

## THE PROPERTY REPORT

## U.S.'s Property Sales Get Tougher

*Weak Markets, Tight Financing Hurt Agency's Efforts; 'Sitting on Our Assets'*

BY MAURA WEBBER SADOVI

Sellers of commercial property unhappy with today's low valuations and tight financing market can commiserate with the federal government.

The economic downturn has also made the job of the General Services Administration tougher. It has never been easy for the federal agency, which manages about 380 million square feet of leased and owned real estate, to sell government properties that are either vacant or obsolete—that can range from homes once used by park rangers to environmentally contaminated industrial properties.

But the job has gotten even harder in the past few years as the financial crisis has reduced the availability of financing for properties that some lenders might view as risky propositions.

"Five years ago, financing was much more readily available, and banks were willing to lend on riskier deals," says Ralph Conner, GSA's director of the office of real property utilization. "Today, they're not."

Unlike most private owners, the GSA also has to deal with political pressure. Last month, the Republican leaders of the House Transportation and Infrastructure Committee released a report titled, "Sitting on Our Assets: The Federal Government's Misuse of Taxpayer-Owned Assets." It alleges the GSA struggles to dispose of property in a timely manner and fails to act like a prudent property owner. The report cited the sale of a 10-story Bethesda, Md., office building that "sat vacant for eight years, missing the height of the real-estate market during which time GSA could have realized a good return on investment." The GSA sold the building this year for \$12.5 million, below the suggested minimum bid, the report says.

Moira Mack, a spokeswoman for the Office of Management and Budget, says the federal government is already taking more aggressive steps to save taxpayer dollars by cutting real-estate-related costs. In a June



A real-estate company has offered \$2.5 million for Portland, Ore.'s 109-year-old U.S. Custom House.

memorandum, President Barack Obama directed federal agencies to accelerate the effort to eliminate unneeded properties.

In some cases, the GSA has tried to give property away. Earlier this year, a private school in Portland, Ore., passed on the agency's offer to give the school the city's U.S. Custom House for free. It was worried about the high cost of renovating the 109-year-old, six-story building. The GSA recently got a \$2.5 million offer for it from a real-estate firm.

The market for surplus lighthouses, meanwhile, also has gotten weaker. The GSA hasn't gotten any bidders so far in an online auction that opened earlier this month for the Old Orchard Light Station in Lower New York Bay near Staten Island. Likewise, an online auction that got underway last month for the Manitowoc Breakwater Light in

Wisconsin yielded no bidders. Since early last month, there have been just two bids for the Cleveland Ledge Light Station off Massachusetts in Buzzards Bay.

"It's a tough sell in any market but particularly in this market, there are not as many people willing to go after such unique properties," says Bob Trapani Jr., executive director of the American Lighthouse Foundation in Rockland, Maine. "Over the last two years, people are being more selective."

Some lighthouses near large cities are still getting healthy prices. In September, a winning bid of \$225,000 won the Latimer Reef Light Station in Fishers Island Sound off Long Island, and for \$195,000, a buyer is picking up the West Bank Lighthouse in Lower New York Bay.

The average annual proceeds from all GSA property sales from

fiscal 2008 through 2010 were \$122.8 million and the average number of properties sold was 223, of which nearly 80% were sold through online auctions. The rest were sold through sealed bids and live auctions.

In some cases, the GSA has reduced minimum bids in a move to generate interest. It also tries to eliminate any uncertainties tied to the cost of getting a property back into use.

There are times the GSA has had to start again from scratch. It had a deal in 2008 to sell a 76-acre former U.S. Army site, formerly known as the Stratford Army Engine Plant, in Stratford, Conn., for nearly \$10 million through an online auction. The buyer couldn't get financing and the deal collapsed. Now the GSA is putting the property back on the block in a sealed-bid process, which lets it vet the buyers.