SAMUEL J. MORRIS, III

ASSISTANT COMMISSIONER

OFFICE OF REAL ESTATE ACQUISITION

PUBLIC BUILDINGS SERVICE

GENERAL SERVICES ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT

COMMITTEE ON
TRANSPORTATION AND INFRASTRUCTURE

U.S. HOUSE OF REPRESENTATIVES

MARCH 20, 2009

GSA

Good morning, Madam Chair, Ranking Member Diaz-Balart, and Members of the Subcommittee. My name is Chip Morris and I am the Assistant Commissioner for the Office of Real Estate Acquisition in the Public Building Service (PBS) at the US General Services Administration (GSA). Thank you for inviting me here today to discuss the impact of the serious commercial real estate credit crunch and GSA leasing and building during an economic crisis. My colleague, Bart Bush, Regional Commissioner for PBS in the National Capital Region (NCR) is also here to answer questions about NCR's real estate acquisition reorganization.

Since our new construction, modernization, and repair and alteration programs are funded through appropriations, they are not directly affected by any decreases in the availability of credit generally. GSA pays contractors and subcontractors for these projects periodically for work completed; they typically do not need to obtain third-party financing to complete these segments.

The credit crunch has had mixed impacts on our leasing program. Financing for Government leasing deals (where leases are backed by the full faith and credit of the United States) has always been lower than that for more risky ventures. Therefore, when credit becomes more expensive or difficult to obtain, lessors of Government-leased buildings have typically obtained financing more easily and on less costly terms than other borrowers. Moreover, in some markets lease rates have declined.

However, GSA is noticing an adverse impact of the credit crunch on its leasing program in certain instances. We monitor the impact of the credit crunch on lease projects on an ongoing basis. Most recently in February 2009, we asked our regional offices to identify leasing projects where lessors were experiencing difficulty obtaining financing. The regional responses identified 21 lease projects that they believe were impacted by a lessor's inability to secure funding resulting in delayed delivery of space or a need to recompete the procurement.

The credit crunch impacts some projects and agencies to a greater degree than others; however, we have seen some impact on small, short-term leases as well as large lease construction projects. Several lessors have experienced difficulty obtaining financing for the tenant improvements. Others have withdrawn from procurements due to their inability to obtain financing. In some cases lease contracts have been terminated because of the lessor's inability to close on financing generally. These delays can add cost to the overall project and impact our client agencies' ability to fulfill their mission.

On larger, more complex projects, we can use our credit tenant lease in order to attract more favorable financing. We are also working on improving our solicitations for offers to obtain more disclosures in the bids regarding financing terms from both lenders and offerors to protect the Government and assure ourselves of the financial viability of the prospective offers.

That concludes my testimony and I would be happy to try to answer any questions that you may have.