

NAVIGATING THE FUTURE OF GSA OFFICES

By: Michael Hoban



In March of this year, the Associated Press [reported](#) that “the real estate market (was) blindsided” when the Department of Government Efficiency (DOGE) revealed that the General Services Administration (GSA), which manages federal properties, had notified landlords of its plan to terminate 793 of its leases. The plan would focus primarily on leases that could be ended within months without penalty, with DOGE estimating that those moves would save \$500 million over the terms of the leases.

lease terminations, and according to [JLL’s DOGE Federal Lease Termination Tracker](#) (which updates lease terminations weekly), there were 485 terminations and 372 rescissions by mid-June. The terminations totaled 5.7 million square feet (roughly 3.3% of GSA-leased property), while the recessions totaled 5.2 million square feet.

At the same time, the GSA announced that 443 of its federal buildings would be sold, including its own headquarters and others in Washington, D.C. The list was taken down the day after the announcement, and by mid-June, the number of federal buildings listed for sale nationwide [stood at 45](#).

Downsizing the federal government’s real estate footprint has been an ongoing effort since the early days of the Obama administration. Between [FY 2012 and FY 2014](#), leased federal office and warehouse space was reduced by 21.4 million square feet, and in FY 2014 alone, the government disposed of 7,350 federally owned buildings, encompassing 47 million square feet of space. The chaos created by DOGE’s haphazard implementation strategy, however, has resulted in confusion and uncertainty in the market, particularly on the leasing side.

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LANDLORDS PUSH BACK

Leasing space to a GSA entity has long come with a caveat: When the lease is in the “soft term” period, the government can terminate the lease at any time—typically with 30-120 days’ notice—without incurring a penalty. At the close of 2024, the portfolio of the GSA, the nation’s largest tenant, consisted of 173 million square feet of leased and 184 million square feet of owned space, according to [Colliers](#), with 41 million square feet of leases in “soft term.” The soft term was designed to provide the government with flexibility to adjust its office space needs, especially towards the end of a lease, to allow for potential downsizing.

Matt Cravey, SIOR, president of Cravey Real Estate Services in Corpus Christi, Texas, and a 50-year CRE veteran, has been working with GSA tenants since the 1970s. He says that while landlords have always been aware of the clause, it was rarely considered a significant risk, since government agencies were unlikely to lose funding. “Everybody would sort of wink and say, ‘Have you ever seen a government program not get approved for funding? When have you seen the government do that?’” Cravey said.



That perception shifted earlier this year. In February, DOGE ordered the GSA to cancel multiple leases in a building where Cravey had represented the landlord. One of those leases was for the U.S. Attorney’s Office for the Southern District of Texas in downtown Corpus Christi. “DOGE comes along and boom! They just cancelled it,” he said. However, within a week of receiving the notice from GSA, the landlord received another memo instructing them to disregard the first notice. “It was a case of ‘ready, fire, aim’”, says Cravey.

Following the incident, Cravey said his client became hesitant to consider future GSA leases, citing concerns about unpredictability and potential financial losses. “The GSA could cancel the lease in a year, and the landlord would have to absorb the cost of the buildout,” he explained. Cravey noted that this sentiment is shared by other landlords in the region.

That reluctance extends to the Washington, D.C. leasing market as well. “I think there's probably much less appetite for leasing to GSA tenants, with the uncertainty and the appropriations clause, which means that every year they can pretty much break the lease,” says Adam Collins, SIOR, senior vice president in the Washington, D.C., Transwestern office. “But it's hard to comment on the DOGE cuts. You hear a different number from a different person every day, and it seems like it's being continuously revised. Hopefully, there will be more clarity (in the coming months).”

Despite the hesitancy of some landlords, Collins says that the most active lessors of space in the downtown D.C. market have been the GSA and law firms. With the current administration's desire to see federal employees return to the office, there is demand, although space requirements tend to be smaller—but not because of the post-pandemic trend toward flexible workspaces. “It's more about cutting space because it's not being utilized. They just have too much of it,” he says. “The way the GSA makes leasing decisions has been slow for a very long time, through many different administrations. I think it's just hard for them to understand what their actual requirements (will be).”

CHANGE CREATES OPPORTUNITY

As is often the case with systemic upheavals, there are opportunities being created in some markets. Scott Whitefield, SIOR, a VP at CBRE's Albuquerque, N. M., office, says the downsizing by the GSA, while a short-term strain, has freed up premium space for other corporate tenants. The 14 million square foot Albuquerque office market has seen little new construction since 2007, and Class A office space has been in short supply. “What the GSA has returned to the office inventory is very marketable, highly desired, large block office space,” says Whitefield.

Two years ago, at a time when the government was offering work-from-home options to federal employees, CBRE was given the leasing assignment for a 100,000-square-foot office complex that the government entity had opted out of. “It was quality space, and it was turned back to the landlord with things like furniture and infrastructure in place.” This increased appeal for prospective tenants, and CBRE filled most of that space in about 18 months with a mix of tenants, including engineering firms, a movie production group, and research companies that needed large floor plates and open areas.

The State of New Mexico has also filled some of the office space vacated by GSA tenants. Where some state offices had been located in functionally obsolete spaces in “less attractive” areas, the state has taken advantage of the vacancy in the Class A spaces in the more vibrant downtown, which aids in recruiting and retaining staff.

“When all of this space came on the market, private industry said, ‘Maybe it's time to relocate from our space into a more appropriate, relevant, nice space,’” says

Whitefield. “So it's not right-sizing, and it's more about creating an environment that makes it easier to bring people back to work after sending everybody home to work during the pandemic. The GSA has inadvertently created a lot of opportunity that people are seizing.”

A NEED FOR A STRATEGIC PLAN

The announcement that the GSA would sell 443 of its federal buildings was met with objections from many quarters, with a primary concern being that the action lacked detailed cost-benefit analyses and justifications for the selection of buildings for sale.

That opinion was shared at a House subcommittee hearing in April by Ron Kendall, the executive chairman emeritus of the National Federal Development Association, which represents private property owners who lease to government tenants. “My concern is that this is not being done judiciously,” he told the panel. “Disposal is not the enemy. It's how it is done, and it must be done carefully with deliberate study.”

Selling off some of the federally owned properties strategically and thoughtfully, however, could make sense, particularly those that are well-located or well-suited to adaptive reuse. “A lot of these buildings in D.C. that the federal government owns are in pretty poor condition, and there's just not enough money in the federal budget to bring them up to code,” says Collins. “I would imagine there is a strong appetite for developers who want to redevelop those properties, although not into office buildings. We don't have a ton of developable land in D.C., and that real estate is incredibly coveted. The city has been looking to further activate the Pennsylvania Ave corridor for years, so selling some of these buildings could be one of the options.”

MOVING FORWARD

The long-term consequences of this shift in federal real estate strategy remain to be seen. While the immediate impact has been most acutely felt in the nation's capital, the broader implications for the national commercial real estate market and the efficiency of government operations will continue to unfold in the coming months and years.

“I think we're in the middle or maybe 3/4 of the way through the process of redefining what the USA office real estate footprint will look like,” says Whitefield. “It's a living process, and we're being very adaptive to it, but I do not see this as a terrible disruption. It's a bump in the road, and it's more of an opportunity than it is a clandestine catastrophe.”

CONTRIBUTING MEMBERS

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