a variety of reasons, including challenges finalizing space requirements and the duration of the leasing process. GSA officials noted that extensions can also be used strategically, such as to align varying lease-expiration dates across multiple leases when consolidating space into a single lease. To reduce holdovers and extensions, GSA has undertaken initiatives to improve lease planning, to begin the leasing process earlier, and to improve communication with agencies. For example, GSA has provided new guidance to its regions to begin the leasing process earlier. In addition, GSA has established goals, targets, and measures—such as for lease planning and costs of extensions—it believes will reduce the need for holdovers and extensions and help track potential effects. However, GSA lacks specific, current goals and targets to assess its actual performance in avoiding holdovers and extensions. Leading practices in performance management show that a fundamental element in an organization's efforts to manage for results is its ability to set meaningful goals for performance and to measure progress toward those goals. Specific, relevant goals and targets related to what happens to GSA's leases when they expire and expected outcomes could provide GSA with valuable information to identify any actions needed to support its ongoing efforts, and allow for greater transparency and accountability to GSA's stakeholders.

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Abbreviations

DHS	Department of Homeland Security
DOJ	Department of Justice
FRPP	Federal Real Property Profile
FTE	full-time equivalent
GSA	General Services Administration
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
PBS	Public Buildings Service
OMB	Office of Management and Budget
REXUS	Real Estate Across the United States
SSA	Social Security Administration

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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September 30, 2015

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

The Honorable John Barrasso, M.D.
United States Senate

GAO has identified the federal government's real property portfolio as a high-risk area due to long-standing problems in managing federal real property, including an overreliance on costly leasing.[1] As the federal government's principal civilian landlord, the General Services Administration (GSA) acquires and manages real property—including a significant amount of leased space—for many federal agencies. As of fiscal year 2013, the most recent year for which GSA published portfolio information, GSA had close to 195-million rentable square feet in its inventory, across 7,435 properties leased from the private sector—including office buildings, laboratories, and other structures.[2] GSA is authorized to enter into lease agreements for up to 20 years to accommodate federal agencies' need for space.[3]

The leases of more than half of GSA's leased portfolio will expire in the next 5 years.[4] However, little is known about the proportion of expiring leases without long-term lease solutions in place. When leases expire before a long-term solution can be finalized, GSA may pursue short-term lease extensions. While short-term extensions may be appropriate under

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[1]GAO, *High-Risk Series: An Update,* GAO-15-290 (Washington, D.C.: Feb. 11, 2015). Other reasons for the designation included unreliable data, excess and underutilized property, and challenges associated with protecting the physical security of federal facilities.

[2]GSA Public Buildings Service, *FY2013 State of the Portfolio,* (Washington, D.C.: 2013).

[3]40 U.S.C. §585(a).

[4]Based upon GSA's lease inventory snapshot for July 2015.

certain circumstances, GSA generally characterizes lease extensions as a lease action of last resort because they may limit the negotiating power of the federal government to secure favorable contract terms and rental rates. If GSA and a private lessor cannot come to agreement prior to a lease's expiration, the lease may go into holdover status—where a federal tenant occupies space without a contractual agreement with the lessor. According to GSA, lease holdovers are risky for the federal government and should be avoided because, among other things, holdover tenancies can create an adversarial relationship between GSA and a private lessor.

You asked us to assess the extent to which GSA leases expire without a long-term lease solution in place, including how often GSA's leases expire into holdover. This report examines (1) the extent to which GSA's leases went into holdover or extension from fiscal years 2012 through 2014 and the potential effects and (2) why some expiring leases are extended or go into holdover and what actions GSA has taken to address this issue.

To address these objectives, we analyzed data provided by GSA from its Real Estate Across the United States (REXUS) database to determine which leases in its portfolio experienced a holdover or extension from fiscal years 2012 through 2014.[5] Based on our review of the data, relevant documentation and discussions with GSA officials responsible for the data, we determined that the data were sufficiently reliable for the purposes of examining the prevalence and general characteristics of leases in GSA's portfolio that experienced holdovers and extensions

[5]These data consist of lease inventory snapshots taken on the last day of every month during the time period under review. In order to analyze trends over time, we used unique lease numbers to string together 36 monthly lease inventory snapshots—one for each month from October 2011 through September 2014—to provide information on holdovers and extensions during this time. While GSA made monthly lease inventory snapshots beginning in fiscal year 2010 available to us, we determined that—due to incomplete data, which may have resulted from a database conversion at GSA in July 2011—monthly snapshots prior to fiscal year 2012 were not usable to analyze trends over time. GSA also provided lease inventory snapshots taken at the conclusion of each fiscal year dating back to fiscal year 2000; however, as these snapshots captured the status of GSA's portfolio on one day out of a year, we determined they were not usable for our purposes.

during this time period.[6] From these data, we selected a non-generalizable sample of 10 leases for case studies. We selected leases that were listed as having had a holdover or extension, or both, from fiscal years 2012 through 2014 and that provided space for five different federal tenants with an annual rent of $500,000 and above.[7] Because about half of these leases are located in the National Capital Region, we selected five leases from that region. We selected the other five leases from the Northeast and Caribbean, Southeast Sunbelt, Great Lakes, Greater Southwest, and the Pacific Rim Regions for geographical diversity. For these 10 lease case studies, we reviewed lease contracts and related documentation and interviewed local GSA officials, tenant agency officials, and lessors.[8] While not generalizable to the universe of leases that experienced a holdover or extension, the information obtained from our case studies provides examples of broader issues faced by GSA in managing its lease portfolio. In addition to our case study work, we reviewed relevant statutes, regulations, Office of Management and Budget (OMB) guidance, our prior reports, and GSA's guidance,

[6]While we found GSA's REXUS data—which consists of building inventory information specifically on federally owned or leased properties—were reliable enough for the purposes of this report, we have reviewed other federal real property data in our past work that we found were not reliable on a government-wide basis. Specifically, in our most recent high-risk work, we found that the Federal Real Property Profile (FRPP) data—which consists of real property data from the 24 federal agencies, including GSA, subject to the Chief Financial Officers (CFO) Act of 1990 and required to submit real property data at the constructed asset level to the FRPP on an annual basis under Executive Order 13327—were not reliable due to the different approaches agencies take in defining and inventorying structures. For example, agencies use different approaches to counting structures—undermining any cross-agency comparisons. In our most recent high-risk work, we recommended that in order to improve the management of its real property, OMB and GSA should implement our open recommendations, including those to improve data reliability. GAO-15-290.

[7]These tenant agencies include the U.S. Department of Health and Human Services, Department of Homeland Security, Internal Revenue Service, Department of Justice, and Social Security Administration. We selected these five tenant agencies because they comprised a significant portion of all lease holdovers and extensions from fiscal years 2012 through 2014 for leases costing more than $500,000 in annual rent. We chose leases with an annual rent of $500,000 and above because these leases followed a standard lease acquisition process, while also allowing us to examine both standard and prospectus-level leases, among other factors.

[8]We requested interviews with private lessors associated with all of our case studies; however, private lessors declined to speak to us in 4 of our 10 cases. As such, we interviewed representatives of private lessors for 6 out of our 10 leases. However, GSA lease contracts and related documentation provided additional information about the acquisition process itself and the participants in that process, including the relevant lessors.

performance reports, and strategic plan. We also interviewed GSA headquarters officials and private sector officials with experience leasing to GSA. We identified GAO guidance on leading practices for agencies to manage for results, including defining desired outcomes, measuring performance, and using performance information as a basis for decision making.[9] We also reviewed federal standards for internal controls—plans, methods, and procedures used to meet missions, goals, and objectives—that are key to helping agencies better achieve their missions and desired program results.[10] We assessed GSA's efforts to set goals and achieve desired results for lease holdovers and extensions against this guidance. For more information on our scope and methodology, see appendix I.

We conducted our work from October 2014 through September 2015 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.

Background

GSA's Public Buildings Service (PBS) manages real property for many federal agencies and has a large portfolio of federally owned and leased properties. This portfolio includes office buildings, courthouses, land ports of entry, warehouses, laboratories, childcare facilities, and parking structures. As of fiscal year 2013, the most recent year for which GSA published portfolio information, GSA had a total of 377.9-million rentable square feet in its inventory, of which 194.9 million—slightly more than half—were leased from the private sector.[11]

