

**GAO**

**Testimony**

Before the Subcommittee on Economic  
Development, Public Buildings and Emergency  
Management, Committee on Transportation and  
Infrastructure, House of Representative

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**FEDERAL REAL  
PROPERTY**

**The Government Faces  
Challenges to Disposing of  
Unneeded Buildings**

Statement of David J. Wise, Director  
Physical Infrastructure Issues



**G A O**

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Highlights of [GAO-11-370T](#), a testimony before the Subcommittee on Economic Development, Public Buildings, and Emergency Management, Committee on Transportation and Infrastructure, House of Representatives

## Why GAO Did This Study

The federal real property portfolio, comprising over 900,000 buildings and structures and worth hundreds of billions of dollars, presents management challenges. In January 2003, GAO designated the management of federal real property as a high-risk area in part due to the presence of unneeded property. The Office of Management and Budget (OMB) is responsible for reviewing agencies' progress on federal real property management. The General Services Administration (GSA), often referred to as the federal government's landlord, controls more square feet of buildings than any other civilian federal agency. GSA funds real property acquisition, operation, maintenance, and disposal through the rent it collects from tenant agencies that is deposited into the Federal Buildings Fund (FBF). This testimony discusses (1) the scope and costs of the excess real property held by GSA and other federal agencies; and (2) the challenges GSA and other federal agencies face in disposing of excess and underutilized real property. GAO analyzed GSA data from a centralized real property database, reviewed GSA real property plans and previous GAO reports, and interviewed GSA and OMB officials.

View [GAO-11-370T](#) or key components. For more information, contact David Wise at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov).

February 10, 2011

## FEDERAL REAL PROPERTY:

### The Government Faces Challenges to Disposing of Unneeded Buildings

## What GAO Found

The federal government holds many excess and underutilized properties that cost billions of dollars annually to operate. Excess properties are buildings that agencies have identified as having no further program use, and underutilized properties serve a program purpose that could be satisfied with only a portion of the property. In fiscal year 2009, 24 federal agencies including the Department of Defense reported 45,190 underutilized buildings that cost \$1.66 billion annually to operate. GSA specifically holds 282 excess or otherwise underutilized buildings that cost \$93 million annually to operate. Underutilized buildings represent the first places to look for possible consolidations that could, in turn, allow GSA to dispose of additional properties. Excess and underutilized properties erode the viability of FBF by forcing GSA to pay for buildings for which it gets no return. The viability of FBF is essential to ensuring that GSA is able to respond to changing government real estate needs over the coming years and make sound investment decisions. A June 2010 Presidential Memorandum continued government efforts to dispose of unneeded properties by establishing a new governmentwide target of \$3 billion savings through disposals and other methods by the end of fiscal year 2012.

The problem of excess and underutilized property is exacerbated by a number of factors that impede the government's ability to efficiently dispose of unneeded property. First, numerous stakeholders, including local governments, private real estate interests, and advocacy groups, have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These competing interests, that often view government buildings as the physical face of the federal government in local communities, can build barriers to property disposal. In 2007, GAO recommended that OMB develop an action plan to address the effects of stakeholder interests but it has yet to be implemented. Second, the complex legal environment has a significant impact on real property decisionmaking and may not lead to economically rational outcomes. GSA's ability to effectively dispose of its unneeded property can also be hampered by its lengthy disposal process, which is legislatively mandated and includes requirements, such as determining whether the property can be used by other federal agencies, for homeless assistance, and for the public benefit. For example, GSA continues to hold numerous buildings that have been listed as excess for years. The lengthy disposal process may inhibit GSA's ability to achieve cost savings under the Presidential Memorandum by the 2012 deadline.

