United States General Accounting Office

GAO

Report to Congressional Requesters

April 1996

OVERSEAS REAL ESTATE

Millions of Dollars Could Be Generated by Selling Unneeded Real Estate

G A O
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Congressional Requesters

The Department of State owns more than $10 billion in real estate at 200 locations overseas. We reviewed State's efforts to identify and sell excess or underutilized real estate and to use the proceeds for other high-priority real property needs. In 1995, we reported on the potential budget savings that selling high-value properties in Tokyo could have and on the problems in State's management of overseas real property.[1] This report (1) identifies real estate at other locations that could possibly be sold to provide funds for other real estate needs, (2) sets forth the problems State has in deciding what properties to dispose of, and (3) discusses how State uses the proceeds from properties it does sell.

We conducted this review under our basic legislative responsibilities and are addressing it to you because of the budget implications of buying and selling buildings abroad.

Background

State annually receives over $400 million in appropriated funds for buying and maintaining buildings abroad. It also has legislative authority to sell its real estate and use the proceeds to buy or improve other real estate and furnishings without further congressional approval. State's Office of Foreign Buildings Operations (FBO) is responsible for establishing and overseeing policies and procedures for State's real property, including approving the disposition of excess, underutilized, or uneconomical properties. These responsibilities are carried out in cooperation with the embassies.

Results in Brief

As of October 1995, State had a list of over 100 properties for potential sale valued at $467 million. However, we identified other properties worth millions of dollars not on the list that are potentially excess to State's needs or have a questionable value and are often expensive to maintain.

[1]In April 1995, we reported that State owns a deputy chief of mission residence in Tokyo, Japan, which was valued at $92 million in 1991. A replacement residence could have been provided for $4 million on other State-owned property, but State did not sell the high-value property. Overseas Real Estate: Inaction on Proposals to Sell High-Value Property in Tokyo (GAO/NSIAD-95-73, Apr. 7, 1995). Our May 1995 report discusses the progress made and some of the problems still facing the Department in real property management. State Department: Additional Actions Needed to Improve Overseas Real Property Management (GAO/NSIAD-95-128, May 15, 1995).

FBO has not developed a systematic process for identifying and disposing of excess property. As a result, FBO and embassies are sometimes unable to expeditiously (1) reach agreement on properties to sell, (2) move forward on sales, and (3) determine the use of proceeds. State officials told us that host government sensitivities and other factors must be weighed against the economic benefits of selling property. Resolving these considerations can delay potential sales for years.

FBO sold almost $53 million in real estate during fiscal year 1995. However, it did not (1) routinely use the sales proceeds for State's highest priority real property needs, (2) account separately for the use of the sales proceeds, or (3) use the proceeds to offset its appropriation request for such needs. U.S. embassies involved in sales are usually given first priority in using sales proceeds. FBO believes that embassies will not cooperate in identifying excess properties unless the embassy receives first consideration on how to use the proceeds. How the proceeds are used is not justified and funded through the regular appropriation process.

Because of the embassies' strong interests in the sale of their real estate and the use of the sales proceeds, as well as the difficulties FBO and the embassies have in resolving disputes, we believe that the Secretary of State should appoint an independent panel to decide which properties should be sold. The reasons for retaining any property should be weighed against the financial interests of the State Department and the U.S. government.

Additional Property Could Be Listed for Potential Sale

From 1990 to 1995, State made real estate sales totaling $133 million, including $48.8 million from the forced sale of property and property rights in Singapore because of road construction.[2]

If you exclude the Singapore transaction in 1991, sales averaged less than $4 million annually from 1990 to 1993. Real property sales increased to $16 million in 1994 and $53 million in 1995, but a significant amount of property has yet to be sold from FBO's list of properties available for disposal. Both FBO's October 1994 list and a second list submitted to the Office of Management and Budget in 1995 had about 100 properties listed for sale. Properties on the 1994 list were valued at $250 million. One year later, FBO added high-value properties in Manila, Singapore, Paris, and Bangkok to its list, bringing the total value of properties available for sale

[2]Sales normally occur because State determines that the property is no longer needed, but the Singapore sales were forced because of road construction by the host government. The proceeds were largely used for replacement property.

to $474 million. About one-third of the properties on the 1995 list were estimated to sell for $1 million or more and accounted for over 90 percent of the anticipated revenue. (See app. I for the list of properties.) In addition, State holds other property that it could potentially sell that was not on these lists. These properties are worth millions of dollars and include

- properties that have been retained at closed posts, including Zanzibar, Tanzania, and Alexandria, Egypt;
- properties that are vacant, unneeded, or unsuitable for the purposes for which they were acquired, including some in Dakar, Senegal, and Rabat, Morocco; and
- high-value properties that are oversized or not needed in Hamilton, Bermuda; Buenos Aires, Argentina; Prague, Czech Republic; and Budapest, Hungary.

In addition, several of these unsold properties continue to incur high operation and maintenance costs. For example, in 1993, the embassy in Buenos Aires reported operating costs on the above property had doubled to almost $500,000 and major maintenance costs had risen to about $1 million. (See apps. II through IV for a detailed discussion of the above properties.)

No Systematic Process to Identify and Dispose of Excess Property

State has no systematic process to identify excess properties and to dispose of them. The Foreign Affairs Manual (6 FAM 782.1) requires each post to periodically identify and report on properties that are (1) excess to post requirements, (2) not being fully utilized, or (3) uneconomical to retain. However, embassies are not required to annually certify that they complied with 6 FAM 782.1. Further, FBO officials could provide no evidence embassies submitted excess property reports pursuant to this provision. As the single real property manager for nonmilitary U.S. government property overseas, FBO has authority to dispose of properties that become surplus, underutilized, or uneconomical (6 FAM 713.1) and to determine the use of sales proceeds (1 FAM 215). In practice, FBO does not normally proceed with a sale unless the embassy agrees, and it tries to reach agreements with the embassies on the sale of property and the use of sales proceeds.

