

Good morning, Chairman Carper, Ranking Member Coburn, and Members of the Subcommittee. My name is David Winstead and I am the Commissioner of the Public Buildings Service (PBS) at the U.S. General Services Administration (GSA). Thank you for inviting me here today to discuss GSA's real property portfolio and how we are strategically managing and improving our Federal assets.

GSA is one of the largest public real estate organizations in the world, with an inventory consisting of nearly 9,000 assets with over 350 million square feet of rentable space across all 50 states, 6 U.S. Territories, and the District of Columbia. We serve over 1 million Federal employees at over 400 agencies and bureaus. Our portfolio consists primarily of office buildings, courthouses, laboratories, border stations, and warehouses.

Our real property portfolio is driven by our customer agencies' missions and needs while our portfolio performance is driven by a strategic approach to asset management. Using the principles developed in our portfolio restructuring strategy, we carefully balance customer demand with market dynamics and the condition and performance of our assets. GSA, like many landholding agencies, has made significant progress in addressing the issues outlined in the Government Accountability Office (GAO) high risk series.

Today, I would like to address GSA's asset management strategy and our progress towards reducing vacant and underutilized property, our data reporting efforts, and our participation on the Federal Real Property Council (FRPC). Additionally, I would like to discuss two related issues: current reinvestment challenges and our increased reliance on operating leases.

## **ASSET MANAGEMENT AND PROPERTY UTILIZATION**

The GAO report entitled Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform,

highlights the continued challenges of managing Federal real property and identifies several agencies with over ten percent of their property inventory as vacant or underutilized. GSA has two efforts underway to reduce the amount of vacant and underutilized property. Government-wide, our Office of Real Property Disposal assists other landholding Federal agencies dispose of their underutilized assets. Internally, GSA has made significant progress in reducing the amount of vacant and underutilized property in our own inventory.

In fiscal year 2002, GSA initiated a PBS strategy to restructure our portfolio of owned assets. Our goal is to create a real property portfolio comprised of financially performing assets where there is a long-term Federal need. GSA reinvests in these assets to optimize and preserve their value for customer agencies and taxpayers. We have made progress nation-wide and since the end of fiscal year 2006 we have:

- Reduced the percentage of under and non-performing assets from 45 percent to 30 percent;
- Reduced vacant space from 9.2 percent to 7 percent, which is significantly below the 2006 industry average rate of 11.6 percent; and
- Reported as excess 258 assets and demolished 52 buildings totaling over 15 million square feet, achieving a cost avoidance of \$588 million in capital reinvestment needs.

Based on our asset management practices and implementation of our portfolio strategy, GSA achieved an “effective” rating from the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART).

As a result of our restructuring initiative, by the end of fiscal year 2006, less than three percent of our nearly 9,000 owned and leased properties met the Federal Real Property Council’s definition of vacant or underutilized. The 251 assets identified as vacant or underutilized include 149 Government-owned and 102 leased properties. GSA uses a number of strategies to address these non-

performing assets. These strategies range from cost containment, outlease, exchange of assets, and conveyance of assets to tenant agencies, to finally, disposal.

Of the 149 Government-owned assets currently considered vacant or underutilized, 84 (56 percent) have already been reported excess to the needs of the agency and are in the disposal process; 4 additional assets are planned for disposal; 22 (15 percent) are mission critical facilities such as Courthouses; and 13 (9 percent) are vacant due to a major modernization and will be fully occupied upon completion of the project.

As I mentioned earlier, there were 102 leased facilities determined to be underutilized in fiscal year 2006. GSA eliminates vacant leased space by backfilling space with other customers, terminating the lease or partially vacating, or buying out the remaining lease term whenever possible. At the end of fiscal year 2006, GSA's leased vacancy rate was 1.5 percent, far below the private sector rate.

PBS also works closely with GSA's Office of Governmentwide Policy (OGP) to improve real property asset management. OGP supports PBS by providing Government-wide real property policy in the areas of regulatory and legislative reforms, asset management principles and the sharing of best practices.

