

FEDERAL REAL ESTATE OUTLOOK UNDER A BIDEN ADMINISTRATION

By Norman Dong
Managing Director at FD Stonewater

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Note: While we understand that the election results are being contested, we wanted to take this opportunity to explore the Federal real estate outlook under a Biden Administration.

As we emerge from one of the most contentious Presidential campaigns ever, we would expect to see a significant shift in Federal policy and direction under the new Biden Administration. But will this also hold true for Federal real estate? Both Democrats and Republicans have been largely united in their call for more effective management of the Federally-owned and leased portfolio. As a likely Biden Administration begins to take hold, we are already seeing signs of what is on the government real estate horizon.

Over the past decade, there has been strong bi-partisan support to reduce spending on Federal real estate by shrinking the Federal footprint and shifting away from leasing into Federally-owned space. The landmark “Freeze the Footprint” directive issued by OMB in 2012 evolved into a more deliberate effort to “Reduce the Footprint” beginning in 2015. By 2018, GSA launched its Lease Cost Avoidance Program, placing greater emphasis on actual savings instead of the size of the footprint. As the Federal approach continues to mature, we can expect the focus on cost savings and a more efficient use of space to continue. However, COVID remains a major wildcard, and the long-term impact of the pandemic on Federal real estate remains unknown.¹

During the fiscal year that ended on September 30, Federal spending hit \$6 trillion for the first time ever as the government mobilized in response to the COVID-19 pandemic. As the crisis persists, Federal spending will continue at record levels as the government seeks to combat the pandemic and jump-start the economy. Hopes remain high for a post-election COVID relief bill. Under the first stimulus, the Centers for Disease Control, the National Institutes of Health, and other agencies received significant funding increases to respond to the public health crisis. With another stimulus package on the horizon, this time GSA may be among the beneficiaries of increased funding. Taking its cue from the Recovery Act of 2009, the House Appropriations Committee included an additional \$5.99B in capital funding to support new construction, acquisition, and repair and alterations in its markup of the FY2021 GSA budget. If approved, this funding would support the DHS headquarters consolidation at St. Elizabeth’s along with other projects to consolidate leased tenancies into Federally-owned facilities.

Beyond another economic stimulus package, we can expect increased Federal spending to support the priorities of a Biden Administration. After years of anticipation, we may finally see an infrastructure bill that

¹ In March 2020, FD Stonewater issued a white paper on the impact of the COVID-19 pandemic on Federal real estate, which is available upon request.

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increases funding for the Department of Transportation and other agencies. As the Federal government re-affirms its commitment to dealing with climate change and the environment, we could see additional funding for the Environmental Protection Agency, the Department of Agriculture, and other agencies that support the Federal effort. At the same time, we do not expect the Department of Defense and the Department of Homeland Security to see sharp drops in funding under a new Administration, especially if the Republicans maintain control of the Senate.

A signature tactic of the Trump Administration was the relocation of Agency program functions beyond the National Capital Region. The transfer of the USDA Economic Research Service and the National Institute for Food and Agriculture to Kansas City, MO, and the relocation of the Department of Interior's Bureau of Land Management to Grand Junction, CO, were both unprecedented and highly controversial moves to break up Washington's grasp on these Federal functions. With a conventional perspective that sees Washington as the seat of government, a Biden Administration is not likely to continue this trend. The more interesting question is whether the new Administration would try to return these functions back to Washington, an effort that would be complicated by long-term leases and the geographic relocation of employees. Finally, while a Biden Administration would put an end to the practice of exporting Agency program functions beyond the beltway, we may see continued expansion of agency mission support functions (procurement, finance, etc.) like the Department of Treasury in Parkersburg, WV, the State Department in Charleston, SC, and other back-office functions in lower-cost labor and real estate markets.

A new Administration would also bring new hope for the FBI Headquarters project. Under the Obama Administration, GSA proposed three potential suburban locations and offered an exchange of the Hoover building to help defray the \$2.4B cost of the project. Weeks before GSA was poised to make an award to the winning development team, the incoming Trump Administration cancelled the procurement and later offered up its own proposal to construct a new facility on the existing FBI site in the District, which received a chilly reception on Capitol Hill. Expect that a Biden Administration will breathe new life into the FBI headquarters project and offer its own proposal, learning from the lessons of the past. A Biden plan for the FBI headquarters is likely to recognize the functional benefits and political realities of the suburban location approach. But do not expect GSA to complicate the program with an exchange of the Hoover Building next time around. GSA will likely dispose of the Hoover Building separately to maximize the proceeds from the sale of that asset.

The resuscitation of the FBI headquarters project may also shine a new light on lease scoring rules. There were high hopes for a reconsideration of scoring rules when real estate developer Donald Trump entered the White House in 2017, but those hopes faded quickly. The Administration's Federal Capital Revolving Fund proposal reflected an important first step towards a more rational approach on scoring rules but was complicated by its controversial proposal to have the FBI headquarters as the inaugural project for this Fund. A change in Administration would offer another opportunity to move away from a blind and rigid adherence to policy and consider the business case and economic logic of longer-term lease transactions. As GSA continues to face long-term capital budget constraints, the question is whether a new Administration would be sufficiently motivated to rationalize the Federal approach and navigate a course within the Executive and Legislative branches to make headway on this issue.

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One hallmark program of the Trump Administration has been the Opportunity Zone program and the Federal commitment to increasing public and private investment in under-served communities. While previous Administrations, both Democratic and Republican, established similar efforts to encourage investment in lower-income communities, the Trump Administration has expanded this commitment to Federal real estate. Since June 2019, GSA has been updating its leasing policies and practices to give greater consideration and greater priority to Opportunity Zones when selecting locations for Federal facilities. As a new Administration takes office, the question will be whether it takes a “not invented here” approach to these recent updates to GSA leasing policy, or if they will embrace and maybe even expand the government commitment to locating Federal facilities in these under-served communities.

A Biden Administration would take office in January 2021 with an ambitious Federal agenda that is likely to affect the Federal real estate portfolio. The ability of a new Administration to advance this agenda will ultimately depend on how well it can work with the next Congress. In recent years, the relationship between the GSA and the House and Senate oversight committees has been strained due to disagreements about the Old Post Office, the FBI headquarters project, and other issues. With Democratic control of the Executive Branch and the House of Representatives, things should run more smoothly, prospectus approvals should occur more quickly, and there should be a greater level of cooperation between the GSA and the Hill. Depending on the results of the upcoming Senate races in Georgia, we could see even greater alignment among the key stakeholders to advance the cause of Federal real estate in the coming years.

Norman Dong is a Managing Director at FD Stonewater and is the Former Commissioner of the U.S. General Services Administration, Public Buildings Service.