According to FBO officials, property, such as that on the October 1994 list, is identified for sale by the embassies, FBO officials, State's Inspector General, and ad hoc requests to the embassies by FBO. However, embassies lack incentives to identify, report on, and sell excess or underutilized property unless they can use the proceeds for their own needs. Further, when embassies sell property, it creates additional work for them. FBO officials' contend that the totality of such actions constitutes a system for identifying real estate that should be sold. We do not believe that these actions constitute an organized system for identifying these properties. Our review showed that embassies have held unneeded property for years without an intended purpose, and in some cases, they do not know why the property was ever bought. For example, a lot in Burma, purchased in 1948 for an unknown purpose, is being used to store shipping containers.

In some cases, the embassies and FBO disagree on selling identified property. We found several cases where embassies and FBO have had protracted and costly disagreements regarding the use or sale of property and use of potential sales proceeds. In Brasilia, Brazil, the embassy and FBO had a standoff for over 2-1/2 years over whether (1) to sell vacant lots, which were bought in the early 1960s, and use the proceeds to renovate a 29-unit apartment building or (2) to sell an apartment building and other property and use the proceeds to build residences on the vacant lots. The embassy emphasized that the apartment building is in an extremely poor location. Also, according to FBO officials, the lots are located in the best parts of Brasilia, and there is a stigma attached to living in apartments in Brasilia. FBO indicated that it was cheaper to renovate the apartment building than to build private residences on the vacant lots. Further, legal restrictions prohibit the embassy from constructing apartments on the vacant land. During the time of this dispute, the embassy spent $580,000 annually to lease housing while the 29 apartments remained vacant. (See app. V.)

An FBO policy specifies that unresolved disputes will be submitted to the Assistant Secretary for Administration for further review and discussion with senior State management. However, disputes sometimes drag on for years. Of the cases that we reviewed, the Assistant Secretary was involved only in the Brasilia housing dispute, and then only after the dispute had been ongoing for 2-1/2 years.

We believe there should be a standard procedure whereby the embassies and FBO, at least annually, formally present their positions to another authority. This would help mitigate the conflicting interests of the State organizations involved and the difficulties they have sometimes in expeditiously reaching an agreement on the sale of property and the use of proceeds. It could also help alleviate the inherent reluctance to forward matters to a higher level for decision.

FBO Has No System to Account for and Ensure That Proceeds Go to Most Urgent Needs

FBO has not developed a procedure for routinely using sales proceeds to meet prioritized worldwide requirements. As an incentive for embassies to agree to a sale, FBO normally gives embassies that sell property first consideration when determining the use of sales proceeds. These uses are usually not justified in the annual congressional budget. FBO evaluates the legitimacy and economic soundness of each proposal, but it does not routinely weigh the proposal against the needs of other embassies.

We did find a few cases where FBO worked with the embassies to identify uses for the proceeds, rather than redirect the proceeds to other countries with greater need. For example, after the consulate in Lyon, France, closed in June 1992, the consul residence was sold in April 1995 for $613,000. In May 1992, the embassy in Paris requested to use the sales proceeds. Initially, FBO indicated that the proceeds should be made available for use in other countries, but the embassy objected, and FBO has been working with the embassy since 1994 to identify ways to use the proceeds in-country.

For any sales proceeds that will not be used in the country where the sale occurred, FBO's policy is to use them to buy property in countries with high lease costs. According to FBO officials, they have developed a list of countries where leasehold costs are high, expected to rise, and offer optimum investment opportunities. Even though this appears to be a move in the right direction, FBO did not provide us with its plan for using proceeds to meet this objective. FBO officials maintain that they need the flexibility to use the proceeds for other purposes.

In contrast to FBO's case-by-case approach to the use of sales proceeds, FBO determines critical construction and maintenance needs at posts and establishes funding priorities for the use of appropriated funds. For example, all posts are evaluated against established criteria in preparation for the 5-year budget. Furthermore, embassies' annual requests for maintenance funds for special projects are weighted and ranked against requests from all other posts, and those with the highest rankings are generally funded.

FBO officials said they cannot use the same approach for sales proceeds because the sales process is uncertain and they need flexibility in using the funds. Our review showed that through fiscal year 1991, State estimated the potential sales proceeds and included them as offsets to its appropriation requests. According to FBO, it does not do this now because of the long time required for developing budget estimates, the volatile nature of overseas real estate markets, and the complexities of marketing high-value properties. Even though State has the authority to retain proceeds from real estate sales, and sales proceeds are uncertain, FBO and embassies are using proceeds for real property purposes not justified and funded through the regular appropriation process. This ad hoc process essentially creates an off-budget fund.

According to FBO documents, of the $16.3 million in fiscal year 1994 sales, $6.3 million, or about 39 percent of the proceeds, were designated for use in the country where the sales occurred. About $2 million of the $6.3 million were to be used for replacement property and $4.3 million for other kinds of construction. Of the remaining 61 percent, 35 percent was made available for use in other countries, and 26 percent had no specific use designated.

Although State subsequently reports to the Congress on the use of sales proceeds, the reliability of the information is questionable because proceeds are commingled with appropriated funds and expenditures from sales proceeds cannot be distinguished from other funds. Consequently, FBO attributes the use of sales proceeds to certain projects. FBO officials are considering the feasibility of separately accounting for sales proceeds to better manage and program them.

Recommendations

The current process State uses to identify and sell unneeded real estate has not been effective, mainly because of parochial interests among various parties. As a result, State has a large inventory of excess real estate. In light of (1) the revenues that could be earned from the sales of high value property, (2) the cost to the U.S. government to maintain excess properties, and (3) the likely increase in excess properties that will result from announced post closings, we recommend that the Secretary of State establish an independent panel to make recommendations regarding the sale of excess real estate to reduce the current inventory of property. In establishing this panel, the Secretary should consider appointing representatives from the Office of the Inspector General and the Bureau of Finance and Management Policy as well as private sector representatives with overseas real estate experience. Including these representatives could help ensure that the panel's actions reflect the financial needs of the Department of State and the interests of the taxpayer.