In 1997, GSA's Office of Governmentwide Policy's Achievement Award for Real Property Innovation program was established to serve as a catalyst for Federal agencies to improve real property management and to recognize best management practices. During the past ten years since the award program inception, the program has attracted hundreds of unique ideas from throughout the Federal real property community. OGP has shared and communicated them through a special edition of the Real Property POLICYSITE Newsletter and the website at [www.gsa.gov/realpropertypolicy](http://www.gsa.gov/realpropertypolicy). These ideas cover a wide spectrum

of real property areas, including business practices, asset management and planning, customer service, information systems, performance measures, security, sustainability, and workforce/human capital strategy.

GSA's Office of Governmentwide Policy also develops government-wide real property regulations, bulletins and guidance governing GSA and agencies to which real property authority has been delegated. These regulations are written in plain language, easy to understand, question and answer format. These regulations, bulletins and guidance cover the full range of topics concerning real property asset management, from real property acquisition, to operation and maintenance, and the eventual disposal of the real property asset.

## **REAL PROPERTY INVENTORY DATA**

A key element of managing our portfolio is the ability to capture data, analyze and evaluate performance, and strategically move forward on our decisions. GSA has a robust inventory system that is capable of accurately and consistently reporting real property data and meets the Federal Real Property Council's (FRPC) inventory reporting requirements for 24 mandatory data elements, including four performance measures: cost, condition, utilization, and mission criticality. All agencies are required to report the FRPC defined inventory data, including the performance data, to the Federal Real Property Profile (FRPP) on an annual basis.

Using the FRPC's Government-wide standards, GSA's inventory consists of 8,908 assets<sup>1</sup> totaling over 380 million gross square feet (gsf)<sup>2</sup> nationwide. When these assets are separated between leased and owned, the portfolio

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<sup>1</sup> Assets include buildings, land, and structures.

<sup>2</sup> The Federal Real Property Council's standard for measuring space is gross square feet. GSA measures space in both gross square and rentable square feet. Because GSA's inventory is assigned and rented to customer agencies using rentable square feet, GSA's inventory and most agency benchmarks and performance measures are reported using industry standards for rentable square feet. The rentable square footage of a building does not include construction space such as the thickness of exterior walls or vertical penetrations such as elevator shafts or stairwells that are included in gross square footage calculations because they are not assigned or rented to a tenant.

consists of 1,788 owned assets totaling approximately 219 million gsf and 7,120 leased assets representing 172 million gsf. The annual operating costs for fiscal year 2006 were \$4.8 billion, \$850 million for government-owned and \$3.9 billion for leased locations. The replacement value of the owned inventory is \$38.9 billion.

Internally, GSA tracks and manages its real property assets in the System for Tracking and Administering Real Property (STAR). STAR is the primary tool we use to store inventory data, building data, customer assignment data and lease information for over 20,000 customer space assignments. STAR provides access to business data on a nationwide basis to our realty specialists, property managers, asset managers and portfolio managers. This supports responsible asset management in the following ways:

- Business Management
- Space Management
- Occupancy Management
- Lease Management
- Security Management

### **FEDERAL REAL PROPERTY COUNCIL ACTIVITIES**

One of my top priorities since joining the Public Buildings Service in 2005 has been advancing the President's Management Agenda (PMA), particularly in the area of Real Property Asset management. I am pleased to report that our agency has become a recognized leader in implementing the President's Executive Order 13327 on Real Property Asset management and has taken a prominent role on the Federal Real Property Council, becoming the first agency recognized by the Administration for achieving and maintaining "Green" status on the PMA scorecard. We have continued this effort and in fiscal year 2006, GSA demonstrated significant results in rightsizing our portfolio. By focusing on asset utilization, condition, operation, and Federal agency need, GSA has:

- Improved utilization by increasing occupancy by 3.2 percent over the past five years;
- Met or exceeded FRPC standards for facility conditions in over 75 percent of our inventory;
- Maintained operating costs at approximately 4.2 percent below market;
- Reduced energy consumption 4.4 percent below the 2005 baseline;
- Reported excess and accepted 258 assets into the disposal process since fiscal year 2002; and
- Transferred 119 assets from GSA's custody and control to other Federal agencies, public bodies, or the private sector since fiscal year 2002.

The impact of these actions has been a reduction of nearly 15 percent of our owned assets and 8 percent reduction in our owned square footage. By eliminating these underutilized assets, GSA has established a more efficient and cost effective portfolio. This has avoided approximately \$588 million in reinvestment liabilities, which provides additional reinvestment dollars for core assets to support our long-term customer requirements.

