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**FEDERAL REAL
PROPERTY**

**High-Risk Designation
Remains due to Persistent
Management Challenges**

Statement of David Wise, Director
Physical Infrastructure



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Highlights of [GAO-13-422T](#), a testimony before the Subcommittee on Government Operations, Committee on Oversight and Government Reform, U.S. House of Representatives

Why GAO Did This Study

The federal government has given high-level attention to the issue of real property management and has made some progress. This includes establishing FRPC—chaired by the Office of Management and Budget (OMB)—which created the FRPP database managed by GSA. However, federal real property management remains a high-risk area, in part, because of the long-standing problems the federal government has faced managing its excess and underutilized properties.

This statement summarizes GAO's 2013 *High Risk* update as it pertains to real property management and elaborates on problems associated with excess and underutilized property, drawing on a June 2012 GAO report ([GAO-12-645](#)). In that report, GAO recommended that GSA, in consultation with FRPC, develop a plan to improve the FRPP and that OMB develop a national strategy for managing federal excess and underutilized real property. GSA agreed with the recommendation and described actions its officials are taking to implement it. OMB did not directly state whether it agreed or disagreed with the recommendation. A full discussion of these recommendations and GAO's evaluation of them can be found in the June 2012 report.

This statement is based on previous GAO work where GAO analyzed agency data and visited 26 sites containing excess and underutilized buildings from five civilian federal real-property-holding agencies with significant portfolios.

View [GAO-13-422T](#). For more information, contact David Wise at (202) 512-2834 or wised@gao.gov.

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What GAO Found

The federal government faces long-standing problems in managing real property, including an overreliance on leasing, and excess and underutilized property. Related to leasing, the government owns and leases about 400,000 buildings located throughout the country and often leases private space in the same areas where it owns underutilized property. This practice is inefficient, resulting in millions of dollars of additional costs to federal agencies. Further, agencies often do not have a strong understanding of the real property held by other agencies and may lack the authority or expertise to lease their own underutilized property to other federal agencies.

The federal government continues to face persistent challenges related to its real property data. GAO examined Federal Real Property Profile (FRPP) data, which is managed by the General Services Administration (GSA), and identified inconsistencies and inaccuracies, at 23 of the 26 locations visited in 2011 and 2012, related to the reported utilization, condition, annual operating costs, and value of buildings. These findings raised concern that the FRPP is not a useful tool for describing the nature, use, and extent of excess and underutilized federal real property. These inconsistencies may arise in part because the Federal Real Property Council (FRPC) has not followed sound data collection practices. For example, the FRPC has not ensured that the data elements used by federal agencies are consistently defined and reported. As a result, the FRPC cannot ensure that FRPP data are sufficiently consistent and accurate to use as a decision-making tool for managing federal real property.

The previous and current administrations have sought to generate cost savings associated with improving management of excess and underutilized property. However, some of these efforts have been discontinued and potential savings for others are unclear. It is important to note that the five federal agencies that GAO reviewed have taken some actions to dispose of and better manage these properties, including using excess and underutilized property to meet space needs, consolidating offices to use space efficiently, and reducing employee workspace to use space more efficiently. However, the agencies still face challenges managing these properties. For example, property disposal costs can outweigh the financial benefits of property disposal. Additionally, legal requirements—such as those related to preserving historical properties and the environment—can make the property disposal process lengthy, according to agency officials. Finally, the interests of multiple—and often competing—stakeholder interests may not align with the most efficient use of government resources and complicate real property decisions. For example, GSA officials reported that local stakeholder interests have delayed conveyance of a federal building in Portland, Oregon. A comprehensive, long-term national strategy would support better management of excess and underutilized property by, among other things, defining the scope of the problem; clearly addressing achievement goals; addressing costs, resources, and investments needed; and clearly outlining roles and coordination mechanisms across agencies.



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Washington, DC 20548

Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee:

I am pleased to be here today to discuss federal real property management, with an emphasis on challenges associated with managing excess and underutilized real property. The federal government's real property portfolio includes about 400,000 buildings located throughout the country that are owned and leased by federal agencies. In 2004, the President issued an executive order establishing the Federal Real Property Council (FRPC).¹ The executive order required the FRPC to work with the General Services Administration (GSA) to establish and maintain a single, comprehensive database describing the nature, use, and extent of all real property under the custody and control of executive branch agencies.² The FRPC created the Federal Real Property Profile (FRPP) to meet this requirement and began data collection in 2005. As we have reported, despite the implementation of the executive order, nationwide data collection efforts, and various reform efforts and proposals, data problems have continued and agencies continue to face persistent challenges with managing real property.