Further, to provide a routine process for expeditiously resolving disagreements between FBO and the embassies, we recommend that the Secretary require FBO and the embassies to report annually to the Under Secretary for Management on all properties identified as excess where FBO and the embassies have not agreed on whether to retain or sell such properties. As part of the process, the Secretary should require the embassies to certify annually that they have (1) reviewed their property holdings to identify properties that are excess to embassy requirements, not being fully utilized, or uneconomical to retain and (2) reported any excess property to FBO.

We also recommend that the Secretary of State

- include estimated receipts from real estate sales in the annual congressional budget request;
- establish a formal process for approving and documenting the use of sales proceeds and require that their use for other than justified replacement property be weighed against critically analyzed worldwide requirements; and
- improve the internal financial controls to better document and account for the receipts and expenditures of sales proceeds and provide a sound basis for reporting to the Congress on the receipt and use of sales proceeds. Creating a separate account for sales proceeds should be the first step.

Agency Comments and Our Evaluation

In commenting on a draft of this report, State agreed with the thrust of the report's findings, and said it had taken action to manage its real estate holdings. However, State did not directly address our recommendations.

As we noted throughout the report, State's actions to date are steps in the right direction. Despite these improvements, State still does not have an efficient system for identifying and disposing of excess real estate. State's lack of standard operating procedures to fully document the real estate review and decision-making process and account for and report on the use of funds are weaknesses that must be addressed. We believe that our recommendations will help correct these deficiencies.

State indicated that it is in the process of selling some of the properties listed in appendixes II through V; however, it continues to rationalize its retention of other properties without providing evidence that it considered budget realities in doing so. We believe that the tenor of State's comments reenforce our position that an independent panel is needed to decide what real estate should be sold based on consideration of all pertinent factors. Finally, based on State's comments, we requested further information on properties in Hamilton and Bermuda. In our view, State's backup data provided additional grounds upon which to question retaining the properties. The Department of State's comments, along with our analysis, are included in their entirety in appendix VI.

Matter for Congressional Consideration

Because the Department of State has not indicated support for our recommendations intended to better identify and dispose of excess property, and account for sales proceeds, the Congress may wish to direct State to take action to implement them.

Scope and Methodology

We conducted our work primarily at the headquarters of State's FBO. We interviewed State personnel and reviewed the files relating to real estate for selected countries. We used reports by State's Inspector General as a base for selecting a number of the cases we reviewed. Complete information on all the cases we reviewed was not available at State headquarters, making it difficult to substantiate certain facts. Also, FBO officials would not give us access to some files for locations where there were ongoing considerations to sell property. We believe that these limitations have not materially affected our conclusions and recommendations, but they may have affected our ability to review other problem cases.

We conducted our work from October 1994 to February 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to other interested congressional committees, the Secretary of State, and the Director of the Office of Management and Budget. We also will make copies available to others on request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix VII.

Benjamin F. Nelson

Benjamin F. Nelson, Director
International Relations and Trade Issues

List of Requesters

The Honorable Judd Gregg
Chairman, Subcommittee on Commerce,
Justice, State, the Judiciary, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Jesse A. Helms
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Harold Rogers
Chairman, Subcommittee on Commerce, Justice,
State, the Judiciary, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Benjamin A. Gilman
Chairman, Committee on International
Relations
House of Representatives

The Honorable William H. Zeliff, Jr.
Chairman, Subcommittee on National Security,
International Affairs, and Criminal Justice
Committee on Government Reform and Oversight
House of Representatives

Contents

Abbreviations

FAM	Foreign Affairs Manual
FBO	Office of Foreign Buildings Operations

Properties Identified for Disposal Valued at or More Than $1 Million as of October 1995

Post	Property
Aleppo	Residence
Alexandria	Office building
Amman	Ambassador's Residence
Athens	Hamilton House
Athens	Knox House
Athens	Monroe House
Athens	Sherman House
Bangkok	Bang Pu site
Bangkok	Sathorn Road
Beirut	New office building site
Berlin	Rias Trans site
Bogota	Office building
Calcutta	9 Residences
Caracas	Chancery
Dhaka	GSO compound
Dusseldorf	Office building
Dusseldorf	Residence
Franfurt	Residence
Hamburg	Land
Kathmandu	Land
Kinshasha	Alhadeff Building
Lima	Office building compound
London	Southwick Place Residence
London	Romney House
Manila	Bahuio Amb. R&R Residence
Manila	Vacant land
Nassau	New office building site
New Delhi	Residence
Osaka-Kobe	Vacant lot
Paris	D Building-RAMC
Santiago	Office annex
Singapore	Marine guard quarters
Singapore	Office building
Stuttgart	Office building
Tangiers	Residence & office building
Tel Aviv	Residence

(continued)

Post	Property
Thessaloniki	Office building
Tokoyo	Treasury House Residence
Toronto	Office building

Source: FBO.

Closed Posts

State holds and maintains some properties where posts have been closed. Other properties are being marketed. Nineteen additional closures are planned for 1996 as cost-saving measures. It does not seem prudent to close posts as cost-saving measures and then continue to hold and maintain post property at government expense.