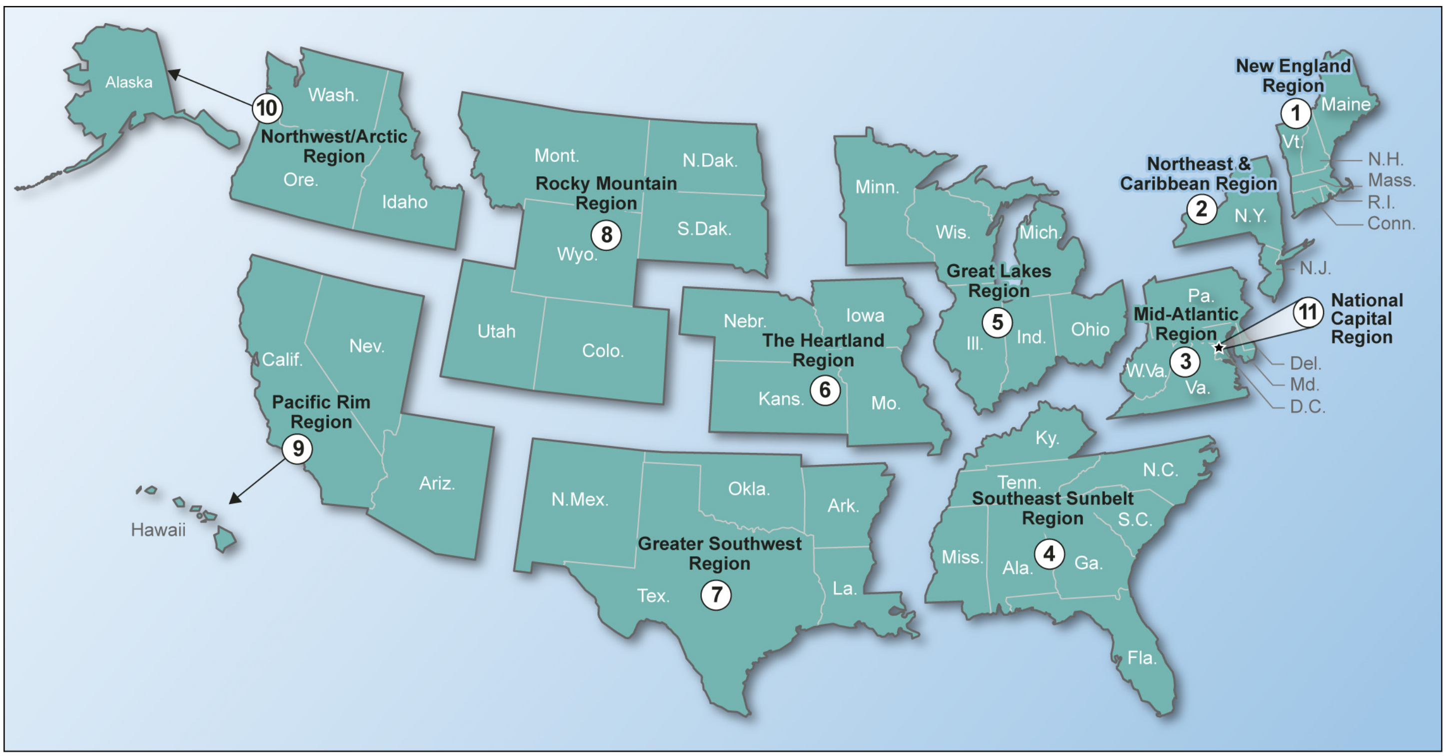
[9]We studied a number of leading public sector organizations that were successfully changing their management and accountability practices to be more results-oriented. From our work, we identified a number of practices common to successful efforts to become more results-oriented. See GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996) for additional details.

[10]GAO, *Internal Control: Standards for Internal Control in the Federal Government,* GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[11]GSA's government-owned properties constitute the remaining 183 million rentable square feet in PBS's portfolio. GSA Public Buildings Service, *FY2013 State of the Portfolio,* (Washington, D.C.: 2013).

The Administrator of GSA is authorized by law to enter into lease agreements, not to exceed 20 years, on behalf of federal agencies.[12] The administrator delegates leasing authority to GSA regional commissioners, who further delegate authority by issuing leasing warrants to lease contracting officers.[13] GSA manages its inventory via 11 regional offices and the central office, located in Washington, D.C. (See fig. 1.)

Figure 1: General Services Administration's Regional Offices



Source: GAO analysis of General Services Administration (GSA) data and Map resources. | GAO-15-741

[12]Some agencies have their own independent leasing authority.

[13]According to GSA, lease contracting officers perform the warranted duties that obligate the federal government, including executing and administering lease contracts and safeguard the interests of the United States in its contractual relationships. In this role, lease contracting officers are responsible for obtaining all necessary legal, technical, and financial advice within GSA necessary for the sufficiency of lease contracts and for compliance on the part of lessors.

In fiscal 2014, PBS had 5,502 full-time equivalent (FTE) employees—who accounted for roughly half of GSA's total FTEs that fiscal year. According to GSA, agency-wide staffing levels have declined over time, with PBS experiencing a nearly 16 percent reduction in FTEs from fiscal years 2012 through 2014.[14] More specifically, GSA officials noted that the number of lease contracting officers has declined from 811 in 1995 to 301 in 2014.

The process for acquiring leased space, as outlined in the PBS Leasing Desk Guide, begins when GSA receives a request for space from a federal agency.[15] GSA then works with an agency to obtain the specific requirements for a lease, such as the amount of space needed and the preferred geographic area.[16] According to GSA, developing and finalizing agency space requirements should take anywhere from 2 to 8 months, depending on the complexity of the tenant agency's space needs. After this stage, approximately 18–24 months is needed to procure new leased space prior to lease expiration for a typical lease acquisition, according to GSA. During this time, according to the PBS Leasing Desk Guide, GSA typically takes a number of steps to complete a lease acquisition (see fig. 2).

[14]Over the same time, the obligational authority provided to PBS by Congress, through the Federal Buildings Fund, has increased from $8.6 billion to $9.8 billion, a 14 percent increase—driven primarily by additional funding provided for new construction and repairs and alterations of federally owned, GSA-managed properties. The Federal Buildings Fund, administered by GSA, is a fund financed by rents received from other agencies and authorized and established by the Public Buildings Act Amendments of 1972. Congress exercises control over the Federal Buildings Fund through the appropriations process that sets annual limits—called obligational authority—on how much of the fund can be obligated for various activities. GSA, as an executive branch agency, requests obligational authority from Congress as part of the President's annual budget request. In annual appropriations legislation, Congress provides obligational authority to GSA to incur obligations and make expenditures from the fund.

[15]The *PBS Leasing Desk Guide* contains authorities, policies, technical and procedural guides, and administrative limitations governing the acquisition by lease of federal real property. According to GSA, the provisions of the *Desk Guide* apply to all PBS personnel engaged in the acquisition and administration of lease contracts, as well as agencies leasing space under delegated authority from GSA.

[16]During this phase, the tenant agency determines, among other things, the necessary square footage, circulation requirements, parking requirements, and the number of personnel to be housed.

Figure 2: Description of Typical Steps for the General Services Administration's (GSA) Acquisition of Real Property Leases

Advertisement	Market survey	Request for lease proposal (RLP)	Negotiation and evaluation	Final proposal revision	Final evaluation and award	Contract execution	Build-out and acceptance
GSA advertises requirements for space on the Federal Business Opportunities website at www.fedbizopps.gov, or in the local newspaper where appropriate, in order to obtain the maximum competition from the private sector.	Based on agency requirements, GSA conducts a market survey with agency representatives to identify properties that meet the agency's requirements.	GSA develops the RLP package, which is a standard document tailored to the requirements of each particular requirement, and sends it to all prospective offerors identified during the market survey.	Once offers are received and evaluated, GSA begins negotiations. GSA internally establishes negotiation objectives (acceptable ranges for rental rates, cost for tenant improvements, and cost ranges for additional requirements) and conducts discussions with potential lessors in the competitive range.	Once negotiations are completed, GSA requests final proposal revisions, where offerors are requested to submit their "best and final offer" to the government.	After submission of final revisions, GSA reviews and evaluates offers and makes an award determination.	GSA compiles and sends an executable lease document with all negotiated terms and conditions to the apparent successful offeror for signature.	The lessor completes the build-out of the space in accordance with the requirements of the lease, and GSA inspects and accepts the space when complete.

Source: GAO. | GAO-15-741

In addition, for leases with a net annual rent[17] above a specific threshold—$2.85 million in fiscal year 2014—GSA is required to submit a prospectus, or proposal, to the House and Senate authorizing committees for their review and approval.[18] Given these requirements, the PBS Leasing Desk Guide suggests the lease acquisition process for prospectus-level leases begin 36 to 60 months prior to lease expiration.

In cases in which GSA is unable to complete a long-term leasing action prior to a lease's expiration, lease extensions may be used. A lease extension is a negotiated agreement between the lessor and the government allowing the tenant agency to continue to occupy its current location for a short term. In a lease extension, terms of the original lease remain in effect unless otherwise agreed upon. According to GSA, while

[17]GSA's *PBS Leasing Desk Guide* defines net annual rent as total operating rent minus operating expenses paid directly to the lessor.

[18]40 U.S.C. § 3307. According to GSA, leasing specialists make an initial determination about whether a prospectus is required as soon as a tenant agency provides its space requirements. As a matter of policy, GSA officials said that an advertisement for a prospectus-level lease cannot be published until OMB has cleared the prospectus and GSA has submitted the signed prospectus to the House and Senate authorizing committees for their review and approval. Further, GSA's policy is to not enter into prospectus-level leases until the authorizing committees have adopted a resolution approving the project.

extensions can perform an important function in filling a short-term gap or avoiding a holdover, extensions should not be considered standard practice, as they may limit the government's ability to secure favorable lease terms, rents, or other conditions.[19] In cases in which neither a long-term solution or extension is agreed upon prior to lease expiration, a lease may enter into holdover—where a federal tenant agency continues to occupy space beyond the expiration date of the lease term. In these cases, the government has no contractual right to occupy the premises but is continuing to do so. During a holdover, it is GSA's policy to continue to make monthly rental payments at the current rental rate stated in the expired lease. According to the PBS Leasing Desk Guide, holdovers should be avoided.

