

## *Capturing Value from Federal Real Estate*

by Patrick J. Keogh, AMV, LLC

President Obama's memorandum of June 10, 2010, directs federal agencies to reduce the cost of their real estate and accelerate the disposition of their surplus real estate. In taking this action, the President acknowledges that the government is spending more than it should for real estate and holds property long after its usefulness. Leadership for this initiative is assigned to the U.S. General Services Administration.

The Federal government, unlike businesses, does not operate with a full set of financial statements. It certainly has income and expense statements which account for appropriations and the expenses incurred to operate the government. But the Feds lack a balance sheet. Although they may inventory property, nowhere do they properly account for agency assets. Government accounting is all about income and expenses with no accounting for values. So the President rightfully suspects there may be opportunity lurking in the missing balance sheet.

Examples of smart, aggressive, return-based asset management in the Federal government are few. The military, for example, periodically labors through a Base Realignment and Closure (BRAC) process and expends enormous amounts of money to study the real estate it no longer needs. It then frequently gives away its property to local public authorities, often retaining the environmental liabilities that remain from many years of military use. The focus of the various BRAC initiatives has been mainly to depoliticize the process for disposing of surplus military real estate.

If there is a central authority for civilian real estate, it is GSA. Many agencies control their own specialized properties and GSA is responsible for the general purpose, commercial real estate. GSA has a disposal function for transferring excess properties to other federal agencies and another process for the disposal of properties surplus to the Federal government's needs. The disposal process for surplus properties involves running a gauntlet through various local governments and charitable enterprises before selling the surplus prop-

erty. In no event is maximizing the return to the government the prime objective of the disposal effort. And, in the end, any sales proceeds either goes in most cases to the Treasury or to the Department of Interior.

To say that the government's real estate practices are not structured to yield the best returns is a gross understatement. To start with, the entity that owns the property generally does not get to retain the proceeds from the sale, and often funds appropriated for real estate may not be used for other purposes.

There is one outstanding example of a federal organization managing its assets to the best standards anywhere. That was the United States Postal Service in the period between 1980 and 1995. Think what you might about the USPS and its mail handling, its asset management activities were without peer. You see, during that time the USPS felt the full brunt of change in the way mail was being distributed. Previously, mail was mostly transported by rail to major urban hubs. There, it was sorted and distributed throughout the metropolitan area. As populations became more dispersed, mail was carried by plane and distributed by truck to distribution centers throughout the metro area. That left major mail handling facilities mostly unused in central city locations. What the USPS did next is a striking example of public entrepreneurship at its best. And in public real estate circles the story remains largely untold.

First, USPS officials did not see these center city properties as "excess" or "surplus." They did not do any studies to determine highest and best use. They did not pay for appraisals and they certainly never considered giving anything away. In short, they avoided all the practices characteristic of most Federal agencies in such circumstances. In fact, they spent little to no effort on determining "what" should be done with the properties. All their attention went into determining "who" to work with to create the highest possible return to the USPS. And, at the outset, they determined the "who to

*(Continued on page 15)*

## *Capturing Value from Federal Real Estate (cont'd)*

*(Continued from page 16)*

ings that have yielded them about \$150 million. In another ten years or so the full ownership of the property reverts to the USPS. Remembering that the USPS put no capital into the deal and its redevelopment, one has to marvel at the returns achieved by the USPS. And bear in mind that the USPS did many such similar deals with other properties around the country.

I believe the USPS asset management initiatives during this period are the best examples of suc-

cess in achieving returns from underperforming federal property. The lessons are clear for this administration in capturing value from federal real estate. Create a central asset management enterprise to focus responsibility and measure performance. Get the best private real estate representation and compensate them from the value created. Do not prescribe solutions at the outset but work together with private partners to design the best business plan for each asset. Finally, use RFQs as the principal procurement vehicle in

selecting all private participants in the deals.

*Patrick J. Keogh is the President of AMV, LLC which holds a GSA schedule contract for a wide variety of advisory services, including real estate, financial, development, asset management and legal matters. Pat is the former financial manager of GSA's 1972 purchase contracting program and the program manager of the "Cold War" lease construction program. He can be contacted at [pkeogh@amv-llc.com](mailto:pkeogh@amv-llc.com) or 703.790.8471.*

### NFDA Monograph No. 1

This first in a series of Monographs published by the NFDA Institute brings together three classic papers developed by Patrick J. Keogh, President of AMV LLC, and Dr. Dennis Eisen, Editor and Publisher of Government Leasing News. Readers wishing to purchase copies can do so by remitting a check in the amount of \$65 payable to Government Leasing News and mailing it to Government Leasing News, 13408 Glen Lea Way, Rockville, MD 20850-3638. To pay by credit card (Visa, MasterCard, Discover or American Express) call Government Leasing News at 301-762-1441. The papers are:

- *Public-Private Partnering Methods for Procuring Build-to-Suits* by Patrick J. Keogh
- *A Public-Partnering Approach to GSA's Existing Leases* by Keogh and Eisen
- *Classification and Scoring of Federal Leases* by Dennis Eisen

The Monograph will be sent out via email, so if you're paying by check, supply the information below and be sure to print your email address carefully. Better yet, include your business card.

Name: \_\_\_\_\_ Telephone: \_\_\_\_\_

Organization: \_\_\_\_\_ Email: \_\_\_\_\_