- In Zanzibar, the consulate was closed in 1979, but rather than selling the consul general residence, the embassy in Tanzania kept the property and has used it predominantly for recreational purposes and occasionally for official purposes. In 1987, the house was renovated at a cost of $108,000. In 1991, the State Inspector General recommended that the embassy make a recommendation to the State Department regarding the residence's disposition. According to the Inspector General, the embassy spent $20,000 in 1990 for maintenance and personnel costs and used it 137 nights for official and personal use. The Inspector General report indicated that the island of Zanzibar has several adequate hotels that could be used by travelers. It also questioned the likelihood that the United States would reopen a post in Zanzibar and therefore need such a residence. The embassy suggested in 1991 that the residence be retained for at least 3 more years in anticipation of higher property values. Meanwhile, the embassy undertook what it termed a "modest" property refurbishment to enhance the residence's value and its utility to U.S. personnel on official travel in Zanzibar. According to Office of Foreign Buildings Operations (FBO), $23,000 was allotted in 1992 to enhance the value of the property.

  In early 1995, the Inspector General again visited Zanzibar. According to Inspector General officials, maintenance and salaries relating to the residence were $32,000 in 1994. The residence was used 122 nights for recreation and 36 nights for representational purposes.

- In Alexandria, Egypt, the consulate general was closed in 1993; however, State officials retained the consulate general residence, with an estimated value of over $1 million, in hope that the post would be reopened. State officials attempted to justify its retention on economic grounds, such as using it as a residence for a U.S. Information Agency representative. The Inspector General questioned such retention as an "apparent lack of concern for the financial loss being incurred by the U.S. government." State officials then said that when the ambassador used the residence, State would save $20,000 in lodging costs and that the spacious residence is ideal for representational and trade promotion events.
- In Tangier, Morocco, in September 1988, State approved closing of the consulate, but State retained the consulate compound, which contained a

principal officer residence and an office building. The estimated value of these facilities is greater than $2 million. Voice of America has been using some of the facilities. In 1990, the embassy raised the issue of selling the facilities, but actions to sell the property have evolved slowly. For example, in July 1992, the embassy submitted its third request to FBO for guidance. In January 1993, the embassy informed FBO that its repeated requests over the preceding 9 months for funds to cover the cost of appraisals had not been answered. It also requested $50,000 to provide custodial services for these surplus properties. An FBO official told us that both FBO and the embassy have now informally acknowledged the need to sell the facilities, and listed them on the October 1994 potential sales list, but they have not made a formal decision to do so.

Vacant Properties

In September 1993, FBO requested all posts to provide information on vacant or underutilized land. In response, embassies reported a number of vacant properties. Some of these properties were acquired for purposes that never materialized and have been held for a number of years. They could be candidates for possible sale. Because the information available to us in Washington is sketchy, we cannot fully evaluate whether these properties should be sold. However, if they are retained, the reasons for their retention should be weighed against an analysis of their potential disposal value.[1]

The following property was not being used:

- In Shanghai, China, State owns 2.6 acres of vacant land having an estimated value of $4 million. State is trying to obtain China's concurrence on the use of this property.
- In Rabat, Morocco, State paid $435,000 for an 8-acre lot in 1988 for an embassy and ambassador residence. The King of Morocco has used the lot for an orange grove since its purchase. There are no current plans to build on the property. The embassy also owns a residence, acquired in 1972, that the security officer will no longer clear for occupancy. In February 1994, the Inspector General reported that State should develop a plan to dispose of its excess property in Morocco. In May 1994, the embassy reported that it had six properties that were no longer needed and should be sold, not including the 8-acre lot. In June 1995, however, the embassy indicated that it was willing to sell only two of the properties.
- In Colombo, Sri Lanka, State owns property, which was bought in 1984 to expand the chancery. A warehouse is now being constructed on the property. State also owned a lot acquired in 1948 for residential use, which was worth several hundred thousand dollars. This lot was sold recently to pay for the warehouse.
- In Dakar, Senegal, State acquired a 3-acre site in 1989 for an ambassador residence. There are no definitive plans to build the residence.
- In Islamabad, Pakistan, State owns a vacant lot next to the chancery, which the embassy wants to keep for future residential use, but no plans exist. In the meantime, it provides perimeter security.

[1]Our May 1995 report identified undeveloped land valued up to $2.5 million in Nassau, the Bahamas, that had been retained since 1975 without any intended use. State Department: Additional Actions Needed to Improve Overseas Real Property Management (GAO/NSIAD-95-128, May 15, 1995).

The following property was being used for parking and other purposes:

- In Seoul, Korea, State owns 3.7 acres, acquired in 1990, that is worth millions of dollars. It is currently being used for parking. State is trying to work out a property deal with the Korean government, involving this and other property.
- In Port of Spain, Trinidad, State owns 0.14 acres bought in 1987 for an office annex. The office annex was never built, and the embassy has used the lot for parking.
- In Praia, Cape Verde, State acquired a lot in 1981 to construct an ambassador residence. The residence was not built, and the lot has been used as a tennis court. State also purchased a residence in 1985 for Marine guards, but the guard detachment was never assigned to the post. The embassy was willing to sell the residence, but only if it could use the proceeds. The lot is on FBO's October 1994 sales list, but the residence is not.
- In Rangoon, Burma, State owns a 2.4-acre lot, purchased in 1948 for an unknown purpose. The embassy uses the lot for storing shipping containers. According to an FBO official, FBO and the embassy are considering the lot for a warehouse, but construction money has not been authorized for the project.

The following property was not vacant, but was being leased to others or not fully utilized:

- In Dusseldorf, Germany, State owns an office building that it is not using. In fact, State is leasing it to an architectural firm. The embassy acknowledged that it is willing to sell the building, but a formal decision to sell has not been made. A State official said that the building will be sold when the lease expires in 1997.
- In Kinshasa, Zaire, State owns a lot that was intended for residential units. However, the embassy in Zaire has downsized and existing residential units are being sold. The lot is currently being leased to a private company for a satellite dish. There is no planned use for another 24.7 acres originally intended for a transmitter site. State has been postponing the sale of these properties pending the sale of the residential properties under better market conditions.