In 1990, we began reporting on government operations that we identified as "High Risk." Since then, generally coinciding with the start of each new Congress, we have reported on these high-risk areas and updated the High Risk List. My statement today summarizes our recent High Risk update³ as it pertains to federal real property management. As part of this objective, my statement also elaborates on challenges associated with excess and underutilized property, drawing on our June 2012 report on this subject.⁴ For our June 2012 report on federal excess and underutilized property, we analyzed Office of Management and Budget (OMB) and GSA documents, and interviewed OMB, GSA, and other agency officials. We focused our review on five federal real-property-

¹ Federal Real Property Asset Management, Exec. Order No. 13327, 69 Fed. Reg. 5897 (Feb. 6, 2004).

² Except when otherwise required for reasons of national security.

³ GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

⁴ GAO, *Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property*, [GAO-12-645](#) (Washington, D.C.: June 20, 2012).

holding agencies: GSA and, the departments of Energy (Energy), the Interior (Interior), Veterans Affairs (VA), and Agriculture (USDA). We selected these agencies because, on the basis of the available data at the time, these five agencies reported approximately two-thirds of the building square footage reported by civilian agencies. We obtained and analyzed the fiscal years 2008, 2009, and 2010 FRPP submissions from these agencies and visited a nonprobability sample⁵ of approximately 180 buildings at 26 sites where excess or underutilized owned buildings had been reported by the five civilian agencies.⁶ Our representations of the condition and circumstances of individual properties in this statement are based on information in our June 2012 report; it is possible that conditions or circumstances may have changed since then. We conducted this work in accordance with generally accepted government auditing standards. More detailed information about the scope and methodology used for our June 2012 work can be found in that report.

Federal Real Property Management Continues to be High Risk

The federal government continues to face long-standing problems in managing its real property, including an overreliance on costly leasing and persistent issues with excess and underutilized property, and we have made a number of recommendations in this area.⁷ The previous and current administrations have given high level attention to the issue of federal real property management. For example, in May 2011, the administration proposed legislation, referred to as the Civilian Property Realignment Act (CPRA). CPRA, among other things, would have established a legislative framework for consolidating and disposing of civilian real property. However, this and other real property reform legislation introduced in Congress have not been enacted.

⁵ Because this is a nonprobability sample, observations made at these site visits do not support generalizations about other properties described in the FRPP database or about the characteristics or limitations of other agencies' real property data. Rather, the observations made during the site visits provided specific, detailed examples of issues that were described in general terms by agency officials regarding the way FRPP data are collected and reported and served to complement our analysis of data collection practices across these agencies.

⁶ In the case of VA, which did not categorize any of its building as "excess," we visited sites where buildings had been reported as "not utilized" or "underutilized."

⁷ The High Risk Update also highlights challenges in securing real property that federal agencies continue to face. For example, management and funding challenges have hampered the Federal Protective Service's ability to protect about 9,000 federal facilities managed by GSA.

Costly Leasing

The federal government's continued reliance on costly leasing has been an ongoing problem. The government often leases space from private landlords in the same real estate market where it owns underutilized real property.⁸ This practice is inefficient, resulting in millions of dollars of additional costs to federal agencies. From 2006 to 2011, the amount of space that GSA—the leasing agent for many federal agencies—leased from the private sector grew more than 12 percent. At the same time, GSA lost millions of dollars on these leased assets, even though agencies pay GSA rent and fees that are designed to cover costs. GSA has lost \$200 million on leases since 2005, including \$75 million in 2011 alone. As a result, GSA has used funds generated from its owned inventory to offset the losses, which decreases the funds available to invest in GSA's owned assets. In some cases, federal agencies in the same market could consolidate into other government-owned properties. However, agencies do not have a strong understanding of real property held by other agencies and may lack the authority or expertise to lease their own underutilized property to other federal agencies. We have ongoing work assessing GSA's high cost leases that we plan to report later this year.

Excess and Underutilized Property

I would like to elaborate on federal excess and underutilized property, which we highlighted in the 2013 High Risk update. In our June 2012 review, we found that FRPP data did not accurately describe the properties at 23 of 26 sites that we visited, often overstating the condition and annual operating costs. Our work focused on reviewing agency-reported FRPP data elements including utilization, condition index, annual operating cost, and value.

Utilization: We found that agencies did not report building utilization consistently.⁹ For example, FRPC guidance states that for offices, hospitals, and warehouses, utilization is the ratio of occupancy to current design capacity.¹⁰ USDA stated that FRPC has not established





⁸ See, GAO, *Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Better Utilize Space*, [GAO-12-779](#) (Washington, D.C.: July 25, 2012).

⁹ The FRPC defines utilization as “the state of having been made use of, i.e., the rate of utilization.”

