

\$1.1 Billion in NYC Public Leases: Better Management Needed to Control Rising Costs

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In fiscal year 2018 New York City spent more than \$1.1 billion to lease space for public facilities and offices—an amount that has grown 40 percent since fiscal year 2014, faster than the growth of the New York City budget, office rental asking prices, and the number of City employees.

The Department of Citywide Administrative Services (DCAS) manages the City’s real estate portfolio, including both city-owned and leased spaces. The City Charter requires DCAS to maintain a list of leased and owned space; however, DCAS does not publish lease-level data on how much space the City leases, how much each lease costs, or how efficiently agencies use their space. While the agency has much of this information, to date it has not systematically collected and organized the data in an electronic format that would support rigorous space management.



DCAS launched new initiatives in fiscal year 2017 to bolster its management practices, including publishing new space utilization standards. DCAS is also in the process of re-measuring leased spaces and aggregating the relevant information into a centralized database. However, implementation has moved slowly, and efforts to reduce spending and use space more efficiently have been limited. The initiatives' initially modest savings targets have been cut in half, and the savings program lacks targets and metrics to assess progress.

Given the high and rising spending, DCAS should accelerate efforts to improve its management, monitoring and analysis of leased space to ensure its use is efficient and cost-effective.

City Spending on Leased Space Is High and Growing

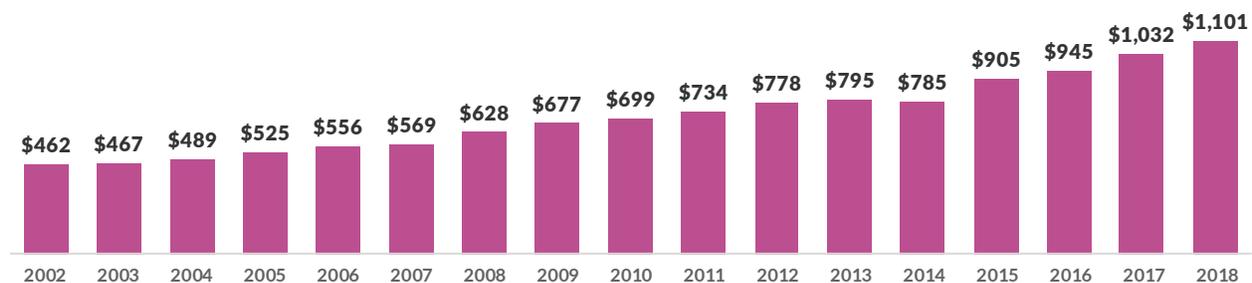
New York City government leases 22 million square feet of real estate (of an estimated 37 million square foot portfolio) from private owners.¹ Most leased space houses agency offices (13.5 million square feet), but the City also leases space for public services ranging from schools and day care centers to warehouses, tow pounds, and courts.²

Leasing space can be more cost-effective than owning. For example, a City agency may only need part of a building to serve as a field office or client intake center. Leasing also can reduce both the upfront and recurring annual costs of an agency's space needs. Private landlords can renovate leased space faster and cheaper than the City can in its own buildings, and leases shift responsibility for operations and maintenance to a private owner from the City.

Leases, however, also entail long-term commitments and obligations. A typical City lease lasts at least 15 to 20 years, during which time space needs can change. Future rent obligations on the City's existing leases total \$9.7 billion.³

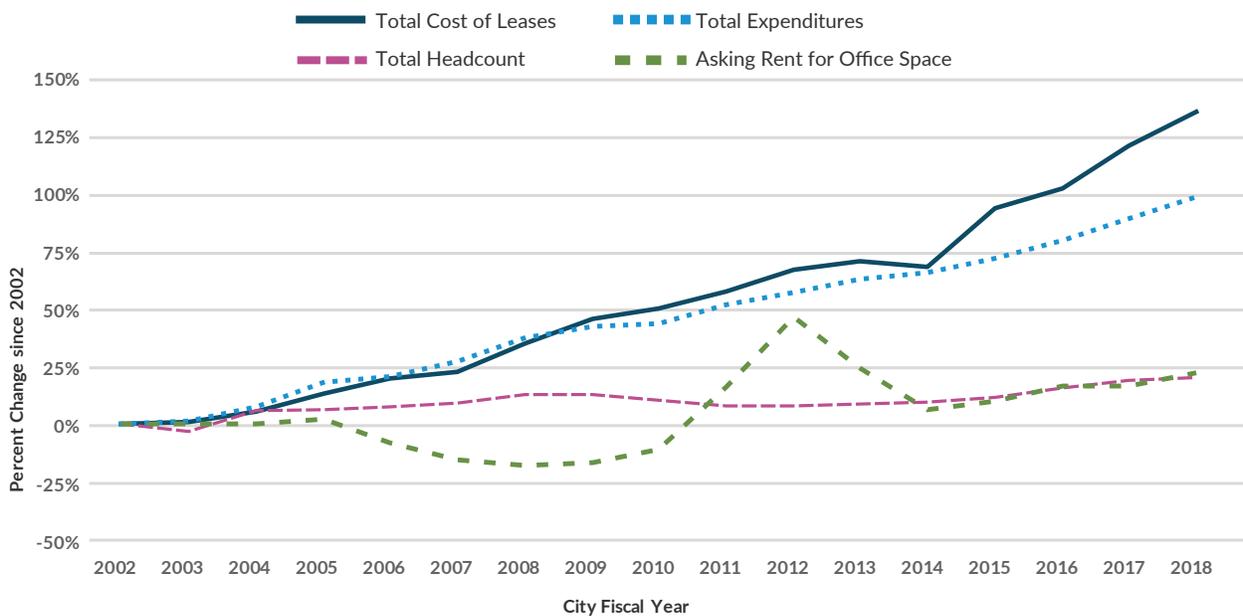
Figure 1 shows City spending on leased space, which includes rent and operating costs, exceeded \$1.1 billion in fiscal year 2018. Spending on leased space has grown faster than the total budget over the last decade. (See Figure 2.) After growing at the same rate as the City budget for most of