As chair of the Federal Real Property Council's Asset Management Subcommittee, I have been working with the other Federal agencies to support the President's proposed language in the fiscal year 2008 budget that would allow all agencies to retain proceeds from the sale of assets. GSA was given the authority, by Congress, to use the proceeds from the sale or outlease of GSA-owned assets in 2005 for real property purposes. GSA is permitted to use those sale proceeds retained in the Federal Buildings Fund only when Congress reauthorizes GSA to expend FBF funds through the Congressional appropriations process. Retention of proceeds from sale is a good incentive for agencies to dispose of unneeded assets and provides a much needed source of

reinvestment funds. We hope that this Committee will take the lead in moving forward on the President's proposal so that all agencies will be able to benefit from this authority.

As you know, Executive Order 13327, Federal Real Property Asset Management, established the Federal Real Property Council (FRPC) and tasked the FRPC and GSA's Office of Governmentwide Policy with developing a centralized real property database to track all Federal real property assets. This database, called the Federal Real Property Profile, was significantly enhanced in 2005 and 2006 to meet the specific disposition goals of EO 13327 and help identify unneeded properties Government-wide. Enhancements to the OGP-managed FRPP include:

- Defined 24 data categories, including four performance metrics: Utilization, Mission Dependency, Facility Condition Index, and Operating Costs. The performance metrics will allow the Federal Government to better manage its portfolio and assess and track excess, vacant, and under-utilized properties.
- Developed the FRPP Performance Assessment Tool, a software application that analyzes FRPP's performance data and generates reports to assist agencies with identifying properties in need of improvement, those to be maintained at the current condition, and potential properties for disposition.
- Added new Disposition data element into FRPP in 2006. The Disposition data element tracks assets that have been transferred within or have exited the Federal portfolio.

OGP will continue to work with the FRPC to enhance and maintain the FRPP to maximize its functionality as an asset management tool. OGP will also continue to work with Federal agencies to track and measure their disposition-related data to agencies' efforts towards "right-sizing" their real property inventories.

## **REINVESTMENT CHALLENGES**

As documented by GAO and reconfirmed this year in the “High Risk Series,” all Federal landholding agencies are struggling to fund reinvestment needs. In the aggregate, using all of our methods to evaluate reinvestment needs, our reinvestment liabilities are becoming more challenging. Portfolio Restructuring has helped, but increased market costs for labor and construction materials exacerbate this problem.

GSA is endowed with a unique and aging inventory of courthouses, Federal buildings, border stations and other public buildings, some of them historic. Using a portfolio strategy and making decisions based on solid asset management principles, GSA is concentrating reinvestment on core assets and disposing of underutilized assets where the amount of reinvestment needed is higher than alternative housing solutions.

## **INCREASING RELIANCE ON OPERATING LEASES**

GSA strives to find the optimal housing solution for our customer agencies whether it be leasing, new construction or repairs and alterations of an existing Federal building. GSA is using leasing more and more to fulfill its space needs for other Federal agencies. Since the mid-1960s, GSA-owned space has grown from 149 million square feet to 174 million square feet in fiscal year 2006, an increase of about 17 percent. During this same time period, space leased by GSA from the private sector has grown from 45 million square feet to 172 million square feet in fiscal year 2006, an increase of over 280 percent. By the end of fiscal year 2007, GSA will reach the point where we will have more leased space than Federally-owned space.

Leasing serves a useful purpose for the Government. For small or short-term requirements, leasing is generally the most flexible and lowest cost solution for the taxpayer. GSA has a large number of leased buildings because most of our requirements (over 70 percent) are less than 10,000 square feet and generally

for short terms (5-10 years). These requirements are usually for relatively generic office space without many special features and they are widely geographically dispersed. For these transactions it is more advantageous to lease than to own.

GSA is concerned that we may be leasing some facilities that should be Government-owned, where there is a large, long-term customer requirement in a major metropolitan area with other Federal tenants that could be used for backfill. In some cases, leasing may be the only alternative if Federal construction cannot deliver the space in time to meet the requirement.

Mr. Chairman, Ranking Member Coburn, this concludes my statement. I would be pleased to respond to any questions you or the other members of the Subcommittee may wish to ask.