From the Washington Business Journal:
http://www.bizjournals.com/washington/news/2011/11/21/landlords-bracing-for-effects-of.html

Supercommittee inaction could hurt D.C. leasing efforts

Washington Business Journal by Daniel J. Sernovitz, Staff Reporter

Date: Monday, November 21, 2011, 1:55pm EST

Related:

Banking & Financial Services, Commercial Real Estate

Daniel J. Sernovitz
Staff Reporter - *Washington Business Journal*
Email

Landlords and developers across Washington are bracing for the fallout from the supercommittee's failure to come up with a deal over federal belt-tightening, which could force the federal government to downsize or even pull out of some of the large blocks of space it leases in buildings across the region.

According to commercial real estate experts, the congressional committee's failure to meet a Nov. 23 deadline to cut $1.2 trillion from the deficit is likely to have a two-fold impact locally. For one, federal agencies and their web of contractors might look to give back some of the space they lease in private offices in the area. For another, it will compound what's already an intense confidence shortage by contractors, wary of where the federal government will look to trim spending and unlikely to expand or lease new space until those questions are answered.

"It's very alarming and very concerning," said Bruce Lee, president of Silver Spring-based **Lee Development Group**. "We're all going to have to deal with it."

Lee said many developers learned some hard lessons from the last government retrenchment and staggered their lease terms so that not all of them expired at the same time. But he said landlords can get left out in the cold if they lease space to government contractors that are forced to seek bankruptcy protection because they contracts they were counting on didn't come through. Landlords typically must take a back seat to secured creditors like banks that loan millions of dollars to those companies and get paid before other creditors.

Lee said he is also worried about whether the **General Services Administration**, the government's real estate arm, will need to reduce the amount of space it leases for government agencies or pull out of some buildings entirely because of the across-the-board budget cuts that will go into effect in 2013 because the supercommittee failed to reach an accord.

The supercommittee's inaction comes at an already difficult time for many real estate owners, as overall leasing activity has slowed considerably for both federal and private tenants, said Scott Homa, a research manager at commercial real estate brokerage **Jones Lang LaSalle Inc.**

Public and private tenants typically lease about 4.5 million square feet of space in Greater Washington. This year, that number is on pace to top out at 1 million square feet. Homa said the supercommittee's inaction is also likely to make tenants more reluctant to lease new or expanded space in the region because they do not know how the federal government will respond in the days and months to come. "The political gridlock is certainly being very disruptive both to the real estate market and the broader economy," Homa said.

Beyond the amount of space the government and its contractors lease, Congress could now be under more intense pressure to raise money because of the supercommittee's inaction, said tax attorney Steve Schneider. Congress will need to come up with some ways to raise additional money or cut spending, and Schneider said it may look to low-hanging fruit such as taxing carried interest, which could alter investors decision to invest in specific developments.

Daniel J. Sernovitz covers commercial real estate.