Figure 1: New York City Spending on Leased Space, FY2002-FY2018
(dollars in millions)



Source: Office of the New York City Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2018* (October 31, 2018), and fiscal year 2002 to 2017 editions.

Figure 2: Annual Growth in Spending on Leases Compared to Annual Growth in the New York City Expense Budget, Headcount, and Asking Rents for Office Space, FY2002-FY2018
(indexed to 2002)



Note: City expense budget spending is adjusted from reported totals to account for off-budget debt service, debt prepayments and defeasements, deposits into and withdrawals from the Retiree Health Benefits Trust, the adjusted Federal Medical Assistance Percentage (FMAP), and the net surplus roll.

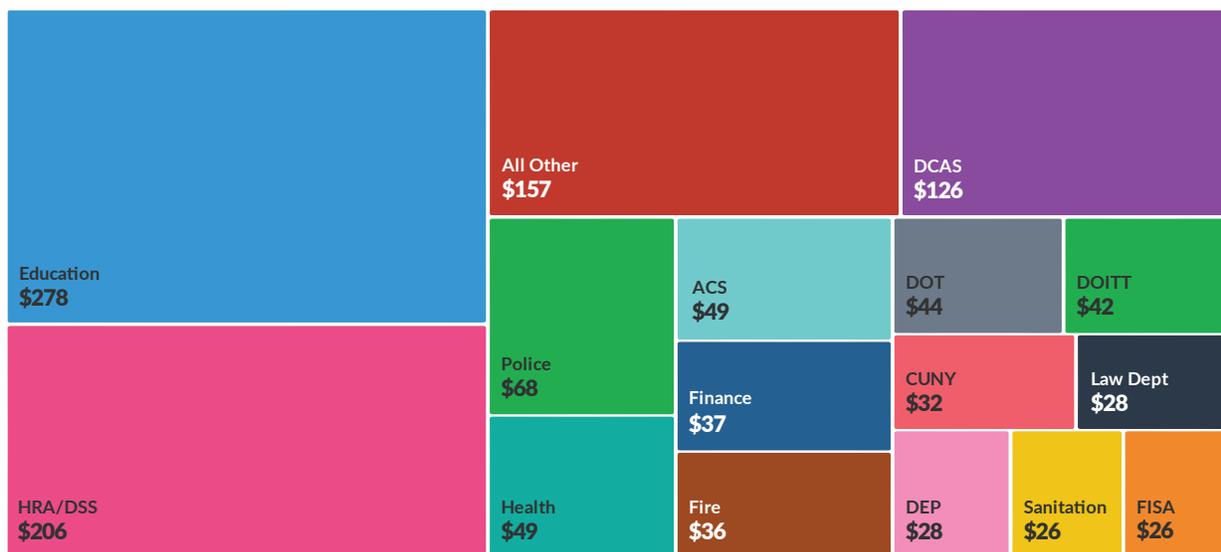
Sources: Office of the New York City Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2018* (October 31, 2018), and fiscal year 2002 to 2017 editions; and City of New York Office of Management and Budget, *Quarterly Report on Current Economic Conditions* (January 2019), and fiscal year 2007 to 2018 editions.

the 2000s, lease costs began growing more rapidly in fiscal year 2009 and accelerated at the start of the de Blasio Administration. From fiscal years 2014 to 2018, lease costs grew 40 percent, far greater than the 20 percent increase in the City budget, the 12 percent increase in asking rents for office space, and the 10 percent increase in the number of full-time City employees.

