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NAVIGATING FEDERAL LEASE TERMINATIONS: WHAT OFFICE BUILDING OWNERS NEED TO KNOW

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Owners of office buildings across the country have been closely monitoring the new administration's cost-cutting strategies with worry and uncertainty. Initially, the Department of Government Efficiency (DOGE) reported plans to terminate 793 federal leases with a projected savings of $500 million. Since then, DOGE has dialed back its list by removing 136 leases and reducing the overall savings by $350 million. Though most of the GSA's leases are in markets surrounding the nation's capital – Virginia; Maryland; and Washington, D.C. – owners of office buildings in Texas won't be immune to the new administration's effort to reduce government spend on external office leases. Indeed, DOGE has identified 35 leases in Texas for termination to date, including six office leases across the DFW marketplace.

While the number and location of leases identified by DOGE to be terminated continues to evolve and change, it is important for owners of office buildings to not wait for their lease to be placed on DOGE's chopping block. Tips for owners of office buildings with government leases include:

Closely Review the Terms of Your Lease

The government's termination rights are going to be dictated by the terms of the lease, itself. So, the first step should be to re-familiarize yourself with the lease – specifically, the government's primary, "firm term" and termination rights. Unlike other government contracts, the government does not have a right to terminate a lease for convenience. The current standard-form GSA lease (October 2016) only provides the government with termination rights after the initial, firm term of the lease and the government must comply with specific notice deadlines regarding its intention to terminate.

Notably, if your tenant's lease has already expired or is approaching expiration, reaching out to the tenant agency to coordinate staying off the termination list is always advisable.

Be Proactive with Your Lender

If you anticipate the government cancelling your lease, review your loan documents to determine what, if any, implications may arise by virtue of reporting obligations and financial covenants. For example, even if the government lease is not most of the revenue generated by the office building, losing that rent could trip typical covenants contained in loan documents that require a certain amount of income to be generated by the property relative to debt service.

In an already challenging time for the office asset class, being proactive with your lender to discuss workout terms (if necessary) for the lost tenancy is the prudent course to avoiding a larger dispute down the road.

Poke Your Property Management

Ensure your boots on the ground also have their eyes open. The new administration's mandate to end remote work for most federal employees should be used as an indicator of the government's intentions moving forward relative to leased office space. If your lease is approaching expiration, be keen to observe whether office traffic has changed in recent months, whether the space is being used by government employees for its intended office purpose or if the leased space is being used for nothing more than storing government furniture and property.

Changes in activity can help forecast whether your lease will be placed on DOGE's termination list and help determine your next course of action.

For the most current information, please consult official DOGE or GSA communications.

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Practice Area Contact

Kartik R. Singapura