

DOCUMENT RESUME

08087 - [C3268376]

[Increased Costs Resulting from GSA's Failure To Exercise Lease Options]. LCD-79-301; B-118623. November 17, 1978. 4 pp.

Report to Joel W. Solomon, Administrator, General Services Administration; by Richard W. Gutmann, Director, Logistics and Communications Div.

Issue Area: Increase in the Amount of Govt. Leased Space Despite Congress' Emphasis on Federal Construction. (710).

Contact: Logistics and Communications Div.

Budget Function: General Government: General Property and Records Management (804).

Congressional Relevance: House Committee on Public Works and Transportation; Senate Committee on Environment and Public Works.

On December 3, 1971, the General Services Administration (GSA) leased 2,850 square feet of space in the Allegheny Center building in Pittsburgh, Pennsylvania. In April 1972, the lease was amended for a term of 5 years, through September 5, 1977, at an annual rent of \$7.15 a square foot. The Government was required to notify the lessor at least 30 days before the end of the lease term if it wished to renew the option. When the lease expired, the lessor refused to renew the lease at the option price of \$7.65 a square foot because GSA did not notify the lessor 30 days before expiration of the lease. Because GSA failed to exercise its option in time, the Government will incur additional rent of about \$400,000 over a 5-year period plus extra costs to be incurred in relocating the tenant agency to another building. In September 1976, GSA leased 2,600 square feet of space in another building in Pittsburgh at an annual rent of \$4.00 a square foot. This lease also contained an option whereby the Government could renew for another 5 years at the same rent, provided notice was given to the lessor at least 90 days before the lease term expired. GSA failed to give the required 90 days notice, necessitating negotiation of a new 3-year lease at an annual rent of \$5.15 a square foot. It will cost the Government an estimated \$22,000 in additional rent and service costs because of failure to exercise the renewal option in time. The Central Office of GSA, in its periodic leasing reviews, should evaluate the adequacy of controls established by the regions for administering lease options. (RRS)



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

8376

LOGISTICS AND COMMUNICATIONS
DIVISION

B-118623

November 1/, 1978

The Honorable Joel W. Solomon
Administrator of General Services

Dear Mr. Solomon:

In our recent review of alterations made to leased buildings, we found two leases where renewal options were missed because the renewal notices were not issued in accordance with the lease provision. When the two options expired, General Services Administration continued to lease the same or equivalent space at an increased rent of about \$422,000 over a 5-year period.

Since this matter was not within the scope of our alterations review, it was not included in our report to you dated September 14, 1978, on alterations (LCD-78-338). Details on the two leases follows.

ALLEGHENY CENTER BUILDING
PITTSBURGH, PENNSYLVANIA

On December 3, 1971, General Services leased 2,850 square feet of space in the Allegheny Center building. In April 1972, the lease was amended to provide for an additional 32,822 square feet at an annual rent of \$234,677.30, or \$7.15 a square foot. This amendment was for a term of 5 years from September 5, 1972, through September 4, 1977, with an option to renew for an additional 5 years at an annual rent of \$251,088.30, or \$7.65 a square foot for the renewal period. If the Government intended to renew the lease it had to notify the lessor in writing at least 30 days before the end of the lease term.

When the lease expired in September 1977, the lessor refused to renew the lease at the option price of \$7.65 a square foot, because General Services did not notify the lessor by August 5, 1977, 30 days before the lease expiration date.

LCD-79-301
(990591)

Leases within a given geographic area are generally assigned for administration to one realty specialist, who is responsible for issuing renewal notices. In July 1977 there was a destructive flood in Johnstown, Pennsylvania. The realty specialist responsible for the Pittsburgh area was assigned to emergency duty in Johnstown. During his absence the renewal notice for the Allegheny Center lease should have been issued. Upon his return, he mailed the notice on August 10, 1977.

In December 1977 General Services entered into a 1-year lease for the same space for the period December 5, 1977, through December 4, 1978, at an annual rent of \$9.92 a square foot, \$2.27 more than the option price of \$7.65. General Services anticipates leasing replacement space in another building when the lease expires. In June 1978, offers were solicited for 32,200 square feet in the Pittsburgh area for a 5-year term starting in December 1978. We were told that an award will be made shortly for about \$10.25 a square foot, \$2.60 above the missed option price.

Because General Services failed to exercise the option, the Government will incur additional rent of about \$400,000 over a 5-year period. In addition, extra costs will be incurred to relocate the tenant agency from the Allegheny Center to another building.

2111 CENTER AVENUE BUILDING
PITTSBURGH, PENNSYLVANIA

In September 1969, General Services leased 2,600 square feet of space in this building for 5 years at an annual rent of \$10,400 fully serviced, or \$4.00 a square foot. The lease contained an option whereby the Government could renew it for another 5 years at the same rent, provided notice was given in writing to the lessor at least 90 days before the lease term expired on September 30, 1974. General Services failed to give the required 90 days renewal notice. A new 3-year lease was then negotiated for the period October 1, 1974, through September 30, 1977, at an increased annual rent of \$13,400, or about \$5.15 a square foot. Later the lease was extended to December 30, 1978, at an annual rent of \$10,590, excluding services and

utilities estimated to cost \$6,400 per year. Therefore, the combined annual cost to GSA is \$16,990, or \$6.53 a square foot, \$2.53 more than the option price of \$4.00.

We estimate that it will cost the Government at least \$22,000 in additional rent and service costs, because the 5-year renewal option was not exercised in 1974.

We were unable to ascertain from lease files the reason for not exercising the lease option. The Philadelphia Branch Office personnel responsible for administering this lease in 1974 are no longer with General Services.

CONCLUSION

Leases should be monitored closely to determine that options are exercised when appropriate.

We do not know if additional options were missed or if adequate controls are established by GSA's regional offices. Central office leasing procedures are silent on the controls to be established by its regions for administering lease options.

RECOMMENDATIONS

We recommend that you require the Central Office, in its periodic leasing reviews, to evaluate the adequacy of controls established by the regions to insure that lease options are considered for renewal.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the House Committees on Appropriations, Government Operations, and Public Works

B-118623

and Transportation; the Senate Committees on Environment and Public Works and Governmental Affairs; and the Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "R.W. Gutmann".

R.W. Gutmann
Director