In fiscal year 2020 the City expects to spend \$1.2 billion on leased space.⁴ Nearly one-quarter of that is for the Department of Education (DOE). (See Figure 3.) Agencies with field offices—Human Resource Administration/Department of Social Services (HRA/DSS), Department of Health and Mental Hygiene, and the Administration for Children’s Services (ACS)—represent another 25 percent of lease costs. The New York Police Department (NYPD) is expected to spend \$68 million on leases, while two other uniformed agencies, the fire and sanitation departments, are budgeted to spend a combined \$52 million.

Agency offices are a large share of leasing costs—representing 22 of the 25 costliest leases (ranked by long-term obligations)—including the Departments of Transportation, Finance, Law, and Information Technology and Telecommunications.⁵ Many of these agencies have recently signed office leases, which contributes to their high expenditures. HRA’s 4 World Trade Center office is the City’s costliest lease.

Figure 3: Projected Leasing Costs by New York City Agency, FY2020
(dollars in millions)



Source: NYC Open Data, “Expense Budget” (accessed August 15, 2019, last updated June 27, 2019), <https://data.cityofnewyork.us/City-Government/Expense-Budget/mwzb-yiwb>.

Lack of Data Hinders Effective Space Management and Cost Controls

The City Charter tasks DCAS with overseeing the operation and maintenance of city-owned buildings; purchasing or leasing real property for public use; and assigning or relocating agencies to properties owned or leased by the City.⁶ The Charter requires DCAS to “establish comprehensive and continuing programs and standards for utilization for space owned or leased by the city and to conduct surveys of space utilization,” and to update annually a list of properties in which the City leases space, including information such as the lessor, location, base rent, rentable square footage, and escalation provisions.⁷ In fiscal year 2018, DCAS oversaw 75 percent of City spending on leased space, or \$829 million; agencies managed the remaining 25 percent directly.⁸

The main challenge in analyzing leased space costs and utilization is the City does not publish a complete record of leases and space use that includes each lease’s costs, square footage, and occupancy. DCAS only publishes data on the locations of buildings where the City leases space and the agencies located at each property. Without the quantity and cost of space leased at each property, the public cannot determine how efficiently it is used or examine what drives rapidly increasing lease costs.

DCAS maintains the Integrated Property Management System (IPIS), a database that identifies every City-owned property and property in which the City leases space. IPIS includes each building’s address and geographic identifiers, the total area of each property’s tax lot, and total gross built square footage from Department of Finance’s Real Property Assessment Data, whether the building is owned or leased, the agency to which the space is assigned, and the space’s primary use.

IPIS includes the number of leases entered into by agency and the purpose of the space; however, it does not include how long the lease is, how much space is occupied, the number of people occupying the space, or the cost to lease the space. While DCAS may study agency space needs at the time a lease is signed, it does not publicly track and publish the data needed to actively manage space on an ongoing basis.

Addressing Inadequate Asset Management Can Produce Savings for the City

Over the last decade, the City has launched multiple efforts to rein in leasing costs. In fiscal year 2010 the Bloomberg Administration launched the Office Space Reduction program to reduce the size of the City's office portfolio by 1.2 million square feet. DCAS developed new space guidelines to bring the City's office spaces in line with private sector best practices, with a goal of bring usage to 176 square feet per employee. The City hired a chief asset manager, developed space utilization metrics to identify underutilized space, adopted open plan layouts, and relocated or consolidated agency spaces. DCAS also began reporting the average square footage of office space per employee and the percentage of vacant desks in the Mayor's Management Report (MMR).

Through fiscal year 2012 the program reduced occupied office space by 400,000 square feet and saved \$15 million in annual rent expenses and \$4 million in energy costs.⁹ The average square footage occupied per employee declined 8.6 percent from a high of 280 square feet in fiscal year 2012 to 256 by 2016. The program was not sustained, and beginning in fiscal year 2017 DCAS stopped reporting space utilization metrics in the MMR.

In response to continued growth in spending, in fiscal year 2017 DCAS and the Office of Management and Budget (OMB) announced two new initiatives – Space Management and Enhanced Space Management – to improve DCAS' real estate management and reduce or contain costs. Under Space Management DCAS proposed to “undertake a more thorough review process” for space requests with a goal of matching agencies with existing space. Under Enhanced Space Management DCAS created a new space management taskforce and hired a vendor to build a custom database to track the City's real estate portfolio and help DCAS “make strategic decisions on space requests.”¹⁰

These initiatives were projected to save \$13 million starting in fiscal year 2019 rising to \$23 million annually by 2021. The initiatives did not set reduction targets and did not report metrics, such as square footage per employee, to track progress.

Implementation appears to be slow and results limited. Collecting basic data on how much space the City controls has been an initial challenge. The *Wall Street Journal* reported DCAS launched the space management initiatives in 2018 by setting out to quantify owned and leased space; as of July 2019 DCAS had measured just 3 million of an estimated 37-million-square-foot portfolio.¹¹ The agency expects it will take until the end of fiscal year 2022 to complete its surveying efforts.