REXUS is the primary tool used by PBS to track and manage the government's real property assets and store inventory data, building data, customer data, and lease information. GSA provides monthly lease inventory snapshots from REXUS on its website, which is available to the public. These snapshots include information such as lease number, location, rent, and lease status—including whether a lease is in holdover or extension when the snapshot is taken. REXUS is a real-time database and data is overwritten as lease information changes from day to day. For details on how we analyzed GSA's available data, see appendix I.

OMB has emphasized in guidance issued over the past several years that agencies should reduce space needs, including for leased space. 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 reducing leasing through consolidations and increased space utilization.[20] In May 2012, OMB issued a memorandum directing agencies not to increase the size of their civilian real estate inventory, stating that increases in an agency's total square footage must be offset through consolidation, co-location, or disposal of space from the inventory of that agency.[21] This policy became known as

[19]Procuring lease office space at or below industry market rates is one of GSA's performance goals in its *Fiscal Year 2016 Annual Performance Plan and Report*.

[20]*Presidential Memorandum—Disposing of Unneeded Federal Real Estate—Increasing Sale Proceeds, Cutting Operations Costs, and Improving Energy Efficiency,* 75 Fed. Reg. 33,987 (June 16, 2010).

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

"Freeze the Footprint." In March 2013, OMB issued a memorandum establishing implementation procedures for its "Freeze the Footprint" policy, which specified that agencies should not increase the total square footage of their domestic office and warehouse inventory compared to a fiscal year 2012 baseline.[22] In March 2015, OMB issued a memorandum further directing agencies to reduce the total square footage of their domestic office and warehouse inventory, similarly referred to as "Reduce the Footprint."

In a 2013 report on GSA's prospectus-level—also known as high-value—leases, we found that GSA was working to help agencies reduce their space needs and consolidate space as their leases expire.[23] However, as part of our work for this report, GSA officials said the agency has faced challenges in helping tenant agencies to reduce their space needs. For example, officials said 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 challenging situation. Also, in our 2013 report on high-value leases, we found that GSA, in its role as manager of real property for many civilian agencies, had an opportunity to set forth a vision and strategy for federal real property that encompassed the needs of multiple federal agencies and balanced real property priorities across the federal government that could help mitigate challenges over the long term. According to our most recent high-risk update, since federal real property was placed on GAO's High Risk List in 2003, the federal government has made progress in demonstrating leadership commitment to improving real property management, however significant challenges remain in demonstrating progress and achieving tangible results.[24]

[22]OMB, *Management Procedures Memorandum No. 2013-02* (Mar. 14, 2013).

[23]GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases,* GAO-13-744 (Washington, D.C.: Sept. 19, 2013).

[24]GAO-15-290.

Lease Extensions and Holdovers Are Common in GSA's Real Property Portfolio, and Effects Vary

Lease Extensions and Holdovers Are Common, but Incidences of Holdovers Have Declined

From fiscal years 2012 through 2014, lease holdovers and extensions were a relatively common occurrence—3,058 out of 11,457 leases we identified in GSA's portfolio, or 27 percent of all active leases, went into holdover, extension, or both over the 3-year period.[25] However, in analyzing month-to-month trends, we found that incidences of holdovers declined over time. The percentage of leases in holdover on a monthly basis decreased, from about 3 percent of all leases in GSA's portfolio at the beginning of fiscal year 2012 to about 1 percent by the end of fiscal year 2014. There was no appreciable change in the rate of extensions over the same time period. The proportion of leases in extension—relative to all leases in GSA's portfolio on a month-to-month basis—remained relatively steady at about 15 percent of the entire portfolio.

However, comparing the number of holdovers and extensions against GSA's entire lease portfolio reveals only part of the picture. While this analysis compares the number of holdovers and extensions against all leases in GSA's portfolio at a given time, it does not provide insight into the outcomes of leases that were set to expire during the review period—in other words, those leases that had the opportunity to enter into an extension or holdover. In the next section, we will discuss the proportion

[25]GAO's analysis of holdovers and extensions in GSA's portfolio of leases covers a 3-year period commencing in October 2011 (the start of fiscal year 2012) and continuing through September 2014 (the end of fiscal year 2014) and includes all active leases in GSA's portfolio during this time period, including those active leases that expired over the 3-year period. During the course of this review period, there were 11,457 discrete leases in GSA's portfolio. Of these leases, 3,058 went into holdover, extension, or both. More specifically, from fiscal years 2012 through 2014, 1,883 discrete leases experienced only an extension; 765 discrete leases experienced both a holdover and extension, and 410 discrete leases experienced only a holdover. These leases totaled more than 60-million square feet and $1.8 billion in annual rent.

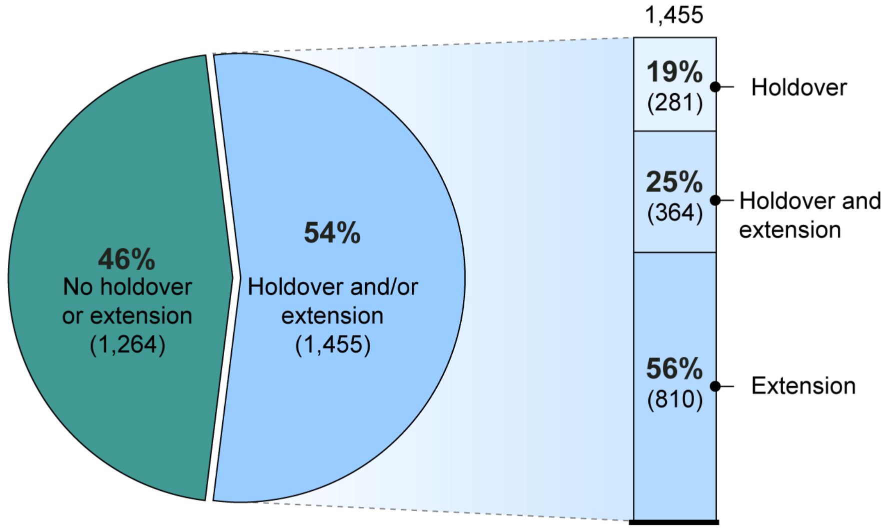
of expiring leases that experienced a holdover, extension, or both during our 3-year review period.

Over Half of GSA's Expiring Leases Experienced a Holdover or Extension

Of the 2,719 long-term leases set to expire in fiscal years 2012 through 2014, approximately 54 percent experienced a holdover, extension, or both—totaling 1,455 leases.[26] Of these 1,455 leases, more than half experienced an extension and roughly 20 percent experienced a holdover. However, 25 percent of these leases experienced both a holdover and an extension over the review period we examined. (See fig. 3.)

[26]The 2,719 long-term leases set to expire from fiscal years 2012 through 2014 account for about 24 percent of the 11,457 discrete leases in GSA's portfolio we identified during the same time period. For the purposes of our analysis of long-term lease expirations, we have excluded any leases that were already in holdover or extension at the beginning of the time period under review. For our purposes, long-term leases include the following lease statuses in REXUS: new and new/replacing (i.e., leases with new terms and conditions and new lease contract numbers, applicable for either a new requirement or to replace an existing expiring lease); renewal (i.e., a renewal option allows the government to continue a lease upon specified terms and conditions, including lease term and rent without conducting a competitive procurement); succeeding (i.e., non-competitive lease acquisitions secured to cover continued occupancy of the current premises at the end of a lease term without a break in continuous tenancy—they establish new terms and conditions and have a new lease contract number); and superseding (i.e., new leases that replace an existing lease before expiration, procured following non-competitive procedures—they establish new terms and conditions and have a new lease contract number).

Figure 3: General Services Administration's Long-term Leases Expiring in Fiscal Years 2012–2014



Source: GAO analysis of General Services Administration (GSA) data. | GAO-15-741

In addition to the 1,455 long-term leases set to expire that experienced extensions and holdovers described previously, 1,603 leases were already in holdover or extension at the beginning of fiscal year 2012. Of these, most—1,382 leases (86 percent)—were in extension at the beginning of the time period, with the remaining 221 leases (14 percent) in holdover. Moreover, similar to the long-term lease expirations described previously, many of these leases experienced both holdovers and extensions during the course of the 3-year period. Specifically, of the 1,382 leases that were in extension at the beginning of fiscal year 2012, 309 leases—or approximately 22 percent—also experienced a holdover.[27] Similarly, of the 221 leases that were in holdover at the beginning of fiscal year 2012, 92 leases—or approximately 42 percent—would also experience an extension over the following three years.

[27]However, not all of the leases in extension at the beginning of the review period were set to expire during our timeframe. Of the 1,382 leases in extension at the beginning of the review period, 1,140 extensions were set to expire from fiscal years 2012 through 2014. Of these expiring extensions, 309 leases—or 27 percent—also experienced a holdover.