The following property is held under long-term leases:[2]

- In Doha, Qatar, State holds two long-term lease properties as future ambassador residence and embassy sites. There are no current plans to build these facilities.
- In Manama, Bahrain, State has two long-term lease properties that are used for parking and storage. The embassy wants to build a warehouse on one lot and continue to use the other one for parking. However, the warehouse has not qualified for funding during the screening process for use of appropriated funds. Although the embassy indicates that these lots were originally acquired for parking, they may not be optimally used if one can be given up for a warehouse.

[2]The embassies also reported two vacant properties that are not under State's control. In Dakar, Senegal, the U.S. Agency for International Development purchased a 35,000-square foot lot in 1985 for $500,000 for an office building. There are no plans to construct the office building. When we inquired, an Agency official said the property will be sold. In St. Andrews, Grenada, the U.S. Information Agency owns 132 acres of unused property, purchased in 1987 for a relay station, which was later canceled.

Unique Properties

State owns several high-value properties that are unique because of their size, yet have a questionable use. These properties are retained for various reasons, such as historical or political significance or a desire for better market conditions.

- In Hamilton, Bermuda, State owns an expensive-to-maintain residence, known as Chelston, for the consul general. In April 1994, the post estimated that the property was worth over $12 million. An FBO survey in February 1993 disclosed that the residence needed $240,000 in major repairs. The main house is nearly 10,000 square feet and is situated on a 14-acre estate with a beach house. State's Inspector General has repeatedly recommended selling the property. In a September 1993 report, it stated that "at a time of continual budget constraints, the Department cannot afford the luxury of maintaining this ostentatious piece of property." Annual operational and maintenance costs for this one residence are over $100,000. Post officials were instrumental in getting President Bush to intervene against selling the property in 1991. According to FBO officials, the Bermuda government opposes the sale of the property.
- In Buenos Aires, Argentina, State has maintained a 43,000-square foot mansion as an ambassador residence since 1929. Estimates of its value vary widely and range up to $20 million. Annual operating costs are about $500,000. The issue of selling the property dates back more than 20 years. As far back as 1969, we recommended disposing of the residence and replacing it with a more appropriate house. The embassy has historically opposed selling the residence, indicating that it stands as a symbol of the U.S. presence in Argentina. Argentine officials have also opposed selling the property. After a delegation of congressional and State officials visited Argentina in December 1993, State announced that it would retain and restore the residence.

  In September 1995, the Inspector General reported that the ambassador has enlisted the local American business community to donate funds for gradually renovating the furnishings and interior. Further, State funding of $5 million to $6 million will be required to repair the house and equipment, and operating costs will require additional funding. According to the Inspector General, "The residence will continue to represent a major expense which the inspectors doubt can be justified indefinitely if budgets continue to shrink."

- In Prague, Czech Republic, State owns a 42,800-square foot ambassador residence valued at several million dollars, which it has retained for over

2 years after a decision was made to sell it, waiting for an undefined market improvement.

- In Budapest, Hungary, State owns a house and property, with an estimated value of over $1 million, which is used for occasional representational functions, recreational purposes, and Marine security guard housing. This property, known as the VAR, is stated to have historical significance to Hungary. Some facilities were reportedly built in 1687. In 1990, the State Inspector General reported that this facility was grossly underutilized. State officials indicated that the most logical holder of the property would be the Hungarian government because of the property's historical significance. They further indicated that a possible solution would be to trade the property for other property that the embassy now leases.

Protracted Embassy and FBO Discussions

A major difficulty in disposing of overseas properties is the frequent disagreements between the embassies and FBO over whether to sell properties and how to use the proceeds. These disagreements have been protracted and costly.

- In Brasilia, Brazil, the embassy and FBO had a standoff for over 2-1/2 years over whether (1) to sell vacant lots, which were bought in the early 1960s, and use the proceeds to renovate a 29-unit apartment building or (2) to sell an apartment building and other property and use the proceeds to build residences on the vacant lots. The embassy emphasized that the apartment building is in an extremely poor location. Also, according to FBO officials, the lots are located in the best parts of Brasilia, and there is a stigma attached to living in apartments in Brasilia. FBO indicated that it was cheaper to renovate the apartment building than to build private residences on the vacant lots. Further, legal restrictions prohibit the embassy from building apartments on the vacant land. During the time of this dispute, the embassy spent $580,000 annually to lease housing while the 29 apartments remained vacant.
- In Calcutta, India, an FBO study recommended in 1991 that the embassy sell a 9-unit apartment building. However, the embassy wanted to sell a 6-unit apartment building rather than the 9-unit building. The 9-unit building was worth several million dollars more than the 6-unit building. According to FBO information, both buildings were underutilized and could have been sold except that the limited post staff did not want to handle the sale of both units at the same time. In 1993, when FBO agreed to the sale of the 6-unit building, only two residents occupied the 9-unit building. The 9-unit building was recently sold for $7.7 million. By selling the less valuable property first FBO did not have the use of several million dollars for over 2 years.
- In 1990, the Inspector General reported that State should review the need for all State-owned property in Budapest and dispose of sites that were not needed. FBO did an asset management study and recommended selling four vacant properties. These unused properties are additional to the underutilized VAR property discussed in appendix IV. FBO and the embassy could not agree on which properties would be sold or how the prospective sales proceeds would be used. As of May 1995, only one property was being marketed. The embassy indicated that it was willing to sell two other vacant properties but not until the one currently being marketed was sold. An FBO official indicated that the embassy was unwilling to sell all the properties before it had agreement from FBO that it could use the proceeds. The fourth property is a site that was purchased in 1989 for $1.1 million for construction of a new office building. There are no plans to construct the

office building, but FBO and the embassy cannot agree upon the sale of the site because the embassy wants to build residences on the site.