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify today on our work related to federal real property and in particular, the issue of excess and underutilized property held by the General Services Administration (GSA) and other agencies. As you know, since 1990, we have periodically reported on government operations that we identify as “high risk.” In January 2003, we designated the management of federal real property as a high-risk area, in part because of excess and underutilized property. Other reasons included over-reliance on leasing and the challenges associated with protecting government assets from terrorism. Later this month, we plan to issue an update on the status of these issues as part of our update to the high-risk series. My testimony today will discuss (1) the scope and costs of excess and underutilized real property held by GSA and other federal agencies; and (2) the challenges GSA and other federal agencies face in disposing of excess and underutilized real property. To address these objectives, we analyzed GSA data from the Federal Real Property Profile, a centralized real property database, for fiscal year 2009. We determined the data were sufficiently reliable for our purposes through data testing and interviews with government officials responsible for submitting and maintaining the data. We also reviewed GSA real property plans and previous GAO reports, and interviewed GSA and Office of Management and Budget (OMB) officials. We performed this work from June 2010 to February 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The federal government’s real property portfolio presents significant management challenges and, in many cases, reflects an infrastructure based on the business model and technological environment of the 1950s. In identifying governmentwide real property management as a high risk issue, we found that many government real property assets are no longer effectively aligned with, or are responsive to, agencies’ changing missions. As a result, many are no longer needed. These can include excess properties, which agencies have identified as having no further program use, and underutilized properties, which serve a program purpose that

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could be satisfied with only a portion of the property.<sup>1</sup> As we have previously reported, excess and underutilized properties present significant risks to federal agencies because they are costly to maintain and could be put to more cost-beneficial uses or sold to generate revenue for the government.

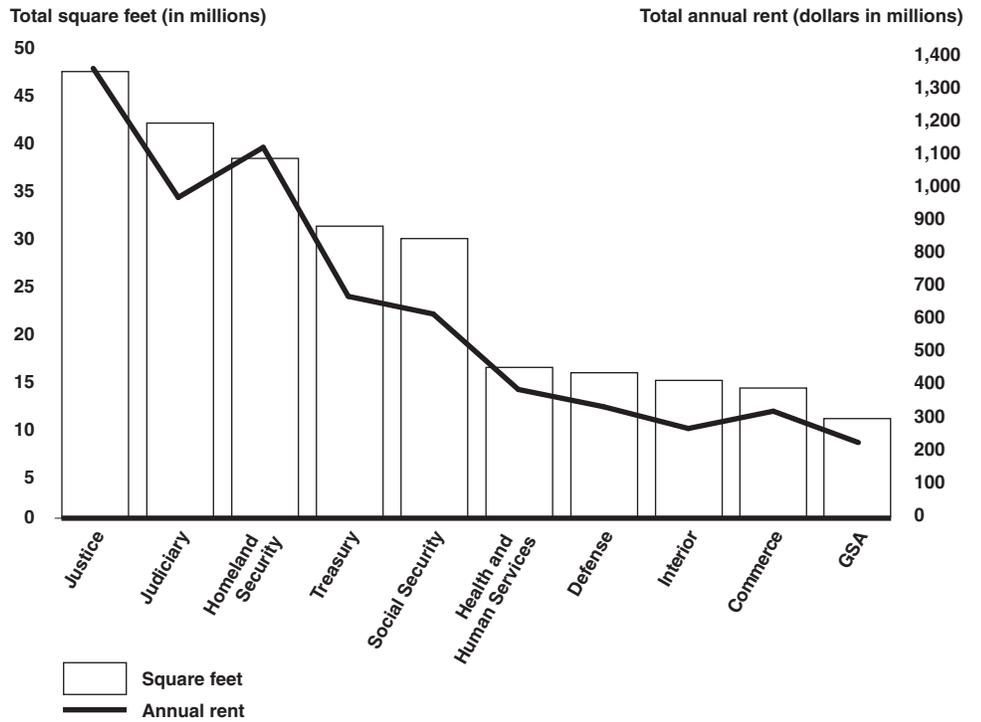
The federal real property portfolio includes buildings used as offices, warehouses, schools, laboratories, hospitals, and family housing and land. Over 30 federal agencies control real property assets—including both facilities and land—in the United States and abroad. In fiscal year 2009, the federal inventory included over 3 billion square feet of building space and over 900,000 buildings and structures that are worth hundreds of billions of dollars. Approximately 83 percent of federally occupied space is owned by the federal government, while the remaining amount is leased or otherwise managed.

