

# GAO Highlights

Highlights of [GAO-16-188](#), a report to congressional requesters

## Why GAO Did This Study

More than half of GSA's 377 million square feet of space were leased from the private sector as of 2014. While GSA strives to match or beat private sector leasing rates, it is important to identify any opportunities to increase efficiency and reduce costs.

GAO was asked to review GSA's leasing costs. This report examines (1) the extent to which GSA's leases achieve market rates and how overall federal leasing costs could be reduced and (2) how GSA's cost estimates for selected leases compared with the actual costs of leasing paid by federal tenants. GAO determined the extent to which the rates of a sample of 714 GSA leases compared to market rates; analyzed selected leases for office space across all 11 GSA regions in more detail; and interviewed officials from all GSA regions and 2 GSA tenant agencies, as well as private sector real estate representatives. GAO contracted with a real estate consultant for the market rate analysis.

## What GAO Recommends

GSA should (1) enhance competition by encouraging tenant agencies to modify their geographic and building requirements; (2) explore seeking authority to use Federal Building Fund balances to reduce interest fees; and (3) give tenants the option to reduce fees by choosing non-cancelable occupancy agreements. GSA agreed to increase competition and determine if it can use Fund balances to pay tenant improvement costs but disagreed with allowing tenant agencies to choose non-cancelable occupancy agreements. GAO believes GSA should provide this option as a potential cost-saving measure.

View [GAO-16-188](#). For more information, contact Dave Wise at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov).

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## FEDERAL REAL PROPERTY

### GSA Could Decrease Leasing Costs by Encouraging Competition and Reducing Unneeded Fees

## What GAO Found

GAO found that the General Services Administration's (GSA) lease rates exceeded comparable market rates for many of 714 leases reviewed. Specifically, a review of these leases from 2008 through 2014 determined that about half exceeded their local market's average private sector rate for similar space by 10 percent or more. According to officials from all 11 GSA regions and private sector stakeholders, GSA is unable to more consistently achieve lower rates because competition among private lessors for these leases is limited; this limited competition is due to factors including tenant agencies' requested geographic areas and specialized building requirements, as well as the length of GSA's leasing process. For example, an agency's initial requested geographic area may be so restricted that it does not include any buildings that meet all tenant requirements, resulting in increased costs and time as GSA explores alternatives.

In addition, overall federal leasing costs increase when tenants finance needed improvements to newly leased space—called tenant improvements—over time. GSA tenants routinely amortize these costs over the term of their leases and pay interest rates of up to 9 percent to the building's owner. Because GSA's tenants lack sufficient upfront capital, they chose to amortize their tenant improvements for all nine of the leases GAO studied that included those costs. In total, these 9 leases will incur \$15 million in interest fees to be paid to private owners—nearly 40 percent of the total paid for these tenant improvement costs. GSA manages a fund—the Federal Buildings Fund, which pays rent and other real property costs—with sufficient unobligated balances to loan tenants enough funds to cover tenant improvement costs and avoid paying private sector interest, but GSA does not have budget authority to fund such costs. GSA also requires most of its tenants to sign cancelable occupancy agreements, which permit tenants to vacate leased space under certain circumstances in exchange for a higher fee paid to account for the risk of GSA's possibly having to find a new tenant for the space. However, the importance of routinely including this built-in flexibility for short term leases is questionable, as it is not often exercised. Allowing tenants the option of choosing non-cancelable agreements would reduce tenant fees.

The actual leasing costs paid by tenant agencies exceeded GSA's estimates for 7 of the 11 leases finalized from 2000 to 2014 that GAO reviewed in more detail. Seven of those leases were "standard" leases (costing less than \$2.85 million in annual rent, as of fiscal year 2014) and four were "high value" (costing more than \$2.85 million). For 4 of the 7 standard leases tenants' actual leasing costs exceeded GSA's estimates by more than 10 percent. Inaccurate estimates complicate tenant agencies' planning, but tenant agencies often have to accept increases in GSA's cost estimates because some lack authority to independently lease space. GSA officials said that the lack of competition for GSA leases and changes to tenant agencies' space needs during the leasing process contribute to cost growth. Conversely, GAO found GSA's initial cost estimates for 4 high-value leases to be more accurate than those for standard leases. High value leases, which represent only 4 percent of leases but more than 40 percent of GSA's leasing costs, are subject to congressional authorization, which may help control cost growth.