- In Kathmandu, Nepal, the embassy has retained excess property, estimated to be worth several million dollars, for over 5 years after the Inspector General recommended that the embassy develop a long-term plan to consolidate embassy activities and sell excess property. It took years for the embassy and FBO to reach agreement on consolidating embassy activities and selling the excess property. A decision, in principle, to sell the property was made in May 1995.
- In Stockholm, Sweden, over 6 years elapsed between the embassy's request to sell two apartments valued about $175,000 and the decision to sell the property. During this period the embassy and FBO could not agree on how the proceeds would be used.

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

January 26, 1996

Dear Mr. Hinton:

We appreciate the opportunity to provide Department of State comments on your draft report, "OVERSEAS REAL ESTATE: Millions of Dollars Could Be Generated Selling Unneeded Real Estate," GAO/NSIAD-96-36, GAO Job Code 711115.

If you have any questions concerning this response, please call Ms. Susan Edmondson, Bureau of Administration, at (202) 647-3196.

Sincerely,

Richard L. Greene

Richard L. Greene

Enclosure:
As stated.

cc:
GAO - Ms. Glod
STATE/A - Ms. Edmondson

Mr. Henry L. Hinton, Jr,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

GAO Draft Report:
"OVERSEAS REAL ESTATE: Millions of Dollars Could be Generated Selling Unneeded Real Estate"
GAO/NSIAD-96-36, GAO Job Code 711115

The Department of State appreciates the opportunity to comment on GAO's Draft Report: "OVERSEAS REAL ESTATE: Millions of Dollars Could be Generated Selling Unneeded Real Estate". We agree with the thrust of the report's findings, and have taken action to manage our real estate holdings in an effective manner. During the past four years we have targeted additional resources and successfully developed an effective real estate management function. We established a vigorous program to identify excess and underutilized properties throughout the world for possible sale. This program has identified targets for reinvestment of proceeds of sale, enabling us to acquire properties critical to our mission and reduce the rising cost of acquiring leased properties to support U.S. diplomatic missions abroad. We appreciate GAO recognition and support of our efforts. Many of the properties cited in GAO's report were already identified for potential sale or already under active sales consideration. The report also notes some of the complexities involved in managing real property assets at hundreds of posts, involving thousands of properties worldwide.

See comment 1.

See comment 2.

Disposal of properties throughout the world requires the active cooperation and support of both the United States diplomatic mission and host country governments. These are complex undertakings which we are now in a position to execute successfully.

Key to improved management of the Department's real estate holdings was establishment of the Real Estate Division in the Office of Foreign Buildings Operations. The office was created to deal with the kinds of issues raised by GAO and manage complex real estate transactions in the international diplomatic arena. Beginning in 1992, we actively recruited experienced professionals for management and staff positions. The Division now has been staffed with capable real estate professionals who deal with these issues not in an ad hoc and intuitive manner but in a rational, economics-driven regime tempered with the realism of dealing in the international and political arenas. We appreciate GAO support of these efforts.

In making decisions to buy or sell property we must not limit our focus, as the report implies, entirely to the financial merits of a transaction. We must also take into account the Department's resources available to implement the transaction as well as current and anticipated market conditions, political and diplomatic factors, quality of life and operational and safety concerns.

Our real estate program has made significant progress. For example, as GAO points out, in FY 1995, the Department sold 26

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properties that generated over $44,000,000. In the 1st quarter of FY 1996, 6 sales closed generating over $3,000,000. These activities continue on an on-going basis.

In FY 95, 78 properties were purchased for nearly $58,000,000. These acquisitions will result in annual lease cost avoidance in excess of $6,000,000. Suitable properties continue to be targeted based on individual mission needs, economic viability and other financial implications.

More recently exceptional opportunities were pursued to take advantage of unique circumstances wherein the Department was able to exchange excess property we owned for property we needed in other areas. For example, the Department successfully negotiated a multi-million dollar bilateral exchange to dispose of excess USG-owned properties in Bonn and acquire properties in Berlin. This will minimize the need for appropriated funds to finance our relocation to the new German capital. Likewise, the Department negotiated an exchange/sale agreement with the Socialist Republic of Vietnam that resulted in the USG's receipt of $18,000,000 plus ownership of properties in Vietnam that the Department can use to satisfy its mission's requirements.

See comment 3.

The Department agrees with GAO that decisions governing the use of proceeds should be supported by sound analysis. In fact, the Department intends in our FY 1997 budget request to illustrate the analytical basis for our asset management efforts. Since reducing leasehold costs is a primary objective, we have developed several indicators to identify posts where purchases would prove advantageous. The Department has ranked posts with the highest leasehold outlays as well as those with the highest average costs per unit. In addition, we have ranked posts where leasehold costs have increased most rapidly from 1990-1994 as well as national economies experiencing the greatest growth between 1982 and 1994. These indicators suggest locations where purchasing property may be beneficial on a long-term basis.

Against these and other indicators the Department has ranked posts where using proceeds of sale to purchase property make economic sense. The Department has also developed criteria for determining when property should not be purchased at a post. These include: post already owns sufficient property; political risks are high; ownership is restricted; or, legal protection for property rights is inadequate.

As discussed above, many factors must be considered in disposition of properties overseas. We believe that the report, while it points out some difficulties of conducting an international real estate program, oversimplifies the complex environment of international negotiations that are often necessary to conclude <u>commercial</u> transactions overseas. The report could be made more balanced by describing in greater

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detail the inherent complexities of international real estate transactions involving diplomatic properties.

For instance, in practice, as the report states, A/FBO has authority to dispose of surplus properties. However, posts are integrally involved in many facets of the sale of property. A decision by A/FBO or, as the report suggests, an independent committee, to sell a property can therefore not be effectively implemented without embassy staff resources and their support.

See comment 4.

Consideration of diplomatic relations and the need for post cooperation in executing these transactions is not an administrative burden but essential to effective decision making. The report cites examples in which decisions concerning the use of proceeds are delayed due to the inability of post and the Department to agree on how the proceeds should be applied. We view the need for consensus on these matters to be essential to this process, particularly given the important role the post plays in disposing of real property. Disagreements between the Department and embassies regarding use of proceeds are typically discussed with the Assistant Secretary for Administration and the Under Secretary for Management as needed. After appropriate consideration by these officials, the Department makes sound choices concerning the use of proceeds.