GSA, often referred to as the federal government's landlord, controls more square feet of buildings—most of which it leases to other federal agencies and entities—than any other civilian federal agency. Figure 1 illustrates GSA's ten largest tenants by rent, ranked by total square feet.

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<sup>1</sup>Utilization is obtained by calculating a ratio of occupancy to current design capacity. An office is considered underutilized if this ratio is less than 75 percent. A warehouse is considered underutilized if this ratio is less than 50 percent.

**Figure 1: Top 10 GSA Tenants by Rent, Ranked by Total Square Feet**



Source: GSA.

GSA provides a range of real estate services to its tenant agencies, including acquisition, operations, maintenance, and disposal of property which it finances through a revolving fund called the Federal Buildings Fund (FBF). GSA deposits the rent it collects from tenant agencies into FBF, which it then proposes to spend as part of the President’s annual budget request to Congress. In fiscal year 2009, GSA collected over \$8.5 billion in rent, of which almost three quarters came from its 10 largest tenants. In 2005, GSA received the authority to deposit the net proceeds for its property dispositions directly into FBF.<sup>2</sup> The disposal of 133 GSA-controlled properties from fiscal years 2005 through 2009 generated almost \$200 million in net proceeds for FBF.

<sup>2</sup>Section 412 of P.L. No. 108-447, 118 Stat. 2809, 3529 (2004).

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## The Government Has Many Excess and Underutilized Buildings, Costing Billions to Operate

In fiscal year 2009, agencies reported 45,190 underutilized buildings with a total of 341 million square feet, an increase of 1,830 such buildings from the previous fiscal year. These underutilized buildings accounted for \$1.66 billion in annual operating costs. These totals include buildings reported by 24 agencies, the largest of which is the Department of Defense.<sup>3</sup> Underutilized buildings represent the first places to look for possible consolidations that could, in turn, allow agencies to dispose of such properties.

GSA also has many properties it no longer needs. In fiscal year 2009 (the most recent year for which data are available), GSA reported having 282 excess or otherwise underutilized buildings. These buildings, which include offices and warehouses, cost about \$93 million a year to operate. They encompass about 18 million square feet and are located in 43 states and the District of Columbia. Approximately 70 percent of these properties are federally owned which GSA controls and the rest are leased from private owners. For example, GSA's excess properties include an office and warehouse complex, covering about 1 million square feet in Fort Worth, Texas. GSA spent about \$1.3 million in fiscal year 2009 to operate this complex. According to GSA officials, these properties are planned for public sale in spring 2011.

Excess and underutilized properties erode FBF, potentially threatening its financial viability. GSA funds maintenance and repair costs to operate excess facilities from FBF. It must then pay to operate and maintain unneeded buildings without gaining tenant rent in return to cover these expenses. The viability of FBF is essential to ensuring that GSA is able to respond to changing government real estate needs over the coming years and make sound investment decisions.

The administration recently built upon the previous administration's focus on the need to dispose of unneeded properties throughout the government. In a June 2010 Presidential Memorandum to federal agencies, the administration stated that the federal government, as the largest property owner and energy user in the United States, wastes both taxpayer dollars and energy resources to maintain unneeded real estate. The memo established a new target of saving \$3 billion governmentwide through disposals and other methods by the end of fiscal year 2012. The memo

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<sup>3</sup>The Department of Defense accounted for 64% of the total building square feet held by these 24 agencies in fiscal year 2009.

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directed that these cost savings be derived from increased proceeds from the sale of assets and reduced operating, maintenance, and energy expenses from disposals or other space consolidation efforts, including leases that are ended.