Holdovers and Extensions Vary in Duration and Are Spread Across Geographic Regions and Agencies

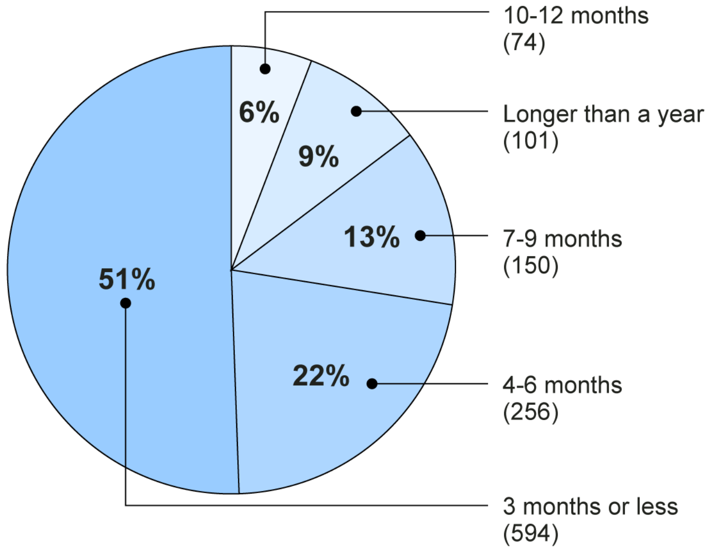
Duration

According to our analysis of GSA's data, holdovers and extensions in GSA's portfolio vary in duration. Since GSA's monthly lease inventory snapshots do not capture the specific date a holdover or extension begins, these data provide limited information about the duration of holdovers and extensions. However, we determined the data were sufficiently reliable in estimating some information about duration, including the number of months GSA leases spent in holdover status from fiscal years 2012 through 2014 and the planned duration of leases that entered into extension from fiscal years 2012 through 2014.

During the course of the 3-year period from fiscal years 2012 through 2014, we estimated that the median duration for holdovers was 3 months.[28] About half of all holdovers remained in this status for 3 months or less, as shown in figure 4. However, since some holdovers may have begun prior to fiscal year 2012 and lasted beyond fiscal year 2014, the durations of these holdovers may be longer.

[28]Our analysis includes 1,175 leases that experienced a holdover during fiscal years 2012 through 2014.

Figure 4: Estimated Number of Months General Services Administration's Leases Spent in Holdover Status from Fiscal Years 2012 through 2014



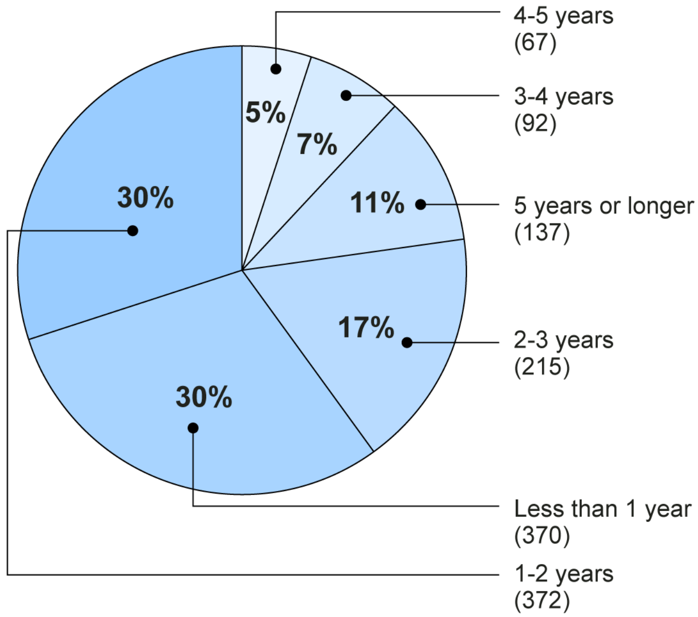
Source: GAO analysis of General Services Administration (GSA) data. | GAO-15-741

Note: Percentages may not add up to 100 because of rounding. Since some holdovers may have begun prior to fiscal year 2012 and lasted beyond fiscal year 2014, the durations of these holdovers may be longer.

The median planned duration of an extension was 1.4 years, with about 60 percent of all extensions expected to last for 2 years or less, as shown in figure 5.[29]

[29]To estimate the duration of lease extensions in GSA's portfolio, we calculated the planned duration at signing of extensions that began during the 3-year review period. Our analysis includes 1,253 leases that we could verify entered into extension during fiscal years 2012 through 2014. We excluded 13 leases that entered into extension during this time period but lacked sufficient data. Our analysis of planned lease duration does not include the 1,382 leases that were already in extension at the beginning of fiscal year 2012, since we were unable to determine when these extensions began, given the available data. In total, 2,648 leases experienced an extension from fiscal years 2012 through 2014.

Figure 5: Estimated Planned Duration of General Services Administration's Lease Extensions Executed from Fiscal Years 2012 through 2014



Source: GAO analysis of General Services Administration (GSA) data. | GAO-15-741

Geographic Region

During the 3 fiscal years in our review period, incidences of holdovers and extensions in GSA's portfolio occurred in all 11 GSA regions. Specifically, 4 of GSA's 11 regions—the Southeast Sunbelt, National Capital Region, Greater Southwest, and Northeast and Caribbean—together accounted for approximately 70 percent of all holdovers that occurred from fiscal years 2012 through 2014, while correspondingly accounting for 46 percent of all leases in GSA's portfolio during this same time period. (See table 1.) Similarly, 5 of GSA's 11 regions—the Greater Southwest, Southeast Sunbelt, Pacific Rim, Great Lakes, and National Capital Region—collectively accounted for approximately 70 percent of all extensions while accounting for 65 percent of all leases. As of fiscal year 2013, the National Capital Region, which includes Washington, D.C., as well as portions of Northern Virginia and suburban Maryland, had the largest share of leased space in GSA's portfolio, as measured by rentable square feet, at 29 percent.[30] In addition to managing the largest portion of

[30]GSA Public Buildings Service, *FY2013 State of the Portfolio,* (Washington, D.C.: 2013).

GSA's leased space, the National Capital Region also manages the majority of the agency's high-value leases. Specifically, in our previous work on high-value leases, we found that 60 percent of the prospectus-level leases were located in GSA's National Capital Region, with the rest of the high-value leases spread throughout the United States, with concentrations in major urban areas.[31]

Table 1: General Services Administration's (GSA) Lease Holdovers and Extensions by Region, Fiscal Years 2012–2014

GSA Region	Number/percentage of all holdovers	Number/percentage of all extensions	Number/percentage of all leases
Region 4 - Southeast Sunbelt	269 (23%)	417 (16%)	2,127 (19%)
Region 11 - National Capital	236 (20%)	307 (12%)	1,038 (9%)
Region 7 - Greater Southwest	191 (16%)	470 (18%)	1,338 (12%)
Region 2 - Northeast and Caribbean	132 (11%)	260 (10%)	697 (6%)
Region 1 - New England	104 (9%)	120 (5%)	491 (4%)
Region 5 - Great Lakes	84 (7%)	323 (12%)	1,324 (12%)
Region 8 - Rocky Mountain	68 (6%)	129 (5%)	752 (7%)
Region 9 - Pacific Rim	60 (5%)	338 (13%)	1,497 (13%)
Region 10 - Northwest/Arctic	15 (1%)	110 (4%)	677 (6%)
Region 6 - Heartland	12 (1%)	44 (2%)	509 (4%)
Region 3 - Mid-Atlantic	4 (less than 1%)	130 (5%)	1,007 (9%)
Total	**1,175**	**2,648**	**11,457**

Source: GAO analysis of GSA data. | GAO-15-741

Note: Percentages may not add up to 100 because of rounding.

[31] GAO-13-744.

Tenant Agency

Three tenant agencies—the Department of Homeland Security, the Social Security Administration, and the Department of Justice—together accounted for about half of all holdovers and extensions, respectively. Correspondingly, these three tenant agencies accounted for about half of GSA's entire lease portfolio during this time period. (See table 2.) As of fiscal year 2013, the 10 agencies named in table 2 were also among GSA's largest customers in its leased inventory, as measured by rentable square feet.[32]

Table 2: General Services Administration's Lease Holdovers and Extensions by Tenant Agency, Fiscal Years 2012–2014

Tenant Agency[a]	Number/percentage of all holdovers	Number/percentage of all extensions	Number/percentage of all leases
Department of Homeland Security	249 (21%)	501 (19%)	2,068 (18%)
Social Security Administration	180 (15%)	431 (16%)	1,803 (16%)
Department of Justice	170 (14%)	372 (14%)	1,717 (15%)
Department of the Treasury[b]	77 (7%)	190 (7%)	699 (6%)
Department of Interior	68 (6%)	188 (7%)	772 (7%)
Federal Judiciary	51 (4%)	94 (4%)	526 (5%)
Department of Agriculture	50 (4%)	102 (4%)	587 (5%)
Department of Defense	48 (4%)	126 (5%)	473 (4%)
Department of Health and Human Services	47 (4%)	119 (4%)	442 (4%)
Department of Labor	32 (3%)	123 (5%)	420 (4%)
Other	203 (17%)	402 (15%)	1,950 (17%)
Total	**1,175**	**2,648**	**11,457**

Source: GAO analysis of General Services Administration data. | GAO-15-741

Note: Percentages may not add up to 100 because of rounding.

[a]Out of 11,457 leases, 1,022 leases were associated with multiple tenant agencies. For these leases, the table shows the tenant agency with the longest occupancy, based upon occupancy agreement data provided by GSA.

[b]Includes the Internal Revenue Service.