See comment 5.

This report could also be strengthened by noting that disposition of property abroad does not precisely coincide with the congressional budget process. The unpredictability inherent in international realty transactions, along with the Department's process of accounting for proceeds of sale, make it difficult to forecast the availability of proceeds of sale. The Department's annual budget request reflects funding necessary to meet current pressing worldwide requirements. To offset funding for our current program requirements with proceeds that may or may not be realized during the fiscal year would expose the Department to potential funding shortfalls, impede our ability to plan and execute our program, and disregard the potential benefits derived from long-term investments which cannot be made with existing appropriations. There is clear and long-standing direction to use property sale proceeds for facility acquisitions and improvements at overseas posts to reduce costs. This is what we are doing. The resulting investments produce real permanent savings. The common sense reality is that selling property only to create the impression of savings would fritter away a national asset.

The Department also believes offsetting annual budget requirements with proceeds of sale is counterproductive and simply not prudent long-term financial management. We believe that the Department is responsible for managing the U.S. Government's overseas property holdings in a manner that accrues maximum benefit from them. The Department's current strategy of

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making meaningful long-term cost savings by using proceeds to reduce long-term lease costs through acquisition of property in high cost posts makes good sense and is preferable to using proceeds for annual operating expenses. A key objective of our program is to slow down the increase in lease costs by converting less profitable properties into long-term assets and thereby provide an appropriate platform for the continued conduct of foreign affairs. In today's budget environment, we need to convert expenses into assets rather than convert assets to pay current operating expenses. These assets must be considered on a long-term basis.

The enclosed appendices address post specific issues discussed in the report.

APPENDIX I

UNIQUE PROPERTIES

Hamilton

See comment 6.

The property in Hamilton was a gift from the Government of Bermuda to the USG and the sale of this property over that government's objection would create a sensitive political issue, as was evidenced by President Bush's personal intervention. Given the Government's recorded objection, there is no reason to believe they would ever approve its sale.

Buenos Aires

See comment 7.

The Department has not changed its position regarding the disposition of the Ambassador's residence in Buenos Aires. The Congressional delegation mentioned in the report also indicated its interest in retaining this property. The delegation's opposition to the sale of the EMR weighed heavily in the Department's decision to retain the property.

Prague

An October 1992 asset management study concluded that the EMR exceeded USG requirements, however due to the lack of a real estate market in Prague, the decision was made to revisit the issue on a semi-annual basis. Recent reviews of market conditions in Prague by FBO concluded that there continues to be no market for this type of property.

Budapest

See comment 8.

The VAR property in Budapest is designated a historical property and can only be sold or transferred by the USG to the Government of Hungary (GOH) thereby limiting the marketability of the property. The GOH is not interested in a cash purchase and has only proposed one exchange alternative. The proposed exchange property was found to be unsuitable due to pending litigation by the families occupying the property and the overall poor condition of the property. The Bajscy Zsilinky site was sold in the 4th quarter of FY 1995. It is in the taxpayer's best interests to retain this property until the Government of Hungary offers us an equitable trade for an alternative property. Two other sites discussed in the report are currently being marketed by the embassy.

APPENDIX II

CLOSED POSTS

Zanzibar

See comment 9.

While from a strict asset management view a case can be advanced for sale of this property, there are significant bilateral political considerations arguing for retention of a U.S. Government physical presence on this semi-autonomous island. Accordingly, foreign policy concerns mandate retention of this property.

Alexandria

See comment 10.

The Assistant Secretary for Administration and the Assistant Secretary for Near Eastern Affairs thoroughly reviewed this situation and determined it was in the national interest to retain the two properties in Alexandria following closure of the American Consulate there: the U.S. Cultural Center and the former residence of the Consul General.

Throughout the year the Ambassador uses the former Consul General's residence during his frequent visits to Alexandria, Egypt's principal port and second largest city with a population of over 3 million people. President Mubarek spends several months a year in Alexandria. During Secretary of State or other VIP visits, the house has proven invaluable for lodging the Ambassador and others when local hotel space is unavailable.

The residence has good space for representational and trade promotional events. This reduces the burden on representational funds, especially if they are large, because local rented space is expensive.

The house is sufficiently large to accommodate both the Ambassador and the U.S. Information Service (USIS) Branch Public Affairs Officer in Alexandria. USIS reduces its housing costs by approximately $20,000 through this arrangement.

Tangier

The embassy has been authorized to sell these properties and the sale process is moving forward.

APPENDIX III

VACANT PROPERTIES

Shanghai

In 1991, the Department acquired a site for staff housing. However, implementation of the 1991 PRC property agreement broke down, limiting our ability to use or dispose of the property. In 1995, leveraging mutual desires to conclude real estate transactions, high level negotiations took place in Beijing and Washington to resolve this and other China property issues. This resulted in clarification of the use of this and other properties acquired via the 1991 agreement. When funds become available the property will be utilized to meet the mission's needs. Given the booming Shanghai regional economy, this purchase represents a prudent use of funds to avoid high downstream costs.

Rabat

Two of the six properties are occupied until 1997. The others are being sold.

Colombo

The lot was sold in July, 1995 and proceeds are funding warehouse construction, which will enable cancellation of a current lease.

Islamabad

The property serves as an essential part of the much-needed physical security set-back for a chancery-compound.

Rangoon

FBO is continuing to seek funding to use this site for new support facilities. Current operations are located on two adjacent lots leased on a short-term basis from independent landlords. Current estimates are that a U.S. Government owned warehouse will save $40,000 in annual leasehold costs.

Doha

Annual rent on these properties is $8,100. Given that these properties are located in a diplomatic enclave, they would be difficult to replace.

