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# Highlights

Highlights of [GAO-06-136T](#), a testimony for the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

In January 2003, GAO designated federal real property a high-risk area and issued an update on this area in January 2005. GAO identified the government's reliance on costly leased space as one of the major reasons for the high-risk designation. Other reasons included excess and deteriorated property, unreliable real property data, and the challenges associated with protecting these assets from terrorism.

This testimony discusses GAO's designation of federal real property as a high-risk area and focuses specifically on the government's reliance on costly leased space.

## What GAO Recommends

GAO continues to believe that a comprehensive and integrated transformation strategy is needed to address several underlying obstacles to real property reform. These obstacles include competing stakeholder interests, various funding and budgetary disincentives, and the need for improved capital planning among agencies.

Alternatives to costly operating leases for long-term space needs should be considered because the current practice results in excessive costs to taxpayers and does not reflect a sensible and economically rational approach to capital asset management

[www.gao.gov/cgi-bin/getrpt?GAO-06-136T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-136T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark L. Goldstein at (202) 512-2834 or [GoldsteinM@gao.gov](mailto:GoldsteinM@gao.gov).

## FEDERAL REAL PROPERTY

# Reliance on Costly Leasing to Meet New Space Needs Is an Ongoing Problem

## What GAO Found

The underlying conditions and related obstacles that led to GAO's designation of federal real property as high risk still exist. Many of the assets in the government's vast and diverse portfolio of real property are not effectively aligned with, or responsive to, agencies' changing missions. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management and the cost and challenge of protecting these assets against terrorism. Additionally, a heavy reliance on costly leasing, instead of ownership, to meet new space needs is a pervasive and ongoing problem. Since GAO's designation of this area as high risk in January 2003, some important efforts to address these problems have been initiated, but it is too early to judge whether the administration's focus on this area will have a lasting impact.

The federal government owns and leases about 3.3 billion square feet of building floor area in roughly a half-million buildings worldwide, of which more than 380 million square feet are leased. Building ownership options through construction or purchase and lease-purchase are generally less costly than using operating leases to meet long-term space needs. However, as GAO reported over the last decade, the General Services Administration relies heavily on operating leases to meet new long-term space needs because it lacks funds to pursue ownership. Operating leases have become an attractive option, in part because budget scorekeeping rules allow budget authority for some operating leases to be spread out over the term of the lease and "look cheaper" in any given year, even though they are generally more costly over time. In contrast, budget authority for ownership options is recorded fully up front in the budget to appropriately reflect the government's commitment. As a result, this situation has encouraged an overreliance on operating leases for satisfying long-term space needs. For example, the Patent and Trademark Office's (PTO) operating lease for long-term space needs was estimated to cost \$48 million more than construction and \$38 million more than lease-purchase.

## Examples of Leased Federal Facilities



Source (from left to right): GSA and PTO.

From left to right: Department of Transportation Headquarters Building (under construction), Washington, D.C. and Main PTO Building, Alexandria, VA.