¹⁰ For laboratories, utilization is the ratio of active units to current design capacity. For housing, utilization is the percentage of individual units that are occupied.

government-wide definitions for occupancy or current design capacity. As a result, each agency within USDA has its own internal procedures for determining a building's utilization level. Among the 26 federal sites we visited, we found utilization data inconsistencies or inaccuracies for properties at 19 of these sites. For example, at one USDA site we visited, we found two houses that have been empty since 2009; however, they were both reported to the FRPP as utilized for 2009 and 2010. See figure 1 to view images of these two USDA buildings.

Figure 1: Example of Inaccurate Reporting of Utilization Data at a USDA Site

	Vacant house since 2009		Vacant house since 2009	
Exterior and interior images				
Reported utilization (2009-2010) ^a	Utilized		Utilized	
Actual occupancy according to local officials (2009-2010)	Vacant		Vacant	

Source: GAO analysis of VA information.

^aAccording to FRPC guidance, housing units must be 85 percent to 100 percent occupied to warrant a utilization score of "utilized."

Condition Index: According to FRPC guidance, the condition index¹¹ should consider a building's repair needs.¹² However, we found that agencies do not always follow this guidance. We found condition-index-reporting inconsistencies and inaccuracies at 21 of 26 sites visited. For

¹¹ The FRPC defines condition index as "the general measure of the constructed asset's condition at a specific point in time," and it is calculated as 1 minus the ratio of repair needs to plant replacement value (PRV) multiplied by 100.

¹² Needed repairs are determined by the amount of repairs necessary to ensure that a constructed asset is restored to a condition substantially equivalent to the originally intended and designed capacity, efficiency, or capability. GSA, *Federal Real Property Council: 2010 Guidance for Real Property Inventory Reporting* (Washington, D.C.: Oct. 25, 2010).

example, when agencies have determined that a property is not needed and will ultimately be disposed of, they may not repair that property, even though it may be in a state of significant disrepair. This allows agencies to use their limited funds to maintain properties that they regularly use. In some cases, however, agencies gave such properties high condition-index scores despite their relatively poor conditions, resulting in condition index data that did not accurately reflect each property's condition as set forth in FRPC guidance. Figure 2 illustrates several separate buildings that received high condition index scores, even though they are in poor condition. On the basis of our work, we found problems with these buildings including: asbestos, mold, collapsed walls/roofs, health concerns, radioactivity, deterioration, and flooding.

Figure 2: Examples of Federal Property Reported as Being in Excellent Condition in the FRPP Database



Old firehouse with collapsed ceilings.



Cabin with collapsed roof.



Warehouse with radiological contamination.



Warehouse with a collapsing ceiling.



Mostly vacant laboratory building with ceiling and wall damage.



Cabin with large tree that has fallen through the roof.



Vacant trailer with safety and health issues (rat and beehive infestation). Now demolished.



Warehouse with exterior damage.



Building under renovation.




Sources: GAO and Energy.

Annual Operating Costs: We found data inconsistencies and inaccuracies for annual operating costs at 19 of 26 sites that we visited.¹³ For example, we found that multiple agencies were unable to measure operating costs at the building level. Instead, officials apportioned costs to the individual buildings according to square footage. Furthermore, because of the difficulty in measuring operating costs, only one of USDA's component agencies even attempted to measure the actual operating costs of each individual building. We also identified instances of buildings with reported high annual operating costs even though all utilities were turned off and no maintenance was being conducted.

Value: FRPC guidance defines value as the cost of replacing an existing constructed asset at today's standards, and this factor is known as the Plant Replacement Value (PRV). However, GSA officials cautioned us not to think of PRV as an asset's actual worth, because it is not an appraisal of the property or any kind of measure of the asset's market value. We found that the PRV is typically much higher than the actual worth of the building because the PRV does not take into account market conditions or the condition of the asset. Additionally, according to agency officials, many excess properties do not have the potential for generating revenue for the federal government. Indeed, we saw more than 80 buildings on our site visits that agencies plan to demolish when they have the resources to execute the demolitions. Figure 3 shows properties that have high reported values and high condition indexes even though they are in poor condition and have remained unused for many years.

¹³ The FRPC defines annual operating costs as "the expenses for recurring maintenance and repair costs, utilities, cleaning and/or janitorial costs, and roads/grounds expenses."