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## Challenges Impede the Disposal of Excess Real Property

As we have previously reported, the problem of excess and underutilized property is exacerbated by a number of factors that impede the government's ability to efficiently dispose of unneeded property.<sup>4</sup> For example, numerous stakeholders have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These include local governments; business interests in the communities where the assets are located; private sector construction and leasing firms; historic preservation organizations; various advocacy groups for citizens that benefit from or use federal programs; and the public in general, which often view the facilities as the physical face of the federal government in local communities. These competing stakeholder interests can build barriers to real property disposals. In 2007 we recommended that OMB, which is responsible for reviewing agencies' progress on federal real property management, could assist agencies by developing an action plan to address key problems associated with unneeded real property, including reducing the effect of stakeholder interests in real property decisions.<sup>5</sup> OMB agreed with the recommendation but has yet to implement it. OMB officials said they are unsure how to reduce the impact of stakeholder influence on real property decisions.

The complex legal environment also has a significant impact on real property decisionmaking and may not lead to economically rational outcomes. Not all agencies are authorized to retain proceeds from property sales. In addition, federal agencies are required by law to assess and pay for any environmental cleanup that may be needed before disposing of a property—a process that may require years of study and result in significant costs. In some cases, the cost of the environment cleanup may exceed the costs of continuing to maintain the excess property in a shut-down status. We have also noted that the National

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<sup>4</sup>GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, [GAO-07-349](#) (Washington, D.C.; April 2007).

<sup>5</sup>[GAO-07-349](#).

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Historic Preservation Act, as amended, requires agencies to manage historic properties under their control and jurisdiction and to consider the effects of their actions on historic preservation.<sup>6</sup> The issue of historic preservation will become of critical importance to GSA since properties more than 50 years old are eligible for historic designation and GSA's portfolio has an average age of 46 years.

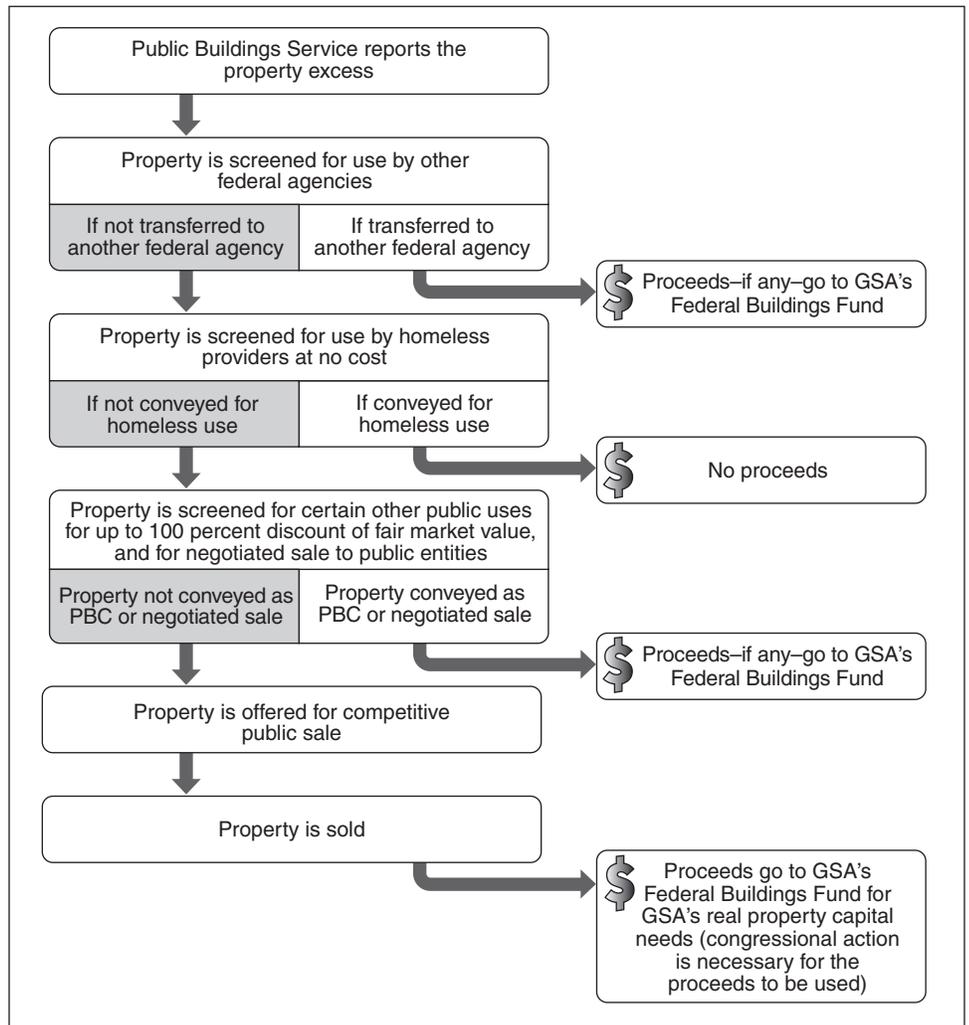
GSA's ability to effectively dispose of its unneeded property can also be hampered by its lengthy disposal process, which is legislatively mandated (see Fig. 2). This process includes screening other federal agencies for possible continued federal need. In addition, GSA has the authority to retain the net proceeds from the sale of real property but must, before offering property for sale, follow requirements under Title 40 of the United States Code and the McKinney-Vento Homeless Assistance Act.<sup>7</sup> Some of these steps many result in the property being disposed of with no proceeds. For example, under the public benefit conveyance program, state or local governments and certain tax exempt nonprofit organizations can obtain surplus real property for public uses such as homeless centers, educational facilities, or fire or police training centers. These steps in the disposal process serve as opportunities for stakeholder input and invite opportunities for stakeholder conflicts, such as conflicting views from local community groups for how best to use excess properties.