Manama

Property is directly across from the chancery. It was acquired in 1989 when post was in desperate need of additional safe and secure parking. Our long-term plan is to use part of the property for parking and part for expansion of the embassy.

Port of Spain

Property is fully utilized for safe and secure parking. The post has proposed that growing chancery space requirements be moved there.

Dusseldorf

This property is currently leased out through 1997 at a rate which is very favorable to the U.S. Government. As has been previously indicated, this property will be sold off as part of our program to generate funds necessary to construct a new chancery in Berlin.

Seoul

The Government of Korea (GOK) greatly facilitated the acquisition of this property as the site for a new U.S. chancery to replace the current chancery which we do not own and which must be returned to the GOK, its rightful owner. The implementation of this plan is contingent upon the generation of funds through the sale of other assets and the success of very complex bilateral negotiations regarding a multitude of property issues in Korea. This site is an essential element in our negotiations with the Koreans.

Kinshasa

The Department recently authorized Embassy Kinshasa to accept a purchase offer from the telecommunications company for the portion of the site that they previously occupied under license. Market conditions continue to be depressed in Zaire but excess residences continue to be sold.

Stuttgart

See comment 11.

The closing of Stuttgart has been postponed until mid-1996. Accordingly, it would be a waste of taxpayers funds to sell the building now and pay to relocate our operations for such a short period of time. Appraisals have been obtained and the Department is planning for the property's disposal to coincide with final Consulate closure. Funds received will be used as part of our program to construct a new chancery in Berlin.

APPENDIX IV.

PROTRACTED EMBASSY AND FBO DISCUSSIONS

Brasilia

Brazilian law currently prohibits diplomatic missions from acquiring additional property in Brasilia. Restrictive zoning also prohibits constructing townhouses or other multi-occupant units on our currently owned vacant land. The U.S. Government has been in extensive discussions on how to deal with these restrictions. For a time it appeared that changes favorable to us might be forthcoming.

Since it is now clear that any change is not in the immediate offing, we are in the process of selling the vacant land, as well as the apartments, that are now in an area where the quality of life renders them sub-standard.

Calcutta

The report overlooks essential facts regarding the real estate market in Calcutta. It should also be noted that the property was used to house employees during the necessary renovation of another apartment building. During this period, there was a liberalization of restrictive Indian property rights regulations and property values soared. Consequently, when the property was sold in 1995 received a substantially higher value.

The following are GAO's comments on the Department of State's letter dated January 26, 1996.

GAO Comments

1. We recognized State's actions to improve the management of its real estate function in previous reviews. This progress was the key reason for the removal of property and maintenance management from both GAO's and the Office of Management and Budget's high risk lists. At the same time, we noted that State needed to take further action.[1]

2. State did not provide evidence during our review that it had established a vigorous program to identify excess and underutilized properties throughout the world for possible sale. As indicated in the report, State's actions consisted of unrelated and uncoordinated actions by the embassies, FBO officials, State's Inspector General, and ad hoc requests to the embassies by FBO. Consequently, embassies have held unneeded property for years without an intended purpose.

3. State does not routinely weigh proposed uses of sales proceeds at an embassy against the needs of other embassies, such as it does for certain uses of its appropriated funds. State also did not provide for our review full information on its ranking of posts for reducing leasehold costs because, as indicated in the report, State officials maintain that they need the flexibility to use sales proceeds for other purposes.

4. State's consensus mode of operation and the asserted effects on diplomatic relations of selling real estate, in our view, are at the heart of State's difficulties in selling excess or underutilized real estate. That is why we believe that an independent view should be brought to bear on these difficult decisions to ensure that all pertinent factors are objectively weighed. In the cases that we reviewed, it was not evident that disagreements between the Department officials and the embassies were timely referred to higher management levels and decisions expeditiously made.

5. We noted the uncertainties in offsetting anticipated real estate proceeds against State's budget request. However, State essentially treats sales proceeds as an off-budget fund that it uses for items additional to those in the budget. For example, under the current procedures, State would use

[1] State Department: Additional Actions Needed to Improve Overseas Real Property Management (GAO/NSIAD-95-128, May 15, 1995).

the $53 million in fiscal year 1995 sales proceeds for real estate matters not justified in the budget.

6. We requested additional information from State on the Hamilton property to substantiate its assertion that it was a gift from the Bermuda government and that the Bermudian government was opposed to the sale. The information provided indicated that the property was originally owned by a U.S. citizen. Upon his death, the trustees passed ownership of the property to the Internal Revenue Service in payment of back taxes and State, through discussions with the Bermudian government, acquired the property. State was unable to provide documentation from the Bermudian government opposing the sale. State, however, provided a September 1994 embassy cable generated after a luncheon meeting with Bermuda's Premier where he expressed opposition to the sale. The cable goes on to say that with the Premier's approval, the property could be sold only to a Bermudian, but would likely generate less than its current value. The fact remains that sale of the property would allow State to reallocate millions of dollars in sales proceeds, and eliminate the annual maintenance cost of $100,000, as well as the costs of major repairs.

7. The decision to retain the property in Buenos Aires dates back to 1993. Given the high value of the property, and today's environment of downsizing and fiscal restraint, it would be worth revisiting.

8. The files contained no information on what it cost to maintain the property in Budapest. State should strongly consider giving this historical property to the Hungarian government.

9. State commented that the property in Zanzibar could be sold were it not for the political considerations. The independent panel we recommended would weigh the political factors against the current cost of renovating and maintaining this recreational property.

10. State did not provide documentation supporting the frequency of the ambassador's visits to Alexandria. According to the documentation provided, the house, occupied by a representative of the U.S. Information Agency, was used to host 14 mostly academic and cultural events in 1995. The July 4th party was the only event listed as given by the ambassador. The other events listed did not specifically state whether or not the ambassador was in attendance.

11. We deleted the Stuttgart example based on State's comments.

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