Figure 3: Empty Buildings in Poor Condition with High Plant Replacement Values (PRVs)

	Biology Building	Veterans' Center	Firehouse
Property images	 <p>Vacant biology laboratory building in poor condition.</p>	 <p>Vacant Veterans' Center building in poor condition.</p>	 <p>Firehouse with collapsed ceilings and mold.</p>
Agency	Energy	VA	GSA
2010 reported PRV	\$90,136,214	\$1,673,690	\$1,026,188
2010 reported condition	88%	100%	100%
Status	The building has been shutdown for many years and is awaiting demolition.	This building is inactive and has been empty for over 10 years.	This building is designated excess and has not been used for 10-12 years.

Sources: GAO analysis of agency data and Energy (Biology Building photographs).

These examples of inconsistencies and inaccuracies in the key areas described above suggest that the FRPP database is not a useful decision-making tool for managing federal real property. In addition to our work at these sites, we found that FRPC had not followed sound data collection practices when collecting FRPP data. Specifically, we found, among other problems, issues with data consistency, collaboration, and reporting. For example, the FRPC has not ensured that data elements are consistently defined and reported, even though the 2004 Executive Order seeks reporting on a uniform basis. In addition, OMB, as the Chair of the FRPC, has not collaborated effectively with the agencies that submit FRPP data and may be requiring agencies to spend resources on data collection that is not useful. The agencies we reviewed expressed concerns about the data collection process, including the amount of data

collection required, the time they are given to implement new data requirements, and their ability to collect data as required accurately.

Underlying Management Challenges

In addition to the problems we found with real property data, we also found that the federal government continues to face other challenges managing excess and underutilized properties. The previous and current administrations have sought ways to generate cost savings associated with improving management of excess and underutilized properties. However, some of these efforts were discontinued, and others have not led to proven cost savings associated with the management of these properties. It is important to note that the five federal agencies we reviewed have taken some actions to dispose of and better manage these properties, including using excess and underutilized property, consolidating offices, and reducing employee work space to use space more efficiently. However, the agencies still face long-standing challenges to managing these properties. For example, agency disposal costs can outweigh the financial benefits of property disposal. Legal requirements—such as those related to preserving historical properties¹⁴ and conducting environmental remediation—can make the property disposal process lengthy according to agency officials. Finally, stakeholder interests can conflict with property disposal or reuse plans, and the locations of some federal properties can make property disposal and reuse difficult. For example, GSA officials reported that local stakeholder interests have delayed conveyance of a federal building in Portland, Oregon. At the time of our review, the Department of Education planned to use the building for educational activities beneficial to the community. However, the officials received a request from the City of Portland that certain offices that were already located in the building remain in downtown Portland. GSA was attempting to find suitable space for these offices in downtown Portland so that it could convey the building to the Department of Education.

Given the complexities of issues related to excess and underutilized federal real property management, unsuccessful implementation of cost savings efforts across administrations, and the issues that still remain with data reporting, we believe that a national strategy could provide a clear path forward to help federal agencies manage excess and

¹⁴ See, GAO, *Federal Real Property: Improved Data Needed to Strategically Manage Historic Buildings, Address Multiple Challenges*, [GAO-13-35](#) (Washington, D.C.: December 11, 2012).

underutilized property in the long term. A national strategy can guide federal agencies and other stakeholders to systematically identify risks, resources needed to address those risks, and investment priorities, when managing federal portfolios. Without a national strategy, the federal government may be ill-equipped to sustain efforts to better manage excess and underutilized property.

Agency Corrective Actions

Sustained progress is needed to address the conditions and persistent challenges that make the area of federal real property management High Risk. Multiple administrations have committed to a more strategic approach toward managing real property. However, their efforts have not yet fully addressed the underlying challenges that we have identified.

In our June 2012 report, we recommended that OMB, in consultation with FRPC, develop a national strategy for managing federal excess and underutilized real property. OMB did not directly state whether it agreed or disagreed with our recommendation. Additionally, FRPP is not yet a useful tool for describing the nature, use, and extent of excess and underutilized federal real property. Accordingly, in the same report, we recommended that GSA and FRPC take action to improve the FRPP to increase federal capacity to implement and monitor corrective measures. GSA has taken action to begin implementing our recommendation related to FRPP. GSA's actions are intended to address each part of the recommendation, including:

- enhancements to clearly define data collection requirements,
- data quality tests and assessments to ensure data reliability,
- development of new performance measures to support government-wide goals, and
- efforts to improve collaboration with agencies.

We will continue to monitor these agencies' efforts to implement our recommendations, which we believe are critical to addressing the challenges that have led us to keep federal real property management on our High-Risk List.

Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions that you may have at this time.

GAO Contacts and Staff Acknowledgements

For further information regarding this testimony, please contact David Wise at (202) 512-2834 or wised@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony are Keith Cunningham (Assistant Director), David Sausville (Assistant Director), Raymond Griffith, Amy Higgins, Joshua Ormond, and Jade Winfree.

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