[32]GSA Public Buildings Service, *FY2013 State of the Portfolio*, (Washington, D.C: 2013).

Holdovers and Extensions Have a Variety of Effects on GSA, Tenant Agencies, and Lessors

Although holdovers and extensions represent two distinct situations, they can have similar effects on all parties involved in the federal leasing process, according to GSA officials, tenant agency officials, and lessors we interviewed. These stakeholders told us that leases experiencing holdovers and extensions have a variety of effects, as described below.

Uncertainty: The short-term nature of holdovers and extensions create uncertainty for tenant agencies and lessors; such uncertainty can make it challenging for federal tenant agencies to effectively plan and budget for the long term. For private lessors, the uncertainty caused by lease holdovers and extensions may hinder opportunities to secure other long-term tenants or sell a property due to the short-term nature of the tenancy. Lessors may also face challenges securing financing for properties in holdover or extension. Specifically, several lessors noted that the negotiated terms of loans used to finance buildings often align with the lease terms, or duration of the lease agreement. In instances of lease holdovers or extensions, lessors may have difficulty securing adequate financing from a bank because of the short or uncertain duration of the tenancy. In one GSA-leased building, the lessor told us that its mortgage expired while the lease was in holdover status and a new mortgage could not be negotiated without a lease agreement in place. As a result, the lessor paid a non-refundable fee to the bank to extend the loan terms until a long-term lease agreement could be reached. In another example, a lessor cited the short-term nature of an 18-month lease extension as a primary reason why tenant-requested improvements for GSA-leased space could not be funded. Specifically, the lessor noted that in the absence of a long-term lease agreement, the lessor was unable to refinance its building loan and secure funding for tenant improvements without significant expense. According to several lessors, the prevalence of holdovers and extensions and their associated effects have prompted concerns about GSA's portfolio management and caused some private lessors to voice their hesitancy to lease space to the federal government. GSA officials acknowledged that while short-term lease extensions and holdovers may create uncertainty for the lessor and tenant agencies, the uncertainty created by extensions and holdovers is often a result of budget and tenant agency requirement uncertainty. We will discuss budget uncertainty and tenant agency requirements later in this report.

GSA workload: According to GSA regional officials, incidences of holdovers and extensions create additional work for GSA staff, increasing what some officials described as an already full workload for agency employees. Specifically, negotiating extensions and resolving holdovers require time and effort from GSA personnel that is in addition to the time required to finalize longer-term space solutions for tenant agencies, and any other duties they may have. GSA has also stated that in addition to increasing GSA's workload in the short-term, this workload is compounded and expanded as leases extended in prior years expire and add to the current year's expiring leases. However, GSA's central and regional-office officials also noted that, when used strategically, extensions can be a valuable tool to bridge a gap between an old or new lease, to allow time to renovate a new building for occupancy, or to consolidate multiple leases with differing expiration dates into a single lease. We will discuss GSA's strategic use of extensions later in this report.

Potential costs: While some of our case study leases experienced increased rental rates for GSA and tenant agencies, the direct financial costs of holdovers and extensions across GSA's portfolio are difficult to estimate given the information currently available. GSA has stated that some extensions may carry higher rental rates due to their shorter lease terms, although lessors and GSA officials also noted that the rental rate of an extension or lease following a holdover is affected by a variety of factors, including the overall condition of the commercial real estate market when a lease expires. In order to better understand the financial cost of extensions, GSA officials said they are beginning to track the cost of some lease extensions relative to market rates in fiscal year 2015 and is including this information as part of annual performance reporting.[33]

Effect on physical space: Holdovers and extensions may also delay the completion of general maintenance and tenant alterations. For example, tenant agency officials from the Department of Homeland Security noted that when one of the agency's leased spaces expired into holdover, the only elevator in the building remained out of service for an extended period of time, forcing employees to climb several floors each day to the agency's top-floor office space. According to these agency officials, this situation arose because the private lessor lacked the incentive to spend

[33]As previously mentioned, procuring lease office space at or below industry market rates is one of GSA's performance goals in its *Fiscal Year 2016 Annual Performance Plan and Report*. This performance indicator compares GSA's leasing costs to private sector benchmarks for equivalent space for leases that are at least 75 percent office space. According to GSA officials, prior to fiscal year 2015, extensions were not included in this metric.

money repairing an out-of-service elevator when a signed lease agreement was not in place. In another example, tenant agency officials from the Social Security Administration told us that during a lease extension, the agency faced challenges working with the lessor to upgrade its physical space, including high-traffic areas used to serve the general public.

Myriad Factors Contribute to Holdovers and Extensions; GSA Has Taken Steps to Address Challenges, but Lacks Goals and Targets to Assess Progress

A Range of Factors Contribute to Holdovers and Extensions

GSA and tenant agency officials identified a variety of factors that contribute to holdovers and extensions, as described below.

Finalizing agency space requirements: For 9 of the 10 leases we reviewed, GSA regional officials stated that changes to or delays in developing and finalizing space requirements contributed to a holdover or an extension. For example, in one lease we reviewed that provided space to an agency of the Department of Health and Human Services (HHS), tenant agency officials provided their anticipated space requirements to GSA in 2011, 2 years in advance of the lease's expiration date. However, in March 2013—9 months before the lease was set to expire—the tenant agency revised its requirements and requested significantly less space than initially anticipated. GSA regional officials stated that while agency changes in requirements are not unusual, the timing of the change contributed to a holdover for this lease, as GSA had to restart the procurement process to accommodate the revised space requirements. Furthermore, according to GSA headquarters officials, regional staff, and tenant agency officials we interviewed, in recent years, agencies' efforts to reduce space under the Freeze the Footprint policy have contributed to delays in finalizing agency space requirements. For 4 of the 10 leases we reviewed, GSA officials noted that when the policy was announced, GSA slowed acquisitions for long-term leases and used extensions to provide tenant agencies and GSA with more time to modify requirements to comply with the Freeze the Footprint policy. Similarly, tenant agency officials we interviewed stated that this policy caused them to re-assess long-term requirements. For example, officials from the Social Security Administration (SSA) stated that the agency's efforts to freeze and reduce its leased space in accordance with the Freeze the Footprint policy have contributed to some delays in finalizing agency requirements and have sometimes necessitated the use of extensions, including for one of the SSA-occupied GSA leases we reviewed.

Duration of the lease acquisition process: For 7 of the 10 leases we reviewed, tenant agency or lessor officials stated that holdovers and extensions in these leases were the result of an acquisition process that did not provide GSA or the tenant agency with enough time to complete a long-term leasing action. According to the PBS Leasing Desk Guide, GSA staff should begin reaching out to tenant agencies 24 months prior to lease expiration, and between 36 and 60 months prior to expiration for prospectus-level leases. In practice, we found that GSA first contacted the tenant agencies 17 to 63 months in advance of expiration of the lease. In 8 out of these 10 leases, GSA contacted the tenant agency at least 24 months in advance of expiration. While we found the lease acquisition process was initiated well in advance, and within the general time frames recommended in the PBS Leasing Desk Guide for most of our case studies, tenant agencies and lessors stated that there was still not enough time to complete a long-term leasing action. GSA has begun an initiative to improve the timing of its leasing process, which we discuss later in this report.

GSA workload and staff turnover: For 9 of the 10 leases we reviewed, the tenant agency or lessor officials noted that GSA may have lacked the realty and contracting staff to finalize new long-term leases and avoid the use of an extension or holdover. For example, for two leases we reviewed, GSA officials told us they used extensions as a tool to manage their workload and to provide more time for long-term leasing actions to be completed. Officials in one GSA region told us that regional staff used extensions to reduce their overall workload because the region lacked the resources to complete all of its leasing actions before leases expire. Furthermore, these regional officials stated that they had generally negotiated extensions with a 5-year term to help manage their workload, which then provides more time to complete a longer-term lease action. GSA headquarters officials acknowledged that GSA faces workforce challenges, specifically in hiring, training, and retaining lease contracting officers, and that the agency is working to increase the number of lease contracting officers.[34] These officials noted that there is high turnover among lease contracting officers, which both tenant agency and GSA officials noted contributes to delays in completing follow-on leasing actions when leases are transitioned to other contracting officers.[35] Tenant agency or lessor officials associated with 7 of the 10 leases we reviewed also stated that GSA provides limited information and updates during the lease acquisition process, and in several cases, tenant agency officials indicated that this lack of communication resulted from GSA staff turnover and workload. GSA's efforts to improve communication are discussed in more detail later in this report.

Agency budget challenges: GSA regional officials stated that an extension or a holdover may occur when agencies lack the financial resources to sign a new lease or move to a new space. We have previously found that agencies with shrinking budgets struggle to determine how to fund moving or retrofitting space to improve space efficiency.[36] As part of the effort to address this challenge, the President's fiscal year 2016 budget request for GSA proposes that Congress provide $200 million in obligational authority from the Federal Buildings Fund to assist GSA and tenant agencies with space consolidation and to reduce the government's real property footprint, among other things. Officials from GSA and tenant agencies noted that the timing of the budget process affects the ability to avoid holdovers and short-term extensions. For example, both GSA and some tenant agency officials stated that the use of short-term continuing resolutions and delays in receiving full-year appropriations often creates uncertainty for government agencies, which in turn makes those agencies hesitant to commit to a long-term leasing action. Moreover, GSA officials noted that under a typical continuing

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[34]As previously noted, GSA lease contracting officers are responsible for handling leasing transactions. According to the *PBS Leasing Desk Guide,* only leasing contracting officers have the exclusive authority to enter into, amend, and administer leases on behalf of the government.