Two years into the initiative, savings have also fallen short of expectations. In fiscal year 2019, DCAS realized less than \$1 million in budget savings and \$2.5 million in avoided costs.¹² DCAS

now expects to save \$8 million in fiscal year 2020 (down from an original goal of \$18 million) and just \$15 million by 2022 – likely to be less than 1 percent of citywide leasing costs. One reason for DCAS’ modest impact is savings have come from small agencies, like the Public Administrator of New York County and the Commission on Human Rights, and from small spaces occupied by larger agencies. It has yet to achieve substantial savings from the large agency office leases that represent the majority of the City’s leasing budget.

Conclusion

Active management of the City’s real estate portfolio is essential to ensuring that City agencies use space efficiently and minimize costs. Upholding the Charter-mandated obligation to collect, monitor, and publish data on the City’s real estate holdings is an important first step. These data, along with space standards and continuous analysis and management, are essential for DCAS to evaluate whether agencies efficiently use their facilities, whether owning or leasing space is more cost effective, whether expiring leases should be extended or vacated, and whether space utilization is becoming more efficient.

ENDNOTES

- [1] Katie Honan, “New York City Shrinks Cubicles as Municipal Workforce Rises,” *Wall Street Journal* (July 7, 2019), <https://www.wsj.com/articles/new-york-city-shrinks-cubicles-as-municipal-workforce-rises-11562515200>.
- [2] New York City Department of Citywide Administrative Services, email to Citizens Budget Commission staff (August 6, 2019); and NYC Open Data, “IPIS (Integrated Property Information Management System) (accessed July 31, 2019, last updated February 11, 2019), <https://data.cityofnewyork.us/Housing-Development/IPIS-Integrated-Property-Information-System-/n5mv-nfpy>.
- [3] The Comptroller’s estimate is based on future base rent obligations listed in lease agreements. The figure does not include incremental increases in operating costs that are passed through to the City. See: Office of the New York City Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2018* (October 31, 2018), “Part III – Statistical Information, Capital and Operating Leases,” p. 380, <https://comptroller.nyc.gov/wp-content/uploads/documents/CAFR2018.pdf>.
- [4] NYC Open Data, “Expense Budget” (accessed August 15, 2019, last updated June 27, 2019), <https://data.cityofnewyork.us/City-Government/Expense-Budget/mwzb-yiwb>.
- [5] Office of the New York City Comptroller, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2018* (October 31, 2018), “Part III – Statistical Information, Capital and Operating Leases,” p. 380, <https://comptroller.nyc.gov/wp-content/uploads/documents/CAFR2018.pdf>.
- [6] At the discretion of the Mayor, DCAS’ scope of authority can also include operating facilities occupied by multiple agencies or a single agency.
- [7] New York City Charter, Chapter 35, Sections 822 and 824, amended through July 11, 2019, [http://library.amlegal.com/nxt/gateway.dll/New%20York/charter/newyorkcitycharter?f=templates\\$fn=default.htm\\$3.0\\$vid=amlegal:newyork_ny](http://library.amlegal.com/nxt/gateway.dll/New%20York/charter/newyorkcitycharter?f=templates$fn=default.htm$3.0$vid=amlegal:newyork_ny).
- [8] New York City Department of Citywide Administrative Services, email to Citizens Budget Commission staff (August 13, 2019).
- [9] Jane Wiseman, “Case Study: New York City Office Space Optimization: An Operational Excellence in Government Success Story” (Ash Center for Democratic Governance and Innovation, Harvard Kennedy School, July 2017) <https://www.innovations.harvard.edu/sites/default/files/Case-Study-New-York-City-Office-Space-Optimization.pdf>; and City of New York Department of Citywide Administrative Services, “DCAS Efficiency Initiatives” (June 6, 2012), <https://www.buildingcongress.com/uploads/pdf/DCAS-Presentation.pdf>.
- [10] City of New York, Office of Management and Budget, *Citywide Savings Program, Executive Budget Fiscal Year 2018* (April 26, 2017), <https://www1.nyc.gov/assets/omb/downloads/pdf/csp4-17.pdf>.
- [11] Katie Honan, “New York City Shrinks Cubicles as Municipal Workforce Rises,” *Wall Street Journal* (July

7, 2019), <https://www.wsj.com/articles/new-york-city-shrinks-cubicles-as-municipal-workforce-rises-11562515200>.

[12] Savings are actions that reduce planned spending already included in the city's financial plan. Avoided costs are reductions in potential future spending not yet reflected in the financial plan. From: New York City Department of Citywide Administrative Services, email to Citizens Budget Commission staff (August 6, 2019).

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