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<sup>6</sup>16 U.S.C. § 470 et seq.

<sup>7</sup>U.S.C. § 11411.

**Figure 2: GSA's Legislatively Mandated Process for Selling Excess Property**



Source: GAO.

The fact that GSA's underutilized or excess properties, even those slated for disposal, may remain in GSA's possession for years, provides further evidence of GSA's difficulties in this area. For example, we previously reported on a GSA-created list of vacant and underutilized GSA properties as of October 1, 2002, including some which GSA had initiated actions for

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disposal.<sup>8</sup> These properties slated for disposal included a collection of federal building properties at one location in Alameda, California, and 6 federal buildings in Kansas City, Missouri. At the time, the properties in Kansas City were entirely vacant. In fiscal year 2009, GSA reported that the agency owned excess properties at these same locations totaling about 646,000 square feet and costing a total of around \$182,000 annually to operate. While GSA has attempted to dispose of these excess properties, the agency has had to continue to maintain the properties over the past 7 years. The lengthy disposal process may therefore limit GSA's ability to achieve cost savings under the Presidential Memorandum. GSA officials said they are unlikely to have enough time to identify additional properties for disposal, complete the disposals, and achieve the cost savings by the 2012 deadline included in the Presidential Memorandum. Instead, officials said that they will have to rely on cost savings achieved from previously planned disposals in the "pipeline" and through other sources of savings, such as improvements in energy efficiency.

In closing, the government has many excess and underutilized properties that cost billions of dollars each year to maintain. Despite efforts to reduce this inventory, multiple obstacles remain that preclude quick and easy solutions. Until these obstacles are overcome, this issue will remain high risk.

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Thank you, Mr. Chairman, that concludes my statement. I will be pleased to answer any questions that you or other Members of the Subcommittee may have at this time.

For further information on this testimony, please contact David Wise at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov). Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. Individuals making key contributions to this testimony were Keith Cunningham, Assistant Director; Lynnelle Evans; Colin Fallon; Erik Kjeldgaard; Emily Larson; Susan Michal-Smith; Minette Richardson; and Swati Thomas.

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<sup>8</sup>GAO, *Federal Real Property: Vacant and Underutilized Properties at GSA, VA, and USPS*, GAO-03-747 (Washington, D.C.; Aug. 2003). This list also included some of the properties in Fort Worth previously mentioned.

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