[35]GSA headquarters officials stated that GSA is studying approaches to increase the number of warranted contracting officers. In addition, these officials stated that because its approach to government leasing is a unique process, and there is a limited availability of such expertise outside of the agency, GSA must train and develop staff internally.

[36]GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases*, GAO-13-744 (Washington, D.C.: Sept. 19, 2013).

resolution, GSA can enter into a new lease by law, but GSA requires assurances that the tenant agency will have the budget to cover the lease costs. Officials stated that in some cases, GSA may have to delay a lease's procurement in cases in which a tenant agency is reluctant to commit to a lease until a continuing resolution is resolved.

Prospectus project review and approval: In addition, the time it takes to review and approve prospectus-level leases may slow the leasing procurement process. More specifically, for each of the four prospectus-level leases we reviewed as part of our case studies, the length of the review process was cited as a factor contributing to incidences of holdovers and extensions. For example, for a GSA lease we reviewed that was set to expire at the end of October 2011, GSA officials stated that the holdover was primarily the result of the length of the prospectus review and approval process. Specifically, while the lease was submitted to the relevant congressional committees for approval in December 2010—nearly a year before lease expiration—the prospectus was not approved until July 2012—nearly 9 months after the lease's expiration at the end of October 2011. Both GSA officials and tenant agency officials stated that GSA should have submitted the prospectus to Congress earlier to avoid a delay in approval. According to the PBS Leasing Desk Guide, the process for pursuing a prospectus-level lease may need to commence up to 5 years before a lease's expiration. According to GSA headquarters officials, this lead-time is essential in finalizing the tenant agency's requirements, developing the prospectus, getting approval from OMB, and finally submitting the prospectus to the House and Senate committees for approval.

Negotiation impasse: GSA regional officials stated that holdovers sometimes occur as a result of an impasse in negotiations for a long-term succeeding lease with lessors. In these cases, GSA officials said that holdovers are preferable to negotiating disadvantageous terms for the government. For example, in one lease we reviewed where GSA acquired space for the Department of Justice, GSA and the incumbent lessor were unable to agree on a rental rate for an extension or a follow-on lease, as the rates proposed by the lessor substantially exceeded the prevailing local market rate for commercial real estate. As a result, the GSA's contracting officer determined that completing an extension would not be possible, and the lease moved into holdover status for nearly a year while GSA and the lessor worked to negotiate an extension. In this particular lease, the contracting officer stated that the use of a holdover was preferable to committing GSA to a lease with terms that were unfavorable to the government. While GSA headquarters officials noted that the use of a holdover is not preferable and a last resort during a lease procurement, they also said that some holdovers may not be avoidable when an impasse occurs between GSA and a lessor.[37]

Strategic leasing decisions: According to GSA officials, some extensions are used to align lease expiration dates as part of strategic efforts to consolidate space and leases. Specifically, in 2 of the 10 leases we reviewed, an extension was used to align multiple lease-expiration dates. For example, as part of a consolidation of multiple leases into a single space for an HHS agency, GSA's contracting officers negotiated short-term extensions to align the varying expiration dates of these leases with the first day of the term of the lease for the consolidated space. According to GSA's most recent data, the use of extensions for strategic purposes, such as for consolidations, represented about 11 percent of all extensions in that month. GSA headquarters officials also stated that as tenant agencies continue to implement the Freeze the Footprint policy, GSA contracting officers may increase the use of extensions to align expiration dates as part of space consolidation efforts.

GSA Is Working to Improve Its Management of Expiring Leases

GSA headquarters officials stated their commitment to reducing the number of holdovers and extensions, and noted a variety of recent initiatives designed to improve planning and begin the leasing process earlier and improve communication with tenant agencies. According to GSA officials, these initiatives represent a proactive, strategic approach to anticipating and resolving incidences of holdovers and extensions.

Improve planning: GSA headquarters officials stated that they have taken steps toward reducing holdovers and extensions by focusing on improving planning and initiating the leasing process earlier. For example, since 2011, GSA has worked in collaboration with tenant agencies to

[37]In the event of an impasse that results in a holdover, both the government and private sector lessors retain options to end the holdover through the legal process. Specifically, the government retains the right to take private property, such as leasehold estates, for public purposes upon the payment of "just compensation" through the condemnation power of the federal government as authorized by the Fifth Amendment to the U.S. Constitution. In response to a holdover, a lessor has the option to evict a federal tenant through the inverse condemnation process. In an inverse condemnation, the property owner brings a lawsuit, asserting that some action by the government has sufficiently infringed upon a private property right so as to create a right to "just compensation." However, both GSA officials and private sector lessors we spoke with stated that such actions are very rare.

develop clients' portfolio plans at the national level, a process that allows GSA to analyze its leasing inventory on an agency-by-agency basis and strategically plan for future procurements, while identifying opportunities for consolidations and cost savings. According to GSA officials, GSA uses the client portfolio-planning process to, among other things, manage its workload and prevent staff and other resource limitations from forcing the use of short-term extensions and holdovers. According to GSA's fiscal year 2016 annual performance plan and report, client portfolio plans have been completed for 12 of GSA's clients, and GSA expects to have an additional 6 completed by the end of fiscal year 2016. In addition, GSA officials stated that, in fiscal year 2015, the agency began to implement a lease portfolio-planning initiative, which is designed to proactively manage upcoming expiring leases in each region and ensure adequate leasing plans are in place prior to lease expiration. The initiative focuses on leases expiring in the next 3 years and is to track the progress of these procurements nationally, according to GSA officials.[38] In addition, GSA is providing new guidance to regional offices to begin the leasing process earlier. As part of this effort, GSA is developing a formal, standardized expiration notification process, which is to instruct regional offices to notify agencies beginning 3 years prior to a lease's expiration for standard leases and 5 years prior to expiration for prospectus-level leases. GSA officials stated this initiative will help to ensure that tenant agency officials begin considering future space requirements well in advance of a lease's expiration and that GSA leasing specialists will have adequate time to complete the lease acquisition process prior to lease expiration. In the event of a non-response by the tenant agency, GSA has developed specific guidance for its regional offices to escalate the issue to senior members of the agency's leadership team to encourage agency action. This guidance was disseminated to GSA regional offices in July 2015.

Improve communication: GSA is taking steps to improve communications with its tenant agencies. For example, GSA officials stated that its Service Delivery Excellence initiative is exploring ways to ensure that GSA regions and agencies communicate with each other in a

[38]As part of this initiative, GSA officials told us they have set an internal target, beginning in fiscal year 2015, that a planned follow-on action is in place for at least 90 percent of leases expiring over the next 3 fiscal years. Planned follow-on actions include the development of new and succeeding leases, among other things, and do not include extensions or holdovers. Some leases will not require a follow-on action, partly because the space is no longer needed to meet an agency requirement.

consistent, regular, and comprehensive manner. The initiative, which was rolled out to GSA regions in June 2015, aims to improve communication at the very beginning of the leasing process to give GSA time to plan for any complications that may arise, including those associated with obtaining tenant space requirements. In January 2015, GSA published a lease management customer guide to help facilitate effective communication between GSA and the lessor and between GSA and tenant agencies. Specifically, the guide identifies the GSA staff who will serve as the tenant agency's advocate, the information that will be provided to lessor and tenant agency's officials, and the roles and responsibilities of all parties involved in the leasing process.

GSA Is Using Several Measures to Track Its Use of Holdovers and Extensions

GSA regional officials we spoke to stated that the agency's focus on reducing holdovers and extensions has been clearly communicated to regional offices and has been reinforced by the central office's efforts to track the number of holdovers and extensions and provide this information monthly to regional offices. Since October 2011, GSA has used information from its REXUS database to develop and distribute a monthly internal report on holdovers and extensions, which includes information on the number of leases with holdovers and extensions compared to the total number of active GSA leases per region, and an analysis of holdovers and extensions by region and by tenant agency. GSA officials said they have used this information to monitor the use of holdovers and extensions in each region over time, which informs internal decision making. In addition, GSA officials said that they are tracking and monitoring a number of measures over the lease acquisition life cycle in order to assess the agency's progress in reducing holdovers and extensions. These measures include:

- **Lease portfolio planning:** As previously mentioned, GSA has created a lease portfolio planning measure and set an internal target, beginning in fiscal year 2015, that a planned follow-on action is in place for at least 90 percent of leases expiring over the next 3 fiscal years. GSA considers this a proactive measure that should help to alleviate the need for short-term extensions and holdovers by ensuring appropriate plans are in place and being executed prior to lease expiration.
- **Expiring lease replacement:** GSA has an internal measure, called the expiring lease replacement measure, which tracks the number of leases up for expiration on a monthly basis and provides information to GSA's regional offices on the outcomes of these leases (e.g., new lease, extension, holdover, etc.). While

GSA currently tracks this measure on a monthly basis, and has done so for the past decade according to GSA officials, GSA has not set specific targets for this measure for fiscal year 2015.

