

## Federal Real Estate: The Hidden Cost of Underutilized Space and Aging Infrastructure

**Imagine owning a vast portfolio of properties but using only a fraction of them, all while piling up billions in unpaid, compounding maintenance bills.** This is the reality for the federal government, where the cost of office space has ballooned, and infrastructure is aging faster than we can keep up. Let's pull back the curtain on federal real estate and see what's really going on and why it matters to you.

### The Current State of Government Office Space

Here's a jaw-dropper: The federal government spends \$2 billion annually for its offices. There's more — an additional \$5 billion is spent leasing extra office space.<sup>i</sup> This may not seem concerning until you hear that many federal buildings harbor environmental liabilities as the General Services Administration (GSA) stares down \$2 billion in environmental liability costs due to asbestos.<sup>ii</sup> Yes, asbestos — the substance we've known was deadly since the 1970s.

And it gets worse. Deferred maintenance costs have soared in the past 30 years by 1,900 percent, from \$4 billion in 1991<sup>iii</sup> to a staggering \$80 billion by FY22.<sup>iv</sup> That is an average annual growth of 8 percent over the 30-year period and 9 percent over the last five years, equating to \$100+ billion in deferred maintenance by FY25. For comparison, proactive detection and prevention often slashes maintenance costs by up to 40 percent. As deferred maintenance becomes "critical," though, the price tag skyrockets — think four to 10 times what it would have cost if addressed sooner. These aren't just numbers on a spreadsheet; they represent a ticking time bomb of costs.

What's the kicker in all this? Federal office space utilization rates are shockingly low; the government uses on average 9 percent to 35 percent of its space,<sup>v</sup> as opposed to market averages of 50 percent to 60 percent pre-pandemic.<sup>vi</sup> Yet, despite this downward space utilization trend in the market at 1.4 percent annually from 2009 to 2019,<sup>vii</sup> agencies are renewing leases and adding extra space due to lingering space management guidelines and the need to preserve operating budgets.

But right-sizing a real estate portfolio in the federal space is not easy. With 30 percent of the federal workforce eligible for retirement,<sup>viii</sup> we're on the brink of a demographic shift that will significantly impact space needs. The Office of Personnel Management (OPM) is actively reevaluating its stance on remote work, which could significantly reduce the number of in-office employees.<sup>ix</sup>



Deferred maintenance costs **increased 8%** for each of the last 30 years, equaling \$80 billion in 2022, and set to reach \$100 billion in 2025.



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## Efforts in Motion

So, what's the government doing about this mess? The Public Buildings Reform Board was created to identify opportunities to reduce real property. The GSA has requested \$425 million to offload unneeded space, aiming to cut 30 percent of the space in the coming years,<sup>x</sup> after it reported in July 2023 that over 50 percent of its leases — more than 80 million square feet of real estate — were set to expire by FY27.<sup>xi</sup> This is all part of a

broader “Reduce the Footprint”<sup>xii</sup> strategy to optimize the federal real estate portfolio and reduce costs. But the road to efficiency is long and winding. Some agencies are still investing in aging infrastructure, like the seven-year, \$890 million Cannon Building renovation,<sup>xiii</sup> while others like the FBI are cutting their losses and requesting new space.<sup>xiv</sup>

There have been small wins. The government sold 23 buildings for disposal and reduced space by 10 million square feet since 2014, negotiated leases to downsize,<sup>xv</sup> and returned \$194 million from building sales. The issue: much of this downsizing is happening outside the greater Capital region. There's still a lot of work to be done.



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## Unlocking Value

Here's the bottom line: the federal government is staring at eight macro challenges across multiple dimensions — financial, environmental, demographic and organizational — making its real estate crisis not just one of scale but complexity. These core issues can be categorized into three themes: environmental and structural liabilities (aging infrastructure, deferred maintenance, environmental costs), public sector dynamics (ballooning leasing costs, slow downsizing), and broader macroeconomic trends (underutilized space, demographic shifts, remote work growth).

It would be wrong-minded to believe it is as simple as slashing space. With the pending federal retirements and the government increasingly hiring young, tech-focused personnel, the makeup of the workforce is evolving. The government needs a plan that looks decades into the future, with strategies for flexible space that account for what agencies see as the “future of work.” This isn't just about facility management; it's a matrix of interwoven problems demanding a new playbook.



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## Charting the Path Forward

Navigating the complexities of federal real estate management requires a nuanced approach that transcends simple solutions. There's no magic bullet, but there's a path forward for the government. First, GSA has the necessary infrastructure data on everything from maintenance costs to lease durations and building age for the basis of a current state assessment. The infrastructure data, coupled with tactical stakeholder interviews and observational secondary research, can lay the initial groundwork as to the extent of the problem. Then, it's time to iterate on timed, strategic divestiture plans rooted in departmental needs, future space requirements and global government benchmarks. Third, a hard-nosed financial analysis is essential, calculating the cost-benefit of scenarios while exploring funding options and lifecycle costs to predict ROI. Finally, solutions must be designed that consider evolving OPM work policies, space optimization initiatives and office modernization trends. This sounds simple, but at the scale of government office space, be assured it is anything but.

The issues of underutilized space and aging infrastructure in federal facilities are significant but not insurmountable. The steps are there — the challenge next is in the execution.

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