- **Lease cost relative to market:** As previously mentioned, in order to better understand the financial cost of extensions, GSA officials said they are beginning to track the cost of some lease extensions relative to market rates in fiscal year 2015, and are including this information as part of their external annual performance reporting. GSA also reports this measure internally on a monthly basis, and for fiscal year 2015, GSA established a target that the agency award leases at 7 percent below the prevailing market rate, including lease extensions.

Additional Goals and Targets to Assess Progress in Reducing Holdovers and Extensions Would Be Beneficial

GSA has established goals, targets, and associated measures—such as for lease planning and costs of extensions—it believes will reduce the use of holdovers and extensions and help keep track of potential impacts. GSA officials stated that the agency's strategy for measuring holdovers and extensions is currently focused on proactive measures with an emphasis on goals and targets related to early planning for leases that are scheduled to expire in the near future. GSA officials stated that they are focused on forward-looking goals, targets, and measures as part of a strategic decision to incentivize and track planning actions that will reduce the occurrence of holdovers and extensions in the future. Similarly, GSA officials stated that the goals and targets GSA has set for the agency's lease cost relative to market measure will incentivize GSA staff to seek the best value for leases, which would favor the use of long-term leasing solutions over short-term extensions and holdovers, and thereby reduce the overall number of extensions and holdovers.

While GSA has taken these important steps, it lacks specific, current goals and targets for assessing its actual performance in negotiating replacement leases on time, thereby avoiding holdovers and extensions. More specifically, GSA's lease replacement measure indicates the extent to which the agency is using holdovers and extensions when leases expire. However, GSA did not have documented goals or targets for this measure, either in its strategic plan or other planning documents for fiscal year 2015, and GSA stated that targets and goals it had developed for this measure from fiscal year 2014 are generally still applicable. In addition, GSA officials said that the agency is reluctant to establish such goals and targets because of uncertainty about what would be an acceptable level of holdovers and extensions, and concern that arbitrary goals could create other negative consequences, such as not capitalizing on a situation where an extension would be beneficial.

While we understand GSA's rationale and acknowledge the complexity involved in setting goals and targets for the expiring lease replacement measure, leading practices in performance management show that a fundamental element in an organization's efforts to manage for results is its ability to set meaningful goals for performance and to measure progress toward those goals as part of its strategic-planning efforts.[39] Further, such performance measurement allows organizations to track progress in achieving their goals and gives managers crucial information to identify gaps in program performance and plan any needed improvements. In addition, according to Standards for Internal Control in the Federal Government, managers need to compare actual performance against planned or expected results and analyze significant differences.[40] In the case of GSA, having such goals and targets for the existing expiring lease replacement or other similar measures could be beneficial given that executing leases efficiently and effectively is at the core of the agency's mission. Further, it would allow GSA to continue to demonstrate progress in this area, where it has made a public commitment to reduce holdovers and extensions, and acknowledges such actions are not ideal and often have negative effects on tenant agencies and lessors.[41] We should note that GSA has documented goals and targets for timeliness in delivering construction projects for tenant agencies, a measure that is comparable in concept to the lease replacement measure.[42] Furthermore, specific, relevant targets related to what happens to GSA's leases when they expire (i.e., whether they enter into holdover, extension, or a long-

[39]GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

[40] GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[41]See, for example, Testimony of Commissioner, Public Buildings Service, GSA Tenant Agencies, *Challenges and Opportunities in Reducing Costs of Leased Space*, before the U.S. House of Representatives Subcommittee on Economic Development, Public Buildings and Emergency Management, 113th Con., 2nd sess., July 30, 2014.

[42]Completing capital projects on schedule is one of GSA's performance goals in its *Fiscal Year 2016 Annual Performance Plan and Report*. This measure monitors the schedule performance of all prospectus level construction and major repair and alteration projects in the capital program. GSA has set a goal of completing at least 90 percent of capital projects on schedule annually in fiscal years 2015 and 2016.

term solution) and GSA's expected outcomes for expiring leases could provide GSA with valuable information to support its ongoing efforts to reduce lease holdovers and extensions, as well as allow for greater transparency and accountability to GSA's stakeholders, including Congress, tenant agencies, and taxpayers.

Regarding GSA's concern about designating an acceptable level of holdovers and extensions, establishing incremental goals for reducing holdovers and extensions may actually help GSA identify such benchmarks. That is, as its other management efforts take root, the remainder of holdovers and extensions could potentially be those where this outcome is unavoidable, acceptable, or even desirable. GSA headquarters officials acknowledged that some holdovers are unavoidable and may be preferable to unfavorable terms with a lessor. Furthermore, as discussed previously, the agency has noted that extensions may also be appropriate in certain cases, as when GSA is consolidating space among various agencies and needs to align the expiration date of multiple properties or when a tenant agency occupying space has encountered delays in planning for a potential relocation to other federally controlled space due to documented organizational, financial, or other uncertainties. We also note that GSA tracks whether extensions are executed for strategic reasons, and these data could complement its efforts to determine acceptable or tolerable levels of this activity.

Conclusions

While GSA has used holdovers and extensions in certain circumstances to help the agency navigate complex leasing transactions, GSA's use of holdovers and extensions has prompted concerns about GSA's portfolio management and created uncertainty for relevant stakeholders, including for federal tenant agencies and lessors that lease space to the government. In addition, the prevalence of holdovers and extensions has caused some private lessors to voice their hesitancy to lease space to the federal government. GSA faces barriers to avoiding the use of holdovers and extensions in its role as the federal government's landlord, including limitations of available resources, for both GSA and its tenant agencies, and challenges reaching agreement with multiple stakeholders on long-term leases for space. Nevertheless, GSA has stated its commitment to reducing the overall number of holdovers and extensions within its portfolio, and has efforts under way to improve its management of expiring leases to avoid these outcomes, as well as assess the potential costs of lease extensions. Many of these efforts are in the early stages of implementation, however, and it is too soon to determine the effect these efforts will have.

While GSA has taken a number of important steps to address lease holdovers and extensions, including tracking and monitoring several measures over the life cycle of the lease acquisition process, a next step would be to identify specific, current goals and targets, either in its strategic plan or in other planning documents, to assess the agency's actual performance in avoiding holdovers and extensions. While some extensions can be used for strategic purposes, and some holdovers are unavoidable, the variety of negative effects that holdovers and extensions can have on the federal government and private lessors makes it imperative that GSA not only continue its strong leadership commitment to reducing these outcomes, but also develop additional goals, targets, and associated measures to fully assess the outcomes of its efforts. Furthermore, performance targets coupled with meaningful measures for assessing the frequency with which holdovers and extensions occur when a lease expires, either using the existing expiring lease replacement or other similar measures, would provide GSA with a clearer picture of whether its efforts are helping to meet, exceed, or fall short of what it could determine is an appropriate level of holdovers and extensions. Such goals and targets would also help provide GSA with crucial information to identify any gaps in program performance and actions needed to support ongoing efforts to reduce lease holdovers and extensions.

Recommendation for Executive Action

To demonstrate the effects of GSA's ongoing efforts to better manage lease holdovers and extensions, we recommend that the Administrator of GSA take the following action:

- Identify performance goals and targets for existing or other measures related to the use of holdovers and extensions for expiring leases within GSA's strategic plan or in another agency planning document. GSA should ensure such goals, targets, and associated measures fully reflect progress, by taking into account the frequency with which holdovers and extensions occur for expiring leases within its portfolio and GSA's expected outcomes for expiring leases.

Agency Comments

We provided a draft of this report to GSA for review and comment. 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 HHS, the Department of Homeland Security (DHS), Internal Revenue Service (IRS), Department of Justice (DOJ), and SSA. In commenting on a draft of this report, GSA concurred with our recommendation and provided technical comments, as well as additional information on the performance measures, goals, and targets GSA is currently using to address holdovers and extensions. We incorporated the technical and clarifying comments that we received from GSA, as appropriate, and GSA's letter is reprinted in appendix II. DHS and SSA generally agreed with our findings and provided written comments, which appear in appendixes III and IV. HHS, IRS, and DOJ did not provide comments on the draft report.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 14 days from the report date. At that time, we will send copies to the Administrator of GSA, the Secretaries of Health and Human Services and Homeland Security, the Commissioners of the Internal Revenue Service and Social Security Administration, and the Attorney General. In addition, the report is available at no charge on our Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-2834 or wised@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

David J. Wise

David J. Wise
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) the extent to which the General Services Administration's (GSA) leases went into holdover or extension from fiscal years 2012 through 2014 and the potential effects and (2) why some expiring leases are extended or go into holdover and what actions GSA has taken to address this issue.

To examine the extent to which GSA's leases went into holdover or extension from fiscal years 2012 through 2014, we analyzed leasing data provided by GSA from its Real Estate Across the United States (REXUS) database. REXUS is a real-time database, and data are overwritten as lease information changes from day to day; therefore, GSA captures monthly lease inventory snapshots of selected variables in REXUS on the final day of each month, to provide a historical record. These snapshots include information such as lease number, location, rent, and lease status—including whether a lease is in holdover or extension when the snapshot is taken. For our analysis, we used unique lease numbers to string together 36 monthly snapshots—one for each month beginning October 2011 through September 2014—to provide information on lease holdovers and extensions from fiscal years 2012 through 2014.[1] We found that 3,058 leases during our 3-year review period experienced a holdover, extension, or both. We also used REXUS data provided by GSA on tenant agency and matched this information with the data from the monthly lease inventory snapshots using unique lease numbers. We analyzed data on all leases that experienced a holdover or extension, or both, from fiscal years 2012 through 2014, including the current annual rent, square footage, tenant agency, region, and lease expiration date. To determine whether these data were of sufficient reliability for our analysis, we reviewed the paperwork associated with the leasing database 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 and statuses. We did not attempt to evaluate or test all of the aspects of the GSA data files, but instead focused on leases in holdover or extension status. As a result of our review and discussions, we determined that the

[1]While GSA made monthly lease inventory snapshots beginning in fiscal year 2010 available to us, we determined that—due to incomplete data, which may have resulted from a database conversion at GSA in July 2011—monthly snapshots prior to fiscal year 2012 were not usable for our purposes of analyzing trends over time. GSA also provided lease inventory snapshots taken at the conclusion of each fiscal year dating back to fiscal year 2000; however, as these snapshots captured the status of GSA's portfolio on one day out of a year, we determined they were not usable for our purposes.

data in the files provided by GSA were of sufficient reliability to be used in our analysis examining the prevalence and general characteristics of leases in GSA's portfolio that experienced holdovers and extensions from fiscal years 2012 through 2014.

To inform both objectives, we selected a non-generalizable sample of 10 leases from the 3,058 leases we identified that experienced a holdover, extension, or both from fiscal years 2012 through 2014 to examine more closely as case studies. In selecting these 10 case studies, we selected leases that provided space for five selected federal tenants with an annual rent of $500,000 and above.[2] Since roughly half of holdovers and extensions in GSA's portfolio during our review period were located in the National Capital Region, we selected five case study leases from that region and one each from the Northeast and Caribbean, Southeast Sunbelt, Great Lakes, Greater Southwest, and the Pacific Rim Regions. These regions were geographically diverse and had a relatively large portfolio of leases that experienced holdovers and extensions. For these case study leases, we reviewed numerous documents, including the lease contract, supplemental lease agreements, occupancy agreements, price negotiation memorandums, and prospectuses, as applicable. We also interviewed officials most knowledgeable about these leases from GSA regional 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.[3] Our findings from these case studies cannot be generalized to the universe of leases that experienced a holdover or extension, or both, from fiscal years 2012 through 2014. However, they illustrate examples of broader challenges GSA faces in managing its portfolio of expiring leases

[2]These tenant agencies include the U.S. Department of Health and Human Services, Department of Homeland Security, Internal Revenue Service, Department of Justice, and Social Security Administration. We selected these five tenant agencies because they comprised a significant portion of all lease holdovers and extensions from fiscal years 2012 through 2014 for leases costing more than $500,000 in annual rent. We chose leases with an annual rent of $500,000 and above because these leases followed a standard lease acquisition process, while also allowing us to examine both standard and prospectus-level leases, among other factors.

[3]We requested interviews with the private lessors associated with all of our case studies; however, in 4 of our 10 cases, the private lessors declined to speak with us. As such, we interviewed representatives of private lessors for 6 out of our 10 leases. However, GSA lease contracts and related documentation provided additional information about the acquisition process itself and the participants in that process, including the relevant lessors.

as well as the effects of allowing expiring leases to enter into holdover or extension. In addition, we reviewed relevant statutes, regulations, Office of Management and Budget (OMB) guidance, our prior reports, and GSA's guidance, performance reports, and strategic plan. We also interviewed GSA headquarters officials and private sector officials with experience leasing to GSA. We identified GAO guidance on leading practices for agencies to manage for results, including defining desired outcomes, measuring performance, and using performance information as a basis for decision making.[4] We also reviewed federal standards for internal controls—plans, methods, and procedures used to meet missions, goals, and objectives—that are key to helping agencies better achieve their missions and desired program results.[5] We assessed GSA's efforts to set goals and achieve desired results for lease holdovers and extensions against this guidance.

We conducted our work from October 2014 through September 2015 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.

[4]We studied a number of leading public sector organizations that were successfully changing their management and accountability practices to be more results-oriented. From our work, we identified a number of practices common to successful efforts to become more results-oriented. See GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996) for additional details.

[5]GAO, *Internal Control: Standards for Internal Control in the Federal Government,* GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999).

Appendix II: Comments from the General Services Administration

GSA

The Administrator

September 21, 2015

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 U.S. Government Accountability Office (GAO) draft report entitled, *Federal Real Property: Performance Goals and Targets Needed to Help Stem GSA's Reliance on Lease Extensions and Holdovers* (GAO-15-741). To demonstrate the effects of GSA's ongoing efforts to better manage lease holdovers and extensions, GAO recommends that the Administrator of GSA take the following action:

- Identify performance goals and targets for existing or other measures related to the use of holdovers and extensions for expiring leases within GSA's strategic plan or in another agency planning document. GSA should ensure such goals, targets, and associated measures fully reflect progress, by taking into account the frequency with which holdovers and extensions occur for expiring leases within its portfolio and GSA's expected outcomes for expiring leases.

GSA agrees with GAO's recommendation to ensure our performance goals fully measure and reflect progress and we acknowledge that there is still work that can be done to improve performance management in our leasing program. Currently, GSA aggressively manages the expiring leased portfolio. We created a forward focused emphasis which requires that each expiring lease have an action plan in execution at least 36 months prior to expiration. GSA tracks the lease life cycle beginning with Lease Portfolio Plans, a leading indicator for expiring leases, though Lease Cost Relative to Market, a measure of awarded lease cost performance relative to the market. GSA's goal is to reduce the risk and exposure of extension or holdover and to replace expiring leases with fully competitive solicitations as appropriate

The Office of Leasing also publishes a monthly Key Performance Indicator report that measures progress in eliminating extensions and holdovers, as well as an Expiring Lease Replacement Measure that tracks the number and percentage of leases in holdover and extension status for a fixed period of time for expiring leases. These measures and indicators provide regular status of the rate of extensions and holdovers in our leasing program.

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405
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In response to this report, we will establish measures to tie leading indicator measures to outcome measures in order to establish the program's effectiveness throughout the lease life cycle. Additionally, we will report on the lease portfolio planning effort. In this way, GSA will be better able to demonstrate the effectiveness of its proactive procurement planning on lease acquisition outcomes; including ongoing reductions in lease extensions and holdovers.

If you have any questions, please contact me at (202) 501-0800, or Ms. Lisa A. Austin, Associate Administrator, Office of Congressional and Intergovernmental Affairs, at (202) 501-0563.

Sincerely,

Denise T. Roth

Denise Turner Roth
GSA Administrator

cc: Mr. David Wise, Director, Physical Infrastructure, GAO
Mr. Dave Sausville, Assistant Director, Physical Infrastructure, GAO

Appendix III: Comments from the Department of Homeland Security

U.S. Department of Homeland Security
Washington, DC 20528

Homeland Security

September 2, 2015

David J. Wise
Director, Physical Infrastructure Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: Draft Report GAO-15-741, "FEDERAL REAL PROPERTY: Performance Goals and Measures Needed to Help Stem GSA's Reliance on Lease Extensions and Holdovers"

Dear Mr. Wise:

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's (GAO's) work in planning and conducting its review and issuing this report.

The Department welcomes GAO's recognition that lease extensions and holdover tenancies can have a detrimental impact on tenants. At the time of this report DHS was the General Services Administration's (GSA) second largest tenant. DHS tenants occupied 21 percent of GSA leased locations in holdover tenancies and 18 percent of all extensions nationwide. DHS is pleased that GSA has started to track the cost of some lease extensions relative to market rates in Fiscal Year 2015. DHS is hopeful that GSA will eventually track the total premium for all holdover tenancies and short-term extensions, including rent and other costs such as litigation expenses.

DHS understands that lease extensions and holdover tenancies cannot be entirely avoided due to budgetary and market issues, and in the case of an impasse in negotiations with a Lessor. However, lease extensions and holdover tenancies are generally an inefficient method to manage properties. DHS appreciates GSA's efforts to avoid the practice whenever it is prudent and possible.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Sincerely,

Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

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Appendix IV: Comments from the Social Security Administration

SOCIAL SECURITY
The Commissioner

September 3, 2015

Mr. David J. Wise
Director, Physical Infrastructure Issues
United States Government Accountability Office
441 G. Street, NW
Washington, DC 20548

Dear Mr. Wise:

Thank you for the opportunity to review the draft report, "FEDERAL REAL PROPERTY: Performance Goals and Measures Needed to Help Stem GSA's Reliance on Lease Extensions and Holdovers" (GAO-15-741).

The findings in your report confirm our experience that negotiating extensions and holdovers requires time and effort by General Services Administration personnel, and can add time to the process to finalize leases and find long-term solutions for us as a tenant agency.

If you have any questions, please contact me at (410) 965-0520. Your staff may contact Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff, at (410) 965-0680.

Sincerely,

Frank Cristaudo
Executive Counselor to the Commissioner

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the individual named above, David Sausville (Assistant Director), Melissa Bodeau, Bryan Bourgault, Jean Cook, Terence Lam, Joshua Ormond, Minette Richardson, Kelly Rubin, Matt Voit, Amelia Michelle Weathers, and Crystal Wesco made key contributions to this report.

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